

Workshop on Double Tax Treaties and

2. The loan provided that payments (could be made only if DC Co's profits exceeded certain levels).

Case C

Under the facts of the case are the same as Case # but, in its first year of operation, DC Co had 100 of operating income and paid out 10 of interest to the lender.

\$ Case D

Under the facts of the case are the same as in Case # 4 5 4b5 4i.e. DC Co is financed (with 100 of equity and 100 from a foreign bank, but that prior to the loan from the bank, P Co made a loan of 100 to the foreign bank at an interest rate slightly lower than the rate charged by the foreign lender to DC Co.

% Case E

Under the same facts as Case #, but instead of organizing its operations in Country DC as a separately incorporated subsidiary, P Co sets up a branch operation or permanent establishment in the Branch and provides all the capital to the Branch. The books of the Branch show 100 of the funds as a loan bearing a stated interest rate, which the Branch pays to the head office of P Co.

1.

- . +ould the interest paid on the loan by DC Co be fully deductible in calculating the taxable profits of DC Co under your country's domestic law? If not, how is the deduction limited?