

No. 14455

**NETHERLANDS
and
ISRAEL**

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital (with protocol). Signed at Jerusalem on 2 July 1973

Authentic texts: Dutch, Hebrew and English.

Registered by the Netherlands on 11 December 1975.

**PAYS-BAS
et
ISRAËL**

Convention tendant à éviter la double imposition et à prévenir l'évasion fiscale en matière d'impôts sur le revenu et d'impôts sur la fortune (avec protocole). Signée à Jérusalem le 2 juillet 1973

Textes authentiques : néerlandais, hébreu et anglais.

Enregistrée par les Pays-Bas le 11 décembre 1975.

CONVENTION¹ BETWEEN THE KINGDOM OF THE NETHERLANDS
AND THE STATE OF ISRAEL FOR THE AVOIDANCE OF DOU-
BLE TAXATION AND THE PREVENTION OF FISCAL EVASION
WITH RESPECT TO TAXES ON INCOME AND ON CAPITAL

The Government of the Kingdom of the Netherlands and the Government of the State 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 and on capital,

Have agreed as follows:

CHAPTER I. SCOPE OF THE CONVENTION

Article 1. PERSONAL SCOPE

This Convention shall apply to persons who are residents of one or both of the States.

Article 2. TAXES COVERED

1. This Convention shall apply to taxes on income and on capital imposed on behalf of each of the States or of its political subdivisions or local authorities, irrespective of the manner in which they are levied.

2. There shall be regarded as taxes on income and on capital all taxes imposed on total income, on total capital, or on elements of income or of capital, including taxes on gains from the alienation of movable or immovable property, taxes on the total amounts of wages or salaries paid by enterprises, as well as taxes on capital appreciation.

3. The existing taxes to which the Convention shall apply are, in particular:

a) in the case of the Netherlands:

- *de inkomstenbelasting* (income tax),
 - *de loonbelasting* (wages tax),
 - *de vennootschapsbelasting* (company tax),
 - *de dividendbelasting* (dividend tax),
 - *de vermogensbelasting* (capital tax),
- (hereinafter referred to as “Netherlands tax”);

b) in the case of Israel:

- the income tax (including capital gains tax),
- the company tax,
- the defence impost,
- the property tax,
- the tax on gains from the sale of land under the Land Appreciation Tax Law,

(hereinafter referred to as “Israeli tax”).

¹ Came into force on 9 September 1974, the date by which the Contracting Governments had notified each other in writing of the completion of their respective constitutional formalities, in accordance with article 32.

4. The 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. The competent authorities of the States shall notify to each other any substantial changes which have been made in their respective taxation laws.

CHAPTER II. DEFINITIONS

Article 3. GENERAL DEFINITIONS

1. In this Convention, unless the context otherwise requires:

a) The term "State" means the Netherlands or Israel, as the context requires; the term "States" means the Netherlands and Israel;

b) The term "the Netherlands" comprises the part of the Kingdom of the Netherlands that is situated in Europe and the part of the seabed and its sub-soil under the North-Sea, over which the Kingdom of the Netherlands has sovereign rights in accordance with international law;

c) The term "Israel" means the State of Israel and the part of the seabed and sub-soil under the sea over which the State of Israel has sovereign rights in accordance with international law;

d) The term "person" comprises an individual, a company and any other body of persons;

e) The term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes;

f) The terms "enterprise of one of the States" and "enterprise of the other State" mean respectively an enterprise carried on by a resident of one of the States and an enterprise carried on by a resident of the other State;

g) The term "competent authority" means:

1. in the Netherlands the Minister of Finance or his authorized representative;
2. in Israel the Minister of Finance or his authorized representative.

2. As regards the application of the Convention by either of the States any term not otherwise defined shall, unless the context otherwise requires, have the meaning which it has under the laws of that State relating to the taxes which are the subject of this Convention.

Article 4. FISCAL DOMICILE

1. For the purposes of this Convention, the term "resident of one of the States" means any person who, under the law of that State, is liable to taxation therein by reason of his domicile, residence, place of management or any other criterion of a similar nature.

2. For the purposes of this Convention an individual, who is a member of a diplomatic or consular mission of one of the States in the other State or in a third State and who is a national of the sending State, shall be deemed to be a resident of the sending State if he is submitted therein to the same obligations in respect of taxes on income and capital as are residents of that State.

