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ISRAEL

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Treaty Series No. 19 (1950)

## Exchange of Notes

between His Majesty's Government in the United Kingdom of  
Great Britain and Northern Ireland and the Government of Israel  
for the continuance in force of the Arrangement of 1947 for  
the Avoidance of Double Taxation and the Prevention  
of Fiscal Evasion with respect to Taxes on Income

[ with Annex ]

London, 10th February, 1950

*Presented by the Secretary of State for Foreign Affairs to Parliament  
by Command of His Majesty*

LONDON  
HIS MAJESTY'S STATIONERY OFFICE  
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Cmd. 7912

**EXCHANGE OF NOTES BETWEEN HIS MAJESTY'S GOVERNMENT IN THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF ISRAEL FOR THE CONTINUANCE IN FORCE OF THE ARRANGEMENT OF 1947 FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME (WITH ANNEX)**

*London, 10th February, 1950*

No. 1

*The Secretary of State for Foreign Affairs to the Minister of Israel in London*

*Foreign Office, S.W. 1,*

*10th February, 1950.*

Your Excellency,

I have the honour to refer to the Arrangement made in 1947<sup>(1)</sup> between His Majesty's Government in the United Kingdom of Great Britain and Northern Ireland and the Government of Palestine for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and to propose that this Arrangement shall be regarded as continuing in force between His Majesty's Government and the Government of Israel except that instead of to Palestine the Arrangement shall be deemed to extend to the territory in which the Government of Israel levy taxation, so that where in the terms of the Arrangement there is a reference to Palestine the territory in which the Government of Israel levy taxation shall be substituted and where there is a reference to the Government of Palestine the Government of Israel shall be substituted, provided that for the purposes of paragraphs 8 and 10 of the Arrangement services rendered to the Government of Israel shall be deemed to include services rendered to the Government of Palestine. It will be understood that the taxation authorities of the two Governments will consult together as to the manner in which paragraph 14 of the Arrangement shall be applied.

If the Government of Israel agree to this proposal I have the honour to suggest that the present Note and your Excellency's reply to that effect should be regarded as constituting an agreement between the two Governments on this matter.

I have, &c.  
(Sd.) ERNEST BEVIN.

No. 2

*The Minister of Israel in London to the Secretary of State for Foreign Affairs*

לרנדון.

כ"ג שבט, תש"י  
10 כסברואר, 1950

הוד מעלתך,

הנני מחבדך לאשר אה קכלה אגרה הוד מעלתך, הכחובה  
בהארץ היום, ובנוסה דלקמן :

[As in No. 1]

<sup>(1)</sup> See Annex, page 3.

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בהשוכה הנני מחכר להודיע להוד מעלתך כי ממשלת ישראל  
מסכימה להצעה ממשלת הוד מלכותו, ותעריך את אגלתך ואת ההשוכה הנוכחית  
כהסכם בין שתי הממשלות.

קבל נא, הוד מעלתך, את הכעה רגשי כבודי המעולים ביותר.

שליח מיוחד וצידד מוסמך.

לכבוד  
מזכיר המדינה הראשי של הוד מלכותו לעניני חוץ.

Translation of No. 2

*Legation of Israel, London,  
10th February, 1950.*

Your Excellency,

I have the honour to acknowledge the receipt of your Excellency's Note of to-day's date couched in the following terms:—

[As in No. 1]

In reply I have the honour to inform your Excellency that the Government of Israel agree to the proposal of His Majesty's Government and will regard your Note and this reply as constituting an agreement between the two Governments.

Please accept. &c.  
(Sd.) M. ELIASH.

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ANNEX

ARRANGEMENT BETWEEN HIS MAJESTY'S GOVERNMENT AND THE GOVERNMENT OF PALESTINE FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

1.—(1) The taxes which are the subject of this Arrangement are—

(a) In the United Kingdom:

The income tax (including sur-tax) and the profits tax (hereinafter referred to as "United Kingdom tax").

(b) In Palestine:

The income tax and the company profits tax (hereinafter referred to as "Palestine tax").

(2) This Arrangement shall also apply to any other taxes of a substantially similar character imposed in the United Kingdom or Palestine after this Arrangement has come into force.

2.—(1) In this Arrangement, unless the context otherwise requires—

(a) The term "United Kingdom" means Great Britain and Northern Ireland, excluding the Channel Islands and the Isle of Man.

