# Singapore – UAE: Tax Treaty Improved

March 16, 2016 Singapore's parliament ratified the protocol №2 to the double tax agreement, which was concluded between the United Arab Emirates and Singapore, 31 October 2014. The new edition of the treaty will enter into force on 1 January 2017.

The Protocol modifies rules for the definition of "permanent establishment" (PE), revises terms to include longer threshold periods to ascertain the presence of a permanent establishment (PE). For instance, the protocol states that a PE arises where a building site; a construction, assembly, or installation project; or supervisory activities in connection therewith continue for a period of more than twelve months, as opposed to the current nine-month threshold. Moreover, under the revised protocol, furnishing of services, including consultancy services, would only constitute a PE if such activities continue for a period aggregating 300 days within any twelve months, up from six months.

The changes affected taxation on income received in the form of dividends and interest. The Protocol removes withholding tax on interest at source, by providing that interest income may be taxed only in the country of the recipient. Provisions setting a five percent rate of withholding tax on income from dividends have been replaced with taxation solely in the country of the recipient on certain conditions. However, this does not affect the taxation of a company in respect of the profits out of which the dividends are paid. With respect to income from royalties, income from "the use of, or the right to use, industrial, commercial, or scientific equipment" has been removed from the scope of the double tax agreement and therefore the concessionary five percent withholding tax rate at source, which remains.

The agreement also modernized provisions of exchange of tax information. The protocol added provisions about the automatic exchange of tax information between the two countries, in accordance with modern international standards.