

No. 5407

**ISRAEL
and
SWEDEN**

**Agreement for the avoidance of double taxation with respect
to taxes on income and capital. Signed at Stockholm,
on 22 December 1959**

Official text : English.

Registered by Israel on 28 October 1960.

**ISRAËL
et
SUÈDE**

**Convention tendant à éviter la double imposition en matière
d'impôts sur le revenu et sur la fortune. Signée à
Stockholm, le 22 décembre 1959**

Texte officiel anglais.

Enregistrée par Israël le 28 octobre 1960.

No. 5407. AGREEMENT¹ BETWEEN ISRAEL AND SWEDEN
FOR THE AVOIDANCE OF DOUBLE TAXATION WITH
RESPECT TO TAXES ON INCOME AND CAPITAL.
SIGNED AT STOCKHOLM, ON 22 DECEMBER 1959

The Government of Israel and the Royal Government of Sweden, desiring to conclude an agreement for the avoidance of double taxation with respect to taxes on income and capital, have agreed as follows :

Article I

(1) The taxes which are the subject of the present Agreement are :

(a) In Sweden :

- (i) the State income tax, including sailors tax and coupon tax ;
- (ii) the tax on public entertainers ;
- (iii) the communal income tax ; and
- (iv) the State capital tax
(hereinafter referred to as "Swedish tax")

(b) In Israel :

- (i) the income tax ;
- (ii) the company profits tax ;
- (iii) the urban and agricultural property taxes ; and
- (iv) the tax on gains from the sale of land under the Land Value Improvement Tax Law
(hereinafter referred to as "Israeli tax").

(2) The present Agreement shall also apply to any other taxes of a substantially similar character imposed by either Contracting Government subsequently to the date of signature of the present Agreement.

Article II

(1) In the present Agreement, unless the context otherwise requires :

(a) The terms "territory of one of the Contracting Governments" and "territory of the other Contracting Government" mean Sweden or Israel, as the context requires.

¹ Came into force on 3 June 1960, the date of the exchange of the instruments of ratification at Stockholm, in accordance with article XXI.

(b) The term "tax" means Swedish tax or Israeli tax, as the context requires.

(c) The term "person" includes any body of persons, corporate or not corporate.

(d) The term "company" means any body corporate.

(e) The terms "resident of Sweden" and "resident of Israel" mean respectively any person who is resident in Sweden for the purposes of Swedish tax and not resident in Israel for the purposes of Israeli tax and any person who is resident in Israel for the purposes of Israeli tax and not resident in Sweden for the purposes of Swedish tax ; a company shall be regarded as resident in Sweden if it is incorporated under the laws of Sweden and its business is not managed and controlled in Israel, or if it is not so incorporated but its business is managed and controlled in Sweden and as resident in Israel if its business is managed and controlled in Israel.

(f) The terms "Swedish enterprise" and "Israeli enterprise" mean respectively an industrial or commercial enterprise or undertaking carried on in Sweden by a resident of Sweden and an industrial or commercial enterprise or undertaking carried on in Israel by a resident of Israel, and the terms "enterprise of one of the Contracting Governments" and "enterprise of the other Contracting Government" mean a Swedish enterprise or an Israeli enterprise, as the context requires.

(g) The term "permanent establishment" means a fixed place of business in which the business of the enterprise is wholly or partly carried on.

(i) A permanent establishment shall include especially :

a) a place of management ;

b) a branch ;

c) an office ;

d) a factory ;

e) a workshop ;

f) a mine, quarry or other place of extraction of natural resources ;

g) a building site or construction or assembly project which exists for more than twelve months.