- (b) The terms "one of the territories" and "the other territory" mean the United Kingdom or Palestine, as the context requires.
- (c) The term "tax" means United Kingdom tax or Palestine tax, as the context requires.
- (d) The term "person" includes any body of persons, corporate or not corporate.
- (e) The term "company" includes any body corporate.
- (f) The terms "resident of the United Kingdom" and "resident of Palestine" mean respectively any person who is resident in the United Kingdom for the purposes of United Kingdom tax and not resident in Palestine for the purposes of Palestine tax and any person who is resident in Palestine for the purposes of Palestine tax and not resident in the United Kingdom for the purposes of United Kingdom tax; and a company shall be regarded as resident in the United Kingdom if its business is managed and controlled in the United Kingdom and as resident in Palestine if its business is managed and controlled in Palestine.
- (g) The terms "resident of one of the territories" and "resident of the other territory" mean a person who is a resident of the United Kingdom or a person who is a resident of Palestine, as the context requires.
- (h) The terms "United Kingdom enterprise" and "Palestine enterprise" mean respectively an industrial or commercial enterprise or undertaking carried on by a resident of the United Kingdom and an industrial or commercial enterprise or undertaking carried on by a resident of Palestine; and the terms "enterprise of one of the territories" and "enterprise of the other territory" mean a United Kingdom enterprise or a Palestine enterprise, as the context requires.
- (i) The term "industrial or commercial profits" includes rentals in respect of cinematograph films.
- (j) The term "permanent establishment," when used with respect to an enterprise of one of the territories, means a branch, management or other fixed place of business, but does not include an agency unless the agent has, and habitually exercises, a general authority to negotiate and conclude contracts on behalf of such enterprise or has a stock of merchandise from which he regularly fills orders on its behalf.

An enterprise of one of the territories shall not be deemed to have a permanent establishment in the other territory merely because it carries on business dealings in that other territory through a *bona fide* broker or general commission agent acting in the ordinary course of his business as such.

The fact that an enterprise of one of the territories maintains in the other territory a fixed place of business exclusively for the purchase of goods or merchandise shall not of itself constitute that fixed place of business a permanent establishment of the enterprise.

The fact that a company which is a resident of one of the territories has a subsidiary company which is a resident of the other territory or which is engaged in trade or business in that other territory (whether through a permanent establishment or otherwise) shall not of itself constitute that subsidiary company a permanent establishment of its parent company.

(2) Where under this Arrangement any income is exempt from tax in one of the territories if (with or without other conditions) it is subject to tax in the other territory, and that income is subject to tax in that other territory by reference to the amount thereof which is remitted to or received in that

other territory, the exemption to be allowed under this Arrangement in the first-mentioned territory shall apply only to the amount so remitted or received.

(3) In the application of the provisions of this Arrangement by the United Kingdom or Palestine, any term not otherwise defined shall, unless the context otherwise requires, have the meaning which it has under the laws of the United Kingdom, or, as the case may be, Palestine, relating to the taxes which are the subject of this Arrangement.

3.—(1) The industrial or commercial profits of a United Kingdom enterprise shall not be subject to Palestine tax unless the enterprise is engaged in trade or business in Palestine through a permanent establishment situated therein. If it is so engaged, tax may be imposed on those profits by Palestine but only on so much of them as is attributable to that permanent establishment.

(2) The industrial or commercial profits of a Palestine enterprise shall not be subject to United Kingdom tax unless the enterprise is engaged in trade or business in the United Kingdom through a permanent establishment situated therein. If it is so engaged, tax may be imposed on those profits by the United Kingdom, but only on so much of them as is attributable to that permanent establishment.

(3) Where an enterprise of one of the territories is engaged in trade or business in the other territory through a permanent establishment situated therein, there shall be attributed to that permanent establishment the industrial or commercial profits which it might be expected to derive from its activities in that other territory if it were an independent enterprise engaged in the same or similar activities under the same or similar conditions and dealing at arm's length with the enterprise of which it is a permanent establishment.

(4) No portion of any profits arising from the sale of goods or merchandise by an enterprise of one of the territories shall be attributed to a permanent establishment situated in the other territory by reason of the mere purchase of the goods or merchandise within that other territory.

4. Where—

- (a) an enterprise of one of the territories participates directly or indirectly in the management, control or capital of an enterprise of the other territory, or
- (b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of one of the territories and an enterprise of the other territory, and
- (c) in either case conditions are made or imposed between the two enterprises, in their commercial or financial relations, which differ from those which would be made between independent enterprises,

then any profits which would but for those conditions have accrued to one of the enterprises but by reason of those conditions have not so accrued may be included in the profits of that enterprise and taxed accordingly.

