



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

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

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

Overview

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


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Introduction

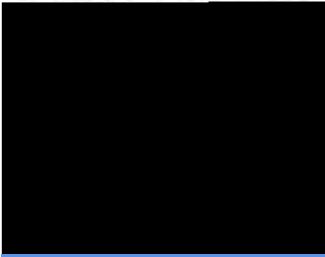
- States that want to combat base erosion by non-residents through payments of rent and royalties ensure that their treaties allow them to "deduct" and tax these payments in certain circumstances
- Possible to include safeguards in treaties but difficult to ensure provisions that are not in OECD Model Treaty will deal with some abuses
"ring"
that taxing rights secured through 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 the income with respect to the income derived from the permanent establishment

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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

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included in the commentary

7.

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)i* an enterprise of a contracting state deriving income from the first-mentioned state as attributable to 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

