

International Taxation

International Taxation – Key Concepts & Structure

1. Foundations

Element	Description
Purpose	Prevent double taxation, curb tax evasion, and allocate taxing rights among jurisdictions.
Scope	Applies to cross-border activities of individuals, corporations, and other entities.
Primary Instruments	• Domestic tax laws • Bilateral/Multilateral Tax Treaties • International guidelines (OECD, UN, EU).

2. Core Principles

Principle	What It Means	Typical Application
Residence Principle	Taxation based on the taxpayer's legal domicile or place of effective management.	Individuals taxed on worldwide income if resident; non-residents taxed only on source income.
Source Principle	Taxation based on where income is generated.	Rental income from property located in Country A taxed by A, regardless of the owner's residence.
Territoriality vs. Worldwide Taxation	Territorial systems tax only local source income; worldwide systems tax all income of residents.	Most EU states = territorial; United States = worldwide.
Non-Discrimination	Same treatment for domestic and foreign taxpayers in comparable situations.	Treaty articles often require "national treatment."
Mutual Agreement Procedure (MAP)	Mechanism for treaty partners to resolve disputes and eliminate double taxation.	Administered by tax authorities; may involve competent authority rulings.

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3. Double Taxation Relief

Method	Mechanics	Example
Exemption Method	Exempt foreign source income from domestic tax.	A German resident earns dividends from a UK subsidiary; Germany exempts the dividend.
Credit Method	Credit domestic tax liability for foreign tax paid, up to the amount of domestic tax on the same income.	A French company pays 20% tax in Brazil; France allows a 20% credit against French tax on that profit.
Deduction Method	Allow foreign tax as an itemized deduction against taxable income.	Less common; used where credit limits are exceeded.

4. Tax Treaties

Feature	Detail
Model Conventions	• OECD Model – for developed economies (focus on prevention of double taxation, exchange of information). • UN Model – for developing economies (gives source states greater taxing rights).
Key Articles	1. Resident Definition 2. Permanent Establishment (PE) 3. Dividends, Interest, Royalties 4. Capital Gains 5. Elimination of Double Taxation (credit/exemption) 6. Exchange of Information 7. Non-Discrimination
Treaty Shopping	Strategies to exploit treaty benefits by routing income through a treaty-favoured jurisdiction. Counter-measures include anti-abuse clauses (e.g., Limitation on Benefits).
Multilateral Instruments	• Mli (Multilateral Convention to Implement Tax Treaty-Related Measures) – addresses treaty abuse, mandatory dispute-resolution, and principal-purpose test.

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5. Permanent Establishment (PE)

Type	Definition	Tax Implication
Fixed Place PE	Physical location (office, factory, branch) where business is carried out.	Profits attributable to the PE