

Table of Contents

About the Author	v
Foreword	xxv
Preface	xxvii
CHAPTER 1	
General Overview of Taxation of Cross-Border Services	1
1. Cross-Border Services	1
2. Taxation of Cross-Border Services under the Domestic Law	1
3. Taxation of Cross-Border Services under the Tax Treaties	2
3.1 Various Articles of the Tax Treaties Dealing with Services	2
3.1.1 Shipping and Air Transport Services (Article 8)	2
3.1.2 Professional Services and Other Independent Activities (Article 14)	3
3.1.3 Income from Employment (Article 15)	3
3.1.4 Director's Fees (Article 16)	3
3.1.5 Services of Artistes and Sportsmen (Article 17)	3
3.1.6 Pensions (Article 18)	4
3.1.7 Government Services (Article 19)	4
3.1.8 Students (Article 20)	4
3.1.9 General Provisions	5
3.1.9.1 Taxation of Services Income as 'Business Income' under Article 7	5
3.1.9.2 Taxation of Services Income as 'Other Income' under Article 21	5
3.1.10 Specific Article Dealing with Fees for Technical Services	5
3.2 Influence on the Model Conventions	7

Table of Contents

Appendix A	List of Cross-Border Services	8
CHAPTER 2		
FTS Article – Part I		
1.	Paragraph 1 of Article 12	12
1.1	Income ‘Arising’ in a Contracting State	13
1.2	Implications of Income ‘Deemed to Arise’ in a Contracting State	13
1.3	Implications of Income Not Falling within Paragraph 1 of Article 12	14
1.4	‘Paid to a Resident’	14
1.5	‘May be Taxed’	15
1.6	Variations of Paragraph 1 of Article 12	15
1.6.1	Derived By	15
1.6.2	Technical Fees	16
1.6.3	Payment for Use of Equipment	16
1.6.4	Fees for Included Services	16
1.6.5	Combination of Paragraphs 1 and 2	16
1.6.6	‘Subject to Tax’ Requirement	17
1.6.7	Requirement of ‘Beneficial Ownership’ for Taxation in the State of Residence	17
1.6.8	Taxation in the Country of Residence	17
1.6.9	Payment to an ‘Enterprise’	18
1.6.10	Miscellaneous	18
2.	Paragraph 2 of Article 12	18
2.1	Scope of Fees Covered under Paragraph 2: ‘Such Fees for Technical Services’	18
2.2	Implications of Income ‘Deemed to Arise’ in a Contracting State	19
2.3	Taxation ‘in Accordance with the Law of the Source State’	20
2.4	Beneficial Ownership	21
2.5	Implications Where the Recipient and the Beneficial Owner Are Different Persons	22
2.5.1	Implications for the State of Residence	22
2.5.2	Implications for the State of Source	24
2.6	Maximum Tax in the State of Source	26
2.7	Implications of Surcharge under the Domestic Law	26
2.8	Variations of Paragraph 2 of Article 12	27
2.8.1	Beneficial Ownership	27
2.8.2	Cap on Taxation by the State of Source	27
2.8.3	‘Recipient as Beneficial Owner’ versus ‘Beneficial Owner Is Resident’	28
2.8.4	Reference to Competent Authority	28
2.8.5	Limitations of Benefit (LOB)	28
2.8.6	Miscellaneous	28

