

13/02/96

No. 47 of 1995.

*Income Tax (International Agreements) (Amendment) Act 1995.*

Certified on : 2.02.96



**INDEPENDENT STATE OF PAPUA NEW GUINEA.**

No.        of 1995.

*Income Tax (International Agreements) (Amendment) Act 1995.*

**ARRANGEMENT OF SECTIONS.**

1. Interpretation (Amendment of Section 1).
2. New Section 3F.

**"3F. AGREEMENT WITH GERMANY".**

3. New Schedule 7.

INDEPENDENT STATE OF PAPUA NEW GUINEA.

No. of 1995.

AN ACT

entitled

*Income Tax (International Agreements) (Amendment) Act 1995,*

Being an Act to amend the *Income Tax (International Agreements) Act 1987,*

MADE by the National Parliament to come into operation on 30 June 1995.

1. **INTERPRETATION (AMENDMENT OF SECTION 1).**

Section 1(1) of the Principal Act is amended by inserting after the definition of "the China agreement" the following new definition:-

"'the Germany agreement' means the agreement between the Government of the Independent State of Papua New Guinea and the Government of the Federal Republic of Germany for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, being the agreement a copy of which is set out in Schedule 7;"

2. **NEW SECTION 3F.**

The Principal Act is amended by inserting after Section 3E the following new section:-

**'3F. AGREEMENT WITH GERMANY.**

Subject to this Act, on and after the date of entry into force of the Germany agreement, the provisions of the agreement so far as those provisions affect Papua New Guinea tax, have the force of law according to their tenor."

3. **NEW SCHEDULE 7.**

The Principal Act is amended by inserting after Schedule 6 the following new schedule:-

" S C H E D U L E 7

**AGREEMENT  
BETWEEN THE INDEPENDENT STATE OF PAPUA NEW GUINEA  
— AND THE FEDERAL REPUBLIC OF GERMANY  
FOR THE AVOIDANCE OF DOUBLE TAXATION  
WITH RESPECT TO TAXES ON INCOME AND CAPITAL**

The Independent State of Papua New Guinea and the Federal Republic of Germany desiring to promote their mutual economic relations by removing fiscal obstacles have agreed as follows:

**ARTICLE 1**  
**Personal Scope**

This Agreement shall apply to persons who are residents of one or both of the Contracting States.

**ARTICLE 2**  
**Taxes Covered**

- (1) This Agreement shall apply to taxes on income and on capital imposed in the Contracting States, irrespective of the manner in which they are levied.
- (2) These shall be regarded as taxes on income and on capital all taxes imposed on total income, on total capital, or on elements of income or of capital, including taxes on gains from the alienation of movable or immovable property, payroll tax, and taxes on capital appreciation.
- (3) The existing taxes to which this Agreement shall apply are in particular:
  - (a) in the Federal Republic of Germany:  
the Einkommensteuer (income tax);  
the Koerperschaftsteuer (corporate tax);  
the Vermoegensteuer (capital tax); and  
the Gewerbesteuer (trade tax)  
(hereinafter referred to as "German Tax" );
  - (b) in Papua New Guinea:  
  
the salary or wages tax,  
the additional profits tax upon taxable additional profits from mining operations;

the additional profits tax upon taxable additional profits from petroleum operations;

the specific gains tax upon taxable specific gains;

the dividend withholding tax upon taxable dividend income; and

the management fee withholding tax upon taxable management fees,

(hereinafter referred to as "Papua New Guinea tax").

- (4) In this Agreement, the terms, "German tax" and "Papua New Guinea tax" do not include any penalty or interest imposed under the law of either Contracting State relating to the taxes to which this Agreement applies by virtue of this Article.
- (5) The Agreement shall apply also to any identical or substantially similar taxes which are imposed after the date of signature of the Agreement in addition to, or in place of the existing taxes. At the end of each year, the competent authorities of the Contracting States shall - if necessary - notify each other of changes which have been made in their respective taxation laws.

