
Convention between the Republic of Panama and the United Arab Emirates for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

January 20, 2014

In brief

On January 1st, 2014 the Panama - United Arab Emirates Tax Treaty entered into force.

The effective dates are as follows:

In Panama:

- 1 January 2014: for withholding, income and other taxes;

In the United Arab Emirates:

- 1 January 2014: for withholding taxes;
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In detail

The most relevant articles are the following:

Article 2 (Taxes covered): For Panama the taxes covered are the income tax provided in the Fiscal Code, Book IV, Title I, which includes: (i) corporate income tax, (ii) withholding taxes.

For the UAE, the taxes covered are: (i) the income tax, (ii) the corporate tax.

Article 3 (Hydrocarbons)

The Convention will not affect the right of any of the Contracting States

authorities to apply their domestic regulations regarding the taxation of income and profits derived from hydrocarbons or associated activities.

Article 5 (Resident)

The definition of resident is based on the local laws of each jurisdiction, nevertheless, the Treaty states that for Panama it would be any person that by reason of their residence, place of incorporation, place of management is liable for income tax.

For the UAE a resident would be a national, a person incorporated in UAE, the government, a pension

fund, or any charities or religious organization,

Article 6 (Permanent establishment): this article in general follows the definition stated by the OECD Model, nevertheless the following particularities must be taken into account:

(i) A building site, a construction, assembly or installation project or supervisory activities, or a drilling rig or ship used for the exploring or exploiting of natural resources, constitute a permanent establishment only if they last for more than six months in a twelve months period.

(ii) If a person render services in a Contracting State, such as consulting by an enterprise through an employee or personnel that are present in that State for the same connected project for a period of 6 months in a twelve months period.

(iii) An enterprise of a Contracting State will have a permanent establishment in the other Contracting State if mechanical or scientific equipment or machinery is used for more than 6 months or installed, in that other Contracting State by, for or under contract with the enterprise.

Article 11(Dividends): The rate applicable is 5%

For Panama the withholding tax rate on dividends is 10%.

There are no withholding taxes in the UAE

Article 12 (Interest): the applicable rates are as follows:

5%;

0%, when payment of interest is made to:

(i) the Government, or any subdivision or authority;

(ii) interest paid in relation to the sale on credit of merchandise or equipment to a enterprise;

(iii) interest paid to financial institutions as result of financing provided by those institutions in connection with agreements concluded by both governments.

For Panama the withholding tax rate for the payment of interest is 12.5%, hence the treaty reduces this rate to 5%.

There are no withholding taxes in the UAE.

Article 13 (Royalties): the treaty reduces the withholding tax rate to 5%. The term royalties includes: 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, any patent, trademark, design or model, plan, secret formulas or process, or for the use of, or the right to use, industrial, commercial, or scientific equipment or for information (know how) concerning industrial, commercial or scientific experience.

For Panama the withholding tax rate for the payment of royalties is 12.5%, hence the treaty reduces this rate to 5%.

There are no withholding taxes in the UAE.

Article 14 (Capital Gains): in this regard, three situations need to be considered:

(i) Gains from the alienation of shares of a company that had been held for a period of less than 12 months, may be taxed in both States;

(ii) Gains from the alienation of shares deriving more than 50% of their value directly or indirectly from immovable property, may be taxed in both States;

(iii) Gains from the alienation of any property not covered in this article, shall be taxable only in the State of the alienator.

Article 15 (Services): If a resident of any contracting State receives income for any professional or independent services, said income will be taxed only in the resident contracting state, except in the following circumstances:

(i) If it has a fixed base in the other contracting State for the purpose of performing such activities, in which case, only the portion attributable to said fixed base will be taxed in the other contracting State, or

(ii) if it has been present in the other contracting State for a period of 90 days or more during any 12 month period, in that case, only the income derived from said activities, may be taxed in that other Contracting State.

Article 24 (Elimination of Double Taxation):

In Panama the exemption method would be applicable.

In the UAE the credit method would be applicable.

Contacts

Panama

Francisco Barrios
TLS Partner
francisco.barrios@pa.pwc.com

Pedro Anzola
International Tax Services
pedro.anzola@pa.pwc.com

United Arab Emirates

Dean Kern
Partner
dean.kern@ae.pwc.com