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United Kingdom – New Treaty Signed with Tajikistan

by Marc Burrows, Steve Wade, and Rachel Beecroft, KPMG LLP, London (KPMG LLP in the United Kingdom is a KPMG International member firm)

Her Majesty's Revenue & Customs (HMRC) in the United Kingdom has confirmed that a new income and capital tax treaty between the U.K. and the Republic of Tajikistan was signed on 1 July 2014.¹ It will come into force when both countries have completed their parliamentary procedures and exchanged diplomatic notes.

Why This Matters

As employers send more and more employees to non-traditional assignment locations, the extension of the U.K.'s tax treaty network is essential in limiting the possibility of double taxation and helping simplify administration around such assignments.

The new treaty between the U.K. and Tajikistan helps to attribute taxing rights amongst the two countries. It should help mitigate double taxation for cross-border workers with respect to personal income taxes and capital gains taxes and clarify taxation with respect to retirement and annuity plan contributions and distributions. These provisions, and others in the treaty, will help to facilitate the flow of labor, investment, and capital between the two countries.

Treaty in Detail

The treaty is based on the OECD model treaty and contains the standard OECD provisions relating to the exchange of information between the U.K. and the Republic of Tajikistan.

This newsletter covers the provisions that may concern international executives and their employers.

Interest and Dividends

The treaty allows the source country to tax interest or dividends arising in that country to a resident of the other country at a rate not exceeding 10 percent in most cases. Royalties may be taxed at a rate not exceeding 7 percent.

Employees' Remuneration and Directors' Fees

Remuneration paid to employees on short-term international assignments may be exempt from tax in the country where such individuals are temporarily working. Thus, for example, a U.K. resident on assignment to Tajikistan will be exempt from tax in Tajikistan if the individual is present in Tajikistan for no more than 183 days in any 12-month period beginning or ending in the tax year. It will also be necessary for the remuneration to be paid by or on behalf of an employer who is not a resident of Tajikistan, and the costs of the remuneration must not be borne by a permanent establishment in Tajikistan of the employer.

Director's fees paid to a resident of one country in his capacity as a director of a company that is a resident of the other country may be taxed in the country in which the company is resident.

Relief from Double Taxation

The 'Elimination of Double Taxation' article in the treaty strengthens the provisions that may exist in domestic legislation of the respective countries, affording a potentially higher level of protection against double taxation.

The treaty allows relief for taxes paid to the U.K. by a resident of Tajikistan as a deduction from the taxes due in Tajikistan. The deduction will be equal to the lesser of the taxes paid on the income in the U.K. and the Tajik taxes payable on that income. For U.K. residents, the U.K. will give a credit against the overall U.K. tax liability for the Tajik taxes paid in accordance with the treaty, subject to the limitations of U.K. domestic law on foreign tax credits.

Pension Distributions and Contributions

Periodic pension distributions paid to a resident of one of the contracting states will be taxable only in the state where the individual is resident. However, a lump-sum distribution will be taxed in the state in which the pension scheme is established.

The treaty does not provide for any relief for pension contributions.

Remittance Basis Clause

Many U.K. treaties provide limited relief in relation to income that is taxable only if remitted to the United Kingdom. This treaty does not contain such a remittance clause.

Next Steps

The new treaty will enter into force once it has received parliamentary approval and has been ratified by both countries.

Footnote:

1 For the HMRC announcement, see: <http://www.hmrc.gov.uk/taxtreaties/news/tajikistan-dta.htm> .

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The information contained in this newsletter was submitted by the KPMG International member firm in the United Kingdom. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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