Table of Contents

3.	Definition of 'Fees for Technical Services' (Paragraphs 3 and 4 of Article 12)	29
3.1	Exclusion for Payments to Employees	29
3.2	Exclusion for Services of Independent Personal Services	30
3.3	Issues Arising from the Definition in Tax Treaties	30
3.4	Variations of Paragraph 3 / 4 of Article 12	30
3.4.1	Managerial, Technical and Consultancy Services	31
3.4.2	Administrative Services, Scientific Services, Management Fees, Technical Fees	31
3.4.3	Management and Professional Fees	31
3.4.4	Provision of Services of Technical or Other Personnel	32
3.4.5	Payment of Any 'Kind' versus Payment of Any 'Amount'	32
3.4.6	Reference to 'Lump Sum Consideration'	32
3.4.7	Exclusion for Certain Projects / After Sales Services	32
3.4.8	Exclusion for Payments to Employees	33
3.4.9	Exclusion for Services of Independent Personal Services	34
3.4.10	Exclusion for Services Resulting in Service PE or Construction PE	34
3.4.11	Exclusion from 'Business Profits'	35
3.4.12	Reference to Place of Provision of Services	36
3.4.13	Miscellaneous	36
3.4.14	Other Exclusions	37
3.4.15	Tabular Summary	37
4.	Paragraph 4 of Article 12 (Permanent Establishment / Fixed Base Situation)	42
4.1	Circular Reference between Paragraph 7 of Article 7 and Paragraph 4 of Article 12	43
4.1.1	Desired Positions	43
4.1.2	Rationale	44
4.1.3	Judicial Precedent	44
4.1.4	Indian Tax Treaties with Tanzania and Zambia	45
4.2	Implication of Exclusion of Paragraph 1 of Article 12	45
4.3	Overlap between Article 14 and Article 12	47
4.4	Rendition of Services for Period Exceeding Prescribed Threshold	49
4.5	Professional Fees Paid by a Person Resident in the Source State	50
4.6	Beneficial Owner versus Resident	50
4.7	Effectively Connected	52
4.8	Fees for Technical Services in Respect of Right or Property	52
4.9	Variations of Paragraph 4 of Article 12	54
4.9.1	Recipient versus Beneficial owner	55
4.9.2	In Respect of Right, Property, Contract or Service	55
4.9.3	Effectively Connected versus Attributable To	55
4.9.4	Reference to 'Fixed Base'	56
4.9.5	Absence of Exclusion of Paragraph 1 of Article 12	56

Table of Contents

	4.9.6	Paid or Credited	56
	4.9.7	Taxation as per the Domestic Law of the Source State as against as per Article 7	56
5.		Paragraph 5 of Article 12 (Deemed Accrual)	57
	5.1	Deemed to Arise: Absence of Linkage with Paragraph 2	57
	5.2	Fees Paid by a Resident of a Contracting State	57
	5.3	Fees Paid in Relation to a Permanent Establishment in a Contracting State	57
	5.4	Fees Paid by a Person Who Is Resident of None of the Contracting States	59
	5.5	Rationale for the Deeming Provision	60
	5.6	Absence of Complete Linkage to Independent Personal Services	60
	5.6.1	Rendition of Professional Services for Period Exceeding the Threshold	61
	5.6.2	Absence of Reference to Fixed Base	61
	5.7	Implications of 'Where, However'	62
	5.8	Reference to Contracting State	64
	5.9	Fees Incurred in Connection with the Permanent Establishment	66
	5.10	Borne By	70
	5.10.1	Borne by as 'Financial Burden'	71
	5.10.2	Borne by as 'Deductible'	71
	5.10.3	Rationale for the 'Borne By' Condition	72
	5.10.4	Guidance from OECD Commentary	73
	5.10.5	Judicial Precedents	74
	5.10.6	Comparison with the Domestic Law	79
	5.11	Place of Performance of Services and the Place of Deemed Accrual	79
	5.11.1	Provision of India-Finland Tax Treaty	79
	5.11.2	Provision of Tax Treaties Signed with Iceland, Luxembourg and USA	82
	5.11.3	Meaning of 'One of the Contracting States'	84
	5.12	Comparison with the Deeming Provisions of the Indian Domestic Law	90
	5.12.1	Fees Paid by a Resident Not Deemed to Arise in India	90
	5.12.2	Fees Paid by a Non-resident Deemed to Arise in India	94
	5.13	Variations of Paragraph 5 of Article 12	96
	5.13.1	Contracting State, Political Sub-division or a Local Authority as a Payer	96
	5.13.2	Statutory Body, Land or Administrative Territorial Unit as a Payer	97
	5.13.3	Permanent Establishment outside Both the Contracting States	97
	5.13.4	Reference to 'Fixed Base' Absent	97
	5.13.5	Place of Performance of Services: Place of Accrual	98

