Hereafter, we shall explain the cases of local and international double taxation as are provided in the Egyptian laws.

Section I - Local double taxation

Local-double-taxation is, as a rule, intentional. Such local double taxation actually exists in Egypt in taxes imposed on income derived from movable capitals, commercial and industrial profits, on salaries and similar incomes such as remunerations, pensions etc. and income derived from agricultural land and immovable property, and also in taxes on general income.

The State may have recourse to local double taxation, to face general expenses as is the case of guards taxes imposed on buildings, the supplementary tax imposed in favour of local Councils on income derived from agricultural land and both commercial and industrial activities, tax for defence imposed on different sources of income, in addition to the principal taxes imposed on the said revenues. The State may also have recourse to double taxation to discriminate between the different sources of income, by imposing an additional tax on the income derived from movable capitals, while no such tax is imposed on incomes derived from labour alone, such as liberal professions, or derived from labour and capital combined together, such as commercial profits.

Double taxation, in the preceding forms is admissible since it realizes equity and approaches between the different classes of the community.

Section II - International double taxation

According to the principle of territoriality of laws and to rules of equity, the scope of a tax imposed by the law of a certain State should not extend to another State in order not to bring out international double taxation. But such international double taxation actually exists in nearly all legislations concerning taxes.

Originally, international double taxation is not intentional. Each State adopts its financial legislation according to its needs, traditions and customs, regardless of what foreign legislation may prescribe. This may sometimes lead to imposing taxes on capitals or incomes upon which other taxes may be imposed by some other countries. It may generally be stated that international double taxation is a result of the difference in the principles applied in the financial legislations in different States. For example, a certain State may impose a tax on every income produced in its territory, whilst another State imposes a tax on every income received from abroad by residents; there will be double taxation on persons resident in the second State who received income produced in the territory of the first one. This double taxation may exist even if both States apply the same financial systems, as would be the case if each of them imposes a tax on the income of residents and on capitals invested in each of them. In this case the person resident in one of the two given States will be subject to double taxation if he owns a capital invested in the other.

Nevertheless, a State may intentionally bring about international double taxation, in order to realize certain economical purposes as to prevent citizens from investing their capital abroad, by imposing a tax on income derived from the said capital in addition to the tax imposed by the other State where the capital is invested.

The State, in order to limit the flow of foreign capital or foreign-hand labour into its territory, may impose taxes on all items of income of foreigners residing in its territory, inspite of subjecting that income to taxes imposed by their home countries.

The problem of double taxation does not exist in indirect taxes, and is almost inexistent in real taxes which are not imposed on the income of the tax payer as a whole, even if its sources are manifold, but are imposed on every revenue separately and only in the case of estates within the territory of the State such as taxes imposed on agricultural lands and buildings.

Problems of international double taxation are numerous and intricate as for personal taxes which depend upon the ability of the tax payer represented in his revenues, including those received from abroad, whatever their sources may be.

Owing to the increase of charges in the budgets of modern times, most States were inclined, in recent years, to raise the rates of taxes and impose new ones. This, as well as the spread of joint-stock companies, and the facility of transfer of capitals from one State to another, led to the spread of double taxation, both in the local and international fields.

As double taxation restricts free circulation of capital and movement of persons and may lead to evade tax payment, the States were urged to find a solution of this problem.

The Egyptian legislator has tried to avoid international double taxation, or to have it alleviated, whenever possible, without any prejudice to the State's economic interests or its sources of revenue.

Hereafter we shall explain the cases of international double taxation in Egypt and the means prescribed by law for avoiding or alleviating them.

1. As regards the tax on income derived from movable capital

Articles 1 and 2 of Act No. 14 of 1939 impose a tax on all incomes derived from capital invested in negotiable securities, such as shares and debentures, dividends of sleeping partners, remunerations of members of the board of directors, payments and redemptions effected by the Egyptian Companies on the value of the shares and founders' shares and the partners' shares prior to the dissolution of the company or its winding up. This tax is called "tax on negotiable securities".

