

Convention between
the Government of the Republic of Korea
and
the Government of the State of Israel
for the Avoidance of Double Taxation and the Prevention
of Fiscal Evasion with Respect to Taxes on Income and on Capital

Signed at Seoul March 18, 1997
Entered into force December 13, 1997

The Government of the Republic of Korea and the Government of the State of Israel, Desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital,

have agreed as follows :

Article 1. **【PERSONAL SCOPE】** [1997.12.13]

This Convention shall apply to persons who are residents of one or both of the Contracting States.

Article 2. **【TAXES COVERED】** [1997.12.13]

1. This Convention shall apply to taxes on income and on capital imposed on behalf of a Contracting State or of its political subdivisions or local authorities, irrespective of the manner in which they are levied.

2. There shall be regarded as taxes on income and on capital all taxes imposed on total income, on total capital, or on elements of income or of capital, including taxes on gains from the alienation of movable or immovable property, taxes on the total amount of wages or salaries paid by enterprises, as well as taxes on capital appreciation.

3. The existing taxes to which the Convention shall apply are :

a. in Korea :

- () the income tax ;
- () the corporation tax ;
- () the inhabitant tax ; and
- () the special tax for rural development.

(hereinafter referred to as "Korean tax")

b. in Israel :

() the income tax(including the company tax and the capital gains tax) ;

() the tax imposed upon gains from the alienation of real property under the Land Appreciation Tax Law ; and

() the tax imposed on real property according to the Property Tax Law ;

(hereinafter referred to as "Israeli tax")

4. This Convention shall also apply to identical or substantially similar taxes which are imposed after the date of signature of this convention in addition to, or in place of, the existing taxes referred to in paragraph 3. The competent authorities of the Contracting States shall notify each other of any substantial changes which have been made in their respective taxation laws.

Article 3. **【GENERAL DEFINITIONS】** [1997.12.13]

1. For the purposes of this Convention, unless the context otherwise requires :

a. the term "Korea" means the territory of the Republic of Korea as well as its maritime areas, including the sea-bed and sub-soil adjacent to the outer limit of the territorial sea of the Republic of Korea over which it exercises, in accordance with international law, sovereign rights or jurisdiction for the purpose of exploration and exploitation of the natural resources of such areas.

b. the term "Israel" means the State of Israel ; and when used in a geographical sense, the term "Israel" includes its territorial sea, continental shelf and other maritime areas over which it exercises rights according to international law ;

c. the term "tax" means Korean tax or Israeli tax, as the context requires ;

d. the terms "a Contracting State" and "the other Contracting State" mean Korea or Israel as the context requires ;

e. the term "person" includes an individual, a company and any other body of persons ;

f. the term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes ;

g. the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State ;

h. the term "national" means :

() any individual possessing the nationality of a Contracting State ;

() any legal person, partnership or association deriving its status as such from the laws in force in a Contracting state ;

i. the term "international traffic" means any transport by a ship or aircraft operated by an enterprise of a Contracting State, except when the ship or aircraft is operated solely between places in the other Contracting State ;

j. the term "competent authority" means in the case of Korea, the Minister of Finance and Economy or his authorised representative, and in the case of Israel, the Minister of Finance or his authorised representative.

2. As regards the application of this convention by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have the meaning which it has under the laws of that Contracting State concerning the taxes to which this Convention applies.

Article 4. 【RESIDENT】 [1997.12.13]

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that Contracting State, is liable to tax therein by reason of this domicile, residence, place of head or main office, place of incorporation, place of management or any other criterion of a similar nature. But this term does not include any person who is liable to tax in that State in respect only of income from sources in that State.

2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then his status shall be determined as follows :

a. He shall be deemed to be a resident of the Contracting State in which he has a permanent home available to him ; if he has a permanent home available to him in both Contracting State, he shall be deemed to be a resident of the Contracting State with Which his personal and economic relations are closer (centre of vital interests) ;

b. If the Contracting State in which he has his centre of vital interests cannot be determined, or if he has not a permanent home available to him in either Contracting State, he shall be deemed to be a resident of the State in which he has an habitual abode ;

c. If he has an habitual abode in both Contracting States or in neither of them, he shall be deemed to be a resident of the Contracting State of which he is a national ;

d. If he is a national of both Contracting States or of neither of them, the competent authorities

of the Contracting States shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both Contracting States, then it shall be deemed to be a resident of the Contracting State in which its place of effective management is situated. If the State in which its place of effective management is situated cannot be determined, the competent authorities of the Contracting States shall settle the question by mutual agreement.

