

TAX COORDINATION AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA

AND

THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Section 1. Introduction

1.1 The Agency and IRS recognize the mutual benefits to be derived through coordination of their tax administration programs to secure returns, determine tax liability, and effect collection of taxes; and the parties do hereby agree to establish, to the extent permitted by law, a cooperative program and to enter into arrangements designed to improve the administration and enforcement of tax laws of their respective jurisdictions. Officials of the Agency, acting under authority vested in or delegated to them to administer State tax laws, and the appropriate officials of IRS will consult from time to time regarding their respective enforcement efforts and will establish mutually agreeable programs for the exchange of information and assistance.

1.2 This agreement provides the general basis for achieving coordination of Federal and State tax administration. Specific arrangements will be initiated in a manner and at such time as are mutually agreeable to Agency and IRS officials. They shall explore and adopt mutually acceptable techniques and modes of exchange which will be most beneficial to improved tax administration with the least possible interruption of their respective operating routines and with strict adherence to laws, regulations, and rules for protecting the confidentiality of returns and return information.

Section 2. Definitions

For purposes of this agreement, the following definitions shall apply:

2.1 Agency. The term "Agency" means the Division of Revenue and Taxation of the Department of Finance, Commonwealth of the Northern Mariana Islands.

2.2 IRS. The term "IRS" means the Internal Revenue Service, U.S. Department of the Treasury.

2.3 State. The term "State" means the Commonwealth of the Northern Mariana Islands. This definition of State is only for the purpose of the Agreement (including any amendments or additions thereto, and additional agreements between the parties connected therewith relating to the exchange of information) and is pursuant to IRC section 6103(b)(5).

2.4 Agency Representative. The term "Agency Representative" means an Agency officer or employee designated in writing by the head of the Agency as an individual who is to inspect or receive Federal returns or Federal return information on behalf of the Agency as provided by section 6103(d) of the Code, but only so long as the duties and employment of such officer or employee require access to Federal returns and Federal return information for purposes of State tax administration.

2.5 IRS Representative. The term "IRS Representative" means an officer or employee of the IRS who has been designated in writing to the head of the Agency by the Director, International (LMSB), as an individual who is to inspect or receive State returns or State return information on behalf of IRS, but only so long as the duties and employment of such officer or employee require access to State returns and return information for the purpose of Federal tax administration.

2.6 Federal Return. The term "Federal Return" is defined in the same manner as provided in section 6103(b)(1) of the Code.

2.7 Federal Return Information. The term "Federal return information" is defined in the same manner as provided in section 6103(b)(2) of the Code. However, "Federal Return Information" does not include that information in the hands of the State which is obtained by means wholly from sources independent from the IRS.

2.8 State Return. The term "State return" means any tax or information return, declaration of estimated tax, or claim for refund required by, or provided for or permitted under, the provisions of the internal revenue laws, or related statutes, of the State, and any amendment or supplement thereto, including supporting schedules, attachments, or lists which are supplemental to, or part of, the return so filed.

2.9 State Return Information. The term "State return information" means a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, overassessments, or tax payments, whether the taxpayer's State return was, is being, or will be examined or subject to other investigation or processing, or any other data, received by, recorded by, prepared by, furnished to, or collected by the Agency with respect to a State return or with respect to the determination of the existence, or possible existence, or liability (or the amount thereof) of any person under the internal revenue laws, or related statutes, of the State, for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense.

2.10 Inspection. The term "Inspection" means any examination of a return or return information.

2.11 Disclosure. The term "Disclosure" means the making known to any person in any manner whatever a return or return information.

2.12 State Tax Administration. The term "State Tax Administration"

(a) means :

- (i) the administration, management, conduct, direction, and supervision of the execution and application of the revenue laws, or related statutes of the State, and
- (ii) the development and formulation of State tax policy relating to existing or proposed internal revenue laws, or related statutes, of the State, and

(b) includes assessment, collection, enforcement, litigation, and statistical gathering functions under such laws or statutes.