3. Where by reason of the provisions of paragraph 1 an individual is a resident of both States, then this case shall be determined in accordance with the following rules:

a) He shall be deemed to be a resident of the State in which he has a permanent home available to him. If he has a permanent home available to him in both

States, he shall be deemed to be a resident of the State with which his personal and economic relations are closest (centre of vital interests);

- b) If the State 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 State, he shall be deemed to be a resident of the State in which he has an habitual abode;
- c) If he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident of the State of which he is a national;
- d) If he is national of both States or of neither of them, the competent authorities of the States shall settle the question by mutual agreement.

4. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both States, then it shall be deemed to be a resident of the State in which its place of effective management is situated.

Article 5. PERMANENT ESTABLISHMENT

1. For the purposes of this Convention, the term “permanent establishment” means a fixed place of business in which the business of the enterprise is wholly or partly carried on.

2. The term “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 plantation, vineyard, grove or orchard;
- h) a building site or construction or assembly project which exists for more than twelve months.

3. 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 of 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.

4. An enterprise of one of the States shall be deemed to have a permanent establishment in the other State if it carries on supervisory activities in that other State for more than twelve months in connection with a building site or construction or assembly project which is being undertaken in that other State.

5. A person acting in one of the States on behalf of an enterprise of the other State—other than an agent of an independent status to whom paragraph 6 applies—shall be deemed to be a permanent establishment in the first-mentioned State if:

- a) he has, and habitually exercises in the first-mentioned State, 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; or
- b) he maintains in the first-mentioned State a stock of goods or merchandise belonging to the enterprise from which he regularly fills orders on behalf of the enterprise.

6. An enterprise of one of the States shall not be deemed to have a permanent establishment in the other State merely because it carries on business in that other State 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.

7. The fact that a company which is a resident of one of the States controls or is controlled by a company which is a resident of the other State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

Article 6. LIMITATION OF RELIEF

Where under any provision of this Convention income is relieved from tax in one of the States and under the law in force in the other State, a person, in respect of the said income, is subject to tax by reference to the amount thereof which is remitted to or received in that other State and not by reference to the full amount thereof, then the relief to be allowed under this Convention in the first-mentioned State shall apply only to so much of the income as is remitted to or received in the other State.

CHAPTER III. TAXATION OF INCOME

Article 7. INCOME FROM IMMOVABLE PROPERTY

1. Income from immovable property may be taxed in the State in which such property is situated.

2. The term "immovable property" shall be defined in accordance with the law of the State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, 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, or the right to work, mineral deposits, sources and other natural resources and debt-claims of every kind secured by mortgage, excluding bonds or debentures; ships, boats and aircraft shall not be regarded as immovable property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of immovable property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property of an enterprise and to income from immovable property used for the performance of professional services.

Article 8. BUSINESS PROFITS

1. The profits of an enterprise of one of the States shall be taxable only in that State unless the enterprise carries on business in the other State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.

2. Where an enterprise on one of the States carries on business in the other State through a permanent establishment situated therein, there shall in each State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.

3. In the determination of the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment including executive and general administrative expenses so incurred, whether in the State in which the permanent establishment is situated or elsewhere.

4. Insofar as it has been customary in a State to determine the profits to be attributed to a permanent establishment on the basis of an apportionment of the total profits of the enterprise to its various parts, nothing in paragraph 2 shall preclude that State from determining the profits to be taxed by such an apportionment as may be customary; the method of apportionment adopted shall, however, be such that the result shall be in accordance with the principles laid down in this article.

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.

6. For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

7. Where profits include items of income which are dealt with separately in other articles of this Convention, then the provisions of those articles shall not be affected by the provisions of this article.

Article 9. SHIPPING AND AIR TRANSPORT

1. Profits from the operation of ships or aircraft in international traffic shall be taxable only in the State in which the place of effective management of the enterprise is situated.

2. If the place of effective management of a shipping enterprise is aboard a ship, then it shall be deemed to be situated in the State in which the home harbour of the ship is situated, or, if there is no such home harbour, in the State of which the operator of the ship is a resident.

Article 10. ASSOCIATED ENTERPRISES

Where

- a) an enterprise of one of the States participates directly or indirectly in the management, control or capital of an enterprise of the other State, or
- b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of one of the States and an enterprise of the other State, 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 11. DIVIDENDS

1. Dividends paid by a company which is a resident of one of the States to a resident of the other State may be taxed in that other State.