Article 5. 【PERMANENT ESTABLISHMENT】 [1997.12.13]

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" includes especially :

- a. a place of management ;
- b. a branch ;
- c. an office ;
- d. a factory ;
- e. a workshop ; and
- f. a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.
- g. a building site, a construction, assembly or installation project or supervisory activities or consultancy services in connection therewith, which exist for more than twelve months ;

3. Notwithstanding the provisions of paragraphs 1 and 2 the term "permanent establishment" shall be deemed not to include :

- a. the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise ;
- b. the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery ;
- c. the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise ;
- d. the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise ;
- e. the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character ;

f. the maintenance of a fixed place of business solely for any combination of activities mentioned in subparagraphs a. to e., provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

4. Notwithstanding the provisions of paragraphs 1 and 2, where a person - other than an agent of an independent status to whom paragraph 6 applies - is acting in a Contracting State on behalf of an enterprise of the other Contracting State and has, and habitually exercises, an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to have a permanent establishment in the first - mentioned Contracting State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.

5. An enterprise of a Contracting State shall not be deemed to have a permanent establishment in the other Contracting State merely because it carries on business in that other Contracting State through a broker, general commission agent or any other agent of an independent status, provided that such person are acting in the ordinary course of their business.

6. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other Contracting State(whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

Article 6. **【INCOME FROM IMMOVABLE PROPERTY】** [1997.12.13]

1. Income derived by a resident of a Contracting State from immovable property(including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other Contracting State.

2. The term "immovable property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources ; ships and aircraft shall not be regarded as immovable property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting, or use in any other form of immovable property.

4. The provisions of paragraphs 1 and 3 shall also apply to the income from immovable property of an enterprise and to income from immovable property used for the performance of independent personal services.

Article 7. **【BUSINESS PROFITS】** [1997.12.13]

1. The profits of an enterprise of a Contracting State shall be taxable only in that Contracting State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein.

If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other Contracting State but only so much of them as is attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.

3. In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the business of the permanent establishment, including executive and general administrative expenses so incurred, whether in the Contracting State in which the permanent establishment is situated or elsewhere.

4. Insofar as it has been customary in a Contracting State to determine the profits to be attributed to a permanent establishment on the basis of an apportionment of the total profits of the enterprise to its various parts, nothing in paragraph 2 shall preclude that Contracting State from determining the profits to be taxed by such an apportionment as may be customary ; the method of apportionment adopted shall, however, be such that the result shall be in accordance with the principles contained in this Article.

5. No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

6. For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

7. Where profits include items of income which are dealt with separately in other Articles of this

Convention, then the provisions of those Articles shall not be affected by the provisions of this Article.

Article 8. **【SHIPPING AND AIR TRANSPORT】** [1997.12.13]

1. Profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in the Contracting State.

2. The provisions of paragraph 1 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

3. For the purposes of this Article, profits from the operation of ships or aircraft in international traffic shall also include profits derived from the use, maintenance or rental of containers(including trailers and related equipment for the transport of containers) used in international traffic.

4. For the purposes of this Article, profits derived from the operation of ships or aircraft in international traffic include profits derived from the rental of ships or aircraft if such ships or aircraft are operated in international traffic or if such rental profits are incidental to other profits described in paragraph 1 of this Article.

5. If the place of effective and central management of a shipping enterprise is aboard a ship, then it shall be deemed to be situated in the Contracting State in which the home harbour of the ship is situated, or, if there is no such home harbour, in the Contracting State of which the operator of the ship is a resident.

Article 9. **【ASSOCIATED ENTERPRISES】** [1997.12.13]

1. Where

a. an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State, or

b. the same persons participate directly or indirectly in the management, control or capital of an enterprise of a Contracting State and an enterprise of the other Contracting State, and in either case conditions are made or imposed between the two enterprises in their commercial or financial relations which differ from those which would be made between independent enterprises, then any profits which would, but for those conditions, have accrued to one of the enterprises, but, by reason of those conditions, have not so accrued, any be included in the profits of that enterprise and taxed accordingly.

