

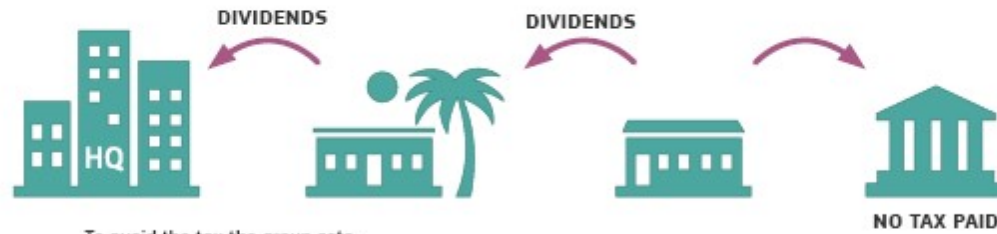
## RECOMMENDATION ON TAX TREATIES: Closing Down Treaty Shopping

### BEFORE



A group sets up a subsidiary in a different country. The subsidiary pays dividends to the parent company.

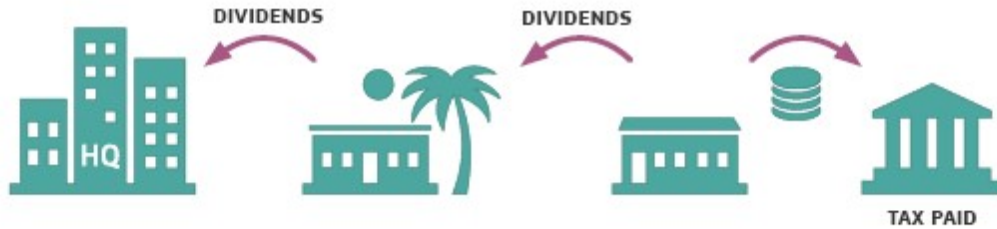
The tax treaty between these countries requires that tax is paid.



To avoid the tax the group sets up a subsidiary in a third country which has tax treaties with both of the other countries.

These tax treaties do not require tax to be paid. This process is known as treaty shopping.

### AFTER



If the new company does not carry out genuine economic activity, the country will be able to not apply the tax treaty.

... making sure the tax treaty is not abused and taxes due are paid.