2.13 Code. The term "Code" means the Internal Revenue Code of 1986, as amended.

Section 3. Disclosure of Federal Returns and Federal Return Information

3.1 Pursuant to the laws of the State, the Agency is charged with the responsibility for the administration of State taxes imposed on the net income of individuals, partners and corporations, property imported into the Commonwealth of the Northern Mariana Islands for personal or business use, transient occupancy in hotels and lodging houses, wage and salary tax, bar tax, and other miscellaneous taxes on personal and business transactions. Federal returns and Federal return information (whether originals, paper copy, photocopy, microfilm, magnetic tape, or any other form) received from IRS will be used for the purpose of, and only to the extent necessary in, State tax administration.

3.2 This agreement constitutes the requisite authorization pursuant to section 6103(d)(1) of the Code for IRS to disclose to, and permit inspection by, an Agency Representative of Federal returns and Federal return information relating to taxes imposed by chapter(s) 1, 2, 6, 11, 12, 21, 23, 24, 44, 51 and 52 and 36(D) of the Code.

3.3 Upon the occurrence of any change in employment, duties, or other relevant matters affecting an Agency Representative's right of access to Federal returns and Federal return information or status as Agency Representative, the head of the Agency shall promptly advise in writing the Director, International (LMSB) that such individual is no longer an Agency Representative.

3.4 An Agency Representative to whom a Federal return or Federal return information has been disclosed, may thereafter disclose such return or return information:

- (a) to another employee of the Agency for the purpose of and only to the extent necessary in the administration of the State tax laws for which the Agency is responsible;
- (b) to a person described in section 6103(n) of the Code or to any officer or employee of such person, solely for the purpose of State tax administration and in a manner consistent with applicable regulations, published rules or procedures, or written communications. However, pursuant to Treasury Regulation 301.6103(n)-1, whenever Federal tax returns and return information are to be disclosed to a person described in section 6103(n), the above named State agency will notify the IRS prior to the execution of any agreement to disclose to such person, but in no event less than 45 days prior to the disclosure of that information to the person.
- (c) to a legal representative of the Agency personally and directly engaged in, and for use in, preparation for a civil or criminal proceeding (or investigation which may result in a proceeding) before a State administrative body, grand jury, or court in a matter involving State tax administration, if the returns and return information satisfy one or more of the criteria established in section 6103(h)(2)(A), (B) or (C).

3.5 A Federal return or Federal return information may be disclosed in a judicial or administrative proceeding pertaining to State tax administration, but only if the same criteria established in section 6103(h)(4)(A), (B) or (C) are met.

3.6 Notwithstanding any other provision of this section, IRS will not disclose a Federal return or Federal return information under this section if such disclosure would identify a confidential informant or seriously impair a Federal civil or criminal tax investigation. The Agency agrees that neither it nor its legal representatives will make any further use or disclosure of a Federal return or Federal return information disclosed to an Agency Representative by IRS if IRS notifies the head of the Agency in writing that such further use or disclosure would identify a confidential informant or seriously impair a Federal civil or criminal tax investigation. The Agency further agrees that prior to the disclosure of any Federal return or Federal return information in a State judicial proceeding or to any party other than the taxpayer or his/her designee in a State administrative proceeding as provided by paragraph 3.5 of this agreement, the head or legal representative of the Agency will notify IRS in writing to the Director, International (LMSB) of the intention to make such disclosure. No officer, employee, or legal representative shall so disclose a Federal return or

Federal return information in such State judicial or administrative proceeding if the Director, International (LMSB) or other IRS official, within 30 days following receipt of such written notice, informs the head or legal representative of the Agency that such disclosure would identify a confidential informant or seriously impair a Federal civil or criminal tax investigation.

Section 4. Disclosure of State Returns and Return Information

4.1 This agreement constitutes the requisite authorization for the Agency to disclose to, and permit inspection by, IRS Representatives of State returns and State return information for the purpose of, and only to the extent necessary in the administration of the internal revenue laws, or related statutes, of the United States.

4.2 Nothing in this agreement shall be construed as authority for the Agency to disclose State returns and State return information where such disclosure would be contrary to State law.