For the purpose of the application of income-tax, the following will be considered as Egyptian companies:

A. Foreign companies and enterprises whose sole purpose is carrying on business in Egypt alone.[1]

Foreign companies whose activities lie solely or mainly in Egypt, even though their head or administrative offices be out of Egypt, shall be considered as carrying on a business solely in Egypt.[2]

B. Companies carrying on business solely abroad if the person entitled be an Egyptian residing in Egypt or abroad, or a foreigner resident or habitually residing in Egypt, whether they are actual individuals or legal entities.[3]

C. Foreign companies acting both in Egypt and abroad. Such companies are considered as regards the application of this tax, as if they had distributed in Egypt a sum equivalent to the total profits realized therein after deduction and set out of 10% of this total to form a special reserve.[4]

Article 15 of Law No. 14 of 1939 levied income-tax also on interest of debts, cash deposits and guarantees due to Egytians or foreigners domiciled or resident in Egypt even if such interest is payable in respect of capital invested abroad.

Article 16 of the said law levied this tax too on interest accruing from capital invested in Egypt even if the persons entitled thereto are foreigners having no actual or legal domicile in Egypt.

1 Article 3 of Act No. 14 of 1939.

2 Article 11 *bis* of Act No. 14 of 1939.

3 Articles 4 of Act No. 14 of 1939.

4 Article 11 of Act No. 14 of 1939.

It is clear that, under the Egyptian law, the tax on negotiable securities, has both the territorial and personal attributes giving rise to international double taxation, if the entity is a foreigner resident in a country, adopting the principle of domicile or political subordination, or if, although residing in Egypt, his revenues were produced in a foreign State adopting the principle of economic subordination or the principle of the source of income.

The Egyptian law has set out a remedy for such double taxation, as follows:—

A. Article 5 of the Law No. 14 of 1939 exempts from the tax movable securities, profits and interests, etc., derived from movable foreign securities which Egyptian insurance and re-insurance companies are compelled, by local laws, to deposit, and maintain in deposit abroad in the form of guarantees, acturial reserves and all other reserves to cover matured claims and current risks.

Such exemption is subject to proof of the existence of deposits and will cease to apply when these deposits are no longer compulsory.

The above provisions also apply to Egyptian insurance companies carrying on business in countries where there is no legislation for a compulsory deposit of securities as guarantee, or acturial or other reserves. In such cases the securities to be exempted from taxation will be determined in accordance with the Egyptian legislation.

B. Article 6 of Law No. 14 of 1939 declares that when an Egyptian limited liability company has received, in return for its participation, in kind or in cash, in the share capital of another Egyptian or foreign limited liability company, nominal shares or founders' shares, the dividends for each financial year paid

out by the former company shall be exempted from the tax on income derived from movable property, in proportion to the profits on nominal shares or other interest bearing securities realized by the company during the above mentioned financial year, provided that such shares shall be registered in the name of the Company and that the tax shall have been paid on the profits which have accrued on the income derived from such movable property.

II. As regards the tax on commercial and industrial profits

Article 30 and the following articles of Act No. 14 of 1939 levy the tax on commercial and industrial profits, on profits derived from commerce, industry, work and labour and on joint-stock companies whatever their object may be, and on profits of persons and companies acting as brokers for the purchase of buildings and those who sell their land in lots, and on profits of stock brokers and agents working on commission, and generally every person, company, agency or office acting as brokers for the purchase and sale of all goods, commodities or valuables whatsoever.

This tax is due on the profits of all business done in Egypt[1] in virtue of the principle of the territoriality of taxation or the principle of economic subordination. Double taxation may occur if the State, wherein the head office of the company lies, adopts the system of political subordination, i.e. personality of the tax. The legislator in order to avoid the duality of this tax prescribed the following:

A. No such tax will be due on the profits made on all business done abroad even if owned by an Egyptian or by a foreigner resident in Egypt.