Table of Contents

5.13.6	Conclusion of Contract with the Permanent Establishment	98
5.13.7	Contract Effectively Connected with the Permanent Establishment	98
5.13.8	Miscellaneous	99
6.	Paragraph 6 of Article 12	99
6.1	Applicability of Arm's Length Principle	99
6.2	Rationale of the Provision	100
6.3	Special Relationship	100
6.4	Payment Less than Arm's Length	101
6.5	Reclassification of Payment	101
6.6	Treatment of Payment Exceeding Arm's Length Payment	102
6.7	Beneficial Owner versus Recipient	102
6.8	Variations of Paragraph 6 of Article 12	103
6.8.1	'Beneficial Owner' versus 'Recipient'	103
6.8.2	'For Whatever Reasons'	103
6.8.3	'Having Regard To...'	103
6.8.4	Missing Reference to Other Provisions of the Tax Treaties	103
6.8.5	Miscellaneous	103
CHAPTER 3		
FTS Article – Part II		105
1.	Taxability of Fees on Accrual Basis	105
2.	Payment by a Resident of a Contracting State	107
3.	Place of Rendition of Services	108
3.1	Requirement of Rendition of Services in a Contracting State as per Definition of FTS	109
3.2	Requirement of Rendition of Services in a Contracting State as per the Deeming Accrual Provision	112
4.	Consultancy Services: Technical versus Non-technical	113
5.	Accounting Treatment and Characterization of Income	113
6.	Treatment of Lump Sum Payments	114
7.	Terminology Used by the Parties and Characterization of Income	114
8.	Implications of Characterization Adopted by the Other Contracting State	115
9.	Characterization of Certain Specific Items of Income	116
9.1	Credit Rating Services	116
9.2	Procurement Charges for Goods	118
9.3	Inspection Fees	119
9.4	Consideration for Transfer of Documents and Designs	119
9.5	ISO Certification	119
10.	Services Linked to Purchase of Machinery	119
11.	Reliance on Other Tax Treaties for the Purpose of Interpretation	120
12.	Article 12 versus Article 7	121

Table of Contents

13.	Special Provision versus General Provision	122
14.	Taxation of Income from Certain Businesses	122
15.	Adoption of Domestic Law Definition in Tax Treaties	125
15.1	Term Is Not Defined in the Tax Treaty	126
15.2	Term Is Defined in the Tax Treaty	126
15.3	Argument Based on Section 90	126
15.4	Judicial Precedents	127
16.	Adoption of Tax Treaty Definition in the Domestic Law	127
16.1	Argument Based on Section 90	127
16.2	Judicial Precedents	128
17.	Applicability of Other Source Article to Fees for Technical Services	128
18.	Implications of Absence of Article Dealing with ‘Fees for Technical Services’	128
19.	Implications of Two Specific Articles Dealing with ‘Fees for Technical Services’	129
CHAPTER 4		
	Make Available	131
1.	Make Available Provision	131
2.	Absence of Term ‘Managerial Services’	132
3.	Consideration for Incidental Services	134
3.1	Ancillary and Subsidiary	135
3.2	Should the Recipient of ‘Royalties’ and ‘Fees for Technical Services’ Be the Same Person?	135
3.3	Can a Payment under Separate Agreement Be Said to Be Ancillary?	136
3.4	Can There Be a Significant Time Gap between the Payment of ‘Royalties’ and ‘Fees for Technical Services’?	136
3.5	Guidance from Memorandum of Understanding	136
3.6	Comparable Provision in the Domestic Law?	138
3.7	Judicial Precedents	138
4.	Make Available Condition	141
4.1	Guidance from the Memorandum of Understanding	142
4.2	Meaning of the Term ‘Experience’	143
4.3	Judicial Precedents on ‘Make Available’	143
4.3.1	Make Available Condition Not Satisfied	143
4.3.2	Make Available Condition Satisfied	145
4.3.3	Interpretation Based on Distinction from Article 12(3)(a)	146
4.3.4	Consideration for Software	147
4.3.5	Evidence for Make Available	148
4.3.6	Does ‘Support Service’ Necessary Make Available Technical Knowledge?	149

