NEW OECD MODEL TAX CONVENTION ON INCOME AND ON CAPITAL

1. A recently issued report by the OECD Committee on Fiscal Affairs provides a new consolidated version of the Model Tax Convention on Income and on Capital which was first adopted in 1963 and subsequently revised in 1977. The report was approved by the OECD Council on the 23rd July 1992 and is accompanied by a Recommendation to Member countries to follow the revised version of the Model, as interpreted in the revised Commentaries, when negotiating new tax treaties or revising existing treaties.

2. It has long been recognized among OECD Member countries that it is desirable to clarify, standardize and guarantee the fiscal situation of taxpayers who derive income or own capital in other Member countries, through the application by all Member countries of common solutions to identical cases of double taxation. This is the main purpose of the OECD Model Tax Convention on Income and on Capital, which provides a means of settling on a uniform basis the most common problems which arise in the field of international taxation. The harmful effects of unrelieved double taxation on the exchange of goods and services and movements of capital, technology and persons, are so well known that it is not necessary to stress the importance of removing this obstacle to the development of economic relations between countries.

3. The earlier Models that were prepared by the OECD in 1963 and 1977 have permitted Member countries to extend their network of conventions. In 1955, there were only 70 conventions between the then Members of the Organisation. By 1977, this number had been increased to 179 and by 1992 to 218. These conventions follow the pattern and, in the great majority of cases, the essential provisions of the Model Tax Convention, which from the point of view of both taxpayers and tax administrations represents a desirable harmonization. The OECD Model has also been used as a basic reference text in negotiations between Member and non-Member countries.

A press conference will be held at 4 p.m. on Thursday 10th September, at the OECD, 2 rue André Pascal, Paris 16e.
4. The new consolidated version of the Model takes account of the experience gained by Member countries in the negotiation and practical application of bilateral conventions since 1977. In many ways, the pressure to update and adapt the Model Convention to changing economic conditions has progressively increased. New technologies are being developed and, at the same time, there are fundamental changes taking place in the ways in which cross-border transactions are undertaken. Methods of tax avoidance and evasion are also becoming more sophisticated. The globalisation and liberalisation of OECD economies also accelerated rapidly in the 1980s. Consequently, the Committee on Fiscal Affairs continued after 1977 to examine various issues directly or indirectly related to the 1977 Model Convention. This work resulted in a number of reports, some of which recommended amendments to the Model Convention and the Commentaries.

5. It was therefore decided to prepare a consolidated version of the Model Convention which would take into account the work done since 1977 by integrating many of the recommendations made in the reports which had been prepared between 1977 and 1992. This new version of the Model Convention is the result of that review. Unlike the 1963 Draft Convention and the 1977 Model Convention, the revised Model does not represent the culmination of a comprehensive revision but rather should be seen as the first step of an ongoing revision process intended to produce periodic updates, thereby ensuring that the Model Convention continues to reflect accurately the views of Member countries at any point in time and to respond to the needs of taxpayers.

6. The new Model contains minor changes to the text of Articles 3, 12, 15, 17 (English version only) and 24. The commentaries on a number of Articles have been substantially revised and a number of additions made. A new feature of this version of the Model is that a series of historical notes enables the reader to identify changes that have been made to the Model since it was first published in 1963.

7. Recognizing that the revision of the Model Convention and the Commentaries thereon has become an ongoing process, the Committee on Fiscal Affairs has decided to adopt the concept of an ambulatory Model Convention which provides for periodic and more timely updates and amendments.

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