### **ARTICLE 3** **General Definitions**

- (1) For the purposes of this Agreement, unless the context otherwise requires:
  - (a) the terms "a Contracting State" and "the other Contracting State" mean the Federal Republic of Germany or Papua New Guinea, as the context requires;
  - (b) the term "Federal Republic of Germany", when used in a geographical sense for the purposes of the Agreement, means the area in which the tax law of the Federal Republic of Germany is in force, including the area of the sea-bed, its sub-soil and the superjacent water column adjacent to the territorial sea, insofar as the Federal Republic of Germany exercises there, for the purposes of exploring and exploiting the natural resources, sovereign rights and jurisdiction in conformity with International law and its national legislation.
  - (c) the term "Papua New Guinea" means the Independent State of Papua New Guinea and, when used in a geographical sense for the purposes of the Agreement, includes any area adjacent to the territorial limits of Papua New Guinea in respect of which there is for the time being in force.

consistently with international law, a law of Papua New Guinea dealing with the exploitation of any of the natural resources of the continental shelf, its sea-bed and sub-soil.

- (d) the term "person" means an individual and a company.
- (e) the term "company" means any body corporate or any entity which is treated as a company or body corporate for tax purposes
- (f) the term "real property" has the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work or to explore for mineral, oil or gas deposits, sources and other natural resources; any interest or right referred to in this subparagraph shall be regarded as situated where the land, mineral, oil or gas deposits, sources or other natural resources, as the case may be are situated or where the exploration may take place, ships, boats and aircraft shall not be regarded as real property.
- (g) the terms "enterprise of a Contracting State and enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State.
- (h) the term "national" means:
  - (aa) in respect of the Federal Republic of Germany, any German within the meaning of Article 116, paragraph 1, of the Basic Law for the Federal Republic of Germany and any legal person, partnership and association deriving its status as such from the law in force in the Federal Republic of Germany;
  - (bb) in respect of Papua New Guinea, any Papua New Guinea citizen and any legal person, partnership and association deriving its status as such from the law in force in Papua New Guinea.
- (i) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise which has its place of effective management in a Contracting State, except when the ship or aircraft is operated wholly or mainly between places in the other Contracting State.

- (j) the term "competent authority" means in the case of the Federal Republic of Germany, the Federal Ministry of Finance and in the case of Papua New Guinea, the Chief Collector of Taxes or an authorized representative of the Chief Collector of Taxes
- (2) As regards the application of the Agreement by a Contracting State any term not defined therein shall, unless the context otherwise requires, have the meaning which it has under the law of that State concerning the taxes to which the Agreement applies.

**ARTICLE 4**  
**Resident**

- (1) For the purposes of this Agreement, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management or any criterion of a similar nature. But this term does not include any person who is liable to tax in that State in respect only of income from sources in that State or capital situated therein.
- (2) Where by reason of the provisions of paragraph 1, an individual is a resident of both Contracting States, then his status shall be determined as follows:
- (a) he shall be deemed to a resident of the State in which he has a permanent home available to him; if he has a permanent home available to him in both States, he shall be deemed to be a resident of the State with which his personal and economic relations are closer (centre of vital interests);
  - (b) the State in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either State, he shall be deemed to be a resident of the State in which he has an habitual abode;
  - (c) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident of the State of which he is a national.
  - (d) if the status cannot be determined on the basis of the preceding provisions, the competent authorities of the Contracting States shall settle the question by mutual agreement.
- (3) Where by reason of the provisions of paragraph 1. a company is a resident of both Contracting States, then it shall be deemed to be a resident of the State in which its place of effective management is situated.

**ARTICLE 5**  
**Permanent Establishment**

- (1) For the purposes of this Agreement, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on
- (2) The term "permanent establishment" includes especially-
  - (a) a place of management;
  - (b) a branch;
  - (c) an office;
  - (d) a factory;
  - (e) a workshop; and
  - (f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.
- (3) A building site or construction or installation project constitutes a permanent establishment only if it lasts more than six months
- (4) Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include-
  - (a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
  - (b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
  - (c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
  - (d) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information for the enterprise;
  - (e) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;
  - (f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (a) to (e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