(ii) The term "permanent establishment" shall not be deemed to include :

a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise ;

b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery ;

c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise ;

- d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or for collecting information, for the enterprise ;
 - e) 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.
- (iii) A person acting in the territory of one of the Contracting Governments on behalf of an enterprise of the other Contracting Government—other than an agent of an independent status to whom subparagraph (iv) applies—shall be deemed to be a permanent establishment in the first-mentioned 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.
- (iv) An enterprise of one of the Contracting Governments shall not be deemed to have a permanent establishment in the territory of the other Contracting Government merely because it carries on business in that other territory through a broker, general commission agent or any other agent of an independent status, where such persons are acting in the ordinary course of their business.
- (v) The fact that a company which is a resident of the territory of one of the Contracting Governments controls or is controlled by a company which is a resident of the territory of the other Contracting Government, 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.
- (h) The term “competent authority” means, in the case of Sweden, the Minister of Finance or his authorized representative, and, in the case of Israel, the Minister of Finance or his authorized representative.

(2) In the application of the provisions of the present Agreement by one of the Contracting Governments any term not otherwise defined shall, unless the context otherwise requires, have the meaning which it has under the laws of that Contracting Government relating to the taxes which are the subject of the present Agreement.

Article III

(1) An Israeli enterprise shall not be subject to Swedish tax in respect of its industrial or commercial profits unless it is engaged in trade or business in Sweden through a permanent establishment situated therein. If it is so engaged, tax may be imposed on those profits by Sweden, but only on so much of them as is attributable to that permanent establishment.

(2) A Swedish enterprise shall not be subject to Israeli tax in respect of its industrial or commercial profits unless it is engaged in trade or business in Israel

through a permanent establishment situated therein. If it is so engaged, tax may be imposed on those profits by Israel, but only on so much of them as is attributable to that permanent establishment.

(3) Where an enterprise of one of the Contracting Governments is engaged in trade or business in the territory of the other Contracting Government through a permanent establishment situated therein, there shall be attributed to such permanent establishment the industrial or commercial profits which it might be expected to derive 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, and the profits so attributed shall be deemed to be income from sources within the territory of the other Contracting Government.

(4) In determining the industrial or commercial profits from sources within the territory of one of the Contracting Governments of an enterprise of the other Contracting Government, no profits shall be deemed to arise to such enterprise from the mere purchase of goods or merchandise within the territory of the first-mentioned Contracting Government.

(5) In the determination of the net industrial and commercial profits of the permanent establishment there shall be allowed as deductions all expenses, wherever incurred, reasonably allocable to the permanent establishment, including general expenses of the head-office so allocable.

(6) The competent authorities of the Contracting Governments may, consistent with other provisions of the present Agreement arrange details for the apportionment of industrial or commercial profits.

Article IV

Where an enterprise of one of the Contracting Governments, by reason of its participation in the management, control or capital of an enterprise of the other Contracting Government, makes with or imposes on the latter, in their commercial or financial relations, conditions different from those which would be made with an independent enterprise any profits which would but for these conditions have accrued to one of the enterprises but by reason of these conditions have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

Article V

(1) Notwithstanding the provisions of Articles III and IV of the present Agreement, profits which an Israeli enterprise derives from operating ships or aircraft shall be exempt from Swedish tax.

(2) Notwithstanding the provisions of Articles III and IV of the present Agreement, profits which a Swedish enterprise derives from operating ships or aircraft shall be exempt from Israeli tax.

Article VI

(1) The rate of Swedish coupon tax on dividends paid to a resident of Israel shall not exceed 15 per cent ; provided that where the resident of Israel is a company which controls, directly or indirectly, not less than 50 per cent of the entire voting power of the company paying the dividends, the rate of Swedish coupon tax on such dividends shall not exceed 5 per cent.

(2) Dividends paid by an Israeli company to a resident of Sweden out of income which has been subject to Israeli income tax on the profits of the company, shall be exempt from further tax in Israel. Where such income has not been subject to income tax in Israel, the dividend may be subject to income tax in Israel at a rate not exceeding the rate of income tax normally imposed on the income of an Israeli company.

(3) Dividends paid by a company which is a resident of the territory of one of the Contracting Governments to a company which is a resident of the territory of the other Contracting Government shall be exempt from tax in the last-mentioned territory ; provided that in accordance with the laws in that territory the dividends would be exempt from tax if both companies had been resident there.