2. Where a Contracting State includes in the profits of an enterprise of that Contracting State -

and taxes accordingly - profits on which an enterprise of the Contracting State has been charged tax in that other Contracting State and the profits so included are profits which would have accrued to the enterprise of the first-mentioned Contracting State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other Contracting State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the Contracting State shall, if necessary, consult each other.

Article 10. 【DIVIDENDS】 [1997.12.13]

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other Contracting State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the dividends the tax so charged shall not exceed :

a. 5 per cent of the gross amount of the dividends if the beneficial owner is a company which holds directly or indirectly at least 10 per cent of the capital of the company paying the dividends ;

b. 10 per cent of the gross amount of the dividends, notwithstanding the provisions of subparagraph a, if the beneficial owner is a company which holds 10 per cent of the capital of the company paying the dividends where that latter company is a resident of the Contracting State and the dividends are paid out of profits which are subject to tax in that Contracting State at a rate which is lower than the normal rate of the corporation tax of that Contracting State ;

c. 15 per cent of the gross amount of the dividends in all other cases.

The provisions of this paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. The term "dividends" as used in this Article means income from shares or other rights, not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the State of which the company making the distribution is a resident.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other Contracting State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are paid is effectively connected

with such permanent establishment or fixed base. In such case, the provisions of Article 7 or Article 14, as the case may be, shall apply.

5. Where a company which is a resident of a Contracting State derives profits or income from the other Contracting State, that other Contracting State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other Contracting State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other Contracting State, nor subject the company's undistributed profits to a tax on the company's undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other Contracting State.

Article 11. **【INTEREST】** [1997.12.13]

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other Contracting State.

2. However, such interest may also be taxed in the Contracting State in which it arises, and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the interest, the tax so charged shall not exceed :

a. 7.5 per cent of the gross amount of the interest if it is received by any bank or financial institution ;

b. 10 per cent of the gross amount of the interest in all other cases.

3. Notwithstanding the provisions of paragraph 2, interest arising in a Contracting State and paid to a resident of the other Contracting State shall be exempted from tax in a Contracting State if the interest is paid in respect ;

a. a bond, debenture or other similar obligation of the Government of the first mentioned Contracting State ; or

b. a loan made, refinanced, guaranteed or insured, or a credit extended, refinanced, guaranteed or insured by :

) in case of Korea :

() the Bank of Korea ;

() the Korea Export-Import Bank ;

() the Korea Development Bank ; and

() such other financial institution performing functions of a governmental nature as may be specified and agreed upon in letters exchanged by the competent authorities of the Contracting States ;

) in the case of Israel :

() the Bank of Israel ;
() the Israel Foreign Trade Risks Insurance Corporation Ltd ; and
() such other financial institution performing functions of a governmental nature as may be specified and agreed upon in letters exchanged by the competent authorities of the Contracting States.

4. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as interest for the purpose of this Article.

5. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises, through a permanent establishment situated therein, or performs in that other Contracting State independent personal services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case, the provisions of Article 7 or Article 14, as the case may be, shall apply.

6. Interest shall be deemed to arise in a Contracting State when the payer is that Contracting State, a political subdivision or a local authority thereof or a resident of that Contracting State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.

7. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

Article 12. **【ROYALTIES】** [1997.12.13]

1. Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other Contracting State.

2. However, such royalties may also be taxed in the Contracting State in which they arise, and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the royalties, the tax so charged shall not exceed :

a. 2 per cent of the gross amount of such royalties which are paid for the use of, or the right to use, industrial, commercial, or scientific equipment ; and

b. 5 per cent of the gross amount of such royalties in all other cases.

3. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films, and films or tapes for radio or television broadcasting, any patent, knowhow, trade mark, design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties arise, through a permanent establishment situated therein, or performs in that other Contracting State independent personal services from a fixed base situated therein, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment or fixed base.

In such case, the provisions of Article 7 or Article 14, as the case may be, shall apply.

