

CONVENTION BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF ISRAEL FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Israel,

Desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income,

Have agreed as follows —

ARTICLE I

(1) The taxes which are the subject of the present Convention are —

(a) In the United Kingdom of Great Britain and Northern Ireland

(i) the income tax (including surtax), and

(ii) the profits tax

(hereinafter referred to as "United Kingdom tax")

(b) In Israel

(i) the income tax, and

(ii) the company tax

(hereinafter referred to as "Israel tax")

(2) This Convention shall also apply to any identical or substantially similar taxes which are subsequently imposed in addition to, or in place of, the existing taxes

ARTICLE II

(1) In the present Convention, unless the context otherwise requires—

(a) the term "United Kingdom" means Great Britain and Northern Ireland,

(b) the term "Israel" means the territory in which the Government of Israel levy taxation,

(c) the terms "one of the territories" and "the other territory" mean the United Kingdom or Israel, as the context requires,

(d) the term "taxation authorities" means, in the case of the United Kingdom, the Commissioners of Inland Revenue or their authorised representative, in the case of Israel, the Minister of Finance or his authorised representative, and, in the case of any territory to which this Convention is extended under Article XXII, the competent authority for the administration in such territory of the taxes to which this Convention applies.

- (e) the term "tax" means United Kingdom tax or Israel tax, as the context requires,
- (f) the term "person" includes any body of persons, corporate or not corporate,
- (g) the term "company" means any body corporate,
- (h) (i) the terms "resident of the United Kingdom" and "resident of Israel" mean respectively any person who is resident in the United Kingdom for the purposes of United Kingdom tax and any person who is resident in Israel for the purposes of Israel tax, but
 - (ii) where by reason of the provisions of sub-paragraph (i) above an individual is a resident of both territories, then this case shall be solved in accordance with the following rules.
 - (aa) he shall be deemed to be a resident of the territory in which he has a permanent home available to him. If he has a permanent home available to him in both territories, he shall be deemed to be a resident of the territory with which his personal and economic relations are closest (hereinafter referred to as his "centre of vital interests"),
 - (bb) if the territory in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either territory, he shall be deemed to be a resident of the territory in which he has an habitual abode,
 - (cc) if he has an habitual abode in both territories or in neither of them, he shall be deemed to be a resident of the territory of which he is a national,
 - (dd) if he is a national of both territories or of neither of them, the taxation authorities of the territories shall determine the question by mutual agreement,
 - (iii) where by reason of the provisions of sub-paragraph (i) above a legal person is a resident of both territories, then it shall be deemed to be a resident of the territory in which its place of effective management is situated, the same provision shall apply to partnerships and associations which under the national laws by which they are governed are not legal persons.
- (i) 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 Israel, as the context requires,
- (j) the terms "United Kingdom enterprise" and "Israel 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 Israel, and the terms "enterprise of one of the territories" and "enterprise of the other territory" mean a United Kingdom enterprise or an Israel enterprise, as the context requires,
- (k) (i) the term "permanent establishment" means a fixed place of business in which the business of the enterprise is wholly or partly carried on;

- (ii) a permanent establishment shall include especially
 - (aa) a place of management,
 - (bb) a branch,
 - (cc) an office,
 - (dd) a factory
 - (ee) a workshop,
 - (ff) a mine, quarry or other place of extraction of natural resources,
 - (gg) a building site or construction or assembly project which exists for more than twelve months,
- (iii) the term " permanent establishment " shall not be deemed to include
 - (aa) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise,
 - (bb) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery,
 - (cc) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise,
 - (dd) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or for collecting information, for the enterprise,
 - (ee) the maintenance of a fixed place of business solely for the purpose of advertising, for the supply of information, for scientific research or for similar activities which have a preparatory or auxiliary character, for the enterprise,
- (iv) a person acting in one of the territories on behalf of an enterprise of the other territory—other than an agent of an independent status to whom sub-paragraph (v) applies—shall be deemed to be a permanent establishment in the first-named territory if he has, and habitually exercises in that territory, an authority to conclude contracts in the name of the enterprise, unless his activities are limited to the purchase of goods or merchandise for the enterprise,
- (v) 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 in that other territory through a broker, a general commission agent or any other agent of an independent status, where such persons are acting in the ordinary course of their business,
- (vi) the fact that a company which is a resident of one of the territories controls or is controlled by a company which is a resident of the other territory, or which carries on business in that other territory (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other,

