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TREASURY EXECUTIVE MINUTE

Minute Received - Office of the Assistant Treasurer

03 JUN 2008

Minute No/ Section 22

2 June 2008

Office Circulation Tax Adviser -
 Chief of Staff Co: Advisers -
 OLOs -

Assistant Treasurer and Minister for Competition Policy and Consumer Affairs cc: Treasurer

NEW ZEALAND TAX TREATY NEGOTIATIONS

Timing: For information.

Recommendation/Issue:

- That you note the outcomes of the second round of negotiations for a revised tax treaty with New Zealand.

Noted

Signature: 

12.1.06/2008

KEY POINTS

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- Substantial progress was made in settling the text of the new treaty. Officials are now in agreement on the broad direction of the new treaty and the bulk of the treaty outcomes.

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Manager
Tax Treaties Unit
International Tax and Treaties Division

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Sections 33(a)(iii) and 33(b)

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Sections 33(a)(iii) and 33(b)

Sections 33(a)(iii) and 33(b)

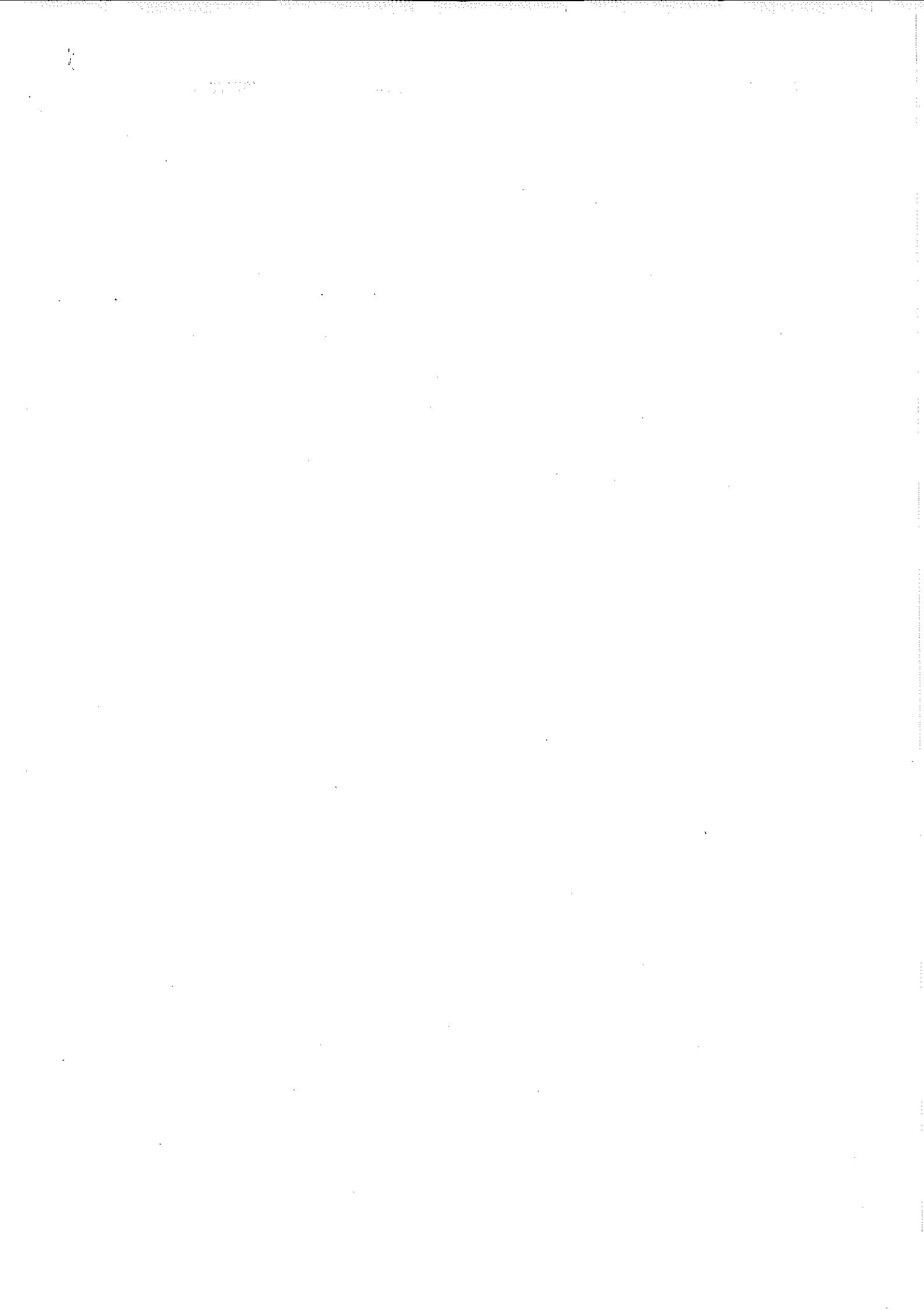
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Article 10