Article VII

The rate of tax imposed by one of the Contracting Governments on interest on bonds, securities, notes, debentures or any other form of indebtedness (including mortgages or bonds secured by real property) received from sources within the territory of that Contracting Government by a resident of the territory of the other Contracting Government shall not exceed 25 per cent, unless the recipient has a permanent establishment in that first-mentioned territory and the interest is directly associated with the business carried on through such permanent establishment.

Article VIII

(1) Any royalty derived from sources within the territory of one of the Contracting Governments by a resident of the territory of the other Contracting Government shall be exempt from tax in that first-mentioned territory, unless the recipient has a permanent establishment in that first-mentioned territory and the royalty is directly associated with the business carried on through such permanent establishment.

(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, trade-mark, or other like property, 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 or in respect of cinematograph including television films.

(3) Where any royalty exceeds a fair and reasonable consideration in respect of the rights for which it is paid, the exemption provided for by the present Article shall apply only to so much of the royalty as represents such fair and reasonable consideration.

Article IX

(1) Income of whatever nature derived from real property within the territory of one of the Contracting Governments by a resident of the territory of the other Contracting Government shall be exempt from tax in the last-mentioned territory.

(2) Any royalty or other amount paid in respect of the operation of a mine or quarry or of any other extraction of natural resources within the territory of one of the Contracting Governments to a resident of the territory of the other Contracting Government shall be exempt from tax in the last-mentioned territory.

Article X

A resident of the territory of one of the Contracting Governments shall be exempt in the territory of the other Contracting Government from any tax on gains from the sale, transfer, or exchange of capital assets (other than real property), unless he has a permanent establishment in that other territory and the gains are directly associated with the business carried on through such permanent establishment.

Article XI

(1) Where under the provisions of this Agreement a resident of Israel is exempt or entitled to relief from Swedish tax, similar exemption or relief shall be applied to the undivided estates of deceased persons in so far as one or more of the beneficiaries is a resident of Israel.

(2) Swedish tax on the undivided estate of a deceased person shall, in so far as the income accrues to a beneficiary who is resident in Israel, be allowed as a credit under Article XVII.

Article XII

(1) (a) Salaries, wages and similar compensation and pensions paid by Sweden to a citizen of Sweden who is not a citizen of Israel, for services rendered to Sweden in the discharge of governmental functions, shall be exempt from Israeli tax.

(b) Salaries, wages and similar compensation and pensions paid by Israel to a citizen of Israel who is not a citizen of Sweden, for services rendered to Israel in the discharge of governmental functions, shall be exempt from Swedish tax.

(c) The provisions of this paragraph shall not apply to wages or similar compensation paid in respect of services rendered in connection with any trade or business carried on by either of the Contracting Governments for purposes of profit.

(2) Private pensions and annuities from sources within the territory of one of the Contracting Governments paid to residents of the territory of the other Contracting Government shall be exempt from tax in the first-mentioned territory.

(3) The term "pensions" as used in this Article means periodic payments made in consideration for services rendered or by way of compensation for injuries received.

(4) The term "annuities" as used in this Article means a fixed sum payable periodically at stated times during life, or during a specified number of years, under an obligation to make the payments in return for adequate and full consideration in money or money's worth.

Article XIII

(1) An individual who is a resident of Sweden shall be exempt from Israeli tax on profits or remuneration in respect of personal (including professional) services performed within Israel in any tax year if—

- (a) he is present within Israel 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 Sweden.

(2) An individual who is a resident of Israel shall be exempt from Swedish tax on profits or remuneration in respect of personal (including professional) services performed within Sweden in any tax year if—

- (a) he is present within Sweden 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 Israel.

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

Article XIV

A resident of the territory of one of the Contracting Governments who, at the invitation of a university, college or other establishment for higher education or scientific research in the territory of the other Contracting Government, visits that other territory solely for the purpose of teaching or scientific research at such institution for a period not exceeding two years shall not be taxed in that other territory on his remuneration for such teaching or research.

Article XV

(1) An individual from the territory of one of the Contracting Governments who is temporarily present in the territory of the other Contracting Government solely

- (a) as a student at a university, college or school in that other territory,
- (b) as a business apprentice, or
- (c) as the recipient of a grant, allowance or award for the primary purpose of study or research from a religious, charitable, scientific or educational organisation,

shall not be taxed in that other territory in respect of remittances from abroad for the purposes of his maintenance, education or training.