(1) the term "international traffic" includes traffic between places in one country in the course of a voyage which extends over more than one country

(2) Where under this Convention any income is exempt from tax or taxed at a reduced rate 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 or reduction of tax to be allowed under this Convention in the first-mentioned territory shall apply only to the amount so remitted or received.

(3) In the application of the provisions of the present Convention by one of the Contracting Parties any term not otherwise defined shall, unless the context otherwise requires, have the meaning which it has under the laws in force in the territory of that Party relating to the taxes which are the subject of the present Convention

ARTICLE III

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

(2) The industrial or commercial profits of an Israel enterprise shall not be subject to United Kingdom tax unless the enterprise carries on a trade or business in the United Kingdom through a permanent establishment situated therein. If it carries on a trade or business as aforesaid, 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 carries on a 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 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) In determining the industrial or commercial profits of a permanent establishment, there shall be allowed as deductions all expenses which would be deductible if the permanent establishment were an independent enterprise in so far as they are reasonably allocable to the permanent establishment, including executive and general administration expenses so deductible and allocable, whether incurred in the territory in which the permanent establishment is situated or elsewhere

(5) No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise

ARTICLE IV

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, 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

ARTICLE V

Notwithstanding the provisions of Articles III and IV income from the operation of ships or aircraft in international traffic shall be taxable only in the territory in which the place of effective management of the enterprise is situated

ARTICLE VI

(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 does not carry on a 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

Provided that this paragraph shall not apply so as to confer any exemption from any tax chargeable on dividends paid by a company that are allowed as a deduction in computing the profits of the company for income tax purposes, being tax which is chargeable at a rate not exceeding the rate at which income tax is chargeable on undistributed profits 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, there shall not be imposed in that other territory 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 undistributed profits tax on undistributed profits of the company, whether or not those dividends or undistributed profits represent, in whole or in part, profits or income so derived

ARTICLE VII

(1) Where interest is 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, the rate of tax imposed thereon in the first-mentioned territory shall not exceed 15 per cent

(2) The provisions of paragraph (1) of this Article shall not apply where a resident of one of the territories has a permanent establishment in the other territory and such interest is attributable to that permanent establishment, in such event such interest as is attributable to that permanent establishment shall be treated as if it were industrial or commercial profits to which the provisions of Article III are applicable

(3) In this Article, the term "interest" means income from Government securities, from bonds or debentures, whether or not secured by mortgage, or from any other form of indebtedness, as well as all other income assimilated to income from money lent by the taxation law of the territory in which the income arises

(4) Where, owing to a special relationship between the payer and the recipient or between both of them and some other person, the amount of the interest paid, having regard to the indebtedness in respect of which it is paid, exceeds the amount which would have been agreed upon by the payer and the recipient in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In that case, the excess part of the payments shall remain taxable according to the Contracting Parties' own laws, due regard being had to the other provisions of the present Convention

ARTICLE VIII

(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 shall be exempt from tax in that first-mentioned territory. Provided that where any such royalty is in respect of cinematograph or television films tax may be imposed thereon in the territory from which the royalty is derived, but the tax so imposed shall not exceed tax at the rate applicable to companies on 15 per cent of the gross amount of the royalty

(2) In this Article, 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, trademark, or other like property, and includes any rental or like payment in respect of cinematograph or television films, but does not include any royalty or other amount paid in respect of the operation of a mine or quarry or of any other extraction of natural resources

(3) The provisions of paragraph (1) of this Article shall not apply where a resident of one of the territories has a permanent establishment in the other territory and the royalty is attributable to that permanent establishment, in such event the royalty shall be treated as if it were industrial or commercial profits to which the provisions of Article III are applicable