5. Royalties shall be deemed to arise in a Contracting State when the payer is that Contracting State, a political subdivision, a local authority thereof or a resident of that Contracting State. Where, however, the person paying the royalties, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the liability to pay the royalties was incurred, and such royalties are borne by such permanent establishment or fixed base, then such royalties shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.

6. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of the is Article shall apply only to the last-mentioned amount.

In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of Convention.

Article 13. **【CAPITAL GAINS】** [1997.12.13]

1. Gains derived by a resident of a Contracting State from the alienation of immovable property, referred to in Article 6, and situated in the other Contracting State may be taxed in that other Contracting State.

2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including such gains from the alienation of such permanent establishment(alone or which the whole enterprise) or of such fixed base, may be taxed in that other Contracting State.

3. Gains of an enterprise which is a resident of a Contracting State from the alienation of ships or aircraft operated in international traffic or movable property pertaining to the operation of such ships or aircraft shall be taxable only in that Contracting State.

4. Gains from the alienation of shares of a company, the property of which consists directly or indirectly principally of immovable property situated in a Contracting State may be taxed in that Contracting State.

5. Gains from the alienation of shares or other rights other than those mentioned in paragraph 4 of this Article, in a company or other legal person which is a resident of a Contracting State may be taxed in that Contracting State if the recipient of the gains, at any time during the 12-month period preceding such alienation, had a participation, directly or indirectly, of at least 25% in the capital of that company or legal person. However, the tax so charged shall not exceed 10% of the gains mentioned in this paragraph. The provisions of this paragraph shall not apply to shares in a company in a Contracting State which are traded in a recognized stock exchange located in that Contracting State.

6. Gains from the alienation of any property other than that referred to in paragraphs 1 to 5, shall be taxable only in the Contracting State of which the alienator is a resident.

Article 14. **【INDEPENDENT PERSONAL SERVICES】** [1997.12.13]

1. Income derived by a resident of a Contracting State in respect of professional services or other activities of an independent character shall be taxable only in that Contracting State unless he has a fixed base regularly available to him in the other Contracting State for the purpose of performing his activities. He has such a fixed base, the income may be taxed in the other State but only so much of it as is attributable to that fixed base.

2. The term "professional services" includes, especially independent scientific, literary, artistic,

educational or teaching activities as well as the independent activities of physicians, dentists, lawyers, engineers, architects and accountants.

Article 15. **【DEPENDENT PERSONAL SERVICES】** [1997.12.13]

1. Subject to the provisions of Articles 16, 18, 19, 20 and 21, salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that Contracting State unless the employment is exercised in the other Contracting State. If the employment is so exercised, such remuneration as is derived therefrom may be taxed in that other Contracting State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned Contracting State if :

a. the recipient is present in the other Contracting State for a period or periods not exceeding in the aggregate 183 days in the calendar year concerned ; and

b. the remuneration is paid by, or on behalf of, an employer who is not a resident of the other Contracting State ; and

c. the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other Contracting State.

3. Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic by an enterprise of a Contracting State, shall be taxable only in that Contracting State.

Article 16. **【DIRECTORS' FEES】** [1997.12.13]

Directors' fees and other similar payments derived by a resident of a Contracting State in his capacity as a member of the board of directors of a company which is a resident of the other Contracting State may be taxed in that other Contracting State.

Article 17. **【ARTISTES AND SPORTSMEN】** [1997.12.13]

1. Notwithstanding the provisions of Articles 14 and 15, income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Contracting State, may be taxed in that other Contracting State.

2. Where income in respect of personal activities exercised by an entertainer or a sportsman in his capacity as such accrues not to the entertainer or sportsman himself but to another person, that income may, notwithstanding the provisions of Articles 7, 14 and 15, be taxed in the Contracting State in which the activities of the entertainer or sportsman are exercised.

3. Notwithstanding the provisions of paragraphs 1 and 2, income derived by entertainers or sportsmen who are residents of a Contracting State from the activities exercised in the other Contracting State under a special programme of cultural exchange agreed upon between the Governments of both Contracting State shall be exempt from tax in that other State.

Article 18. **【PENSIONS】** [1997.12.13]

Subject to the provisions of paragraph 2 of Article 19, pensions and other similar remuneration paid to a resident of a Contracting State in consideration of past employment shall be taxable only in that Contracting State.