Table of Contents

4.3.7	Can Technology Be Made Available for Specified Period?	151
4.3.8	Technology to Be Returned: Termination Clause of the Agreements	151
5.	Development and Transfer of Technical Plan or Design	152
5.1	Whether ‘Business Strategy’ Qualifies as Technical Plan?	153
5.2	Whether ‘Make Available’ Condition Necessary to Satisfy?	153
5.3	Make Available Condition Automatically Met?	153
5.4	Specific Provision Requiring Application of Technology	154
5.5	Absolute Transfer Necessary?	154
5.6	Incidental Satisfaction of the Requirements of the Article	154
5.7	Adoption / Acceptance of Technology by the Person Availing Services Necessary for Applicability of the Article?	155
5.8	Make Available: To Whom?	156
5.9	Transfer of Design: Domestic Law More Beneficial?	156
5.10	Judicial Precedents	156
6.	Stewardship / Shareholders Activities	157
7.	Exclusions from the Fees for Included / Technical Services	158
7.1	Payments Linked to Sale of Property	158
7.2	Consideration for Services Incidental to International Traffic	159
7.3	Consideration for Teaching	159
7.4	Services for Personal Use of the Individuals	161
7.5	Consideration for Salaries and Professional Fees	162
8.	Overlap Provisions	162
8.1	Overlap between Article 12(3)(a) and Article 12(4)(b)	162
8.2	Overlap between Article 12(4)(a) and Article 12(4)(b)	162
9.	Interpretation of Other Tax Treaties Based on the MOU	162
10.	Variation of ‘Make Available’ Provision	163
10.1	Services of Technical or Other Personnel	163
10.2	Application of Technology Contained in Skill, Know-Processes, Etc.	163
10.3	Application of Technology Contained in Technical Plan or Technical Design	164
10.4	Managerial Services	164
10.5	Absence of Exclusions	164
10.6	Exclusion for ‘Private Use’ of Services by Individuals	164
10.7	Exclusion of Services in Connection with Exploration of Natural Resources	164
10.8	Exclusion for Services Linked to Construction, Installation Project	164
10.9	Terminology	165
10.10	Miscellaneous	165

Table of Contents

Appendix A	Memorandum of Understanding to India-USA Tax Treaty	166
CHAPTER 5		
	Effectively Connected Fees for Technical Services	173
1.	Rationale for Linking the Articles	173
2.	Does Article 7 or Article 14 Result in Higher Tax Liability?	174
3.	Provisions Dealing with 'Effectively Connected'	175
4.	Meaning of 'Effectively Connected With'	177
5.	Examples Based on Guidance from the Commentary	179
5.1	Examples as Regards Dividend Income	180
5.1.1	What Is 'Forming Part of the Assets'?	180
5.1.2	What Is 'Otherwise Effectively Connected'?	181
5.2	Examples as Regards Interest Income	182
5.2.1	Debt Claim Forming Part of the Assets	183
5.2.2	Otherwise Effectively Connected	186
6.	Examples For Fees For Technical Services / Contract / Services Effectively Connected with the Permanent Establishment / Fixed Base	187
7.	Payment by Permanent Establishment: Effective Connected?	191
8.	Criteria for 'Effectively Connected'	192
9.	Guidance from Tax Treaties Signed by Countries	193
10.	'Effectively Connected With' versus 'Attributable To'	194
10.1	Are These Different Concepts?	194
10.2	Implications of Difference between 'Effectively Connected With' and 'Attributable To'	196
10.3	Conclusion	197
10.4	Implications of the Words 'Attributable to' in the US Model	199
11.	Interplay between 'Force of Attraction Rule' and 'Effectively Connected With'	200
12.	Special Feature of UN Model	201
13.	Variations of Scope of 'Effectively Connected' in the UN Model	202
CHAPTER 6		
	Article 12 versus Article 14	205
1.	Overlap between Article 12 and Article 14	205
2.	Provisions for Avoiding Overlap	206
2.1	Variation 1 – Reference to 'Services' Mentioned in Article 14	206
2.2	Variation 2 – Reference to 'Payments' Mentioned in Article 14	207
2.3	Other Specific Variations for Avoiding Overlap	208
3.	Absence of Provisions for Avoiding Overlap	209
4.	Scope of Article 14 as a Special Provision	212
4.1	Analysis	214
4.1.1	Reliance on UN Commentary	214
4.2.2	Reliance on the OECD Commentary	215

