Workshop on Double Tax Treaties and

2. The loan provided that pay"ents (ould be "ade only if DC Co3s profits e)ceeded certain levels.

Case C

#ssu"e the facts of the case are the sa"e as Case # but, in its first year of operation, DC Co had 100 of operating inco"e and paid out 10 of interest to the lender.

$ Case D

#ssu"e the facts of the case are the sa"e as in Case # 4 5 4b5 4i.e. DC Co is financed (ith !00 of equity and !00 fro" a foreign ban$5, but that prior to the loan fro" the ban$, P Co "ade a loan of !00 to the foreign ban$ at an interest rate slightly lo(er than the rate charged by the foreign lender to DC Co.

% Case E

#ssu"e the sa"e facts as Case #, but instead of organi6ing its operations in Country DC as a separately incorporated subsidiary, P Co sets up a branch operation or per"anent establish"ent 47the 8ranch95 and provides all the capital to the 8ranch. The boo$s of the 8ranch sho(!00 of the funds as a loan bearing a stated interest rate, (hich the 8ranch 7pays9 to the head office of P Co.

1.

. +ould the interest paid on the loan by DC Co be fully deductible in calculating the ta)able profits of DC Co under your country3s do"estic la(* :f not, ho(is the deduction li"ited*