4.3 Upon occurrence of any change in employment duties, or other relevant matters affecting an IRS representative's right of access to State returns and State return information or status as an IRS Representative, the Director, International (LMSB) shall promptly advise the agency in writing that such individual is no longer an IRS Representative.

Section 5. Cooperative Audits and Other Cooperative Activities

5.1 Subject to the restrictions and other provisions of this agreement and the availability of enforcement resources, the Agency and IRS will, as needed, develop cooperative return selection and examination programs with the objective of avoiding unnecessary duplication of Federal and State audit coverage.

5.2 Information other than Federal or State returns and return information, which the Agency and IRS may deem to be relevant or useful to the administration of State and Federal laws, may be exchanged pursuant to arrangements made by the Agency and IRS.

5.3 In addition to the exchange of tax and other information, the Agency and IRS will, to the extent feasible, extend to each other assistance in other tax administration matters. This may include such activities as taxpayer assistance, stocking tax forms for the public, training of personnel, special statistical studies and compilations of data, development and improvement of tax administration systems and procedures, and such other activities as may improve tax administration.

Section 6. Safeguards and Other Requirements

6.1 As an express condition for the inspection and disclosure of Federal returns and Federal return information, the Agency agrees to comply with the safeguards and requirements prescribed by section 6103(p)(4) of the Code and any implementation of such safeguards and requirements as may be provided by regulations and published procedures including:

- (a) furnishing an annual report to the IRS describing the procedures established and utilized by the Agency for ensuring the confidentiality of such returns and return information;
- (b) permitting IRS to review the extent to which the Agency is complying with the requirements of this paragraph; and
- (c) informing in writing all Agency Representatives and other persons to or by whom disclosure or inspection of Federal returns or Federal return information is authorized of the criminal penalties and civil liability provided by sections 7213, 7213A and 7431 of the Code for a disclosure and inspection of such returns and return information which is unauthorized by the Code.

6.2 To the extent consistent with Federal law IRS will accord State returns and State return information confidentiality safeguards comparable to those required of the Agency pursuant to this agreement.

6.3 Processing of Federal returns and Federal return information received by the Agency from IRS in the form of microfilms, photo-impressions, magnetic tapes or other format (including reformatting or reproduction, or conversion to magnetic media, or hard copy printout) and transmission and storage of such Federal returns or Federal return information by or on behalf of the Agency may be performed by either Agency owned and/or operated computer facilities, or State shared facilities or by any other person described in section 6103(n) of the Code. In those cases where such facilities used by the State Agency are shared with other State agencies or operated by any other person described by section 6103(n) of the Code, the Agency will ensure the confidentiality of the Federal returns and Federal return information provided to such shared facility or person. As part of this responsibility the terms of the contract or agreement between the Agency and a shared computer facility or other person to whom Federal return or Federal return information is or may be disclosed for a purpose described in this subsection, will provide, or will be amended to provide, that such person, and officers and employees of the person, will comply with the applicable safeguard conditions contained in regulations, published rules or procedures, or written communications.

6.4 Because some taxpayers may be unaware that Agency tax officials are authorized under Federal law to obtain Federal returns or Federal return information for State tax administration purposes, the Agency will publicize, in a manner satisfactory to IRS, that such returns or return information were obtained pursuant to specific authority granted by the Code. Similar publicity will be provided by IRS, if requested by the Agency, for State tax information furnished IRS pursuant to State law.

Section 7. Limitations

7.1 Pursuant to the provisions of section 6103(p)(2) of the Code, and of State law, if any, IRS and Agency may charge each other a reasonable fee for furnishing returns and return information under the terms of this agreement. IRS and the Agency may agree not to charge each other the costs of routine reproduction of returns and return information mutually exchanged.

7.2 Under no circumstances shall the Agency permit any Federal return or Federal return information to be inspected by, or disclosed to an individual who is the chief executive officer of the State or any person other than one described in section 3 of this agreement.

7.3 Notwithstanding any other provision of this agreement, IRS will not disclose or make known in any manner whatever to any person described in section 3 of this agreement –

- (a) any original, copy, or abstract of any return, payment, or registration made pursuant to chapter 35 of the Code (relating to taxes on wagering);
- (b) any record required for making any such return, payment, or registration made or required pursuant to chapter 35, which IRS is permitted by the taxpayer to examine or which is produced pursuant to section 7602 of the Code (relating to the examination of books and witnesses); or
- (c) any information obtained by the exploitation of any such return, payment, registration, or record made or required pursuant to chapter 35.