Table of Contents

	4.2.3 Heading of the Article	215
	4.2.4 Judicial Precedents	216
	4.2 Conclusion	218
5.	Specific Recognition of the Legal Status of Person Rendering Services	218
	5.1 Specific Reference in Article 12	218
	5.2 Specific Reference in Article 14	218
6.	Can Fees for Services Escape Article 12 as Well as 14?	219
7.	Implications of Fixed Base	221
	7.1 Fixed Base	221
	7.2 Fixed Base in Paragraph 4 of Article 12	221
	7.2.1 Variation 1 – Specific Exclusion in Paragraph 3 of Article 12	222
	7.2.2 Variation 2 – No Specific Exclusion in Paragraph 3 of Article 12	222
	7.3 Why Is a Reference to Fixed Base in Paragraph 4 of Article 12 Required?	223
	7.3.1 Variation 1 – Specific Exclusion in Paragraph 3 of Article 12	223
	7.3.2 Variation 2 – No Specific Exclusion in Paragraph 3 of Article 12	223
	7.4 Alternative Interpretation	224
	7.4.1 Broad Scheme of the Tax Treaty: Full Taxing Rights to the Source Country	224
	7.4.2 Analysis – Alternative Interpretation	225
	7.5 Applicability of Article 14 to Income Other than Consideration for ‘Independent Personal Services’	226
Appendix A	Article 14	228
CHAPTER 7		
	Applicability of Other Source Article to the Fees for Technical Services	231
1.	Article 21 under the Models and Tax Treaties	232
2.	Provisions of Article 21	233
	2.1 Items of Income	233
	2.2 Class of Income	234
	2.3 Source of Income	234
	2.4 Meaning of ‘Dealt With’, ‘Expressly Dealt With’, ‘Expressly Mentioned’	235
	2.4.1 Dealt With	235
	2.4.2 Expressly Dealt With	235
	2.4.3 ‘Expressly Mentioned’	236
3.	What Are the Items of Income Not Dealt With in Other Articles?	236
	3.1 Class of Income Not Specifically Dealt by Any Article	236
	3.2 Where the Definition of Class of Income Is Not Satisfied	236

Table of Contents

3.3	Where the Income Arises in a Third Contracting State	238
3.4	Where the Income Arises and Is Paid to a Resident of the Same Contracting State	238
4.	Applicability of Article 7 or Article 21	238
4.1	Scenario 1 – Absence of Specific Article	239
4.2	Scenario 2 – Non-applicability of Specific Article	240
4.3	Indications in Paragraph 2 of Article 21 and the OECD Commentary	240
4.4	Conclusion	241
Appendix A	Relevant Extracts of OECD Commentary Using the Word ‘Class’	243
CHAPTER 8		
Service PE – Part I		245
1.	Definition of Service PE	246
2.	Existence of ‘Service Provider’ and ‘Recipient of Services’	247
3.	Can a Person Acquiring Services Be Said to Have Service PE?	247
4.	Rationale of Service PE Clause	249
5.	‘Other Personnel’	249
5.1	Other Personnel: Whether It Includes Non-individuals?	250
5.2	Use of the Term ‘Personnel’ in the Domestic Law	250
5.3	Dictionary Meaning of the Term ‘Personnel’	251
5.4	Use of the Term ‘Personnel’ in Tax Treaties	251
5.5	Use of the Term ‘Personnel’ in the Commentary	251
5.6	Conclusion: ‘Personnel’ as an Individual	252
5.7	Comparison with the Proposed Service PE Clause in the OECD Commentary	252
5.8	Other Personnel: Whether It Includes Employees of a Non-individual Contractor?	253
5.9	Should the ‘Personnel’ Not Be Resident of the Host Country?	254
6.	Benefit of Exception Contained in Article 5(7)	256
6.1	Effect of Deeming Fiction	256
6.2	Rendering Services versus Carrying on Business	257
6.3	Can an Independent Agent Render Services on Behalf of an Enterprise?	257
6.4	Domestic Law Meaning of the Term ‘Agent’	258
6.5	Conclusion	259
6.6	Comparison with the Proposed Service PE Clause in the OECD Commentary	260
7.	Should ‘Other Personnel’ Be Dependent on the Enterprise?	260
8.	Overlap between Service PE and Agency PE?	262
9.	Benefit of Exceptions Contained in Article 5(4)	263