Article 19. **【GOVERNMENT SERVICE】** [1997.12.13]

1. a. Remuneration, other than a pension, paid by a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that Contracting State or a political subdivision or local authority thereof, in the discharge of functions of a governmental nature, shall be taxable only in that Contracting State.

b. However, such remuneration shall be taxable only in the other Contracting State if the services are rendered in that other Contracting State and the individual is a resident of that other Contracting State who :

() is a national of that other Contracting State ; or

() did not become a resident of that other contracting State solely for the purpose of rendering the services.

2. a. Any pension paid by, or out of funds to which contributions are made by a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that Contracting State or a political subdivision or local authority thereof shall be taxable only in that Contracting State.

b. However, such pension shall be taxable only in the other Contracting State if the individual is a resident of, and a national of, that other Contracting State.

3. The provisions of Articles 15, 16 and 18 shall apply to remuneration and pensions in respect of services rendered in connection with a business carried on by a Contracting State or a political subdivision or a local authority thereof.

4. The provisions of paragraphs 1 and 2 shall likewise apply in respect of remuneration or pensions paid by :

a. in the case of Korea :

the Bank of Korea, the Korea Export-Import Bank, the Korea Development Bank, the Korea Trade Promotion Corporation and other institutions performing functions of a governmental nature as may be specified and agreed upon in letters exchanged by the competent authorities of the Contracting States ;

b. in the case of Israel :

the Bank of Israel, the Israeli Foreign Trade Risks Insurance Corporation Ltd. and other institutions performing functions of a governmental nature as may be specified and agreed upon in letters exchanged by the competent authorities of the Contracting States.

Article 20. **【TEACHERS AND RESEARCHERS】** [1997.12.13]

1. An individual who visits a Contracting State at the invitation of any university, college, school or similar institution primarily for the purpose of teaching or carrying out research at said institution and who is, or immediately before making the visit was, a resident of the other Contracting State, shall be exempt from tax in the first-mentioned State on remunerations received for such teaching or research, for a period not exceeding two years from the date of his first arrival in that Contracting State.

2. The provisions of paragraph 1 shall not apply to income from research if such research is undertaken primarily for the private benefit of a specific person or persons.

Article 21. **【STUDENTS AND TRAINEES】** [1997.12.13]

A student, business apprentice or trainee who is or was immediately before visiting a Contracting State a resident of the other Contracting State and who is present in the first-mentioned Contracting State solely for the purpose of his education or training shall be exempt from tax in that first-mentioned Contracting State on the following payments or income received or derived by him for the purpose of his maintenance, education or training :

a. payments derived from sources outside that Contracting State for the purpose of his maintenance, education, study, research or training ;

b. grants, scholarships or awards supplied by the Government of a Contracting State, or a scientific, educational, cultural or other tax-exempt organization ; and

c. any amount of remuneration not exceeding US\$8,000 or the equivalent in New Israeli Shekels or the equivalent in Koran Won per year for the first three years commencing from the

date of his first entry into that Contracting State in respect of personal services in that Contracting State, provided the personal services are performed in connection with his study, research or training.

Article 22. **【OTHER INCOME】** [1997.12.13]

1. Items of income of a resident of a Contracting State, wherever arising, not dealt with in the Foregoing Articles of this Convention shall be taxable only in that Contracting State.

2. The provisions of paragraph 1 shall not apply to income, other than income from immovable property as defined in paragraph 2 of Article 6, if the recipient of such income, being a resident of a Contracting State, carries on business in the other Contracting State through permanent establishment situated therein, or performs in that other Contracting State independent personal services from a fixed base situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14, as the case may be, shall apply.

Article 23. **【CAPITAL】** [1997.12.13]

1. Capital represented by immovable property referred to in Article 6, owned by a resident of a Contracting State and situated in the other Contracting State, may be taxed in that other Contracting State.

2. Capital represented by movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or by movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, may be taxed in that other Contracting State.

3. Capital represented by ships and aircraft operated in international traffic by an enterprise of a Contracting State, and by movable property pertaining to the operation of such ships or aircraft, shall be taxable only in that Contracting State.