- (5) A person acting in one of the Contracting States on behalf of an enterprise of the ~~other Contracting State~~ - other than an agent of an independent status to whom paragraph 6 applies - shall be deemed to be a permanent establishment of that enterprise in the first mentioned State if:
- (a) the person has, and habitually exercises in that State, an authority to conclude contracts on behalf of the enterprise, unless the person's activities are limited to the mere purchase of goods or merchandise for the enterprise; or
  - (b) the person has no such authority, but habitually maintains in that State a stock of goods or merchandise from which the person regularly delivers in that State goods or merchandise on behalf of the enterprise.
- (6) An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.
- (7) The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

**ARTICLE 6**  
**Income from Real Property**

- (1) Income derived by a resident of a Contracting State from real property (including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other State.
- (2) The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of real property
- (3) The provisions of paragraphs 1 and 2 shall also apply to the income from real property of an enterprise and to income from real property used for the performance of independent personal services

**ARTICLE 7**  
**Business Profits**

- (1) The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.
- (2) Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.
- (3) In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including executive and general administrative expenses so incurred, whether in the State in which the permanent establishment is situated or elsewhere.
- (4) Insofar as in a Contracting State and in exceptional cases, the determination of the profits to be attributed to a permanent establishment in accordance with paragraph 2 is impossible or gives rise to unreasonable difficulties, nothing in paragraph 2 shall preclude the determination of the profits to be attributed to a permanent establishment by means of apportioning the total profits of the enterprise to its various parts, the method of apportionment adopted shall, however, be such that the result shall be in accordance with the principles contained in this Article.
- (5) No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.
- (6) For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.
- (7) An insurance enterprise of a Contracting State shall be deemed to have a permanent establishment in the other Contracting State if it collects premiums in that other State or insures risks situated therein through an employee or through a representative who is not an agent of an independent status within the meaning of paragraph 6 of Article 5.

- (8) Where:
- (a) a resident of a Contracting State is beneficially entitled, whether directly or through one or more interposed trust estates, to a share of the business profits of an enterprise carried on in the other Contracting State by the trustee of a trust estate other than a trust estate which is treated as a company for tax purposes, and
  - (b) in relation to that enterprise, that trustee would, in accordance with the principles of Article 5, have a permanent establishment in that other State.

the enterprise carried on by the trustee shall be deemed to be a business carried on in that other State by that resident through a permanent establishment situated therein and that share of business profits shall be attributed to that permanent establishment.

- (9) Where profits include items of income which are dealt with separately in other Articles of this Agreement, the provisions of those Articles shall not be affected by the provisions of this Article.

#### **ARTICLE 8** **Shipping and Air Transport**

- (1) Profits from the operation of ships or aircraft in International traffic derived by a resident of a Contracting State shall be taxable only in that State.
- (2) Profits derived by an enterprise of a Contracting State from the use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) shall be taxable only in that State except if the profits are derived from a contract under which the container is used wholly or mainly in the other Contracting State. If the container is so used, the profits from that contract may be taxed in that State.
- (3) The provisions of paragraph 1 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

#### **ARTICLE 9** **Associated Enterprises**

Where:

- (a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State; or

- (b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State.

and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions have not so accrued, may be included in the profits of that enterprise and taxed accordingly

#### ARTICLE 10 Dividends

- (1) Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but the tax so charged shall not exceed 15 per cent of the gross amount of the dividends if the recipient is the beneficial owner of the dividends

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

- (2) The term "dividends" as used in this Article means-
- (a) dividends on shares including income from shares, "jouissance" shares or "jouissance" rights, mining shares, founders' shares or other rights, not being debt-claims, participating in profits, and
  - (b) other income which is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident, and, for the purpose of taxation in the Federal Republic of Germany, income derived by a sleeping partner ("stillen Gesellschafter") from his participation as such and distributions on certificates of an investment fund or investment trust or for the purpose of taxation in Papua New Guinea specific gains derived by shareholders in a company.
- (3) The provisions of paragraph 1 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected with such

permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14, as the case may be, shall apply

- (4) Where a company which is a resident of a Contracting State derives profits or income from the other Contracting State, that other State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other State, nor subject the company's undistributed profits to a tax on the company's undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State