1 Article 33 of Act No. 14 of 1939.

B. Joint-stock companies are entitled to deduct from the taxable profits, a sum equivalent to the total amounts distributed out of such profits and on which the tax on movable capitals has actually been paid.

Limited partnerships shall benefit from this provision to the extent of the profits allocated to partners with limited responsibility.[1]

C. Without prejudice to the provisions of article 15, para 2, of Act No. 14 of 1939, the income from invested capital forming part of the assets of any undertaking which is liable to income-tax, or exempted from taxation by other laws, shall be deducted from the net total profits taxable, to the extent of their net amount, after deduction of the proportion is calculated at a fixed rate of 10 per cent of the amount of such income.

In a similar manner the income derived from rural or urban buildings, forming part of the assets of such undertaking, after deduction of 10 per cent thereof, may be deducted from the net profit, otherwise subject to taxation, provided it is included in the total income of the undertaking.[2]

III. Rules common to both the tax on movable capital and on the commercial and industrial profits

A. Commercial and industrial establishments in the Free Zones are exempted from taxes on movable capital, on commercial and industrial profits, as regards the net profits of these establishments from sales effected beyond the Egyptian territory. The share of these sales in the common expenditure will be fixed in proportion of the value of sales exported abroad to the value of the total sales effected in Egypt.

1 Article 35 of Act No. 14 of 1939.

2 Article 36 of Act No. 14 of 1939.

To benefit from these exemptions, the establishment should have regular accounts, approved by the Tax Administration, stating the value of sales effected outside Egypt and that of sales inside, and the net profits from such sales. The duration of exemption is fixed by the Minister of Economy.[1]

B. Under Act No. 430 of 1953, joint-stock companies and limited joint-stock companies whose object is to establish and undertake a new enterprise necessary for the support of the national economy and development through industry, mining, motive power, hotels, repair of barren lands, may be exempted from the tax on commercial and industrial profits, and on negotiable securities for seven years from the date of issuing the decree of the joint-stock company, or the fulfilment of proclamation procedures of the limited joint-stock company.[2]

This exemption may apply to the joint-stock companies and the limited joint-stock companies in existence at the date of effectiveness of Act No. 430 of 1953, if through increase of capital by a new subscription in cash they undertake new enterprises having in view the support and development of the national economy in the manner just mentioned. The exemption will be proportionate to the increase added to the total capital paid.

The joint-stock companies and the limited joint-stock companies whose principal activity lies in industry, motive power, hotels, or repair of barren lands may be exempted from half the tax on commercial and industrial profits due on the company's annual undistributed profits, as from the financial

1 Article 12 of Act No. 306 of 1952.

2 Articles 1 & 3 of Act No. 430 of 1953.

year closed after the enforcement of the said law.[1] Exemption from said taxes shall be by decision issued by the Minister of Economy on recommendation of a Special Committee. This exemption does not extend to the general income-tax prescribed by Act No. 99 of 1949 which will be dealt with later.[2]

C. Are exempted from the tax imposed on commercial and industrial profits, the profits of cover and balance operations effected in the contract Exchange on behalf of the foreign establishment acting abroad[3] in order to avoid international double taxation on said profits so that the market of contracts in Alexandria will not be deprived of effecting covers for foreign buyers, a matter which realizes expansion and stability of transactions.

D. The government loan stocks and its interests are exempted from all direct and indirect taxes, present or future, except taxes on successions.[4] However, some of these stocks have been exempted from the tax on successions.[5]

E. The United Arab Air Company has been exempted from the tax on commercial and industrial profits for seven years, from the *1st* of January, 1961.[6]

F. Under Act No. 169 of 1952, amended by Act No. 20 of 1959, the President of the Republic may grant foreign air enterprises, whose aeroplanes work in Egypt and abroad, exemptions from tax on movable

1 Article No. 5 of Act No. 430 of 1953.

2 Articles 6 & 7 of Act No. 430 of 1953.

3 Act. No. 1 of Act No. 470 of 1955.

4 Act No. 282 of 1960.

5 Act No. 99 of 1943 & Act No. 242 of 1955 & Act No. 243 of 1955.

6 Act No. 215 of 1960 & Act No. 83 of 1960 amended by Act No. 241 of 1960.

securities and from tax on commercial and industrial profits if the States to which they belong reciprocally treat Egyptian air enterprises.

