

16 July 2015

Japan tax alert

Ernst & Young Tax Co.

Japan and Germany agree on new tax treaty

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The governments of Japan and Germany reached an agreement by initialing the draft of a new treaty for the avoidance of double taxation.

The new treaty reduces withholding tax rates on dividends, interest and royalties to encourage mutual investment between Japan and Germany. We expect that in line with the latest treaty policies of Japan and Germany, withholding tax on dividends, interest and royalties meeting certain requirements will be eliminated. Also worth noting is the introduction of the authorized OECD approach (AOA) for the allocation of income to permanent establishments.

From a procedural perspective, the new treaty introduces arbitration procedures to settle disputes regarding the application and interpretation of the treaty and expands cooperation between the Japanese and German tax authorities.

Provided that the signing and approval process on both sides will be on schedule, it should be possible that the treaty will become effective as of 1 January 2017.

Although the official text of the new treaty has not been published yet, the information released indicates that this is an important improvement compared to the current treaty and should encourage investments from Japan into Germany and vice versa. This is also why we believe that the

new treaty will allow for an elimination of withholding tax on qualified dividends, interest and royalties. We will keep you informed as soon as further information will become available.

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Japan Tax SCORE CC20150716

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