## ARTICLE 11

### Interest

- (1) Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in the Contracting State in which it arises and according to the laws of that State, but the tax so charged shall not exceed 10 per cent of the gross amount of the interest if the recipient is the beneficial owner of the interest.
- (2) Notwithstanding the provisions of paragraph 1:
  - (a) interest arising in the Federal Republic of Germany and paid to the Government of the Independent State of Papua New Guinea shall be exempt from German tax.
  - (b) interest arising in Papua New Guinea and paid in consideration of a loan guaranteed by Hermes Deckung or paid to the Government of the Federal Republic of Germany, the Deutsche Bundesbank, the Kreditanstalt fuer Wiederaufbau or the Deutsche Finanzierungsgesellschaft fuer Beleifigungen in Entwicklungslaendern shall be exempt from Papua New Guinea tax.
- (3) The term "interest" as used in this Article means income from indebtedness of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as interest for the purpose of this Article.
- (4) The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises, through a permanent establishment situated therein, or performs in that other State independent personal services from

a fixed base situated therein, and the indebtedness in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14, as the case may be, shall apply.

- (5) Interest shall be deemed to arise in a Contracting State when the payer is that State itself, a land, a political subdivision, a local authority or a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.
- (6) Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the indebtedness for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Agreement.

## **ARTICLE 12**

### **Royalties**

- (1) Royalties and fees for technical services arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in the Contracting State in which they arise and according to the laws of that State, but the tax so charged shall not exceed 10 per cent of the gross amount of the royalties or the fees for technical services if the recipient is the beneficial owner of the royalties or the fees for technical services

At the option of the recipient, where the recipient is not an associated person, tax may be calculated as if those royalties or fees for technical services were taxable in accordance with Article 7 of this Agreement.

- (2) The term "royalties" as used in this Article means payments or credits of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, any patent, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience including payments or

credits for the total or partial forbearance in respect of the use of any property or right referred to in this paragraph.

- (3) The term "fees for technical services" as used in this Article means payments of any kind to any person other than payments to an employee of the person making the payments, in consideration for any services of a managerial, technical or consultancy nature rendered in the Contracting State of which the payer is a resident.
- (4) The provisions of paragraph 1 shall not apply if the beneficial owner of the royalties or fees for technical services, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties or fees for technical services arise, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated, and the right or property in respect of which the royalties or fees for technical services are paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14, as the case may be, shall apply.
- (5) Royalties and fees for technical services shall be deemed to arise in a Contracting State when the payer is that State itself, a land, a political subdivision, a local authority or a resident of that State. Where, however, the person paying the royalties or fees for technical services, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or fixed base in connection with which the liability to pay the royalties or fees for technical services was incurred, and such royalties or fees for technical services are borne by such permanent establishment or fixed base, then such royalties or fees for technical services shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.
- (6) Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties or fees for technical services paid exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Agreement.

### ARTICLE 13 Capital Gains

- (1) Gains derived by a resident of a Contracting State from the alienation or real property situated in the other Contracting State may be taxed in that other State.

- (2) Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise) or of such fixed base may be taxed in that other State.
- (3) Gains derived by a resident of a Contracting State from the alienation of aircraft operated in international traffic or movable property pertaining to the operation of such aircraft shall be taxable only in that State.
- (4) Gains derived by a resident of a Contracting State from the alienation of shares in a company, the assets of which consist wholly or principally of real property situated in the other Contracting State, may be taxed in that other State.
- (5) Gains from the alienation of any property other than that referred to in paragraphs 1 to 4 shall be taxable only in the Contracting State of which the alienator is a resident.

#### **ARTICLE 14**

##### **Independent Personal Services**

- (1) Income derived by a resident of a Contracting State in respect of professional services or other activities of an independent character shall be taxable only in that State unless he has a fixed base regularly available to him in the other Contracting State for the purposes of performing his activities or he is present in that other State for a period or periods exceeding in the aggregate 183 days in the fiscal year concerned. If he has such a fixed base or remains in that other State for the aforesaid period or periods, the income may be taxed in that other State but only so much of it as is attributable to that fixed base or is derived in that other State during the aforesaid period or periods.
- (2) The term "professional services" includes especially independent scientific, literary, artistic, educational or teaching activities as well as the independent activities of physicians, lawyers, engineers, architects, dentists and accountants.