In application of the said Act Egypt concluded agreements, on reciprocal exemption from taxes, imposed on Air Transport Companies, with Switzerland, Belgium, the U.S.A., Sweden, the Kingdom of Saudi Arabia, Lebanon, the Sudan and Abyssinia.

IV. As regards the tax on labour earnings

Article 61 of Act No. 14 of 1939 imposes a tax on the following labour earnings :

1. All wages and similar income, salaries, indemnities, emoluments, pensions, and annuities paid by the State Municipal and Provincial Councils, to any person residing in Egypt or abroad save in cases excepted by agreements.

2. All wages and similar income, salaries, indemnities, emoluments, pensions and annuities for life paid by any banks, companies or private individuals to any person residing in Egypt, as well as to any person residing out of Egypt in respect of services performed in Egypt.

International double taxation will rise from the application of this tax, if the income subject to it is also subject to other taxes in the place where the foreigner resides or in the country of which he is a subject.

The Egyptian legislator treated some forms of double taxation as regards the tax on labour earnings, salaries, remunerations and pensions, in the following manner :

1. Article 1 of Act No. 153 of 1957, modified by Act No. 99 of 1958, provides that "in addition to the regular tax, a supplementary annual tax is imposed on all sums

paid to a member of the Board of Directors of a joint-stock company, in the form of salaries, gratifications, attendance fees or other sums."

This provision resulted in double taxation which was intended by the Egyptian legislator in order to increase the resources of the State. Nevertheless, the Egyptian legislator has recently avoided such double taxation by the annulment of this supplementary tax.[1]

2. The Egyptian legislator avoided the duplication caused by applying the tax on the salaries of officials while in office, and on the pensions which will be paid to them after leaving service. The said legislator stipulated in Article 62 of Act No. 14 of 1939 that it shall be exempted from the sums on which the tax on salaries and the like is imposed, as regards officials and pensionable employees of the State, the amount of pension reserves, and as regards all other officials and public servants of private employees, the exemption will be 7% of the amount of salaries or wages.

3. Act No. 58 of 1940 exempted from taxation pensions of foreign officials of the Government who actually left service and lived out of Egypt or those who will live abroad after leaving service.

4. Under Act No. 25 of 1950, gratifications and return expenses granted to foreign magistrates in the Mixed Courts are exempted from tax on labour earnings and from the general income-tax imposed under Act No. 99 of 1949.

V. As regards the tax on liberal professions

According to Article 72 of Act No. 14 of 1939, an annual tax is imposed on the profits of liberal professions and other

1 Act No. 201 of 1960.

non-commercial professions exercised by the tax payer independently and having labour as its main factor. This tax is imposed, together with the other taxes due in accordance with the provisions of the law, on the earnings from wages and salaries or commercial and industrial profits. The said law has, however, exempted from this tax :

1. All associations, not seeking for profit, within the scope of their social, scientific and sportive activities, and also scholastic institutions.

2. Any agricultural enterprise which is not constituted as a limited liability company.

The tax on liberal professions is territorial. It is applicable only on income realized in Egypt and does not extend to income produced abroad even if it concerned an Egyptian or a foreigner resident in Egypt. There can never be international double taxation in such taxes unless the nationality law of one who performs the profession, or of the owner of the cultivated lands or built property, adopts the principle of political subordination, that is, personality of the tax as is the case in the new law of income in force in the United States of America.