7.4 Notwithstanding any other provision of this agreement, IRS will not disclose or make known in any manner to any person described in section 3 of this agreement information which was obtained pursuant to a tax convention between the United States and a foreign government.

Section 8. Officials to Contact for Obtaining Information

8.1 Requests by the Agency for Federal return information in magnetic media mode, for physical inspection or copying of Federal returns, or requests for audit abstracts and reports pertaining to such returns, showing addresses within the State or outside the State, and requests for inspection and copying of audit abstracts and reports pertaining to such returns should be made to the Disclosure Officer, CL:GLD:A2:BAL, 31 Hopkins Plaza, Room 1210, Baltimore, MD 21201.

8.2 Requests by authorized officers and employees of the IRS for inspection or copying of State returns and State return information should be made to the Director, Division of Revenue and Taxation, Central Office, P.O. Box 5234, CHRB, Saipan, MP 96950.

Section 9. Termination or Modification of Agreement

9.1 The provisions of this agreement are subject to the provisions of the Code, implementing regulations, published procedures, and to the provisions of State statutes and regulations. This agreement may be terminated or modified at the discretion of IRS or the Agency due to changes in Federal or State statutes and regulations or whenever in the administration of Federal or State tax laws that action seems appropriate.

9.2 Any unauthorized use or disclosure of Federal returns or Federal return information furnished pursuant to this agreement or inadequate procedures for safeguarding the confidentiality of such returns or return information, also constitutes grounds for termination of this agreement and the exchange of information thereunder, subject to the rights of administrative appeal as provided by regulations prescribed by section 6103(p)(7) of the Code.

9.3 Notwithstanding any other provision of this agreement, no Federal return or Federal return information shall be disclosed by IRS to any person described in section 3 of this agreement if the requirements of section 6103(p)(8) of the Code are not met.


Section 10. Mutual Agreement Procedure

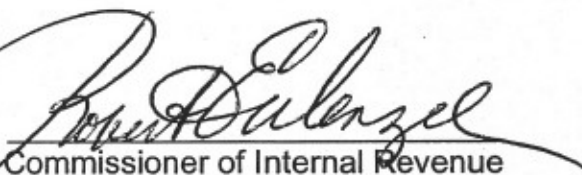
10.1 Where by reason of inconsistent positions taken by the IRS and the Agency, a taxpayer is or would be subject to inconsistent tax treatment by the two jurisdictions, the Director, International (LMSB) and Director, Division of Revenue and Taxation shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the application of the Internal Revenue Code. In particular, but not by way of limitation, the Director, International (LMSB) and Director, Division of Revenue and Taxation may consult together to endeavor to agree:

- (a) to the same allocation of income, deductions, credits, or allowances between related persons;
- (b) to the same determination of residency of a particular taxpayer; or
- (c) to the same determination of the source of particular items of income.

APPROVED, on behalf of the
Commonwealth of the Northern
Mariana Islands and its officers
and employees:

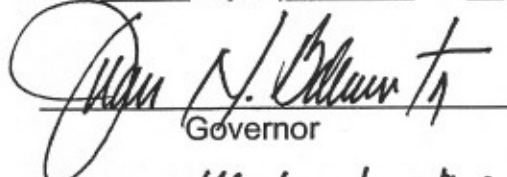
APPROVED, on behalf of the
United States of America:


Secretary of Finance


Commissioner of Internal Revenue

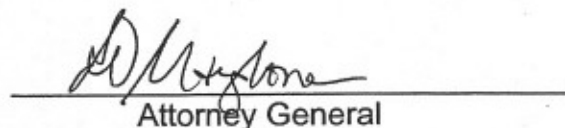
Signed at Saipan, CNMI
this 29th day of November 2002

Signed at Washington, D.C.
this 30th day of January 2003


Governor

Signed at Washington, D.C.
this 5th day of December 2002

It is my opinion that under applicable law
of the Commonwealth of the Northern Mariana
Islands, the Secretary of Finance and Governor
are duly empowered and authorized to bind
to the terms and conditions of this Agreement
all officers and employees of the Commonwealth
of the Northern Mariana Islands to whom Federal
returns and Federal return information may be
disclosed as provided herein.


