

# Double Taxation Conventions / Agreements

8 September 2004



# Purpose of Agreements

⇒ To remove barriers to cross-border trade and investment



# How treaties remove tax barriers

- ⇒ Elimination of double taxation
- ⇒ Certainty of tax treatment
- ⇒ Reduce withholding tax rates
- ⇒ Prevention of fiscal evasion
- ⇒ Assistance in collection
- ⇒ Resolution of tax disputes/interpretation



# South Africa – Bulgaria Double Taxation Convention



# Introduction

- ⇒ Closely follows the OECD Model Convention, which forms the foundation for the vast majority of Double Taxation Agreements (DTAs) worldwide
- ⇒ A number of articles have timeframes or percentages attached to them that are usually the subject of negotiation. These articles and other articles of interest in the South Africa – Bulgaria Double Tax Convention are as follows...



# Article 5: Permanent Establishment

## ⇒ Construction

- 12 months in OECD Model
- 6 months in UN Model
- 6 months in South Africa – Bulgaria DT Convention

## ⇒ Services & Professional Services

- 183 days in UN Model
- 183 days in any 12 months period in South Africa – Bulgaria DT Convention



# Article 8: International Transport

- ⇒ Normally restricted to air and sea transport and is so in this Convention
- ⇒ Extended to include profits derived from the rental on a “bare boat” basis of ships or aircraft used in international traffic and use or rental of containers, if such profits are incidental.  
(Standard SA clause)



# Article 10: Dividends

- ⇒ Withholding tax of 5% or 15% proposed by OECD Model
- ⇒ In practice, withholding taxes vary widely internationally
- ⇒ South Africa – Bulgaria DT Convention
  - Shareholding of 25% (OECD - 25%) and more: 5%
  - Other shareholding: 15%





# Articles 11: Interest

- ⇒ Withholding tax of 10% proposed by OECD Model
- ⇒ In practice, withholding taxes vary widely internationally
- ⇒ South Africa – Bulgaria DT Convention: 5%
- ⇒ The withholding will not apply, where interest is paid to the Government, political subdivision or local authority of the other Contracting State, the central bank or any wholly owned institution of the Government of the Contracting State.



# Article 12: Royalties

- ⇒ No withholding tax proposed by OECD Model
- ⇒ In practice, withholding taxes vary widely internationally
- ⇒ South Africa – Bulgaria DT Convention
  - Article 12: Royalties: 10%
  - Copyright for artistic work and equipment rentals: 5%



# Article 20: Teachers & Researchers

- ⇒ Where teaching or carrying out research
- ⇒ At a university, college, school or educational institution
- ⇒ Not taxed in host State provided the remuneration is derived from outside the host State.



# Article 25: Exchange of Information

- ⇒ Article expanded to allow for exchange of information in respect of taxes of every kind
- ⇒ This would for example allow information to be used for purposes of VAT

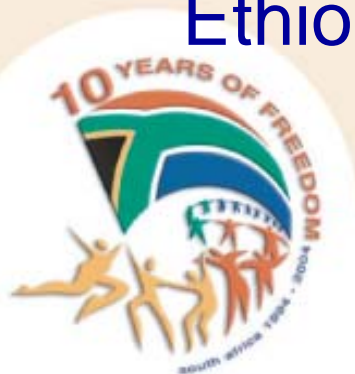


# South Africa – Ethiopia Double Taxation Agreement



# Introduction

- ⇒ Closely follows the OECD Model Convention, which forms the foundation for the vast majority of Double Taxation Agreements (DTAs) worldwide
- ⇒ A number of articles have timeframes or percentages attached to them that are usually the subject of negotiation. These articles and other articles of interest in the South Africa – Ethiopia DTA are as follows...



# Article 5: Permanent Establishment

## ⇒ Construction

- 12 months in OECD Model
- 6 months in UN Model
- 6 months in South Africa – Ethiopia DTA

## ⇒ Services & Professional Services

- 183 days in UN Model
- More than 6 months in any 12 months period in South Africa – Ethiopia DTA.



# Article 8: International Transport

- ⇒ Normally restricted to air and sea transport and is so in this DTA
- ⇒ Extended to include profits derived from the rental on a “bare boat” basis of ships or aircraft used in international traffic, if such profits are incidental. (Standard SA clause)
- ⇒ Extended to include profits from the use or rental of containers including trailers, barges and related equipment for the transport of containers.





# Article 10: Dividends

- ⇒ Withholding tax of 5% or 15% proposed by OECD Model
- ⇒ In practice, withholding taxes vary widely internationally
- ⇒ South Africa – Ethiopia DTA
  - Withholding rate: 10%



# Articles 11: Interest

- ⇒ Withholding tax of 10% proposed by OECD Model
- ⇒ In practice, withholding taxes vary widely internationally
- ⇒ South Africa – Ethiopia DTA: 8%
- ⇒ Exemptions for Government, central banks and wholly owned institutions will apply.



# Article 12: Royalties

- ⇒ No withholding tax proposed by OECD Model
- ⇒ In practice, withholding taxes vary widely internationally
- ⇒ South Africa – Ethiopia DTA
  - Article 12: Royalties: 20% (Equipment excluded)



# Article 20: Teachers & Researchers

- ⇒ Where teaching or carrying out research
- ⇒ At a university, college, school or educational institution
- ⇒ For a period not exceeding 2 years
- ⇒ Not taxed in host country provided such remuneration is derived from outside the host country and taxed in the other country



# Article 25: Exchange of Information

- ⇒ Article expanded to allow for exchange of information in respect of taxes of every kind
- ⇒ This would for example allow information to be used for purposes of VAT



# Assistance in Collection

- ⇒ Recent addition to OECD Model (2003)
- ⇒ Not in either DTA, legal basis for such assistance needs to be present in both countries and such arrangements will never operate unilaterally.

