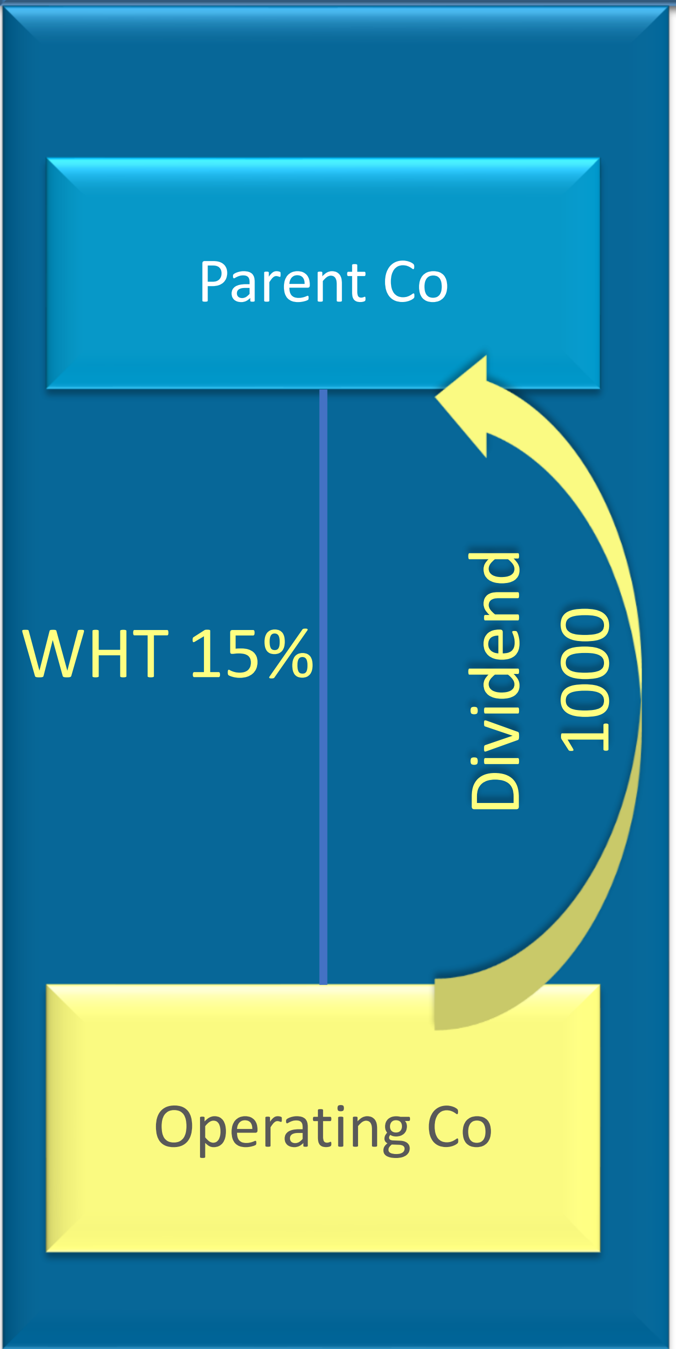
I.E.2 Relief by tax exemption: plain vanilla exemption



ARTICLE 23 A

EXEMPTION METHOD

1. Where a resident of a Contracting State derives income or owns capital which may be taxed in the other Contracting State in accordance with the provisions of this Convention (except to the extent that these provisions allow taxation by that other State solely because the income is also income derived by a resident of that State or because the capital is also capital owned by a resident of that State), the first-mentioned State shall, subject to the provisions of paragraphs 2 and 3, exempt such income or capital from tax.