Attorney General

Signed at Washington, D.C.
this 5th day of December 2002



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEC - 1 2003

LARGE AND MID-SIZE
BUSINESS DIVISION

Ms. Esther S. Ada
Director, Division of Revenue and Taxation
Department of Finance
Commonwealth of the Northern Mariana Islands
Central Office
PO Box 5234 CHRB
Saipan MP 96950

Dear Ms. Ada:

Enclosed you will find two original, signed documents titled Guidelines for Implementation of the Tax Coordination Agreement between the United States Internal Revenue Service and the Commonwealth of the Northern Mariana Islands Division of Revenue and Taxation.

We appreciate the efforts of all who contributed to this Implementation Agreement and look forward to continuing our successful association in the future.

If you have any questions, please contact me, or a member of your staff may contact Dee A. Robinson at (202) 435-5072 or at Dee.A.Robinson@irs.gov.

Sincerely,

Elvin T. Hedgpeth
Acting Director, International (LMSB)

Enclosures (2)

cc: Ms. Joan McClean, Disclosure Officer
Ms. Mae Lew, ACCI Attorney

**GUIDELINES FOR IMPLEMENTATION
OF THE TAX COORDINATION AGREEMENT BETWEEN
THE UNITED STATES OF AMERICA – INTERNAL REVENUE SERVICE
AND
THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
DIVISION OF REVENUE AND TAXATION**

I. General Purposes and Objectives

- A. Under the authority of section 6103(d) of the Internal Revenue Code, as currently in effect, the Secretary of Finance, Division of Revenue and Taxation of the Commonwealth of the Northern Mariana Islands (hereinafter referred to as "Agency") and the Commissioner of Internal Revenue, U.S. Department of the Treasury, adopted the "Tax Coordination Agreement Between the United States of America and the Commonwealth of the Northern Mariana Islands" (hereinafter referred to as "Agreement" or "Agreement on Coordination of Tax Administration"). This Agreement has been in full force and effect since January 30, 2003. The Agreement authorizes the disclosure of returns and return information under 26 U.S.C. §6103(d), and is not an implementing agreement as described in section 1277 of the Tax Reform Act of 1986, Pub. L. No. 99-514.
- B. In order to facilitate the implementation of the Agreement, the Director, International (LMSB), Internal Revenue Service (hereinafter referred to as "Director") and the Agency consider it mutually beneficial to state the procedures and understandings concerning the physical exchange of information. The term State, as used in these guidelines, will mean the Commonwealth of the Northern Mariana Islands (also referred to as "the CNMI").
- C. Further, it is the intention of the parties to the Agreement that all exchanges under the Agreement will be reciprocal in nature to the extent that legal statutes permit.
- D. Therefore, in association with the Agreement on Coordination of Tax Administration, the Director and the Agency agree to establish and implement the following guidelines.

II. Information Specifically Requested by the Director or the Agency

- A. Requests by the Director for copies of State tax returns or return information shall be submitted to:

Division of Revenue and Taxation
Central Office
P.O. Box 5234 CHRB
Saipan, MP 96950
ATTN: Director
Telephone 670-664-1000
Fax 670-664-1015

- B. Requests by the Agency for copies of Federal tax returns or return information shall be submitted to:

Internal Revenue Service
CL:GLD:A2:BAL
31 Hopkins Plaza, RM 1210
Baltimore, MD 21201
ATTN: Disclosure Officer
Telephone 410-962-0799
Fax 410-962-4850

- C. Requests for tax returns and/or return information for both parties shall be made using Form 8796, Request for Return/Information. Specific requests for tax returns and/or return information shall include a description of the specific need and purpose for which it is to be used, and not merely a summary statement that the data is needed for tax administration purposes. The Agreement authorizes the disclosure and inspection of returns and return information for the purpose of, and only to the extent necessary in the administration of the internal revenue laws, or related statutes of the requesting party.
- D. Returns and return information will be transmitted by first class mail or Fax to the liaison officials designated above or other authorized employees or hand delivered by an authorized employee of the parties to this agreement.