(4) Where, owing to a special relationship between the payer and the recipient or between both of them and some other person, the amount of the royalty, having regard to the use, right or property for which it is paid, exceeds the amount which would have been agreed upon by the payer and the recipient in the absence of such relationship, the provisions of the preceding paragraphs of this Article shall apply only to the last-mentioned amount. In that case, the excess part of the payments shall remain taxable according to the Contracting Parties' own laws due regard being had to the other provisions of the present Convention

(5) Any capital sum derived from sources within one of the territories from the sale of patent rights by a resident of the other territory who does not carry on a trade or business in the first-mentioned territory through a permanent establishment situated therein, shall be exempt from tax in that first-mentioned territory

ARTICLE IX

(1) Income from immovable property may be taxed in the territory in which such property is situated.

(2) The term 'immovable property' shall be defined in accordance with the laws of the territory in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment of agricultural and forestry enterprises, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of mineral deposits, sources and other natural resources; ships, boats and aircraft shall not be regarded as immovable property.

(3) The provisions of paragraphs (1) and (2) of this Article shall apply to income derived from the direct use or from the letting of immovable property or the use in any other form of such property, including income from agricultural or forestry enterprises. They shall likewise apply to profits from the alienation of immovable property.

(4) The provisions of paragraphs (1) to (3) of this Article shall also apply to the income from immovable property of any enterprises other than agricultural or forestry enterprises and to income from immovable property used for the performance of professional services.

ARTICLE X

(1) Remuneration including pensions, paid by one of the Contracting Parties to any individual in respect of services rendered to that Party in the discharge of governmental functions shall be exempt from tax in the territory of the other Contracting Party 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 Article shall not apply to payments in respect of services rendered in connexion with any trade or business carried on by either of the Contracting Parties for purposes of profit.

(3) In applying the provisions of paragraph (1) of this Article services rendered to the Government of Israel as one of the Contracting Parties in the discharge of governmental functions shall be deemed to include services so rendered to the Government of Palestine.

(4) The provisions of paragraph (1) of this Article shall apply also to remuneration in respect of services rendered in Israel by the personnel of the Commonwealth War Graves Commission.

ARTICLE XI

(1) Any pension (other than a pension of the kind referred to in paragraphs (1) or (3) of Article X) and any annuity, derived from sources within Israel by an individual who is a resident of the United Kingdom and subject to United Kingdom tax in respect thereof shall be exempt from Israel tax

(2) Any pension (other than a pension of the kind referred to in paragraph (1) of Article X) and any annuity, derived from sources within the United Kingdom by an individual who is a resident of Israel and subject to Israel 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 return for adequate and full consideration in money or money's worth

ARTICLE XII

Income derived by a resident of one of the territories in respect of professional services or other independent activities of a similar character shall be subjected to tax only in that territory unless he has a fixed base regularly available to him in the other territory for the purpose of performing his activities. If he has such a fixed base, such part of that income as is attributable to that base may be taxed in that other territory

ARTICLE XIII

(1) Subject to the provisions of Articles X, XI and XV, salaries, wages and other similar remuneration derived by a resident of one of the territories in respect of an employment shall be subjected to tax only in that territory unless the employment is exercised in the other territory. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other territory

(2) Notwithstanding the provisions of paragraph (1) of this Article, remuneration derived by a resident of one of the territories in respect of an employment exercised in the other territory shall be subjected to tax only in the first-mentioned territory if

- (a) the recipient is present in the other territory for a period or periods not exceeding in the aggregate 183 days in the fiscal year concerned, and
- (b) the remuneration is paid by or on behalf of an employer who is not a resident of the other territory, and
- (c) the remuneration is not deducted from the profits of a permanent establishment or a fixed base which the employer has in the other territory

(3) In relation to remuneration of a director of a company derived from the company the preceding provisions of this Article shall apply as if the remuneration were remuneration of an employee in respect of an employment, and as if references to employers were references to the company

(4) Notwithstanding the preceding provisions of this Article remuneration for personal services performed aboard a ship or aircraft in international traffic may be taxed in the territory in which the place of effective management of the enterprise is situated

