

## **Section 3 Tax conventions**

### **1. The role of tax conventions**

Tax conventions adjust the scope of taxable income related to investment and economic activities between two countries, to avoid international double taxation. Concluding such conventions also establishes a framework for a Mutual Agreement Procedure between the tax authorities of both countries, as well as for the exchange of information and assistance in the collection of taxes, thereby helping to resolve disputes in the taxation field and prevent tax evasion and avoidance.

It is hoped that concluding tax conventions will not only ensure the legal stability of the taxation of companies operating overseas, but also contribute to facilitate flow back to Japan of income earned overseas by Japanese companies, so as to further promote investment and economic exchange.

### **2. Conclusion of new tax-related conventions and revision of existing conventions**

As of the end of April 2014, Japan had concluded 60 tax-related conventions, applicable to 80 countries and regions.

In recent years, new tax conventions have been concluded with resource-rich countries such as the Middle East, and existing conventions with developed countries have been revised. Tax conventions focused primarily on the exchange of information to aid in preventing international tax evasion and avoidance have also been concluded. In particular, for revisions with developed countries such as New Zealand, the U.S., Sweden and the UK, an arbitrary system is introduced to prompt for a resolution in which a third party that is not the tax authority is involved, if the case is not settled after a fixed period of time from the start of the mutual agreement procedure between tax authorities while tax at the source principle for investment income (such as dividends or interest) is reduced or exempted. These revisions also cover the reduction or exemption of taxation on investment income (dividends, interest, etc.) in the source country. The revision of the tax convention with the UK marked the first time that Japan had introduced a provision stipulating that, when calculating the business income attributable to the permanent establishment (branch office etc. of a foreign corporation or nonresidents), a more stringent view would be taken toward internal transactions between the head office and branch office, based on the “arm’s length” principle, in accordance with the 2010 revision of the OECD Model Tax Convention.

It will be vital to expedite initiatives for upgrading and expanding the network of tax-related conventions that assist in supporting the overseas expansion of companies, taking into consideration the overall perspective in terms of the needs of Japanese industry and appropriate means of securing Japan’s right of taxation. More specifically, as well as moving forward with the conclusion of new conventions with countries with which Japan has not previously done so, it will be necessary to revise existing conventions, enhancing them by such means as clarifying the scope of income from overseas business activities that is subject to taxation, lowering the tax rate limit for the source country of investment income, and introducing arbitration systems (Table III-1-3-2).

**Table III-1-3-1 List of countries and regions with which Japan has concluded tax-related conventions**

List of countries/regions with which Japan has concluded tax-related conventions 60 conventions, 80 countries and regions / as of the end of April 2014)			
<East/Southeast Asia> Indonesia ROK Singapore Thailand China Philippines Brunei Viet Nam Hong Kong Malaysia	<Africa> Zambia South Africa (The following are participants in the Convention on Mutual Administrative Assistance in Tax Matters only) <u>Ghana</u> <u>Tunisia</u>	<Eastern Europe and Central Asia> <u>Azerbaijan</u> Armenia <u>Ukraine</u> Uzbekistan Kazakhstan Kyrgyzstan <u>Georgia</u> <u>Slovakia</u> Tajikistan <u>Czech Republic</u> Turkmenistan Hungary Bulgaria Belarus <u>Poland</u> <u>Moldova</u> Romania Russia	<Europe> <u>Ireland</u> UK <u>Italy</u> Austria <u>Netherlands</u> Switzerland <u>Sweden</u> <u>Spain</u> <u>Denmark</u> Germany <u>Norway</u> <u>Finland</u> <u>France</u> <u>Belgium</u> Portugal Luxembourg Guernsey (*) Jersey (*) Isle of Man (*) Liechtenstein (*) (The following are participants in the Convention on Mutual Administrative Assistance in Tax Matters only) <u>Iceland</u> <u>Albania</u> <u>Greece</u> <u>Slovenia</u> <u>Malta</u>
<South Asia> <u>India</u> Sri Lanka Pakistan Bangladesh	<North America> <u>the U.S.</u> <u>Canada</u>		
<Oceania> <u>Australia</u> <u>New Zealand</u> Fiji Samoa (*)	<Latin America and the Caribbean> Brazil <u>Mexico</u> Cayman Islands (*) Bahamas (*) Bermuda (*) (The following are participants in the Convention on Mutual Administrative Assistance in Tax Matters only) <u>Argentina</u> <u>Costa Rica</u> <u>Belize</u>		
<Middle East> Israel Egypt Kuwait Saudi Arabia Turkey			

◆ \* indicates that the treaty mainly contains provisions on the exchange of information concerning tax matters  
◆ Countries that have been underlined are participants in the Convention on Mutual Administrative Assistance in Tax Matters  
Source: Compiled by Ministry of Economy, Trade and Industry.

**Table III-1-3-2 Recent developments and current situation**

(As of the end of April 2014)		
◇ Signed		
January 2011	*Tax Agreement with the Bahamas (new)	(entered into force 2011)
February 2011	*Tax Agreement with the Cayman Islands (new)	(entered into force 2011)
June 2011	*Tax Agreement with the Isle of Man (new)	(entered into force 2011)
November 2011	Convention on Mutual Administrative Assistance in Tax Matters (new)	(entered into force 2013)
December 2011	*Tax Agreement with Jersey (new)	(entered into force 2013)
December 2011	*Tax Agreement with Guernsey (new)	(entered into force 2013)
December 2011	Tax Convention with Portugal (new)	(entered into force 2013)
July 2012	*Tax Agreement with Liechtenstein (new)	(entered into force 2012)
December 2012	Tax Convention with New Zealand (full)	(entered into force 2013)
January 2013	Tax Convention with the U.S. (partial)	(revisions have not yet entered into force)
May 2013	Tax Convention with the United Arab Emirates	(has not yet entered into force)

	(new)	force)
June 2013	*Tax Agreement with Samoa (new)	(entered into force 2013)
December 2013	Tax Convention with Sweden (partial)	(revisions have not yet entered into force)
December 2013	Tax Convention with UK (partial)	(revisions have not yet entered into force)
January 2014	Tax Agreement with Oman (new)	(has not yet entered into force)
March 2014	*Tax Agreement with Macau (new)	(has not yet entered into force)
◇ Agreement in principle		
April 2013	*Tax Information Exchange Agreement with the British Virgin Islands (new)	
◇ Currently under official negotiations		
Germany		
1 (*) Tax agreements centered on the exchange of information regarding tax matters.		
2 (Full): The fully amended Convention, (Partial): The partially amended Convention,		
(New): The firstly concluded Convention		

Source: Compiled by Ministry of Economy, Trade and Industry.