DIVIDENDS

1. Dividends paid by a company which is a resident of a Contracting State, being dividends beneficially owned by a resident of the other Contracting State, may be taxed in that other State.
2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident, and according to the laws of that State, but Sections 33(a)(iii) and 33(b)
Sections 33(a)(iii) and 33(b)

the tax so charged shall not exceed:

Sections 33(a)(iii) and 33(b)

per cent of the gross amount of the dividends in all other cases.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

Sections 33(a)(iii) and 33(b)

Sections 33(a)(iii) and 33(b)

5. [Notwithstanding the provisions of paragraph 2 of this Article, dividends shall not be taxed in the Contracting State of which the company paying the dividends is a resident if the beneficial owner of the dividends is a company that is a resident of the other Contracting State that has owned shares representing 80 per cent or more of the voting power of the company paying the dividends for a 12 month period ending on the date the dividend is declared and the company that is the beneficial owner of the dividends:

- a) has its principal class of shares listed on a recognised stock exchange specified in ^{Sections 33(a)(iii) and 33(b)}subsubparagraph Article 3 and is regularly traded on one or more recognised stock exchanges;
- b) is owned directly or indirectly by one or more companies:
 - (i) whose principal class of shares is listed on a recognised stock exchange specified in ^{Sections 33(a)(iii) and 33(b)}subsubparagraph Article 3 and is regularly traded on one or more recognised stock exchanges; [or

Sections 33(a)(iii) and 33(b)

- c) does not meet the requirements of subparagraphs a) or b) of this paragraph but the competent authority of the first-mentioned Contracting State determines that the first sentence of ^{Sections 33(a)(iii) and 33(b)} does not apply. The competent authority of the first-mentioned Contracting State shall consult the competent authority of the other Contracting State before refusing to grant benefits of this Convention under this subparagraph.]

6. The term "dividends" as used in this Article means income from shares or other rights participating in profits, as well as other amounts which are subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident for the purposes of its tax.

7. The provisions of ^{Sections 33(a)(iii) and 33(b)} shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident through a permanent establishment situated

therein and the holding in respect of which the dividends are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

8. Where a company which is a resident of a Contracting State derives profits or income from the other Contracting State, that other State may not impose any tax on the dividends paid by the company—being dividends beneficially owned by a person who is not a resident of the other Contracting State—except insofar as the holding in respect of which such dividends are paid is effectively connected with a permanent establishment situated in that other State, nor subject the company's undistributed profits to a tax on the company's undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State.

Sections 33(a)(iii) and 33(b)

10. No relief shall be available under this Article if it is the main purpose or one of the main purposes of any person concerned with an assignment of the dividends, or with the creation or assignment of the shares or other rights in respect of which the dividend is paid, or the establishment, acquisition or maintenance of the company that is the beneficial owner of the dividends and the conduct of its operations, to take advantage of this Article. In any case where a Contracting State intends to apply this paragraph, the competent authority of that State shall consult with the competent authority of the other Contracting State.

Article 11

INTEREST

1. Interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State may be taxed in that other State.
2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but the tax so charged shall not exceed 10 per cent of the gross amount of the interest.

3. Notwithstanding paragraph 2, interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State may not be taxed in the first-mentioned State if:

- a) the interest is derived by a Contracting State or by a political sub-division or a local authority thereof, Sections 33(a)(iii) and 33(b)
- b) **[the interest is derived by a financial institution which is unrelated to and dealing wholly independently with the payer. For the purposes of this Article, the term "financial institution" means a bank or other enterprise substantially deriving its profits by raising debt finance in the financial markets or by taking deposits at interest and using those funds in carrying on a business of providing finance.]**

[4. Notwithstanding paragraph 3, interest referred to in subparagraph b) of that paragraph may be taxed in the State in which it arises at a rate not exceeding 10 per cent of the gross amount of the interest if Sections 33(a)(iii) and 33(b)

5. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, as well as all other income treated as income from money lent by the laws, relating to tax, of the Contracting State in which the income arises, ^{Sections} **does not include any income** _{33(a)(iii) and} **which is treated as a dividend under Article 10].** _{33(b)}

6. The provisions of paragraphs 1 and 2, **[subparagraph b) of paragraph 3 and paragraph 4]** of this Article shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises through a permanent establishment situated therein and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

7. Interest shall be deemed to arise in a Contracting State when the payer is a resident of that State for the purposes of its tax. Where, however, the person paying the interest, whether the person is a resident of a Contracting State or not, has in a Contracting State or outside both Contracting States a permanent establishment in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by or deductible in determining the

profits attributable to such permanent establishment, then such interest shall be deemed to arise in the State in which the permanent establishment is situated.

8. Where, by reason of a special relationship between the payer and the beneficial owner, or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which might have been expected to have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

9. **[No relief shall be available under this Article if it was the main purpose or one of the main purposes of any person concerned with the assignment of the interest, the creation or assignment of the debt-claim or other rights in respect of which the interest is paid, or the establishment, acquisition or maintenance of the person which is the beneficial owner of the interest or the conduct of its operations to take advantage of this Article.]**

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