2. However, such dividends may be taxed in the State of which the company paying the dividends is a resident, and according to the law of that State, but the tax so charged shall not exceed:

- a) with respect to dividends paid by a company which is a resident of the Netherlands to a company the capital of which is wholly or partly divided into shares and which is a resident of Israel and holds directly at least 25 per cent of the capital of the company paying the dividends: 5 per cent of the amount of the dividends;
- b) with respect to dividends paid by a company which is a resident of Israel to a company the capital of which is wholly or partly divided into shares and which is a resident of the Netherlands and holds directly at least 25 per cent of the capital of the company paying the dividends: 15 per cent of the amount of the dividends;
- c) with respect to all other dividends: 15 per cent of the amount of the dividends.

3. The competent authorities of the States shall by mutual agreement settle the mode of application of paragraph 2.

4. The provisions of paragraph 2 shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

5. The term "dividends" as used in this article means income from shares, *jouissance* shares or *jouissance* rights, mining shares, founders' shares or other rights participating in profits as well as income from debt-claims participating in profits and income from other corporate rights assimilated to income from shares by the taxation law of the State of which the company making the distribution is a resident.

6. The provisions of paragraphs 1 and 2 shall not apply if the recipient of the dividends, being a resident of one of the States, has in the other State, of which the company paying the dividends is a resident, a permanent establishment with which the holding by virtue of which the dividends are paid is effectively connected. In such a case, the provisions of article 8 shall apply.

7. Where a company which is a resident of one of the States derives profits or income from the other State, that other State may not impose any tax on the dividends paid by the company to persons who are not residents of that other State, or subject the company's undistributed profits to a tax on undistributed profits, even if the dividends paid on the undistributed profits consist wholly or partly of profits or income arising in such other State.

Article 12. INTEREST

1. Interest arising in one of the States and paid to a resident of the other State may be taxed in that other State.

2. However, such interest may be taxed in the State in which it arises, and according to the law of that State, but the tax so charged shall not exceed 15 per cent of the amount of the interest, provided that where such interest is paid to a bank or a financial institution the tax so charged shall not exceed 10 per cent of the amount of the interest.

3. The competent authorities of the States shall by mutual agreement settle the mode of application of paragraph 2.

4. The term "interest" as used in this article means income from Government securities, bonds or debentures, whether or not secured by mortgage but not carrying a right to participate in profits, and debt-claims of every kind not secured by mortgage as well as all other income assimilated to income from money lent by the taxation law of the State in which the income arises.

5. The provisions of paragraphs 1 and 2 shall not apply if the recipient of the interest, being a resident of one of the States, has in the other State in which the interest arises a permanent establishment with which the debt-claim from which the interest arises is effectively connected. In such a case, the provisions of article 8 shall apply.

6. Interest shall be deemed to arise in one of the States when the payer is that State itself, a political subdivision, a local authority or a resident of that State. Where, however, the person paying the interest, whether he is a resident of one of the States or not, has in one of the States a permanent establishment in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such a permanent establishment, then such interest shall be deemed to arise in the State in which the permanent establishment is situated.

7. 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 debt-claim 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 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 law of each State, due regard being had to the other provisions of this Convention.

Article 13. ROYALTIES

1. Royalties arising in one of the States and paid to a resident of the other State may be taxed in that other State.

2. However, such royalties may be taxed in the State in which they arise, and according to the law of that State, but the tax so charged shall not exceed:

- a) 10 per cent of the amount of the royalties for cinematograph films and films or video-tapes for radio or television broadcasting;
- b) 5 per cent of the amount of all other royalties.

3. The competent authorities of the States shall by mutual agreement settle the mode of application of paragraph 2.

4. The term "royalties" as used in this article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films or video-tapes for radio or television broadcasting any patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial or scientific equipment, or for information concerning industrial, commercial or scientific experience.

5. The provisions of paragraphs 1 and 2 shall not apply if the recipient of the royalties, being a resident of one of the States, has in the other State in which the royalties arise a permanent establishment with which the right or property giving rise to the royalties is effectively connected. In such a case the provisions of article 8 shall apply.

6. Royalties shall be deemed to arise in one of the States when the payer is that State itself, a political subdivision, a local authority or a resident of that State.

Where, however, the person paying the royalties, whether he is a resident of one of the States or not, has in one of the States a permanent establishment in connection with which the contract under which the royalties are paid was concluded, and such royalties are borne by such permanent establishment, then such royalties shall be deemed to arise in the State in which the permanent establishment is situated.