#### **ARTICLE 15**

##### **Dependent Personal Services**

- (1) Subject to the provisions of Articles 16, 18 and 19, salaries, wages and other similar remuneration, including gratuities, derived by a resident of a Contracting

State in respect of an employment shall be taxable in the other Contracting State only if the employment is exercised there.

- (2) Notwithstanding the provisions of paragraph 1, remuneration derived a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:
  - (a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in the fiscal year concerned, and
  - (b) the remuneration is paid by, or on behalf of an employer who is not a resident of the other State, and
  - (c) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State, and
  - (d) the remuneration is, or upon the application of this Article will be, subject to tax in the first-mentioned State.
- (3) Notwithstanding the preceding provisions of this Article, remuneration in respect of an employment exercised aboard a ship or aircraft operated in international traffic by a resident of one of the Contracting States may be taxed in that State.

#### **ARTICLE 16** **Directors' Fees**

- (1) Directors' fees and similar payments derived by a resident of a Contracting State in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State may be taxed in that other State.

#### **ARTICLE 17** **Artistes and Athletes**

- (1) Notwithstanding the provisions of Articles 7, 14 and 15, income derived by a resident of a Contracting State as an entertainer such as a theatre, motion picture, radio or television artiste, or a musician or as an athlete, from his personal activities as such exercised in the other Contracting State may be taxed in that other State.
- (2) Where income in respect of personal activities exercised by an entertainer or an athlete in his capacity as such accrues not to the entertainer or athlete himself but to another person, that income may, notwithstanding the provisions of Articles 7,

14 and 15 be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised.

- (3) However, such income shall not be taxed in the State mentioned in paragraph 1 if the underlying activities are exercised during a visit to that State by a resident of the other Contracting State and where such visit is financed directly or indirectly by that other State, a Land, a political subdivision or a local authority thereof or by an organisation which in that other State is recognized as a charitable organisation.

#### **ARTICLE 18**

##### **Pensions**

- (1) Subject to the provisions of paragraph 2 of Article 19, pensions, other similar remuneration in consideration of past employment and annuities paid to a resident of a Contracting State shall be taxable only in that State.
- (2) The term "annuity" means a stated sum payable periodically at stated times during a specified or ascertainable period of time under an obligation to make the payments in return for adequate and full consideration in money or money's worth.

#### **ARTICLE 19**

##### **Government Service**

- (1) Remuneration including pensions paid by a Contracting State, a Land, a political subdivision or a local authority thereof to an individual in respect of services rendered to that State, Land, subdivision or authority shall be taxable only in that State.

However, such remuneration shall be taxable only in the other Contracting State if the services are rendered in that State if the individual is a resident of that State and not a national of the first-mentioned State.

- (2) The provisions of Articles 15, 16, 17 and 18 shall apply to remuneration and pensions in respect of services rendered in connection with a business carried on by a Contracting State, a Land, a political subdivision or a local authority thereof.
- (3) The provisions of paragraph 1 shall likewise apply in respect of remuneration paid under a development programme of a Contracting State, a Land, a political subdivision or a local authority thereof, out of funds exclusively supplied by that State, Land, political subdivision or local authority, to a specialist or volunteer seconded to the other Contracting State with the consent of that other State.

**ARTICLE 20**  
**Students**

Where a student, who is a resident of one of the Contracting States or who was a resident of that State immediately before visiting the other Contracting State and who is temporarily present in that other State solely for the purpose of his education, receives payments from sources outside that other State for the purpose of his maintenance or education, those payments shall be exempt from tax in that other State

**ARTICLE 21**  
**Other Income**

- (1) Items of income of a resident of a Contracting State wherever arising not dealt with in the foregoing Articles of this Agreement shall be taxable only in that State
- (2) The provisions of paragraph 1 shall not apply to income, other than income from immovable property, if the recipient of such income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein and the right or property in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14, as the case may be, shall apply.