III. Disclosure and Exchange of Information Under the Agreement

- A. Returns and return information (including other information as provided in Section 5 of the Agreement) will be exchanged as authorized by the Agreement on Coordination of Tax Administration and as implemented by these guidelines. The Agreement constitutes the requisite authorization pursuant to section 6103(d) of the Internal Revenue Code for the Internal

Revenue Service to disclose, and permit inspection of, Federal returns and return information. The Agreement also constitutes the requisite authorization for the Agency to disclose, and permit inspection of, State returns and return information. However, the Agreement shall not be construed as authority for the Agency to disclose State returns and State return information where such disclosure would be contrary to State law.

- B. In accordance with the Internal Revenue Code, any State returns and State return information disclosed to, or inspected by, officers or employees of the Internal Revenue Service become, in the hands of the Internal Revenue Service, "taxpayer return information" as defined in 26 U.S.C. § 6103(b)(3), and may thereafter be disclosed by the Internal Revenue Service only to such persons, for such purposes, and under such conditions as may be prescribed by the Internal Revenue Code, or by an applicable treaty or tax information exchange agreement.

IV. General Provisions

- A. It is the express intention of the parties to encourage an effective two-way flow of information that may affect the enforcement efforts of either party. From time to time, as the situation dictates, either party may initiate a briefing conference to further discuss new developments. The parties agree to meet at least annually for the purpose of reviewing the existing exchange program, examining the need for and use of data exchanged, exploring additional areas where exchange would be beneficial, and determining whether provisions of this agreement require revision or amendment.
- B. The Director and the Agency mutually agree to review their respective lists of employees authorized to request and receive Federal or Possession tax information, and to promptly inform the other party of any additions or deletions to such lists. By January 31 of each year, subsequent to the execution of this agreement, each party will submit to each other a current list of those employees that are designated to sign requests for tax data.
- C. These guidelines are not intended to alter, amend or rescind any provision of the Agreement on Coordination of Tax Administration now in effect between the Agency and the Commissioner of Internal Revenue. In case of conflict, the provisions of the Agreement on Coordination of Tax Administration will be effective, and any conflicting provisions of these guidelines will be considered null and void.
- D. The authority for implementing these guidelines is the Agreement on Coordination of Tax Administration, and any action (or failure to take proper action) which would constitute grounds for termination of the

Agreement on Coordination of Tax Administration would also be grounds to terminate these guidelines.

- E. In the event that the need for any of the information received pursuant to the foregoing provisions ceases, the receiving party shall notify the other party to discontinue future submission of the affected information.
- F. These guidelines may be amended at any time with the mutual consent of the parties by written consent of the Director, International (LMSB), Internal Revenue Service, and the CNMI Secretary of Finance, Department of Finance, Division of Revenue and Taxation and the CNMI Attorney General's Office.
- G. Due to the database conversion to a new computer system in the year 2000 in the CNMI, accessing accurate database tax information for tax years prior to 2000 may be administratively burdensome. Therefore, accurate CNMI database information can be readily available and provided for tax years beginning with the year 2000. However, requests for returns and return information for tax years prior to year 2000 will be provided by the CNMI on a case by case basis.

APPROVED:

COMMONWEALTH OF THE NORTHERN
MARIANA ISLANDS
DEPARTMENT OF FINANCE
DIVISION OF REVENUE AND TAXATION

Roberta Scharack
Acting Secretary of Finance

Signed at SAIPAN, CNMI
This 7th day of October, 2003

Reviewed and Approved by the
CNMI Office of the Attorney General:

Clyde Lemons
Acting Attorney General
This 7th day of October, 2003

UNITED STATES OF AMERICA
INTERNAL REVENUE SERVICE

ER Lodge
Acting Director, International (LMSB)

Signed at WASHINGTON DC
This 31st day of OCTOBER, 2003