7. 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 royalties paid, having regard to the use, right or information for which they are 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 law of each State, due regard being had to the other provisions of this Convention.

Article 14. LIMITATION OF ARTICLES 11, 12 AND 13

International organisations, organs and officials thereof and members of a diplomatic or consular mission of a third State, being present in one of the States, are not entitled, in the other State, to the reductions or exemptions from tax provided for in articles 11, 12 and 13 in respect of the items of income dealt with in these articles and arising in that other State, if such items of income are not subject to a tax on income in the first-mentioned State.

Article 15. CAPITAL GAINS

1. Gains from the alienation of immovable property, as defined in paragraph 2 of article 7, may be taxed in the State in which such property is situated.

In this paragraph "immovable property" shall include rights—other than shares dealt in on a stock exchange—in a real estate association as such association is defined in the Israeli Land Appreciation Tax Law. The said rights shall be deemed to be situated in the State in which the immovable property giving rise to such capital gain is situated.

2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of one of the States has in the other State or of movable property pertaining to a fixed base available to a resident of one of the States in the other State 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 State.

3. Gains 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 the State in which the place of effective management of the enterprise is situated. For the purposes of this paragraph the provisions of paragraph 2 of article 9 shall apply.

4. Gains from the alienation of any property other than those mentioned in paragraphs 1, 2 and 3 shall be taxable only in the State of which the alienator is a resident.

5. The provisions of paragraph 4 shall not affect the right of each of the States to levy according to its own law a tax on gains from the alienation of shares or *jouissance* rights in a company, the capital of which is wholly or partly divided into shares and which is a resident of that State, provided that such shares or rights are owned by an individual who is a resident of the other State and—

- a) who is a national of the first-mentioned State without being a national of the other State, and
- b) who has been a resident of the first-mentioned State in the course of the last five years preceding the alienation of the shares or *jouissance* rights, and
- c) who in the course of the same period has owned, directly or indirectly, alone or together with his spouse and relatives, at least one-third, as well as alone or together with his spouse more than 7 per cent, of the nominally paid up capital of the said company.

Article 16. INDEPENDENT PERSONAL SERVICES

1. Income derived by a resident of one of the States in respect of professional services or other independent activities of a similar character shall be taxable only in that State unless he has a fixed base available to him in the other State for the purpose of performing his activities. If he has such a fixed base available to him, the income may be taxed in that other State but only so much of it as is attributable to that fixed base.

A resident of one of the States performing such professional services or other independent activities in the other State shall be deemed to have such a fixed base available to him in that other State if he is present in that other State for a period or periods exceeding in the aggregate 183 days in the fiscal year concerned.

2. The term "income from professional services" means income derived in respect of professional services including, *inter alia*, independent scientific, literary, artistic, educational or teaching activities as well as the independent activities of physicians, lawyers, engineers, architects, dentists and accountants.

Article 17. DEPENDENT PERSONAL SERVICES

1. Subject to the provisions of articles 18, 20, 21, 22 and 23, salaries, wages and other similar remuneration derived by a resident of one of the States in respect of an employment shall be taxable only in that State unless the employment is exercised in the other State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of one of the States in respect of an employment exercised in the other State shall be taxable only in the first-mentioned State, if:

- a) the recipient is present in that other State 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 that other State, and
- c) the remuneration is not borne as such by a permanent establishment or a fixed base which the employer has in that other State.

3. Notwithstanding the provisions of paragraphs 1 and 2, remuneration in respect of an employment exercised aboard a ship or aircraft operated in international traffic may be taxed in the State in which the place of effective management of the enterprise is situated.

Article 18. DIRECTORS' FEES

1. Directors' fees and similar payments derived by a resident of the Netherlands in his capacity as a member of the board of directors of a company which is a resident of Israel may be taxed in Israel.

2. Remuneration and similar payments derived by a resident of Israel in his capacity as a *bestuurder* or a *commissaris* of a company which is a resident of the Netherlands may be taxed in the Netherlands.

Article 19. ARTISTES AND ATHLETES

Notwithstanding the provisions of articles 16 and 17 income derived by public entertainers, such as theatre, motion picture, radio or television artistes and musicians, and by athletes, from their dependent or independent personal activities as such may be taxed in the State in which these activities are exercised. This provision also applies to such income derived by the said persons or accrued to them, directly or indirectly, through corporate bodies controlled by the said persons.