Total exemption

Parent Other income	9.000
Dividend income	1.000
Total income	10.000
Taxable income	9.000
Tax (20%)	-1.800
Total tax due	-1.800

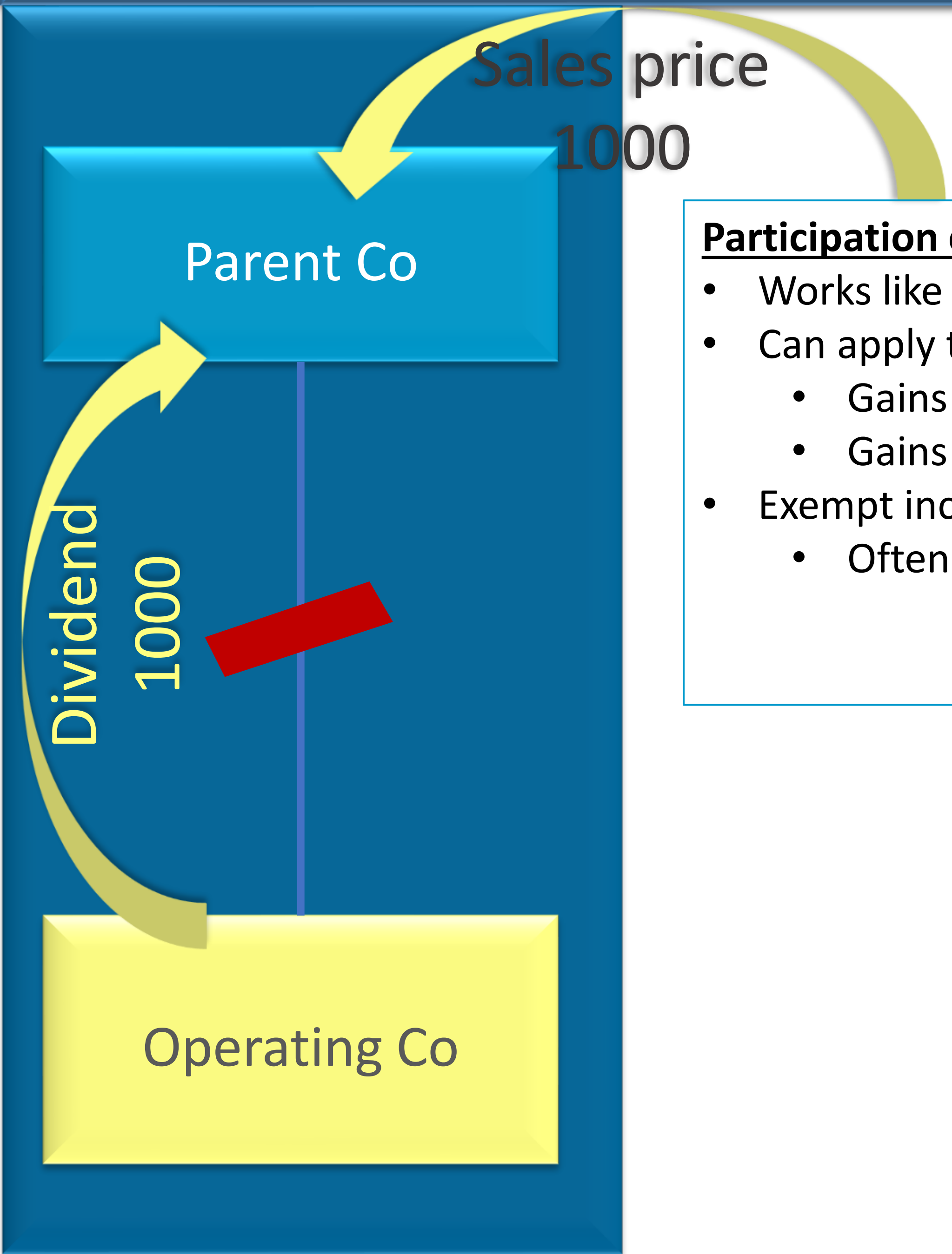
Exemption with progression

Progressive system rates from 10 – 30%

Dividend income	1.000
Total income	10.000
Total tax in Parent state	2.850
Exempt with progression	
1.000/10.000 * 2.850	285
Tax payable in Parent state	2.565

Since Parent Co country does not levy tax on the dividend income, it will also not provide any relief for the 150 dividend withholding tax.