ARTICLE XIV

Notwithstanding anything contained in this Convention, income derived by public entertainers, such as theatre, motion picture radio or television artistes, and musicians, and by athletes from their personal activities as such may be taxed in the territory in which these activities are exercised

ARTICLE XV

A professor or teacher from one of the territories, who receives remuneration 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 in respect of that remuneration

ARTICLE XVI

Payments which a student or business apprentice from one of the territories who is present in the other territory solely for the purpose of his education or training receives for the purpose of his maintenance education, or training, shall not be taxed in that other territory, provided that such payments are made to him from sources outside that other territory

ARTICLE XVII

Any income not dealt with in the foregoing provisions derived by a resident of one of the territories who is subject to tax there in respect thereof shall be subjected to tax only in that territory

ARTICLE XVIII

(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, Israel tax payable, whether directly or by deduction in respect of income from sources within Israel 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 which is a resident of Israel the credit shall take into account (in addition to any Israel tax appropriate to the dividend) the Israel 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 Israel tax so payable by the company shall likewise be taken into account in so far as the dividend exceeds that fixed rate

(2) For the purposes of paragraph (1) of this Article, the term "Israel tax payable" shall be deemed to include any amount which would have been payable as Israel tax for any year but for an exemption or reduction of tax granted for that year or any part thereof under—

(a) any of the following provisions, that is to say

(i) Section 11 of the Encouragement of Capital Investments Law, 5710-1950, as amended, or

(ii) Sections 23, 46, 47, 47A or 50 of the Encouragement of Capital Investments Law, 5719-1959, as amended,

so far as they were in force on, and have not been modified since, the date of the signature of this Convention, or have been modified only in minor respects so as not to affect their general character, or

(b) any other provision which may subsequently be made granting an exemption which is agreed by the taxation authorities of the Contracting Parties to be of a substantially similar character, if it has not been modified thereafter or has been modified only in minor respects so as not to affect its general character

Provided that, where the exemption is an exemption granted under Section 47A of the Encouragement of Capital Investments Law 5719-1959 in respect of income from shares or debentures issued by a company, tax which would have been payable but for that exemption shall be taken into account by virtue of this paragraph if, and only if, the shares or debentures were first issued on or after the date of entry into force of this Convention, and then only—

(a) if the shares or debentures are an approved investment, or

(b) in any other case, to the extent of such proportion of the whole of that tax as corresponds to the extent to which the proceeds of the issue are to be used for the purposes of an approved enterprise owned by the company or an approved investment made by the company

In this proviso, the terms "approved enterprise" and "approved investment" mean respectively an approved enterprise within the meaning of Section 47 of the Encouragement of Capital Investments Law 5719-1959, and an approved investment within the meaning of Section 46 of that Law

(3) Subject to the provisions of the law of Israel regarding the allowance as a credit against Israel tax of tax payable in a territory outside Israel, 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 Israel tax payable in respect of that income. If Israel tax is payable in respect of any such income which consists of 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 in the case of 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

(4) For the purposes of this Article, 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

ARTICLE XIX

The taxation authorities of the Contracting Parties shall exchange such information (being information which is at their disposal under their respective taxation laws in the normal course of administration) as is necessary for carrying out the provisions of the present Convention or for the prevention of fraud or for the administration of statutory provisions against legal avoidance in relation to the taxes which are the subject of the present Convention. 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 the present Convention. No information as aforesaid shall be exchanged which would disclose any trade, business, industrial or professional secret or trade process

ARTICLE XX

The taxation authorities of the Contracting Parties may communicate with each other directly for the purpose of giving effect to the provisions of this Convention and for resolving any difficulty or doubt as to the application or interpretation of the Convention

ARTICLE XXI

(1) The nationals of one of the Contracting Parties shall not be subjected in the territory of the other Contracting Party to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which the nationals of the latter Party in the same circumstances are or may be subjected

(2) The term "nationals" means—

(a) in relation to the United Kingdom, all British subjects and British-protected persons

(i) residing in the United Kingdom or any territory to which the present Convention is extended under Article XXII, or