Table of Contents

10.	Meaning of ‘Furnishing Services Within’	264
10.1	Difference between ‘Services Rendered <i>within</i> a Country’ and ‘Services Rendered <i>in</i> a Country’	264
10.2	Presence of Person Availing Services	265
10.3	Absence of Person Availing Services in the Country: Direct Utilization / Consumption of Services	266
10.4	Absence of Person Availing Services in the Country – Indirect Utilization of Services	267
10.5	Utilization of Services in Another Country	269
10.6	Provision of Services to the Head office	270
10.7	Furnishing Services versus Rendering Services	272
Appendix A	Relevant Extracts of the UN Commentary on Article 5(3)	273
Appendix B	Use of Term ‘Personnel’ in Tax Treaties	277
CHAPTER 9		
	Service PE – Part II	279
1.	Six Months within Any Twelve Months Period	279
1.1	Month as a Calendar Month	279
1.2	Month as a Period of 30 Days	280
1.3	‘Month’ as per the Domestic Law	280
1.4	Should the Term ‘Month’ Be Interpreted Differently for 12 Months Calculation?	281
1.5	Should the Services Be Rendered for a Continuous Period of Six Months?	282
1.6	Man Days versus Solar Days	282
1.7	Treatment of Temporary Gaps	283
1.8	Service Period Falling in Two Financial Years	284
1.9	Comparison with the Suggested Service PE Clause in the OECD Commentary	284
2.	Same or Connected Project	285
3.	Service PE and Requirements of Article 5(1)	285
4.	Service PE Article as a ‘Special Provision’	287
5.	Provision of Services versus Lending / Deputation of Employees	288
6.	One Day PE	289
7.	Service PE versus ‘Fees for Technical Services’	289
7.1	Exclusion in Service PE Clause	289
7.1.1	Is It Appropriate to Switch between Articles 5 / 7 and 13?	292
7.1.2	Specific Exclusion from the Article Dealing with Technical Fees	292

Table of Contents

7.2	Implications of Non-exclusion	295
7.3	Interplay between Service PE and Article 13(5)	296
7.4	Restricted Article for 'Technical Fees'	299
8.	Service PE in Terms of the Provisions of the Domestic Law	300
9.	Rendition of Services to Associated Enterprises	300
10.	Implications of Fulfilment of Service PE Clause	302
11.	Proof of Service PE Creation	302
12.	Variations of Service PE Clause	302
12.1	Tax Treaties Signed by India	303
12.1.1	Placement of Service PE Clause in Article 5	303
12.1.2	Inclusion versus Deeming Fiction	303
12.1.3	Number of Months / Days	303
12.1.4	Reduced Period for Services Rendered to an Associate Enterprise	304
12.1.5	Nature of Services – Inclusion	305
12.1.6	Nature of Services – Exclusion	305
12.1.7	Furnishing Services 'within a Contracting State'	306
12.1.8	Same or a Connected Project	306
12.2	Tax Treaties Signed by UK	306
12.2.1	Placement of Service PE Clause in Article 5	306
12.2.2	Inclusion versus Deeming Fiction	307
12.2.3	Number of Months / Days	307
12.2.4	Reduced Period for Services Rendered to an Associate Enterprise	308
12.2.5	Nature of Services – Inclusion	308
12.2.6	Nature of Services – Exclusion	309
12.2.7	Same or a Connected Project	309
12.2.8	Period or Periods Aggregating	309
12.2.9	Employees or Other Personnel	309
12.3	Tax Treaties Signed by USA	310
12.3.1	Exemption for Activities for a Period Lesser than 30 Days in a Year	310
12.3.2	One Day PE	310
12.4	DTAAs Signed by Netherlands	310
12.5	Tax Treaties Signed by France	310
12.6	Tax Treaties Signed by China	311
12.6.1	Placement of Service PE Clause in Article 5	311
12.6.2	Inclusion versus Deeming Fiction	311
12.6.3	Number of Months / Days	311
12.6.4	Reduced Period for Services Rendered to an Associate Enterprise	311
12.6.5	Nature of Services – Inclusion	311
12.6.6	Nature of Services – Exclusion	312
12.6.7	Furnishing Services 'within a Contracting State'	312