**ARTICLE 22**  
**Capital**

- (1) Capital represented by real property, owned by a resident of a Contracting State and situated in the other Contracting State may be taxed in that other State
- (2) Capital represented by movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or by movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services may be taxed in that other State.
- (3) Ships and aircraft operated in international traffic by a resident of a Contracting State and movable property pertaining to the operation of such ships or aircraft shall be taxable only in that State.
- (4) All other elements of capital of a resident of a Contracting State shall be taxable only in that State.

**ARTICLE 23**  
**Relief from Double Taxation**

- (1) Tax shall be determined in the case of a resident of the Federal Republic of Germany as follows:
- (a) Unless foreign tax credit is to be allowed under sub-paragraph (b), there shall be exempted from German tax any item of income arising in Papua New Guinea and any item of capital situated within Papua New Guinea which according to this Agreement, may be taxed in Papua New Guinea. The Federal Republic of Germany, however, retains the right to take into account in the determination of its rate of tax the items of income and capital so exempted.
  - (b) Subject to the provisions of German tax law regarding credit for foreign tax, there shall be allowed as a credit against German income, corporation and capital tax payable in respect of the following items on income arising in Papua New Guinea and the items of capital situated there the Papua New Guinea tax paid under the laws of Papua New Guinea and in accordance with this Agreement on:
    - (aa) dividends not dealt with in sub-paragraph (a);
    - (bb) interest;
    - (cc) royalties and fees for technical services;
    - (dd) directors' fees;
    - (ee) income of artistes and athletes; and
    - (ff) real property and income therefrom.
- This shall not apply if the real property is effectively connected with a permanent establishment referred to in Article 7 and situated in Papua New Guinea or with a fixed base referred to in Article 14 and situated in Papua New Guinea, unless the provisions of sub-paragraph (d) preclude the application of the provisions of sub-paragraph (a) to the profits of the permanent establishment.
- (c) For the purpose of credit referred to in letters (aa) and (bb) of sub-paragraph (b) the Papua New Guinea tax shall be deemed to be 17 per cent of the gross amount in case of dividends and 5 per cent of the gross amount in case of interest, if the Papua New Guinea tax is reduced to a lower rate according to domestic law, irrespective of the amount of tax actually paid.
  - (d) Notwithstanding the provisions of sub-paragraph (a), items of income dealt with in Articles 7 and 10 and gains derived from the alienation of business

property of a permanent establishment as well as the items of capital underlying such income shall be exempted from German tax only if the resident of the Federal Republic of Germany can prove that the receipts of the permanent establishment or company are derived exclusively or almost exclusively from active operations.

In the case of items of income dealt with in Article 10 and the items of capital underlying such income the exemption shall apply even when the dividends are derived from holdings in other companies being residents of Papua New Guinea which carry on active operations and in which the company which last made a distribution has a holding of 25 per cent or more.

Active operations are the following producing or selling goods or merchandise, giving technical advice or rendering engineering services, or doing banking or insurance business within Papua New Guinea.

If this is not proved, only the credit procedure as per sub-paragraph 9(b) shall apply, except for the fictitious credit as per sub-paragraph (c).

- (2) Tax shall be determined in the case of a resident of Papua New Guinea as follows:

Subject to the provisions of the law of Papua New Guinea from time to time in force which relate to the allowance of a credit against Papua New Guinea tax of tax paid in a country outside Papua New Guinea (which shall not affect the general principle hereof), tax paid under the law of the Federal Republic of Germany and in accordance with this Agreement, whether directly or by deduction, in respect of income derived by a person who is a resident of Papua New Guinea for the purposes of the law of Papua New Guinea relating to Papua New Guinea tax from sources in the Federal Republic of Germany (not including, in the case of a dividend, tax paid in respect of the profits out of which the dividend is paid) shall be allowed as a credit against Papua New Guinea tax payable in respect of that income.

#### ARTICLE 24 Non-Discrimination

- (1) Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances are or may be subjected. This provision shall notwithstanding the provisions of Article 1, also apply to persons who are not residents of one or both of the Contracting States.