(ii) deriving their status as such from connexion with the United Kingdom or any territory to which the present Convention is extended under Article XXII,

and all legal persons, partnerships and associations deriving their status as such from the law in force in the United Kingdom or in any territory to which the Convention is extended under Article XXII,

(b) in relation to Israel, all Israel subjects and all legal persons, partnerships and associations deriving their status as such from the law in force in Israel

(3) The taxation on a permanent establishment which an enterprise of one of the territories has in the other territory shall not be less favourably levied in that other territory than the taxation levied on enterprises of that other territory carrying on the same activities

This provision shall not be construed as obliging one of the Contracting Parties to grant to residents of the other Contracting Party any personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents

(4) Enterprises of one of the territories, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other territory, shall not be subjected in the first-mentioned territory to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of that first-mentioned territory are or may be subjected

(5) In this Article the term "taxation" means taxes of every kind and description

ARTICLE XXII

(1) This Convention may be extended, either in its entirety or with modifications, to any territory for whose international relations the United Kingdom is responsible, and which imposes taxes substantially similar in character to those which are the subject of this Convention, and any such extension shall take effect from such date and subject to such modifications and conditions (including conditions as to termination) as may be specified and agreed between the Contracting Parties in Notes to be exchanged for this purpose

(2) The termination in respect of the United Kingdom or Israel of this Convention under Article XXIV shall, unless otherwise expressly agreed by both Contracting Parties, terminate the application of this Convention to any territory to which the Convention has been extended under this Article

ARTICLE XXIII

(1) The present Convention shall be ratified by the Contracting Parties in accordance with their respective constitutional and legal requirements

(2) The instruments of ratification shall be exchanged as soon as possible

(3) Upon the exchange of ratifications the present Convention shall enter into force and its provisions shall have effect—

(a) In the United Kingdom

(i) as respects income tax, for any year of assessment beginning on or after 6th April, 1961,

(ii) as respects surtax, for any year of assessment beginning on or after 6th April, 1960, and

(iii) as respects profits tax, for any chargeable accounting period beginning on or after 1st January, 1961 and for the unexpired portion of any chargeable accounting period current at that date.

(b) In Israel.

as respects income tax and company tax, for any tax year beginning on or after 1st April, 1961,

Provided that, as respects tax chargeable in respect of income referred to in the provisos to paragraph (1) of Articles VI and VIII, the provisions of this Convention shall have effect as from the date on which it enters into force

(4) The Arrangement which was made in 1947 between the Government of Palestine and the Government of the United Kingdom of Great Britain and Northern Ireland, and which, in 1950, was deemed to extend to the territory in which the Government of Israel levy taxation, shall terminate and cease to be effective as respects taxes to which the present Convention in accordance with paragraph (3) above applies

ARTICLE XXIV

(1) Either of the Contracting Parties may terminate the present Convention after a period of five years from the date on which the present Convention enters into force by giving to the other Contracting Party, through the diplomatic channel, written notice of termination, provided that any such notice shall be given only on or before the thirtieth day of June in any calendar year, and, in such event, the present Convention shall cease to be effective

(a) In the United Kingdom

- (i) as respects income tax, for any year of assessment beginning on or after 6th April in the calendar year next following that in which the notice is given,
- (ii) as respects surtax, for any year of assessment beginning on or after 6th April in the calendar year in which the notice is given, and
- (iii) as respects profits tax, for any chargeable accounting period beginning on or after 1st January in the calendar year next following that in which the notice is given and for any unexpired portion of any chargeable accounting period current at that date.

(b) In Israel

as respects income tax and company tax, for any tax year beginning on or after 1st April in the calendar year next following that in which such notice is given

(2) The termination of the present Convention shall not have the effect of reviving any agreement or arrangement abrogated by the present Convention

In witness whereof the undersigned, duly authorised thereto by their respective Governments, have signed the present Convention

Done in duplicate at London, this 26th day of September, 1962, corresponding to the 27th day of Illul, 5722, in the English and Hebrew languages, both texts being equally authoritative

For the Government of the United Kingdom of Great Britain and Northern Ireland.