VI. The general tax on income

Under Act No. 99 of 1949, a general income-tax shall be imposed on the total net income of all Egyptian natural persons wherever their domicile may be, and on foreigners domiciled in Egypt, even if their income results from sources existing abroad; foreigners not domiciled in Egypt will be taxed only in proportion to the part of their income produced in Egypt.[1] The foreigner shall be considered domiciled in Egypt if his principal place of residence or his main interest be in Egypt.[2]

1 Article 1 of Act No. 99 of 1949.
2 Article 2 of Act No. 99 of 1949.

The general income-tax is imposed in addition to the various specific taxes imposed on agricultural lands, built property, income derived from movable capital, commercial and industrial profits and on labour earnings. The tax, however, is not applied to juristic persons; consequently companies and establishments, whether foreign or national, are not subject to it.

Since domiciled foreigners are subject to the general income-tax even if their income results from sources existing abroad, and since foreigners non-domiciled in Egypt are subject to it if their income is produced in Egypt, there will be double taxation if the said income is once more subject to taxation in their country of residence or in the country to which they politically belong.

The Egyptian legislator, in order to avoid this double taxation, applied the following exemptions :

1. Ambassadors and Plenipotentiaries and other diplomatic representatives; foreign Consular representatives, on the basis of reciprocity and within the limits therein specified.
2. Foreign technicians and experts domiciled in Egypt, if their employment is requested by the Government or by a public or private institution or company or an individual, as regards their income resulting from sources out of Egypt.[1]

VII. As regards the estate tax

Article 2 of Act No. 142 of 1942 imposes an estate tax on :

(a) All movable and immovable property inherited if the deceased is an Egyptian, whether resident in Egypt or abroad.

1 Article 4 of Act No. 99 1949.

(b) All real property existing in Egypt if the deceased is a foreigner wherever his domicile might be.

(c) All movable property existing in Egypt and left by a deceased foreigner legally domiciled in Egypt or having business or capital invested in Egypt.

There may be double taxation if an Egyptian, when dead, leaves a capital in a foreign country. Such capital will be subject to taxation according to the principle of political subordination and is, at the same time, subject to the tax thereupon imposed in the foreign country if that country's law adopts the principle of economic subordination or the principle of the place of existence of the capital.

Double taxation also exists if the deceased is a foreigner non-resident or non-domiciled in Egypt and leaves a capital invested in Egypt.

In addition to the above mentioned tax, Act No. 159 of 1952 imposes another tax on the net amount of every estate exceeding five thousand pounds.

Movable and immovable property existing out of Egypt, which are left by a deceased foreigner, are not subject to estate or inheritance taxes. The said taxes are not imposed on his movable property existing in Egypt except in the cases referred to in the above-mentioned para. C. of Article 2.

Section III - *International agreements concluded between Egypt and other countries to avoid Double Taxation.*

According to Act No. 542 of 1955 the President of the Republic has the authority to enter into bilateral or collective agreements to the effect of avoiding double taxation, on the basis of reciprocity.

In the explanatory note to the said Act, double taxation in its diverse forms is looked at as a financial burden on the tax payer, as it may consume the major part of his capital and income and as such it hinders capital from moving from one country to another according to economic necessities and consequently prevents their productive investment by the best possible means.

This explanatory note adds that the purpose of enacting this Act was to attract foreign capital for investment in the various enterprises of vital effect to the support and development of the Egyptian economy, with a view to increasing the national income besides the strengthening of the economic relations between Egypt and foreign countries. It also says that the Government whilst entering into such ageements shall take into consideration the basic principles approved by the League of Nations and thereafter by the United Nations Organisation. These principles are summarised as follows :

A. **As regards incomes derived from capital :**

Incomes derived from stable sources are subject to the tax of the country where said sources exist. Equally, the revenue of shares and dividends is subject to the tax of the country where the financial domicile is, that is, the country where the capital is invested.