Article 20. PENSIONS

1. Subject to the provisions of paragraph 1 of article 21, pensions and other similar remuneration paid in consideration of past employment to a resident of one of the States and any annuity paid to such a resident, shall be taxable only in that State.

2. 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 21. GOVERNMENTAL FUNCTIONS

1. Remuneration, including pensions, paid by, or out of funds created by, one of the States or a political subdivision or a local authority thereof to any individual in respect of services rendered to that State or subdivision or local authority thereof in the discharge of functions of a governmental nature may be taxed in that State.

2. However, the provisions of articles 16, 17, 18 and 20 shall apply to remuneration or pensions in respect of services rendered in connection with any trade or business carried on by one of the States or a political subdivision or a local authority thereof.

3. Paragraph 1 shall not apply in so far as services are rendered to a State in the other State by an individual who is a resident and a national of that other State.

Article 22. PROFESSORS AND TEACHERS

1. Payments which a professor or teacher who is a resident of one of the States and who is present in the other State for the purpose of teaching or scientific research for a maximum period of two years in a university, college or other establishment for teaching or scientific research in that other State, receives for such teaching or research shall be taxable only in the first-mentioned State.

2. This article shall not apply to income from research if such research is undertaken not in the public interest but primarily for the private benefit of a specific person or persons.

Article 23. STUDENTS

A student or business apprentice who is present in one of the States solely for the purpose of his education or training and who is, or immediately before being so present was, a resident of the other State shall be exempt from tax in the first-mentioned State on payments received from outside that first-mentioned State for the purposes of his maintenance, education or training. The same shall apply to in-

come from personal services performed in the first-mentioned State if such income from personal services does not exceed 4,000 Israeli Pounds or 4,000 Netherlands Guilders in the calendar year.

Article 24. INCOME NOT EXPRESSLY MENTIONED

Items of income of a resident of one of the States which are not expressly mentioned in the foregoing articles of this Convention shall be taxable only in that State.

CHAPTER IV. TAXATION OF CAPITAL

Article 25. CAPITAL

1. Capital represented by immovable property, as defined in paragraph 2 of article 7, may be taxed in the State in which such property is situated.

2. Capital represented by movable property forming part of the business property of a permanent establishment of an enterprise, or by movable property pertaining to a fixed base used for the performance of professional services, may be taxed in the State in which the permanent establishment or fixed base is situated.

3. Notwithstanding the provisions of paragraph 2, ships and aircraft operated in international traffic, and movable property pertaining to the operation of such ships and aircraft shall be taxable only in the State in which the place of effective management of the enterprise is situated. For the purposes of this paragraph the provisions of paragraph 2 of article 9 shall apply.

4. All other elements of capital of a resident of one of the States shall be taxable only in that State.

CHAPTER V

Article 26. ELIMINATION OF DOUBLE TAXATION

A. 1. The Netherlands, when imposing tax on its residents, may include in the basis upon which such taxes are imposed, the items of income or capital, which according to the provisions of this Convention may be taxed in Israel.

2. Without prejudice to the application of the provisions concerning the compensation of losses in the unilateral regulations for the avoidance of double taxation the Netherlands shall allow a deduction from the amount of tax computed in conformity with the first paragraph of this article equal to such part of that tax which bears the same proportion to the aforesaid tax, as the part of the income or capital which is included in the basis mentioned in the first paragraph of this article and may be taxed in Israel in accordance with articles 7, 8, paragraph 6 of article 11, paragraph 5 of article 12, paragraph 5 of article 13, paragraphs 1 and 2 of article 15, paragraph 1 of article 16, paragraph 1 of article 17, paragraph 1 of article 18, articles 19, 21 and paragraphs 1 and 2 of article 25 of the Convention bears to the total income or capital which forms the basis mentioned in paragraph 1 of this article.

3. Further the Netherlands shall allow a deduction from the Netherlands tax computed in accordance with the preceding paragraphs of this article with respect to the items of income which may be taxed in Israel according to paragraph 2 of article 11, paragraph 2 of article 12, paragraph 2 of article 13, and paragraph 3 of article 17, and are included in the basis mentioned in paragraph 1 of this article. The amount of this deduction shall be the lesser of the following amounts:

- a) the amount equal to the Israeli tax;
- b) the amount of the Netherlands tax which bears the same proportion to the amount of tax computed in conformity with paragraph 1 of this article, as the

amount of the said items of income bears to the amount of income which forms the basis mentioned in paragraph 1 of this article.

