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## Japan and Kuwait Reach Agreement on Tax Treaty

The governments of Japan and Kuwait have reached a basic agreement on a new tax treaty for the avoidance of double taxation and for the clarification of the taxation of investment and economic activities between the two countries. This would be the first tax treaty concluded between Japan and a Persian Gulf nation.<sup>1</sup> Currently, Japan is also in negotiations with Saudi Arabia for a tax treaty.

A Japanese Ministry of Finance announcement briefly outlines key points of the new treaty:

### Reduced Withholding Tax Rates for Investment Income (Dividends, Interest and Royalties)

The following are the maximum tax rates applicable to investment income (dividends, interest and royalties) derived from the source country.

Income	Maximum tax rates
Dividends -- 10% or greater shareholder	5%
Dividends -- Other	10%
Interest	10%*
Royalties	10%

\* Interest received by governments, central banks or certain government related financial institutions is exempt from tax.

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<sup>1</sup> Currently Japan has tax treaties in effect with three countries in the Middle East region; Israel, Turkey and Egypt.

## **Clarification of Host Country Taxation**

The treaty will confirm that a taxation of a PE will be limited to attributable income of the PE.

## **Mutual Agreement Procedure**

The treaty will contain a mutual agreement procedure provision allowing a taxpayer that considers itself to be subject to taxation not in accordance with the tax treaty to request resolution via a mutual agreement procedure.

## **Exchange of Information**

The treaty will provide for the tax authorities of Japan and Kuwait to exchange information for the purpose of ensuring the proper enforcement of their respective tax laws.

The press release by the Ministry of Finance Japan (in Japanese) can be found at:

<http://www.mof.go.jp/jouhou/syuzei/sy210113ku.htm>

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