5. Notwithstanding the provisions of paragraphs 3 and 4, profits which a resident of one of the territories derives from operating ships or aircraft shall be exempt from tax in the other territory.

6.—(1) Dividends paid by a company resident in one of the territories to a resident of the other territory who is subject to tax in that other territory in respect thereof and not engaged in trade or business in the first-mentioned territory through a permanent establishment situated therein, shall be exempt from any tax in that first-mentioned territory which is chargeable on dividends in addition to the tax chargeable in respect of the profits or income of the company.

(2) Where a company which is a resident of one of the territories derives profits or income from sources within the other territory, the Government of that other territory shall not impose any form of taxation on dividends paid by the company to persons not resident in that other territory, or any tax in the nature of an undistributed profits tax on undistributed profits of the company, by reason of the fact that those dividends or undistributed profits represent, in whole or in part, profits or income so derived.

7.—(1) Any royalty derived from sources within one of the territories by a resident of the other territory who is subject to tax in that other territory in respect thereof and is not engaged in trade or business in the first-mentioned territory through a permanent establishment situated therein, shall be exempt from tax in that first-mentioned territory; but no exemption shall be allowed under this paragraph in respect of so much of any royalty as exceeds an amount which represents a fair and reasonable consideration for the rights for which the royalty is paid.

(2) In this paragraph the term "royalty" means any royalty or other amount paid as consideration for the use of, or for the privilege of using, any copyright, patent, design, secret process or formula, trade-mark, or other like property, but does not include a royalty or other amount paid in respect of the operation of a mine or quarry or of other extraction of natural resources.

8.—(1) Remuneration, including pensions, paid by the Government of one of the territories to any individual for services rendered to that Government in the discharge of governmental functions shall be exempt from tax in the other territory if the individual is not ordinarily resident in that other territory or (where the remuneration is not a pension) is ordinarily resident in that other territory solely for the purpose of rendering those services.

(2) The provisions of this paragraph shall not apply to payments in respect of services rendered in connection with any trade or business carried on by either of the Governments for purposes of profit.

9.—(1) An individual who is a resident of the United Kingdom shall be exempt from Palestine tax on profits or remuneration in respect of personal (including professional) services performed within Palestine in any year of assessment if—

- (a) he is present within Palestine for a period or periods not exceeding in the aggregate 183 days during that year, and
- (b) the services are performed for or on behalf of a person resident in the United Kingdom; and
- (c) the profits or remuneration are subject to United Kingdom tax.

(2) An individual who is a resident of Palestine shall be exempt from United Kingdom tax on profits or remuneration in respect of personal (including professional) services performed within the United Kingdom in any year of assessment if—

- (a) he is present within the United Kingdom for a period or periods not exceeding in the aggregate 183 days during that year, and
- (b) the services are performed for or on behalf of a person resident in Palestine, and
- (c) the profits or remuneration are subject to Palestine tax.

(3) The provisions of this paragraph shall not apply to the profits or remuneration of public entertainers such as stage, motion picture or radio artists, musicians and athletes.

10.—(1) Any pension (other than a pension paid by the Government of Palestine for services rendered to it in the discharge of governmental functions) and any annuity, derived from sources within Palestine by an individual who is a resident of the United Kingdom and subject to United Kingdom tax in respect thereof, shall be exempt from Palestine tax.

(2) Any pension (other than a pension paid by the Government of the United Kingdom for services rendered to it in the discharge of governmental functions) and any annuity, derived from sources within the United Kingdom by an individual who is a resident of Palestine and subject to Palestine tax in respect thereof, shall be exempt from United Kingdom tax.

(3) The term "annuity" means a stated sum payable periodically at stated times, during life or during a specified or ascertainable period of time, under an obligation to make the payments in consideration of money paid.

11. The remuneration derived by a professor or teacher who is ordinarily resident in one of the territories, for teaching, during a period of temporary residence not exceeding two years, at a university, college school or other educational institution in the other territory, shall be exempt from tax in that other territory.

12. A student or business apprentice from one of the territories who is receiving full-time education or training in the other territory shall be exempt from tax in that other territory on payments made to him by persons in the first-mentioned territory for the purposes of his maintenance, education or training.

13.—(1) Subject to the provisions of the law of the United Kingdom regarding the allowance as a credit against United Kingdom tax of tax payable in a territory outside the United Kingdom, Palestine tax payable, whether directly or by deduction, in respect of income from sources within Palestine shall be allowed as a credit against any United Kingdom tax payable in respect of that income. Where such income is an ordinary dividend paid by a company resident in Palestine, the credit shall take into account (in addition to any Palestine income tax appropriate to the dividend) the Palestine company profits tax payable by the company in respect of its profits, and where it is a dividend paid on participating preference shares and representing both a dividend at the fixed rate to which the shares are entitled and an additional participation in profits, the company profits tax so payable by the company shall likewise be taken into account in so far as the dividend exceeds that fixed rate.