(2) An individual from the territory of one of the Contracting Governments who is present in the territory of the other Contracting Government solely as a student at a university, college or school in that other territory or as a business apprentice, shall not be taxed in that other territory for a period not exceeding three consecutive tax years in respect of remuneration from employment in such other territory, provided that

- (a) the remuneration constitutes earnings necessary for his maintenance and education, and
- (b) the said remuneration does not exceed 4,000 Swedish crowns in the tax year or the equivalent thereof in the currency of Israel as the case may be.

Article XVI

Where taxes on capital are imposed by one or other or both of the Contracting Governments the following provisions shall apply:

(a) Capital represented by real property may be taxed in the territory of the Contracting Government in which such property is situated.

(b) Subject to the provision of paragraph (a) above, capital represented by assets forming part of the business property employed in a permanent establishment of an enterprise, may be taxed in the territory of the Contracting Government in which the permanent establishment is situated.

(c) Ships and aircraft operated in international traffic and assets, other than real property, pertaining to the operation of such ships and aircraft, shall be taxable only in the territory of the Contracting Government of which the enterprise is a resident.

(d) All other elements of capital of a resident of the territory of one of the Contracting Governments shall be taxable only in that territory.

Article XVII

(1) Subject to the provisions of the law of Israel regarding the allowance as a credit against Israeli tax of tax payable in a territory outside Israel, Swedish tax payable, whether directly or by deduction, in respect of income from sources within Sweden shall be allowed as a credit against any Israeli tax payable in respect of that income. Where such income is an ordinary dividend paid by a company resident in Sweden, the credit shall take into account (in addition to any Swedish tax appropriate to the dividend) the Swedish 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 Swedish tax so payable by the company shall likewise be taken into account in so far as the dividend exceeds that fixed rate.

(2) Income from sources within Israel shall be exempt from Swedish tax :

(a) If the income in accordance with this Agreement may be taxed in Israel either directly or by deduction :

Provided that—

where such income is a dividend paid by a company being a resident of Israel to a person resident in Sweden, not being a company which is exempt from Swedish tax according to the provisions of paragraph (3) of Article VI, whether or not such person is also resident in Israel, or

where such income is interest paid by a resident of Israel to a person resident in Sweden, whether or not such person is also resident in Israel,

Swedish tax shall be charged on such a sum as would after deduction of the Israeli income tax at the appropriate rate correspond to the amount received, but that amount of Israeli income tax appropriate to such income shall be allowed as a credit against any Swedish tax payable in respect of that income ;

Provided further that when the Israeli income tax appropriate to such income has been wholly relieved or reduced for a limited period of time, the credit against

Swedish tax shall be allowed in an amount equal to the Israeli income tax which would have been appropriate to the income concerned if no such relief had been given or no such reduction had been allowed ;

(b) If the income is not specifically mentioned in this Agreement but is subject to tax in Israel under the laws of Israel either directly or by deduction.

(3) If, in accordance with Article XVI, capital belonging to a person resident in Sweden, whether or not such person is also resident in Israel, may be taxed in Israel, such capital shall be exempt from Swedish tax.

(4) The graduated rate of Swedish tax to be imposed on residents of Sweden may be calculated as though income or capital exempted under this Agreement were included in the amount of the total income or capital.

(5) For the purposes of this Article, profits or remuneration for personal (including professional) services performed in the territory of one of the Contracting Governments 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 the territory of one of the Contracting Governments shall be deemed to be performed in that territory.

(6) For the purposes of this Article, royalties or rentals for using, or for the right to use, in the territory of one of the Contracting Governments, cinematograph including television films shall be treated as income from sources within such territory.

Article XVIII

(1) The nationals of one of the Contracting Governments shall not, while resident in the territory of the other Contracting Government, be subject therein to other or more burdensome taxes than are the nationals of such other Contracting Government resident in its territory.

