



Negotiation of tax treaties to prevent base erosion with respect to rent and royalties (I)

Wednesday, 1 November 2012
(Session 1)

Capacity Building Unit
Financing for Development Office
Department of Economic and Social Affairs

<http://www.un.org/esa/ffd/>

Overview

- Introduction
- Preserving domestic law restrictions on the deduction of rent or royalties paid to non-residents
- Preserving domestic law restrictions on the deduction of royalties by non-residents in the country through a PE
- Taxation issues
- Taxation issues related to royalties paid to a PE in a third state


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Introduction

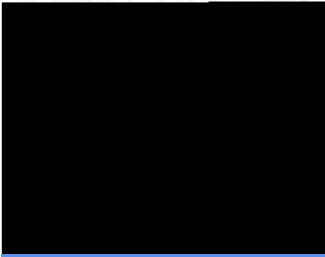
- States that want to combat base erosion by non-residents through payments of rent and royalties ensure that their treaties allow them to "deduction" and tax these payments in certain circumstances
- Possible to include safeguards in treaties but difficult to include provisions that are not in OECD Model
- States will deal with some abuses through unilateral measures
- States will deal with some abuses through unilateral measures that taxing rights secured through unilateral measures available under domestic law

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Preserving domestic law restrictions on
the deduction of rent or ro



Preserving domestic law restrictions on



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Addressing the concerns of the state of source

- The commentary of the OECD and potential abuses that may result from "shares" "debt-claims" rights or property establishments set up solely for that purpose in countries that offer preferential treatment to the income from such

idence exempts profits of such a permanent establishment situated in a third state the tax authorities may be concerned about having to tax such profits with respect to the income derived from that permanent

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Provision on rent and royalties in a third state

- As a result of the work on (EP) + tax abuse rule provision has been included in the & ' models in order to protect the tax authorities from having to grant treaty benefits where income obtained by a permanent establishment situated in a third state is

residence
>):*
included in the commentary

7.

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-)i)* an enterprise of a contracting state deriving income from a permanent establishment situated in a third jurisdiction" and
-)ii)* the profits attributable to that permanent establishment are exempt from tax in the first-mentioned state"

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c* If benefits under this #onvention are de