4. All other elements of capital of a resident of a Contracting State shall be taxable only in that Contracting State.

Article 24. **【METHODS FOR ELIMINATION OF DOUBLE TAXATION】** [1997.12.13]

1.
a. Subject to the provisions of Korean tax law regarding the allowance as a credit against Korean tax of tax payable in any country other than Korea(which shall not affect the general

principle thereof) :

() Where a resident of Korea derives income or owns capital which may be taxed in Israel under the laws of Israel in accordance with the provisions of this Convention, in respect of that income or capital, the amount of Israeli tax payable shall be allowed as a credit against the Korean tax payable imposed on that resident.

() Where the income derived from Israel is a dividend paid by a company which is a resident of Israel to a company which is a resident of Korea which owns not less than 20 per cent of the total shares issued by that company, the credit shall take into account the Israeli tax payable by the company in respect of the profits out of which such dividend is paid.

b. The amount of credit shall not, however, exceed that part of Korean tax as computed before the credit was given, which is appropriate to that income or capital.

c. For the purpose of subparagraph a) the term "Israeli tax payable" shall be deemed to include the amount of Israeli tax which would have been payable in accordance with Israeli tax laws but for an exemption or reduction of Israeli tax in accordance with Israeli laws relating to incentives for investment or the promotion of economic development regardless of provisions of Korean tax law on the Indirect Tax Credit and Tax Sparing Credit.

2.

a. Subject to the provisions of Israeli tax law regarding the allowance as a credit against Israeli tax of tax payable in any country other than Israel(which shall not affect the general principle hereof) :

() Where a resident of Israel derives income or owns capital which may be taxed payable in Korea under the laws of Korea in accordance with the provisions of this Convention, in respect of that income or capital, the amount of Korean tax payable shall be allowed as a credit against the Israeli tax payable imposed on that resident.

() Where the income derived from Korea is a dividend paid by a company which is a resident of Korea to a company which is a resident of Israel which owns directly at least 20 per cent of the capital of the company, the credit shall take into account the Korean tax payable by the company in respect of the profits out of which such dividend is paid.

b. The amount of credit shall not, however, exceed that part of Israeli tax as computed before the credit is given, which is appropriate to that income or capital.

c. For the purpose of subparagraph a the term "Korean tax payable" shall be deemed to include the amount of Korean tax which would have been payable in accordance with Korean tax laws but for an exemption or reduction of Korean tax in accordance with Korean laws relating to incentives for investment or the promotion of economic development regardless of provisions of Israeli tax law on the Indirect Tax Credit and Tax Sparing Credit.

Article 25. **【NON-DISCRIMINATION】** [1997.12.13]

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other Contracting State in the same circumstances are or may be subjected. The provisions of this paragraph shall, notwithstanding the provisions of Article 1, also apply to persons who are not residents of one or both of the Contracting States.

2. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other Contracting State than the taxation levied on enterprises of that other Contracting State carrying on the same activities. The provisions of this paragraph shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents.

3. Except where the provisions of paragraph 1 of Article 9, paragraph 8 of Article 11, or of paragraph 6 of Article 12 apply, interest, royalties and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned Contracting State.

Similarly, any debts of an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable capital of such enterprise, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned Contracting State.

4. An enterprise of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned Contracting State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned Contracting State are or may be subjected.

5. The provisions of this Article shall, notwithstanding the provisions of Article 2, apply to taxes of every kind and description.

Article 26. **【MUTUAL AGREEMENT PROCEDURE】** [1997.12.13]

1. Where a person considers that the actions of one or both of the Contracting State result or will result for him in taxation not in accordance with the provisions of this Convention, he may, irrespective of the remedies provided by the domestic law of those Contracting States, present his case to the competent authority of the Contracting State of which he is a resident or, if his case

comes under paragraph 1 of Article 25, to that of the Contracting State of which he is a national. The case must be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of the Convention.

2. The competent authority shall endeavour, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the provisions of this Convention. Any agreement reached shall be implemented notwithstanding any time limits in the domestic law of the Contracting States.

3. The competent authorities of the Contracting States shall endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the Convention. They may also consult together for the elimination of double taxation in cases not provided for in this Convention.

4. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement in the sense of paragraph 2 and 3. When it seems advisable in order to reach agreement to have an oral exchange of opinions, such exchange may take place through a Commission consisting of representatives of the competent authorities of the Contracting States.

Article 27. **【EXCHANGE OF INFORMATION】** [1997.12.13]

1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by the Convention insofar as the taxation thereunder is not contrary to the Convention, in particular for the prevention of evasion of such taxes. The exchange of information is not restricted by Article 1. Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that Contracting State, and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by the Convention. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

2. In no case shall the provisions of paragraph 1 be construed so as to impose on one of the Contracting States the obligation.

a. to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State ;

b. to supply information which is not obtainable under the laws or in the normal course of the administration of that or of other Contracting State ;

c. to supply information which would disclose any trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy (order public).

Article 28. **【MEMBERS OF DIPLOMATIC MISSIONS AND CONSULAR POSTS】** [1997.12.13]

Nothing in this Convention shall affect the fiscal privileges of members of diplomatic missions or consular posts under the general rules of international law or under the provisions of special agreements.

Article 29. **【ENTRY INTO FORCE】** [1997.12.13]

This Convention shall enter into force on the fifteenth day after the date on which diplomatic notes indicating the completion of internal legal procedures necessary in each country for the entry into force of this Convention have been exchanged. This Convention shall have effect as respects income derived and capital during the taxable years beginning on or after the first day of January next following that in which this Convention enters into force.

Article 30. **【TERMINATION】** [1997.12.13]

This Convention shall continue in effect indefinitely but either of the Contracting States may, on or before the thirtieth day of June in any calendar year beginning after the expiration of a period of five years from the date of its entry into force, give written notice of termination to the other Contracting State through the diplomatic channels. In such event this Convention shall cease to have effect as respects income derived and capital during the taxable years beginning on or after the first day of January in the calendar year next following that in which the notice of termination is given.

IN WITNESS WHEREOF the undersigned, duly authorized thereto by their respective governments, have signed this Convention.

Done at Seoul on March 18th, 1997, which corresponds to Adqr B 9th, 5757, in duplicate, in the Korean, Hebrew and English language, all texts being equally authentic. In the case of any divergence of interpretations, the English text shall prevail.

FOR THE GOVERNMENT OF THE REPUBLIC OF KOREA
FOR THE GOVERNMENT OF THE STATE OF ISRAEL

[1997.12.13]

PROTOCOL

At the signing of the Convention between the Government of the Republic of Korea and the Government of the State of Israel for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on Income and on Capital(hereinafter referred to as "the Convention"), the undersigned have agreed upon the following provisions which shall form an integral part of the Convention.

1. In respect of paragraph 4 of Article 7, it is understood that profits attributable to a permanent establishment will be determined on the basis of an apportionment of the total profits of the enterprise to its various parts only if a taxpayer does not furnish the information and particulars necessary to determine the actual profits of the permanent establishment.

2. It is understood that a resident of Israel who receives and beneficially owns dividends paid by a company which is a resident of Korea, which, if received by a resident of Korea, would entitle such resident to a tax credit, shall be entitled from the Korean Government to a payment equal to such tax credit. Similarly, if Israel in the future amends its internal laws such as to provide an imputation credit to a resident of Israel who beneficially receives dividends from a company which is a resident of Israel, then the preceding sentence of this paragraph shall be made reciprocal.

3. A competent authority of a Contracting State may deny the benefits of this Convention to any person, or with respect to any transaction, if in its opinion the granting of those benefits would constitute an abuse of the Convention according to its purpose. Notice of the application of this provision will be given by the competent authorities of the Contracting State concerned to the competent authorities of the other.

IN WITNESS WHEREOF the undersigned, duly authorized thereto by their respective Governments, have signed this Convention.

Done at Seoul on March 18th, 1997, which corresponds to Adqr B 9th, 5757, in duplicate, in the Korean, Hebrew and English languages, all texts being equally authentic. In the case of any divergence of interpretations, the English text shall prevail.

FOR GOVERNMENT OF THE REPUBLIC OF KOREA

FOR THE GOVERNMENT OF THE STATE OF ISRAEL