Table of Contents

12.6.8	Same or a Connected Project	312
12.6.9	Engaged Personnel	312
12.6.10	Miscellaneous	313
Appendix A	Decisions on Meaning of the Term ‘Month’	314
Appendix B	Decisions on Applicability of Requirements of Article 5(1) to Service PE	317
Appendix C	Decisions on Rendering Services versus Lending Employees	320
CHAPTER 10		
OECD Service PE Provision		325
1.	OECD Approach on Taxation of Services	325
2.	New OECD Approach on Taxation of Services	325
3.	Difficulties in Taxation of Services without Permanent Establishment, i.e. Fixed Place	326
4.	Basic Purpose / Intention of the Service PE Provision	326
5.	Broad Principles for Service PE Provision	326
6.	Suggested Service PE Clause	327
7.	Placement of Service PE Clause	327
7.1	Placement between Paragraph 3 and Paragraph 4	327
7.2	Placement between Paragraph 4 and Paragraph 5	328
7.3	Placement between Paragraph 5 and Paragraph 6	328
7.4	Placement between Paragraph 6 and Paragraph 7	328
7.5	Placement under the UN Model	328
8.	Implications of the OECD Commentary on Current and Future Tax Treaties	328
8.1	Tax Treaties Based on UN Model	328
8.2	Tax Treaties Based on OECD Model without Service PE Provision	329
9.	Interplay between the Proposed Service PE Provision and Paragraph 1 and Paragraph 2 of Article 5	329
10.	Interplay between the Proposed Service PE Provision and Paragraph 3 of Article 5	330
11.	Should Not the Special Provision Override General Provision?	330
12.	Type of Activity, Place of Performance and Person Availing Benefit	331
13.	Person Rendering Services	332
14.	One Man Enterprise: Clause (A) of Service PE Provision	332
14.1	Presence in Other Contracting State	332
14.2	Should 183 Days Be Continuous?	333
14.3	How Is Duration of 183 Days to Be Calculated?	333
14.4	Any 12 Months Period	334

Table of Contents

14.5	Gross Revenue Related Requirements	334
14.6	Rationale of the Provision	334
14.7	Income from Active Business Activities versus Passive Activities	334
14.8	Revenue for the Relevant Period as against Revenue of the Entire Year: Practical Difficulty	335
14.9	Gross Revenue Presumption in the Case of Self-Employed?	336
15.	Clause (B) of the Service PE Provision	336
15.1	Rendition of Services through One or More Individuals	337
15.2	Same or Connected Projects	337
15.3	How Is Period of 183 Days Calculated?	337
15.4	Abuse of 183 Days Threshold	338
16.	Exclusion for Auxiliary and Ancillary Services	338
17.	Deeming Fiction	340
18.	Services Provided through Employees of Other Enterprise	341
18.1	Rationale of the Provision	341
18.2	Contractual Obligations	342
18.3	Are Both the Entities Treated as Rendering Services?	342
18.4	Can the Employees of on Enterprise Be Dependent on Another Enterprise?	342
19.	Is It Necessary to Examine Applicability of Both Clause (A) and Clause (B)?	343
20.	Comparison and Interplay between Clause (A) and Clause (B)	343
21.	Interplay between Agency PE and Proposed Service PE Clause	344
22.	Interplay between the Proposed Service PE Provision and Paragraph 6 of Article 5	344
23.	Comparison with UN Model Provision	344
24.	Improvement over UN Model	345
CHAPTER 11		
	Paragraph 2 of Article 3	347
1.	Basic Provision	347
1.1	Meaning of ‘Therein’	347
1.2	Scope of ‘Law of the Contracting State’	348
2.	Rationale of the Provision	348
3.	Meaning of ‘Law’	349
4.	What Is Law Concerning Taxes in India?	350
4.1	Meanings Given under Rules, Circulars, Notifications, Instructions	351
4.2	Specific Powers to Define the Terms	351
4.3	Definitions Adopted from Other Laws	351
4.4	Definitions under the General Law	351
4.5	General Meaning Given to Certain Words on the Basis of Other Statutes	352

