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Our ref: WJD/AL/MW

Dear Sirs

## **Proposals for technical changes to be included in the next update to the OECD Model Tax Convention**

We welcome the opportunity to contribute to the OECD's proposals concerning the technical changes to be included in the next update to the OECD model tax convention.

We look forward to contributing further in this area as further developments arise in light of changes to the international taxation model.

Our comments are as follows:

### ***Introduction and Articles***

- No comments.

### ***Commentary on Article 3***

- The clarification of the definition of the term 'company' is helpful, and ensures consistency with other areas of the model tax convention as they relate to tax residence.

## **Commentary on Article 7**

### **Permanent establishments (paragraphs 35 and 36)**

- The substitution of “profits” for “income” is a helpful clarification – a common sense interpretation would assume that attribution is of profits, as set out elsewhere by the OECD, rather than just income, but this removes ambiguity.

## **Commentary on Article 11**

### **Interest premiums and discounts (paragraph 20)**

- The expanded commentary proposed is helpful, however we think it would be useful to include further detail as follows:
- The treatment of premiums could be set out more clearly. A premium on issue should be deducted, rather than added, to calculate taxable amounts. The wording in the commentary as set out in the proposal (“*the interest accruing plus any premium paid at redemption or issue*”) indicates that it would be added, which may be misleading.
- It would also be useful for this paragraph to specifically cover the treatment of discounts such that these are set out in the same manner as the premiums
- It should be clear that taxable interest should equal stated interest, plus premium on redemption, less premium on issue, less discount at redemption, plus discount on issue (original issue discount - OID).

### **Interest premiums and discounts – sale of bonds (paragraph 20.1)**

- This proposed paragraph is helpful as it clarifies that the source state can only tax the same interest once where domestic law allows the taxation of accrued interest on the vendor and the acquirer.

We have no further comments on the remainder of the document other than that the proposed minor changes are generally helpful.

Yours faithfully



**W J I Dodwell**  
**Tax Policy Group**