4. Where, by reason of the relief given under the provisions of Israeli laws for the purpose of encouraging investment in Israel, the Israeli tax actually levied on dividends paid by a company which is a resident of Israel or on interest arising in Israel is lower than the tax Israel may levy according to paragraph 2 of article 11 and paragraph 2 of article 12, respectively, then the amount equal to Israeli tax as meant in sub-paragraph *a*) of paragraph 3 on those items of income shall be deemed to be:

- a) with respect to dividends paid by a company which is a resident of Israel: 15 per cent of the amount of the dividends;
- b) with respect to interest arising in Israel and paid to a bank or a financial institution: an amount equal to the amount of tax which Israel actually has levied thereon increased by twice the difference between this amount and 10 per cent of the amount of such interest, provided that the deduction shall not exceed 15 per cent of the amount of such interest;
- c) with respect to other interest arising in Israel: 15 per cent of the amount of the interest.

5. The amount equal to Israeli tax as meant in sub-paragraph *a*) of paragraph 3 on royalties arising in Israel shall be deemed to be 10 per cent of the amount of the royalties.

B. 1. Where a resident of Israel derives income which, in accordance with the provisions of this Convention may be taxed in the Netherlands, Israel shall, except in the case referred to in paragraph 5 of article 15 and subject to the provisions of its law, allow as a deduction from the tax on that income, an amount equal to the tax paid thereon in the Netherlands. The deduction shall not, however, exceed that part of the tax as computed before the deduction is given, which is appropriate to the income which may be taxed in the Netherlands.

2. However, dividends paid by a company resident of the Netherlands to a company resident in Israel, which owns at least 25 per cent of the voting power of the company paying the dividends, shall be excluded from the tax base in Israel in so far as such dividends would be excluded from the tax base by Israeli tax laws in case both companies had been resident of Israel.

C. If a resident of one of the States derives gains which may be taxed in the other State in accordance with paragraph 5 of article 15, that other State shall allow a deduction from its tax on such gains to an amount equal to the tax levied in the first-mentioned State on the said gains.

CHAPTER VI. SPECIAL PROVISIONS

Article 27. NON-DISCRIMINATION

1. The nationals of one of the States, whether they are residents of that State or not, shall not be subjected in the other State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances are or may be subjected.

2. The term "nationals" means:

- a) all individuals possessing the nationality of one of the States;
- b) all legal persons, partnerships and associations deriving their status as such from the law in force in one of the States.

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

This provision shall not be construed as obliging one of the States to grant to residents of the other State 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 States, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other State, shall not be subjected in the first-mentioned State 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 State are or may be subjected.

5. In this article the term "taxation" means taxes of every kind and description.

Article 28. MUTUAL AGREEMENT PROCEDURE

1. Where a resident of one of the States considers that the actions of one or both of the States result or will result for him in taxation not in accordance with this Convention, he may, notwithstanding the remedies provided by the national laws of those States, present his case to the competent authority of the State of which he is a resident.

2. The competent authority shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at an appropriate solution, to resolve the case by mutual agreement with the competent authority of the other State, with a view to the avoidance of taxation not in accordance with this Convention.

3. The competent authorities of the States shall endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of this Convention. They may also consult together for the elimination of double taxation in cases not provided for in this Convention.

4. The competent authorities of the States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

Article 29. EXCHANGE OF INFORMATION

1. The competent authorities of the States shall exchange such information (being information which such authorities have in proper order at their disposal) as is necessary for the carrying out of this Convention, in particular for the prevention of fraud, and for the administration of statutory provisions against legal avoidance concerning taxes covered by this Convention. Any information so exchanged shall be treated as secret and shall not be disclosed to any persons or authorities other than those concerned with the assessment or collection of the taxes which are the subject of this Convention.

2. In no case shall the provisions of paragraph 1 be construed so as to impose on one of the States the obligation:

- a) to carry out administrative measures at variance with the laws or the administrative practice of that or of the other State;
- b) to supply particulars which are not obtainable under the laws or in the normal course of the administration of that or of the other State;

- c) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy.

Article 30. DIPLOMATIC AND CONSULAR OFFICIALS

Nothing in this Convention shall affect the fiscal privileges of diplomatic or consular officials under the general rules of international law or under the provisions of special agreements.