I.E.2 Relief by tax exemption: participation exemption

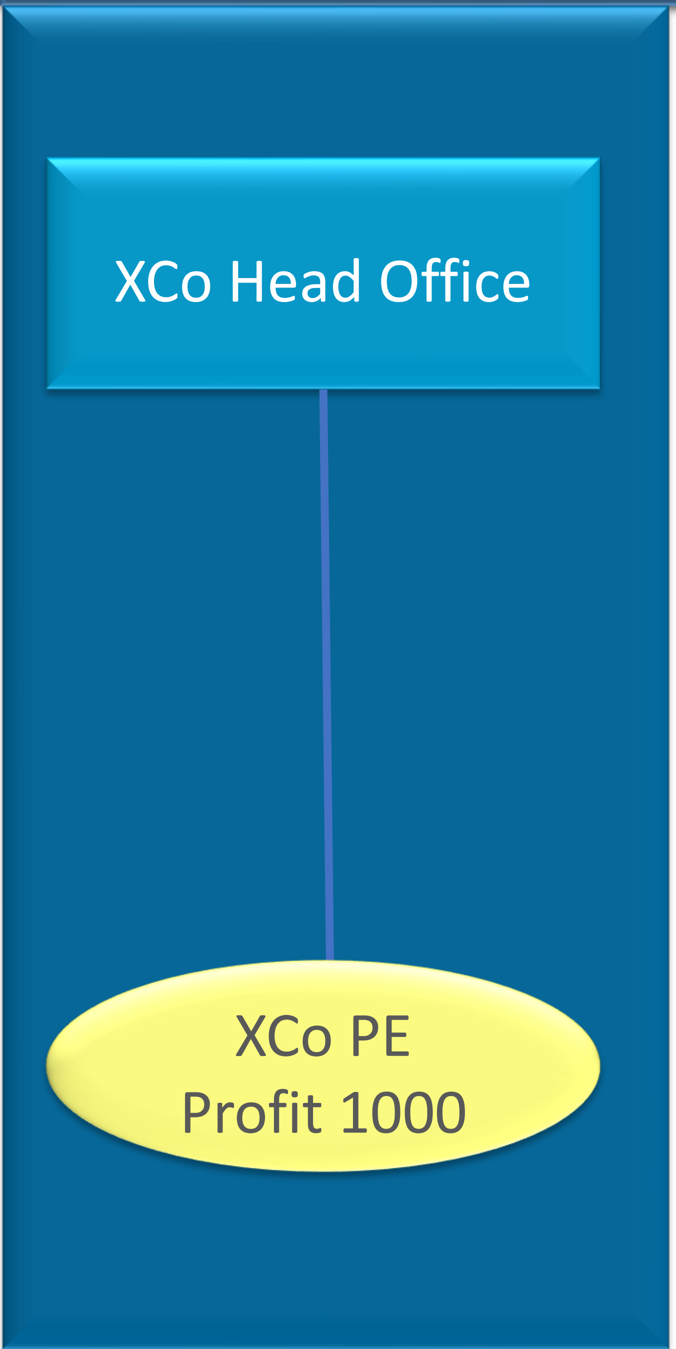


<u>Participation exemption</u>

- Works like the full exemption described before
- Can apply to dividends and capital gains
    - Gains often include undistributed dividends
    - Gains are usually based on future profit projections
- Exempt income costs are often not deductible
    - Often includes a deemed non-deductible cost element

Total exemption	
Parent Other income	9.000
Gain on sale of shares	1.000
Total income	10.000
Taxable income	9.000
Tax (20%)	-1.800
Total tax due	-1.800

I.E.2 Relief by tax exemption: permanent establishments



ARTICLE 23 A

EXEMPTION METHOD

1. Where a resident of a Contracting State derives income or owns capital which may be taxed in the other Contracting State in accordance with the provisions of this Convention (except to the extent that these provisions allow taxation by that other State solely because the income is also income derived by a resident of that State or because the capital is also capital owned by a resident of that State), the first-mentioned State shall, subject to the provisions of paragraphs 2 and 3, exempt such income or capital from tax.

Total exemption

HQ Other income	9.000
PE income	1.000
Total income	10.000
Taxable income	9.000
Tax (20%)	-1.800
Total tax due	-1.800

Exemption with progression

Progressive system rates from 10 – 30%

Tax in PE state	235
Total income	10.000
Total tax in HQ state	2850
Exempt with progression	
1000/10000 * 2850	285
Exemption	285

Since Parent Co country does not levy tax on the PE income, some states will not allow the PE's losses to be deducted in the HQ country either.