- (2) The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities. This provision shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs and reductions for taxation purposes which it grants only to its own residents.
- (3) Except where the provisions of Article 9, paragraph 6 of Article 11, or paragraph 6 of Article 12, apply, interest, royalties, fees for technical services and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State. Similarly, any debts of an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable capital of such enterprise, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.
- (4) Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

**ARTICLE 25**  
**Mutual Agreement Procedure**

- (1) Where a person considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with the provisions of this Agreement, he may, irrespective of the remedies provided by the domestic law of those States, present his case to the competent authority of the Contracting State of which he is a resident or, if his case comes under paragraph 1 of Article 24, to that of the Contracting State of which he is a national. The case must be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of this Agreement.
- (2) The competent authority shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the Agreement. Any agreement reached shall be implemented notwithstanding any time limits in the domestic law of the Contracting States

- (3) The competent authorities of the Contracting States shall endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Agreement. They may also consult together for the elimination of double taxation in cases not provided for in the Agreement.
- (4) The provisions of this Agreement regarding the reduction or exemption from taxes on income in the Contracting State where it arises shall be applied in accordance with the laws of that State and the procedures to be agreed by the competent authorities of both Contracting States.
- (5) The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of the preceding paragraphs.

**ARTICLE 26**  
**Exchange of Information**

- (1) The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Agreement. Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by the Agreement. Such person or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.
- (2) In no case shall the provisions of paragraph 1 be construed so as to impose on a Contracting State the obligation-
  - (a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State,
  - (b) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;
  - (c) to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy (ordre public)

**ARTICLE 27**  
**Diplomatic and Consular Privileges**

- (1) Nothing in this Agreement shall affect the fiscal privileges of members of a diplomatic mission, a Consular post or an international organisation under the general rules of international law or under the provisions of special agreements
- (2) Notwithstanding the provisions of Article 4, an individual who is a member of a diplomatic mission or a consular post of a Contracting State shall be deemed for the purposes of the Agreement to be a resident of the sending State if-
  - (a) in accordance with international law he is not liable to tax in the receiving State in respect of income from sources outside that State; and
  - (b) he is liable in the sending State to the same obligations in relation to tax on his world income as are residents of that State

**ARTICLE 28**  
**Entry into Force**

- (1) This Agreement shall be ratified and the instruments of ratification shall be exchanged at Port Moresby as soon as possible.
- (2) This Agreement shall enter into force one month after the date of exchange of the instruments of ratification and shall have effect-
  - (a) in the case of taxes withheld at source on dividends, interest, royalties and fees for technical services in respect of amounts paid on or after the first day of January in the calendar year in which the Agreement enters into force;
  - (b) in the case of other taxes, in respect of taxes levied for periods beginning on or after the first day of January in the calendar year in which the Agreement enters into force

**ARTICLE 29**  
**Termination**

This Agreement shall continue in effect indefinitely but either of the Contracting States may, on or before the thirtieth day of June in any calendar year beginning after the expiration of a period of five years from the date of its entry into force, give the other Contracting State, through diplomatic channels, written notice of termination and, in such event, this Agreement shall cease to have effect-

- (a) in the case of taxes withheld at source on dividends, interest, royalties and fees for technical services in respect of amounts paid on or after the first day of January in the calendar year next following that in which notice of termination is given
- (b) in the case of other taxes, in respect of taxes levied for periods beginning on or after the first day of January in the calendar year next following that in which notice of termination is given.

IN WITNESS WHEREOF THE PLENIPOTENTIARIES HAVE SIGNED THIS AGREEMENT.

DONE AT BONN ON JANUARY 17TH, 1995

IN DUPLICATE IN THE GERMAN AND ENGLISH LANGUAGES, BOTH TEXTS BEING EQUALLY AUTHENTIC.

**FOR THE INDEPENDENT STATE  
OF PAPUA NEW GUINEA**

**FOR THE FEDERAL  
REPUBLIC OF GERMANY**

## PROTOCOL

### The Independent State of Papua New Guinea and the Federal Republic of Germany

have agreed at the signing at Bonn on January 17th, 1995 of the Agreement between the two States for the avoidance of double taxation with respect to taxes on income and capital upon the following provisions which shall form an integral part of the said Agreement.