B. **As regards commercial and industrial profits :**

The profits of an establishment appertaining to a certain State are subject to taxes imposed by another State wherein the said establishment achieves commerce or other activities through an independent and permanent establishment.

In this case there will be partial or total exemption from the taxes in the State to which the former establishment belongs.

C. **As regards emoluments, salaries and the like :**

Emoluments and salaries paid by the Government or any Governmental Department for Diplomatic, Consular or Government functions are subject only to the tax prescribed in the State which pays the revenue, so long as such functions are considered as ordinary Government functions according to international traditions and do not relate to any commercial business or other activities for the said Government or Governmental Department.

As for wages, salaries, emoluments and remunerations, for work and personal services, paid by companies or persons, they will be subject only to the tax of the country, where the service has been rendered.

D. **As regards incomes of liberal professions :**

Such incomes are subject to taxes imposed by the State wherein the tax payer possesses an independent establishment in which he performs his activities.

E. **As regards the general income-tax :**

The State wherein the tax payer is domicile, or the State of financial domicile has the right to impose the general income-tax on the tax payer's total income derived from that State or from other States ; meanwhile, agreements may be made for having this tax reduced according to certain conditions included in the said agreements.

F. **As regards the tax on Estates :**

The property is subject to the tax imposed by the country where it exists and shall be exempted from taxes imposed by the other country.

According to Act No. 542 of 1955, the following two agreements have been concluded :

1. An agreement, concluded between the Egyptian Region of the U.A.R. and the Government of Sweden, to avoid double taxation and prevent evasion from taxes imposed on income and capital. This agreement was approved by the President of the Republic on 27-7-1951.

2. An agreement concluded between the Egyptian Region of the United Arab Republic and the German Federal Republic, to avoid double taxation and prevent evasion from taxes on income. This agreement was approved by the President of the Republic on 30-10-1958.

IV. EXTRACTS FROM THE REPORT OF THE SUB-COMMITTEE ON "INTERNATIONAL SALES AND PURCHASES" AND RELIEF AGAINST DOUBLE TAXATION APPOINTED AT THE FOURTH SESSION

The Third Sub-Committee met on February 16 and 20, 1961, and fully discussed the matters referred to it by the Committee on February 15, 1961. The task of the Sub-Committee was to examine in what manner the Committee should treat the problems concerning (1) Rules of conflict of laws relating to International Sales and Purchases and (2) Avoidance of Double Taxation and Fiscal Evasion, and to report its conclusion to the Committee.

The Third Sub-Committee has now the honour to submit to the Committee the following unanimously adopted Draft Resolution:

* * * * * * * * *

Draft Resolution No. 2

And, considering that the avoidance of Double Taxation and Fiscal Evasion is very important for the development of the international investment and expansion of the world economy in general and at the same time recognizing that the avoidance of Double Taxation and Fiscal Evasion is a matter of so highly technical character that their study necessitates the assistance of technical experts, and noting that most Governments are settling the matter by bilateral agreements, the Committee decides that:

(I) The Secretariat be requested to ask the Governments of the member States which have not done it so far to forward to the Secretariat the texts, if any, of Agreements for avoidance of Double Taxation and Fiscal Evasion concluded by them and the texts of the provisions of its municipal laws concerning the avoidance of Double Taxation and Fiscal Evasion. These texts will be distributed to the Governments of the member States.

(II) The Secretariat be requested to draw up, on the basis of the conclusion of its Study (p. 390-394 of the Brief of Document), the Topics of Discussion (questionnaires with short comments) and send it to the Governments of the member States.

(III) The Committee will continue with the help of such materials the examination of the present problem by exchanging their views on the afore-mentioned "Topics of Discussion" prepared by the Secretariat at the next Session.

V. TOPICS OF DISCUSSION (WITH SHORT COMMENTS)

Prepared and Circulated by the Secretariat of the Committee

(a) Definitions of the terms used in current tax laws

Nationality, Residence & Domicile (as used in the case of (i) individuals and (ii) legal entities and similar associations).