Pier Thomas

For the Government of Israel:

Abba Eban

WHEREAS a Protocol was signed at London on the Twentieth day of April, One thousand Nine hundred and Seventy, by representatives of the Government of the United Kingdom of Great Britain and Northern Ireland and of the Government of Israel, amending the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on Income, signed at London on the Twenty-sixth day of September, One thousand Nine hundred and Sixty-two, which Protocol

is, word for word, as follows:-

**PROTOCOL
BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM
OF GREAT BRITAIN AND NORTHERN IRELAND AND THE
GOVERNMENT OF ISRAEL, AMENDING THE CONVENTION
FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE
PREVENTION OF FISCAL EVASION WITH RESPECT TO
TAXES ON INCOME, SIGNED AT LONDON ON
26th SEPTEMBER 1962**

The Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Israel ,

Desiring to conclude a Protocol to amend the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, signed at London on 26th September, 1962 corresponding to the 27th day of Illul, 5722, (hereinafter referred to as "the Convention").

Have agreed as follows :

ARTICLE I

Paragraph (1) of Article I of the Convention shall be deleted and replaced by the following.

- "(1) The taxes which are the subject of the present Convention are
- (a) in the United Kingdom of Great Britain and Northern Ireland·
 - (i) the income tax (including surtax) ;
 - (ii) the corporation tax , and
 - (iii) the capital gains tax(hereinafter referred to as " United Kingdom tax ") .
 - (b) in Israel·
 - (i) the income tax (including capital gains tax) ,
 - (ii) the company tax ;
 - (iii) the security charge , and

(iv) the tax on gains from the sale of land under the Land Appreciation Tax Law
(hereinafter referred to as "Israel tax") "

ARTICLE 2

The following new sub-paragraph shall be added at the end of paragraph (1)(k) of Article II of the Convention

" (vii) an enterprise of one of the territories shall be deemed to have a permanent establishment in the other territory if it carries on a business which consists of providing the services within that other territory of public entertainers referred to in Article XIV "

ARTICLE 3

Article VI of the Convention shall be deleted and replaced by the following

" Article VI

(1) Dividends paid by a company which is a resident of one of the territories to a resident of the other territory may be taxed in that other territory.

(2) Dividends paid by a company which is a resident of Israel may be taxed in Israel and according to the law of Israel but if the dividends are subject to tax in the United Kingdom the Israel tax so charged shall not exceed 15 per cent of the gross amount of the dividends. In this paragraph the term "Israel tax" includes any Israel tax chargeable on dividends paid by a company even though those dividends are allowed as a deduction in computing the profits of the company for income tax purposes in Israel

(3) Dividends paid by a company which is a resident of the United Kingdom to a resident of Israel may be taxed in the United Kingdom and according to the law of the United Kingdom but if the dividends are subject to tax in Israel the United Kingdom tax so charged shall not exceed 15 per cent of the gross amount of the dividends

(4) The term "dividends" as used in this Article means income from shares, or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights assimilated to income from shares by the taxation law of the territory of which the company making the distribution is a resident and also includes any other item (other than interest or royalties relieved from tax under Article VII or Article VIII of this Convention) which, under the law of the territory of which the company paying the dividend is a resident, is or may be treated as a dividend or distribution of a company

(5) The provisions of paragraphs (1), (2) and (3) of this Article shall not apply if the recipient of the dividends, being a resident of one of the territories, has in the other territory, of which the company paying the dividends is a resident, a permanent establishment and the holding by virtue of which the dividends are paid is effectively connected with a business carried on through that permanent establishment. In such a case, the provisions of Article III shall apply.

(6) If the recipient of a dividend being a resident of one of the territories owns 10 per cent or more of the class of shares in respect of which the dividend is paid then the relief from tax provided for in paragraphs (2) and (3) of this Article shall not apply to the dividend to the extent that it can have been paid only out of profits which the company paying the dividend earned or other income which it received in a period ending twelve months or more before the relevant date. For the purposes of

this paragraph the term "relevant date" means the date on which the recipient of the dividend became the owner of 10 per cent or more of the class of shares in question. Provided that this paragraph shall not apply if the recipient of the dividend shows that the shares were acquired for bona fide commercial reasons and not primarily for the purpose of securing the benefit of this Article.