(2) Subject to the provisions of the law of Palestine regarding the allowance as a credit against Palestine tax of tax payable in a territory outside Palestine, United Kingdom tax payable, whether directly or by deduction, in respect of income from sources within the United Kingdom shall be allowed as a credit against any Palestine tax payable in respect of that income. Where such income is an ordinary dividend paid by a company resident in the United Kingdom, the credit shall take into account (in addition to any United Kingdom income tax appropriate to the dividend) the United Kingdom profits tax payable by the company in respect of its profits, and where it is a dividend paid on participating preference shares and representing both a dividend at the fixed rate to which the shares are entitled and an additional participation in profits, the profits tax so payable by the company shall likewise be taken into account in so far as the dividend exceeds that fixed rate.

(3) For the purposes of this paragraph profits or remuneration for personal (including professional) services performed in one of the territories shall be deemed to be income from sources within that territory, and the services of an individual whose services are wholly or mainly performed in ships or

aircraft operated by a resident of one of the territories shall be deemed to be performed in that territory.

(4) Where Palestine income tax is payable for a year for which this Arrangement has effect in respect of any income in respect of which United Kingdom income tax is payable for a year prior to the year beginning on the 6th April, 1947, then—

- (a) in the case of a person resident in Palestine; the Palestine income tax shall, for the purposes of sub-paragraph (2) of this paragraph, be deemed to be reduced by the amount of any relief allowable in respect thereof under the provisions of Section 27 of the United Kingdom Finance Act, 1920; and
- (b) in the case of a person resident in the United Kingdom, the provisions of Section 69 of the Palestine Income Tax Ordinance, 1947, shall apply for the purposes of the allowance of relief from the Palestine tax.

14.—(1) The taxation authorities of the United Kingdom and Palestine shall exchange such information (being information available under their respective taxation laws) as is necessary for carrying out the provisions of this Arrangement or for the prevention of fraud or the administration of statutory provisions against legal avoidance in relation to the taxes which are the subject of this Arrangement. Any information so exchanged shall be treated as secret and shall not be disclosed to any persons other than those concerned with the assessment and collection of the taxes which are the subject of this Arrangement. No information shall be exchanged which would disclose any trade secret or trade process.

(2) As used in this paragraph, the term "taxation authorities" means the Commissioners of Inland Revenue or their authorised representative in the case of the United Kingdom and the Commissioner of Income Tax or his authorised representative in the case of Palestine.

15. This Arrangement shall come into force on the date on which the last of all such things shall have been done in the United Kingdom and Palestine as are necessary to give the Arrangement the force of law in the United Kingdom and Palestine respectively, and shall thereupon have effect—

- (a) in the United Kingdom, as respects income tax for the year of assessment beginning on the 6th day of April, 1947, and subsequent years; as respects sur-tax for the year of assessment beginning on the 6th day of April, 1946, and subsequent years; and as respects profits tax for any chargeable accounting period beginning on or after the first day of January, 1947, and for the unexpired portion of any chargeable accounting period current at that date;
- (b) in Palestine, as respects income tax for the year of assessment beginning on the first day of April, 1947, and subsequent years; and as respects company profits tax for any chargeable accounting period beginning on or after the first day of April, 1947, and for the unexpired portion of any chargeable accounting period current at that date.

16. This Arrangement shall continue in effect indefinitely but either of the Governments may, on or before the 30th day of September in any calendar year after the year 1948, give notice of termination to the other Government and, in such event, this Arrangement shall cease to be effective—

- (a) in the United Kingdom as respects income tax for any year of assessment beginning on or after the 6th day of April in the calendar year next following that in which such notice is given; as respects sur-tax

for any year of assessment beginning on or after the 6th day of April in the calendar year in which such notice is given ; and as respects profits tax for any chargeable accounting period beginning on or after the first day of January in the calendar year next following that in which such notice is given and for the unexpired portion of any chargeable accounting period current at that date ;

- (b) in Palestine, as respects income tax for any year of assessment beginning on or after the first day of April in the calendar year next following that in which such notice is given ; and as respects company profits tax for any chargeable accounting period beginning on or after the first day of April in the calendar year next following that in which such notice is given and for the unexpired portion of any chargeable accounting period current at that date.

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