The cases of double taxation arise when countries apply different criteria as regards the "personal tax liability", i.e. the tax liability based on the personal status of the tax payer such as nationality, domicile, residence, or define differently the circumstances that give rise to such liability. Thus a person is exposed to double taxation if (i) he is a national of one country having his domicile or residence in another ; (ii) he has his domicile and has residence in two different countries ; and (iii) he is simultaneously regarded by two tax jurisdictions as domiciled or resident in their respective territories.[1]

As regards 'legal persons', it may be pointed out that it may be rare in practice for a company, etc. to be subject to tax as a 'resident' in more than one country since such an entity is generally regarded as resident in the State under the laws of which it is constituted or the State in which it has its "real centre of management." In most cases, corporations have their 'real centre of management' in the country under the laws of which they are incorporated. But it is of course possible, if, for instance, one country attaches importance to the 'registration' of a company for the purpose of taxation and the other country to the place of "effective management."

1 League of Nations Fiscal Committee, *Model Bilateral Convention for the Prevention of International Double Taxation and Fiscal Evasion*, Mexico, D.F., July 1943, p. 38.

It may be of interest to note that the Fiscal Committee of the O.E.C. has, in its Report, recommended to the member countries to adopt a general definition of the term "residence" in their Conventions and has formulated special rules of preference to resolve cases of conflict, which, according to the Committee, cannot be solved by reference to the concept of domicile or residence "adopted in the national laws of the States concerned."[1] According to this general definition "the term resident of a contracting State means any person who, under the law of that State, is liable to taxation therein by reason of his domicile, residence, place of management or any other similar criterion."

In the case of an individual who is subject to tax as a resident in both contracting States, the Committee has proposed to give "preference to the contracting State in which the individual has a permanent home available to him." If he has a permanent home in both contracting States, the preference "shall belong to the State with which his personal and economic relations are closest, this being understood as centre of vital interest." In the cases where the residence cannot be determined by reference to the above facts, the Committee has proposed a "subsidiary criteria, first, habitual abode, and then nationality." "If the individual is national of both contracting States or of none of them, the question shall be solved by mutual agreement between the States concerned."

Similar special rules have also been formulated by the Fiscal Committee in respect of legal persons and of partnerships and associations without legal personality. For example, if "a legal person is a resident of both contracting States, then it shall be deemed to be a resident of the contracting State in which its place of effective management is situated.

1 Elimination of Double Taxation, *Report of the Fiscal Committee of the O.E.E.C.*, 1958, page 56.

(b) Income from real property

It is generally an accepted principle followed in all Double Taxation conventions that income from real property is taxable in the country where the property is situated. "This uniform practice in the conventions is due to the fact that there is always a very close economic connection between the source of income and the State of source."[1] Differences which arise concerning the nature of real property are generally settled in accordance with the legislation of the country where the property is situated.

The tax laws of India, Pakistan, Ceylon, Egyptian Region of the U.A.R. and Iraq also provide that income from real property is taxable at the place where the property is located.

(c) Income from royalties on natural resources such as mines, quarries, oil wells and other natural deposits (unless taxed as income from real property)

In the same way as other income from real property mentioned above, royalties received by a person, as owner or possessor of real property, in consideration of the right to use or exploit natural deposits and resources situated on the surface or in the sub-soil of his property, such as mines, quarries, wells, springs, waterfalls, are taxable in the country where the property is situated.

Royalties derived from Ceylon are taxed in Ceylon whether they arise from natural resources or not, although there is no specific reference in the law to royalties on natural resources. According to the internal tax legislations of India and Pakistan, income from royalties referred to above is taxable in these countries if the property is situated there. Under the Egyptian law, profits derived from a mine or other

1 *The Elimination of Double Taxation, second Report by the Fiscal Committee of the O.E.E.C.*, p. 48.