(7) Where a company which is a resident of one of the territories derives profits or income from sources within the other territory, there shall not be imposed in that other territory 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 undistributed profits tax on undistributed profits of the company, whether or not those dividends or undistributed profits represent, in whole or in part, profits or incomes so derived."

ARTICLE 4

The following new paragraph shall be added at the end of Article VII of the Convention.

"(5) Any provision of the law of one of the territories which relates only to interest paid to a non-resident company with or without any further requirement, or which relates only to interest payments between inter-connected companies with or without any further requirement, shall not operate so as to require such interest paid to a company which is a resident of the other territory to be left out of account as a deduction in computing the taxable profits of the company paying the interest as being a dividend or distribution. The preceding sentence shall not however apply to interest paid to a company which is a resident of one of the territories in which more than 50 per cent of the voting power is controlled, directly or indirectly, by a person or persons resident in the other territory."

ARTICLE 5

The following new paragraph shall be added at the end of Article VIII of the Convention.

" (6) Any provision of the law of one of the territories which requires royalties paid by a company to be left out of account as a deduction in computing the company's taxable profits as being a dividend or distribution of profit shall not operate in relation to royalties paid to a resident of the other territory. The preceding sentence shall not however apply to royalties derived by a company which is a resident of that other territory where.

- (a) the same persons participate directly or indirectly in the management or control of the company paying the royalties and the company deriving the royalties, and
- (b) more than 50 per cent of the voting power in the company deriving the royalties is controlled directly or indirectly by a person or persons resident in the territory in which the company paying the royalties is resident "

ARTICLE 6

The following new Article shall be inserted immediately after Article VIII of the Convention.

" Article VIII A

(1) Capital gains from the alienation of immovable property, as defined in paragraph (2) of Article IX, or from the alienation of shares not dealt in on a stock exchange being shares in a company of which the assets consist principally of such property, may be taxed in the territory in which such property is situated.

(2) Capital gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of one of the territories has in the other territory or of movable property pertaining to a fixed base available to a resident of one of the territories in the other territory for the purpose of performing professional

services, including such gains from the alienation of such a permanent establishment (alone or together with the whole enterprise) or of such a fixed base, may be taxed in the other territory

(3) Notwithstanding the provisions of paragraph (2) of this Article, capital gains derived by a resident of one of the territories from the alienation of ships and aircraft operated in international traffic and movable property pertaining to the operation of such ships and aircraft shall be taxable only in that territory

(4) Capital gains from the alienation of any property other than those mentioned in paragraphs (1), (2) and (3) of this Article shall, if subject to tax in the territory of which the alienator is a resident, be taxable only in that territory "

ARTICLE 7

Paragraph (1) of Article XVIII of the Convention shall be deleted and replaced by the following:

"(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 (which shall not affect the general principle hereof):

(a) subject to sub-paragraph (b) of this paragraph, Israel tax payable under the laws of Israel and in accordance with this Convention, whether directly or by deduction, on profits, income or chargeable gains from sources within Israel shall be allowed as a credit against any United Kingdom tax computed by reference to the same profits, income or chargeable gains by reference to which the Israel tax is computed. in this sub-paragraph the term "Israel tax" includes any Israel tax chargeable on dividends paid by a company even though those dividends are allowed as a deduction in computing the profits of the company for income tax purposes in Israel ;

- (b) in the case of a dividend paid by a company which is a resident of Israel to a company which is a resident of the United Kingdom and which controls directly or indirectly at least 10 per cent of the voting power in the company paying the dividend, the credit shall take into account (in addition to any Israel tax creditable under the provisions of sub-paragraph (a) of this paragraph) Israel tax payable by the last-mentioned company in respect of the profits out of which such dividend is paid."