(2) In this Article the term "nationals" means—

- (a) in relation to Sweden, all Swedish citizens and all legal persons, partnerships and associations deriving their status as such from the laws in force in Sweden ;
- (b) in relation to Israel, all Israeli citizens and all legal persons, partnerships and associations deriving their status as such from the laws in force in Israel.

(3) A company being a resident of the territory of one of the Contracting Governments, shall not be subject to any tax on capital in the territory of the other

Contracting Government which is other or more burdensome than the tax on capital to which a company, being a resident of that other territory is or may be subjected.

(4) In paragraph (1) of this Article the word "taxes" means taxes of every kind or description.

Article XIX

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

(2) The competent authorities of the two Contracting Governments may prescribe regulations necessary to carry into effect the present Agreement within the respective territories.

(3) The competent authorities of the two Contracting Governments may communicate with each other directly for the purpose of giving effect to the provisions of this Agreement.

(4) The competent authorities of the two Contracting Governments shall keep each other informed of significant changes in the tax laws of their respective territories, and in the event of appreciable modifications in such laws, shall consult together to determine whether amendments to this Agreement are desirable.

Article XX

Where a taxpayer shows proof that the action of the tax authorities of either Contracting Government has resulted, or will result, in taxation contrary to the provisions of the present Agreement, he shall be entitled to present the facts to the competent authority of the Contracting Government in the territory of which he is a resident. Should the claim be upheld, the competent authority to which the facts are so presented shall undertake to come to an agreement with the competent authority of the other Contracting Government with a view to avoidance of the taxation in question.

Article XXI

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

- (2) The instruments of ratification shall be exchanged at Stockholm.
- (3) Upon exchange of ratifications the present Agreement shall have effect—

(a) In Sweden :

- (i) in respect of the State income tax and the communal income tax on income which is assessed in or after the calendar year beginning on 1st January, 1961, being income for which preliminary tax is payable during the period 1st March, 1960, to 28th February, 1961, or any succeeding period ;
- (ii) in respect of coupon tax on dividends payable on or after 1st January, 1960 ;
- (iii) in respect of the tax on public entertainers which is levied on or after 1st January, 1960 ;
- (iv) in respect of sailors tax on income payable on or after 1st January in the calendar year next following that in which the exchange of ratifications takes place ; and
- (v) in respect of the State capital tax which is assessed in or after the calendar year beginning on 1st January, 1961.

(b) In Israel :

In respect of Israeli tax for the tax years beginning on or after the first day of April 1960.

(4) The Agreement between Sweden and Israel dated 17th June, 1956,¹ for reciprocal exemption from income tax and all other taxes on income derived from the exercise of shipping activities and the operation of aircraft services shall not have effect for any period for which the present Agreement has effect.

Article XXII

The present Agreement shall continue in effect indefinitely but either of the Contracting Governments may, on or before 30th June in any calendar year not earlier than the year 1965, give to the other Contracting Government, through diplomatic channels, written notice of termination and, in such event, the present Agreement shall cease to be effective—

(a) In Sweden :

- (i) in respect of the State income tax and the communal income tax on income for which preliminary tax is payable after the last day of February in the calendar year next following that in which such notice is given ;

¹ United Nations, *Treaty Series*, Vol. 257, p. 47.

- (ii) in respect of coupon tax on dividends payable on or after 1st January in the calendar year next following that in which such notice is given ;
- (iii) in respect of the tax on public entertainers which is levied on or after 1st January in the calendar year next following that in which such notice is given ;
- (iv) in respect of sailors tax on income payable on or after 1st January in the calendar year next following that in which such notice is given ; and
- (v) in respect of the State capital tax assessed in or after the second calendar year following that in which such notice is given.

(b) In Israel :

in respect of Israeli tax for any tax year beginning on or after the first day of April in the calendar year next following that in which such notice is given.

IN WITNESS WHEREOF the undersigned being duly authorized thereto have signed the present Agreement and have affixed thereto their seals.

DONE at Stockholm, this 22nd day of December, 1959, in duplicate in the English language.

(Signed) Arie AROCH

(Signed) Östen UNDÉN