EUCOTAX Series on European Taxation

The Compatibility of Anti-Abuse Provisions in Tax Treaties with EC Law

Editors

Peter HJ Essers
Guido JME de Bont
Eric CCM Kemmeren
CONTENTS

Preface ix
About the Authors and Editors x
List of Abbreviations xi

Part I
1. EC Law: The Framework 1
   Sacha Prechal
   1. Introduction 1
   2. EC Treaty freedoms 3
      2.1 The general scheme 3
      2.2 The scheme applied 6
      2.3 The Treaty provisions on the free movement of capital 8
   3. Implications for the anti-treaty shopping clauses 9
   4. The relationship between tax treaties and EC law 11
   5. Incompatible anti-abuse clauses and Community law remedies 14

2. EC Law: Specific Observations 17
   Eric Kemmeren
   1. Introduction 17
   2. Powers to conclude tax treaties 17
   3. Differentiation on the basis of residence in direct taxes and of nationality in tax treaties is permitted 25
   4. A European touchstone in relation to abuse 31
      4.1 General remarks 31
      4.2 European law does not cover the abuse of tax rules 33
   5. Conclusions 37

Part II
3. Austria 41
   Gerald Toifl
   1. Anti-abuse provisions in Austrian domestic tax law 41
   2. Anti-abuse provisions in Austrian tax treaties 44
   3. Limitation on benefits provision under Article 16 of the DTC Austria-United States 49
   4. General examination pattern for non-discrimination cases under Community law 52
The Compatibility of Anti-Abuse Provisions

4.1 Scope of the fundamental freedoms with regard to persons 52
4.2 Comparability of the situation in Community law 58
4.3 Justifications for a difference in treatment in Community law (rule of reason) 63

5. Application of the fundamental freedoms to Austrian domestic anti-abuse provisions 71
6. Application of the fundamental freedoms on anti-abuse provisions in Austrian tax treaties 73
7. Application of the fundamental freedoms on Article 16 of the DTC Austria-United States 78

4. France
Patrick Dibout and René Offermanns
1. Introduction 85
2. The relation between anti-abuse provisions and EC law 91
3. Anti-abuse clauses in relation to tax treaties 94

5. Germany
Jörg Manfred Mössner
1. Introduction 97
2. General clauses against tax abuse within German double taxation conventions 98
3. Subject-to-tax provisions 99
4. Specific anti-treaty-shopping rules 100
5. Residence provisions 107
6. Beneficial ownership 107

6. Italy
Franco Gallo and Gaetano Casertano
1. Introduction 111
2. The role of tax matters in the EC Treaty 112
3. The role of Article 3b of the Maastricht Treaty 112
4. The role of Article 3b and the double tax treaties 114
5. The Italian principles of internal tax law with reference to the double tax treaties and EC law 116
6. The scope of the double tax treaty and EC law 117
7. The Italian “rule of preference” under Article 128 of the Italian company tax law and the Italian double tax treaties 119
8. The relationship between the beneficial owner rule in the double tax treaties and internal Italian tax law 120
7. The Netherlands

Eric Kemmeren

1. Introduction 125
2. Residence 126
   2.1 Infringement of the EC Treaty? 127
      2.1.1 A strictly internal Dutch matter? 127
      2.1.2 Discrimination/hindrance? 128
   2.2 Infringement of the Parent-Subsidiary and Merger Directives? 130
3. Substantial interest condition 130
4. Beneficial owner 133
5. Limitation on benefits 134
   5.1 The Luxembourg 1929 holding company 134
   5.2 Article 26 of the Netherlands-US tax treaty 136
      5.2.1 Direct stock exchange test 137
      5.2.2 Indirect stock exchange test 138
      5.2.3 Shareholders test 141
      5.2.4 Derivative shareholders test 141
      5.2.5 Activity test 142
      5.2.6 Headquarters test 144
      5.2.7 International shipping and air transport test 144
      5.2.8 Discretionary relief 145
      5.2.9 Consequences of violation of EC law 146
6. Conclusions 150


Eric Kemmeren

1. Introduction 153
2. How to read the flow charts 153

9. Spain

Stella Raventos

1. Introduction. The anti-treaty shopping provisions in the traditional Spanish treaties 173
2. The anti-treaty shopping provisions in the most recent treaties 174
   2.1 The “limitation on benefits” provision in the US treaty 174
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2 The limitation of benefits in the treaties with Ireland and Portugal</td>
<td>180</td>
</tr>
<tr>
<td>2.3 The treaty with Luxembourg</td>
<td>183</td>
</tr>
<tr>
<td>3. The “beneficial owner” clause</td>
<td>184</td>
</tr>
<tr>
<td>4. The “thin-capitalization provisions”</td>
<td>184</td>
</tr>
<tr>
<td>4.1 The treaty with Mexico</td>
<td>185</td>
</tr>
<tr>
<td>5. Conclusion</td>
<td>187</td>
</tr>
<tr>
<td>10. United Kingdom</td>
<td>189</td>
</tr>
<tr>
<td>Philip Baker</td>
<td></td>
</tr>
<tr>
<td>1. The United Kingdom’s network of DTCs and the relevance of limitation of benefit provisions</td>
<td>189</td>
</tr>
<tr>
<td>2. A brief history of the UK’s practice with regard to DTCs</td>
<td>190</td>
</tr>
<tr>
<td>3. UK domestic legislation on treaty abuse</td>
<td>191</td>
</tr>
<tr>
<td>4. Domestic judge-made anti-avoidance approaches: a general anti-avoidance approach</td>
<td>192</td>
</tr>
<tr>
<td>5. The compatibility of limitation of benefit provisions with EU law – the UK position</td>
<td>193</td>
</tr>
<tr>
<td>6. Treaty limitation of benefit provisions</td>
<td>194</td>
</tr>
<tr>
<td>6.1 A uniquely British provision: the remittance limitation</td>
<td>195</td>
</tr>
<tr>
<td>6.2 Exclusion of tax-privileged entities</td>
<td>196</td>
</tr>
<tr>
<td>6.3 Current, standard limitation of benefit provisions: beneficial ownership limitations</td>
<td>198</td>
</tr>
<tr>
<td>6.4 Current standard limitation of benefit provisions: special relationship provisions</td>
<td>199</td>
</tr>
<tr>
<td>6.5 A new British invention: the main purpose limitation</td>
<td>200</td>
</tr>
<tr>
<td>6.6 Special limitations of benefit</td>
<td>201</td>
</tr>
<tr>
<td>6.7 Former limitation of benefit provisions</td>
<td>204</td>
</tr>
<tr>
<td>6.7.1 Subject to tax provisions</td>
<td>204</td>
</tr>
<tr>
<td>6.7.2 Arm’s-length provisions</td>
<td>204</td>
</tr>
<tr>
<td>6.7.3 Pre-acquisition dividends</td>
<td>205</td>
</tr>
<tr>
<td>6.7.4 Disposal of debts</td>
<td>205</td>
</tr>
<tr>
<td>7. Some conclusions: the UK’s general approach to limitation of benefit provisions</td>
<td>206</td>
</tr>
<tr>
<td>Epilogue</td>
<td>209</td>
</tr>
<tr>
<td>Appendix: Survey of the Quoted Treaty Provisions</td>
<td>215</td>
</tr>
<tr>
<td>Index</td>
<td>285</td>
</tr>
</tbody>
</table>