ARTICLE 8

Paragraph (3) of Article XVIII of the Convention shall be deleted and replaced by the following:

"(3) Subject to the provisions of the law of Israel regarding the allowance as a credit against Israel tax of tax payable in a territory outside Israel (which shall not affect the general principle hereof):

- (a) subject to sub-paragraph (b) of this paragraph, United Kingdom tax payable under the laws of the United Kingdom and in accordance with this Convention, whether directly or by deduction, on profits, income or chargeable gains from sources within the United Kingdom shall be allowed as a credit against any Israel tax computed by reference to the same profits, income or chargeable gains by reference to which the United Kingdom tax is computed .
- (b) in the case of a dividend paid by a company which is a resident of the United Kingdom to a company which is a resident of Israel and which controls directly or indirectly at least 10 per cent of the voting power in the company paying the dividend, the credit shall take into account (in addition to any United Kingdom tax creditable under the provisions of sub-paragraph (a) of this paragraph) United Kingdom tax payable by the last-mentioned

company in respect of the profits out of which such dividend is paid "

ARTICLE 9

Paragraph (3) of Article XXI of the Convention shall be deleted and replaced by the following

"(3) The taxation on a permanent establishment which an enterprise of one of the territories has in the other territory shall not be less favourably levied in that other territory than the taxation levied on enterprises of that other territory carrying on the same activities

(3A) Nothing contained in this Article shall be construed as obliging either contracting Party to grant to individuals not resident in its territory any of the personal allowances, reliefs and reductions for tax purposes which are granted to individuals so resident, nor as conferring any exemption from tax in one of the territories in respect of dividends paid to a company which is a resident of the other territory "

ARTICLE 10

Paragraph (1) of Article XXIV of the Convention shall be deleted and replaced by the following

"(1) This Convention shall continue in effect indefinitely but either Contracting Party may, on or before the thirtieth day of June in any calendar year after the year 1971 give, through diplomatic channels, notice of termination to the other Contracting Party and, in such event, this Convention shall cease to be effective

(a) in the United Kingdom :

- (i) as respects income tax (including surtax) and capital gains tax for any year of assessment beginning on or after 6th April in the calendar year next following that in which the notice is given .

- (ii) as respects corporation tax, for any financial year beginning on or after 1st April in the calendar year next following that in which the notice is given ,
- (b) in Israel
as respects Israel tax, for any tax year beginning on or after 1st April in the calendar year next following that in which the notice is given "

ARTICLE 11

(1) This Protocol, which shall form an integral part of the Convention, shall be ratified and the instruments of ratification shall be exchanged as soon as possible

(2) This Protocol shall enter into force after the expiration of thirty-days following the date on which the instruments of ratification are exchanged and shall thereupon have effect

(a) in Israel
in respect of Israel tax for any tax year beginning on or after 1st April, 1968 ,

(b) in the United Kingdom

- (i) in respect of income tax (including surtax) for any year of assessment beginning on or after 6th April, 1968 ,
- (ii) in respect of capital gains tax for any year of assessment beginning on or after 6th April, 1968 ,
- (iii) in respect of corporation tax for any financial year beginning on or after 1st April, 1968

(3) Subject to the provisions of paragraph (4) of this Article where any greater relief from tax would have been afforded by any provision of the Convention than is due under the Convention as amended by this Protocol, any such provision as aforesaid shall continue to have effect for any year of assessment or financial year or tax year beginning before the entry in force of this Protocol.

(4) The provisions of sub-paragraphs (a) and (b) of paragraph (2) of this Article and of paragraph (3) of this Article shall not apply in relation to dividends but the provisions of the Convention as amended by this Protocol shall have effect in relation to dividends paid on or after the date of entry into force of this Protocol, and the provisions of the Convention before amendment by this Protocol shall cease to be effective in relation to dividends payable on or after the date of entry into force of this Protocol

In witness whereof the undersigned, duly authorised thereto by their respective Governments, have signed this Protocol

Done in duplicate at London, this 20th day of April, 1970, corresponding to the 14th day of Nisan, 5730, in the English and Hebrew languages, both texts being equally authoritative.

For the Government of the United
Kingdom of Great Britain and
Northern Ireland:

For the Government of Israel

D E. T. LUARD

A REMEZ