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TIEA – Why Now?

Nassau, Bahamas – January 29, 2002: The Governments of The Bahamas and the United States of America have agreed to terms that set out the basis under which The Bahamas will provide only very specific information to the United States regarding U.S. tax matters, beginning in 2005 for criminal matters and 2007 for civil matters.

The principal terms of the agreements include:

- Clearly defined restrictions on the provision of information.
- Conclusion of negotiations for Qualified jurisdiction status
- Express acknowledgement of The Bahamas as a recognized international financial center
- Parameters to ensure The Bahamas remains a jurisdiction of choice
- Convention Tax Benefit

On January 1, 2001, the U.S. Internal Revenue Service established a QI withholding agreement to simplify withholding and reporting obligations for payments of income (including interest, dividends, royalties, and gross proceeds) made to an account holder through one or more foreign intermediaries. For example, if the foreign intermediary is not a QI and the payor does not receive the Form W-9 (indicating the tax identification for the payee), the payor must generally withhold at a 31 percent rate.

At that time, The Bahamas determined that it wished to provide its financial institutions, citizens and clients with unrestricted and seamless access to the United States market. The Internal Revenue Service affords this seamless access only where they have the greatest confidence that such self-regulation under the Qualified Intermediary system will be effective. The IRS further determined that the Qualified Intermediary system would only be granted to countries where the United States has a bilateral tax treaty or tax information exchange agreement.

It is out of this determination that The Bahamas has entered into a TIEA with the United States and paved the way for institutions operating in The Bahamas to obtain Qualified Intermediary Status. The Bahamas, like other offshore countries, received provisional Qualified Jurisdiction status on January 1, 2001 the renewal of which was subject to the execution of a TIEA prior to July 2002.

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