Table of Contents

4.6	Implications of Court Rulings	353
4.7	Provisions of the Tax Treaties	353
4.8	Conclusion	353
5.	Implications of Changes in the Domestic Law	354
5.1	Static Approach	354
5.2	Ambulatory Approach	354
6.	Amendment to Model Convention and OECD Commentary: Build in Ambulatory Approach	355
7.	Paragraph 2 of Article 3 under the Model Conventions	355
8.	Variations of Paragraph 2 of Article 3	355
8.1	Term Defined 'Herein'	355
8.2	Term 'Not Otherwise Defined'	356
8.3	Reference to Competent Authority	356
9.	Implications of Inadequate Definition in Article 3	357
Appendix A	OECD Commentary 2010 on Paragraph 2 of Article 3	359
Appendix B	Para 2 of Article 3 in Various Models	360
CHAPTER 12		
	United Nation's Work on Taxation Services	361
1.	Provisions Relevant for Taxation of Services under the UN Model	361
2.	United Nation's Work on Taxation Services	362
Appendix A	Recommendations as per E/C.18/2010/CRP.7 Dated 10 October 2010	363
Appendix B	Note on the Taxation of Fees for Technical and Other Services under the United Nations Model Convention (27 May 2012)	366
Appendix C	Note on Taxation of Services under the United Nations Model Convention	376
Appendix D	Follow-Up Note on the Taxation of Fees for Technical and Other Services under the United Nations (Draft 28 August 2012)	394
CHAPTER 13		
	Taxation under the Indian Domestic Law	407
1.	Taxation under the Indian Domestic Law	407
2.	Main Charging Provisions	407
2.1	Accruing	408
2.2	Arising	408
2.3	Reluctance of the Judiciary	409

Table of Contents

2.4	Reliance on Deeming Provisions	409
2.5	Relevance for Tax Treaties	409
3.	Provisions for Certain Specific Types of Services: Presumptive Basis	409
4.	Deeming Provisions: Specific Provisions for 'Fees for Technical Services'	410
4.1	Scope of Section 9(1)(vii)	410
4.2	Source of Income	411
4.2.1	What Is a Source of Income?	412
4.2.2	Different Sources for the Same Income	413
4.3	Place of Rendition of Services	414
4.3.1	Extra Territorial Provisions: Position in India	414
4.3.2	Decisions on Extra Territorial Provisions	415
4.4	Place of Utilization of Services	419
4.4.1	Manners of Rendition of Services	420
4.4.2	Place Where the Services Are Immediately Implemented / Rendered as a Place of Utilization of Services (Immediate Location)	420
4.4.3	Ultimate Beneficiary Location as a Place of Utilization of Services (Ultimate Location)	421
4.4.4	Analysis: Determination of Place of Utilization Services	422
4.4.5	Should Services Necessarily Be Utilized in a Particular Country?	422
4.5	Should Services Necessarily Be Utilized in Respect of Core Functions of the Business?	423
4.6	When Business Can Be Said To Be Carried on outside India?	424
4.6.1	Judicial Precedents	425
4.7	Implication of Time Gap between Rendition of Services and Its Utilization	428
4.7.1	Services Rendered Prior to Commencement of Business	428
4.7.2	Used versus Utilized	429
4.8	Absence of the Words 'Such Person'	431
4.8.1	Intention as Expressed in CBDT Circular	432
4.8.2	Intention as Expressed in the Memorandum	433
4.8.3	Judicial Precedent	433
5.	Definition of 'Fees for Technical Services'	435
6.	Taxation on FTS: Gross Basis or Net Basis	436
6.1	Net Basis of Taxation	436
6.2	Gross Basis of Taxation	437
7.	General	437

Table of Contents

Appendix A	Relevant Provisions of the Indian Domestic Law	438
Appendix B	Issues Related to Definition of 'Permanent Establishment'	440

