AUSTRALIA AND ISRAEL SIGN DOUBLE TAXATION AGREEMENT

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Australia Tax Alert

By: Betsy-Ann Howe, Russell Lyons, Adam Levine, Stephen Rostankovski

Australia and Israel recently signed a double tax agreement providing further opportunities for bilateral trade and investment between the two countries. The DTA is the Convention between the Government of Australia and the Government of the State of Israel for the Elimination of Double Taxation with Respect to Taxes on Income and the Prevention of Tax Evasion and Avoidance and its associated Protocol. In 2017-18, the total merchandise trade between Australia and Israel was worth more than AUD1 billion, and Israel's investment in Australia in 2017 was AUD301 million.

MAIN FEATURES OF THE DTA

The main features of the DTA include:

- Reduced withholding tax rates for dividends and interest (0%, 5% and 15% depending on the circumstances) thereby creating a more favourable bilateral investment environment and making it cheaper for Israeli and Australian businesses to access foreign capital and technology.
- Reduced withholding tax rates for royalties, which may be taxed in the source country (Australia or Israel) up to a limit of 5% of the gross royalty. This will be beneficial given Israel's global presence in the technology sector, and can cover amounts such as those paid in relation to licence fees for software, patents and other intellectual property.
- Rules on how double taxation will be relieved by Australia and Israel, thereby removing impediments to foreign investment between the two countries.
- Business profits will be attributed to permanent establishments on the basis of the 'relevant business activity' approach. The definition of 'permanent establishment' includes important integrity provisions, which covers a range of circumstances in which both countries can tax business profits.

This will provide greater certainty to taxpayers in both countries.

The taxes covered by the treaty will include income tax, fringe benefits tax and resource rent taxes. Detailed rules will also govern the allocation of taxing rights between Australia and Israel over income, profits or gains from the alienation of different categories of property.

The DTA also includes OECD/G20 base erosion and profit shifting (BEPS) recommendations to tackling international tax avoidance practices, and will provide a legal basis for the exchange of taxpayer information between the Israeli and Australian tax authorities in respect of taxes covered by the DTA..

The new DTA will enter into force after both countries have completed their domestic requirements and instruments of ratification have been exchanged.

A copy of the text of the DTA is available here.

OUR SERVICES

K&L Gates regularly advises Israeli clients on a range of cross-border issues, structuring and implementation. If you have an existing business or investment into Australia and would like to know how this DTA affects your business/investment, or require advice in relation to structuring an investment into Australia, contact Betsy-Ann Howe, Adam Levine and Russell Lyons using the links below.

KEY CONTACTS

BETSY-ANN HOWE
PARTNER

SYDNEY
+61.2.9513.2365
BETSY-ANN.HOWE@KLGATES.COM

RUSSELL LYONS
PARTNER

SYDNEY
+61.2.9513.2510
RUSSELL.LYONS@KLGATES.COM

ADAM LEVINE
PARTNER

PERTH
+61.8.9216.0965
ADAM.LEVINE@KLGATES.COM