**1. With reference to Article 7:**

- (a) In respect of paragraph 1 of Article 7, profits derived from the sale of goods or merchandise of the same or similar kind as those sold, or from other business activities of the same or similar kind as those effected through that permanent establishment, may be considered attributable to that permanent establishment, if it is established that:
  - (aa) this transaction has been resorted to in order to avoid taxation in the Contracting State where the permanent establishment is situated, and
  - (bb) the permanent establishment in any way was involved in this transaction.
- (b) Nothing in paragraph 3 of Article 7 will prevent Papua New Guinea from applying a restriction, in accordance with Section 164S of the Papua New Guinea Income Tax Act, on the deductibility of interest in the case of a person engaged in the exploration for, or extraction of, a petroleum or gas deposit located in Papua New Guinea.

**2. With reference to Articles 7 and 9:**

- (a) In the Contracting State in which the permanent establishment is situated, no profits shall be attributed to a building site or construction project except those which are the result of such activities themselves. Profits derived from the supply of goods connected with, or independent of, such activities and effected by the principal permanent establishment or any other permanent establishment of the enterprise or by a third party shall not be attributed to the building site or construction or installation project.
- (b) Income derived from design, planning, engineering or research or from technical services which a resident of a Contracting State performs in that

State and which are connected with a permanent establishment in the other Contracting State shall not be attributed to that permanent establishment.

- (c) Nothing in Articles 7 and 9 shall affect the application of any law of a Contracting State relating to the determination of the tax liability of a person in cases where the information available to the competent authority of that State is inadequate to determine the income to be attributed to an enterprise, provided that that law shall be applied consistently with the principles of this Article.

**3. With reference to Articles 10 and 11:**

Notwithstanding the provisions of these Articles, dividends and interest may be taxed in the Contracting State in which they arise, and according to the law of that State, if they:

- (a) are derived from rights or debt claims carrying a right to participate in profits (including income derived by a sleeping partner from his participation as such, from a "partiarischen Darlehen" and from "Gewinnobligationen" within the meaning of the tax law of the Federal Republic of Germany), and
- (b) under the condition that they are deductible in the determination of profits of the debtor of such income.

**4. With reference to Article 21:**

This Article does not preclude the right of Papua New Guinea to tax the income of beneficiaries in a trust being itself a resident of Papua New Guinea and not subject to tax in its own right.

**5. With reference to Article 23:**

With a company being a resident of the Federal Republic of Germany distributes income derived from sources within Papua New Guinea paragraph 1 shall not preclude the compensatory imposition of corporation tax on such distributions in accordance with the provisions of German tax law.

**6. With reference to Article 20:**

If personal data is exchanged under this Article, the following additional provisions shall apply subject to the domestic laws of each Contracting State:

- (a) The data supplying Contracting States shall be responsible for the accuracy of the data they supply, if it emerges that inaccurate data or data which should not have been supplied have been communicated, the receiving

State shall be notified of this without delay. That State shall be obliged to correct or destroy said data.

- (b) The Contracting States shall be obliged to keep official records of the transmission and receipt of personal data.
- (c) The Contracting States shall be obliged to take effective measures to protect the personal data communicated against unauthorised access, unauthorised alteration and unauthorised disclosure.
- (d) Upon application the person concerned shall be informed of the information stored about him and of the use planned to be made of it. There shall be no obligation to give this information if on balance it appears that the public interest in withholding it outweighs the interest of the person concerned in receiving it.
- (e) The right of the person concerned to be informed of the data stored about him shall be a matter of the domestic law of the Contracting State in whose sovereign territory the application for the information is made.

**FOR THE INDEPENDENT STATE  
OF PAPUA NEW GUINEA**

**FOR THE FEDERAL  
REPUBLIC OF GERMANY"**

*Income Tax (International Agreements) (Amendment)*

I hereby certify that the above is a fair print of the *Income Tax (International Agreements) (Amendment) Act 1995* which has been made by the National Parliament.

Clerk of the National Parliament.

I hereby certify that the *Income Tax (International Agreements) (Amendment) Act 1995* was made by the National Parliament on 6 December 1995.

Speaker of the National Parliament.