Article 31. TERRITORIAL EXTENSION

1. This Convention may be extended, either in its entirety or with any necessary modifications, to either or both of the countries of Surinam or the Netherlands Antilles, if the country concerned imposes taxes substantially similar in character to those to which this Convention applies. 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 in notes to be exchanged through diplomatic channels.

2. Unless otherwise agreed the termination of the Convention shall not also terminate the application of the Convention to any country to which it has been extended under this article.

CHAPTER VII. FINAL PROVISIONS

Article 32. ENTRY INTO FORCE

This Convention shall enter into force on the date on which the Contracting Governments have notified each other in writing that the formalities constitutionally required in their respective countries have been complied with, and its provisions shall have effect —

- a) in the case of the Netherlands: for taxable years and periods beginning on or after the first day of January 1970;
- b) in the case of Israel: for taxable years and periods beginning on or after the first day of April in the calendar year 1970.

Article 33. TERMINATION

This Convention shall remain in force until denounced by one of the States. Either State may denounce the Convention, through diplomatic channels, by giving notice of termination at least six months before the end of any calendar year after the year 1976. In such event the Convention shall cease to have effect —

- a) in the case of the Netherlands: for taxable years and periods beginning after the end of the calendar year in which the notice is given;
- b) in the case of Israel: for taxable years and periods beginning after the 31st day of March in the calendar year next following that in which the notice is given.

IN WITNESS WHEREOF the undersigned, duly authorised thereto, have signed this Convention.

DONE at Jerusalem on second July 1973 in two originals, each in the Netherlands, Hebrew and English languages, the three texts being equally authentic.

In case there is any divergence of interpretation between the Netherlands and Hebrew texts, the English shall prevail.

For the Government of the Kingdom of the Netherlands:
W. ROOSDORP

For the Government of the State of Israel:
M. NEUDORFER

P R O T O C O L

At the moment of signing the Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital, this day concluded between the Government of the Kingdom of the Netherlands and the Government of the State of Israel, the undersigned, duly authorised thereto, have agreed that the following provisions shall form an integral part of the Convention.

I

It is understood that for the application of the Convention taxes on capital include taxes on property whether or not they are levied on a gross base or on a net base.

II

Ad article 4

An individual living aboard a ship without any real domicile in either of the States shall be deemed to be a resident of the State in which the ship has its home harbour.

III

Ad articles 11, 12 and 13

Applications for the restitution of tax levied contrary to the provisions of articles 11, 12 and 13 to be lodged with the competent authority of the State having levied the tax within a period of 5 years after the expiration of the calendar year in which the tax has been levied.

IV

Ad article 11

With reference to paragraph 2 of article 11 of the Convention, the two Governments, having in mind that the difference between the provisions of sub-paragraph *a*) and those of sub-paragraph *b*) of the said paragraph is based on the fact that in Israel the tax burden in the hands of Israeli companies for distributed profits is substantially lower than that for undistributed profits, agree to undertake the review of the said provisions in order to adapt sub-paragraph *b*) to sub-paragraph *a*) when the basis of such difference no longer exists.

V

Ad articles 12 and 26

The term “financial institution” as used in paragraph 2 of article 12 and in paragraph 4 of article 26, part A, of the Convention includes a company which in the normal course of its business receives money on deposits or makes loans.

VI

Ad article 26

After a period of 10 years subsequent to the entry into force of the Convention the two Governments shall enter into negotiations with each other in order to envisage a review of the provisions of paragraphs 4 and 5 of article 26, part A, of the Convention in the light of the circumstances then prevailing.

VII

Ad article 26

It is understood that, in so far as the Netherlands income tax or company tax is concerned, the basis meant in the first paragraph of article 26 is the *onzuivere inkomsten* or *winst* in terms of the Netherlands income tax law or company tax law, respectively.

VIII

Ad article 29

The obligation to exchange information does not include information obtained from banks or from institutions assimilated therewith. The term “institutions assimilated therewith” means, *inter alia*, insurance companies.

IN WITNESS WHEREOF the undersigned, duly authorised thereto, have signed this Protocol.

DONE at Jerusalem on second July 1973 in two originals, each in the Netherlands, Hebrew and English languages, the three texts being equally authentic.

In case there is any divergence of interpretation between the Netherlands and Hebrew texts the English shall prevail.

For the Government of the Kingdom of the Netherlands:
W. ROOSDORP

For the Government of the State of Israel:
M. NEUDORFER
