

Table of Contents

Abbreviations	xi
Foreword	xiii
Chapter 1	
Historical Development of the Concept	1
1.1 Origins in Domestic Law	2
1.2 First Treaty Appearance	3
1.3 First Period – Pre League of Nations	3
1.4 Second Period – League of Nations 1923 Model Treaty	6
1.5 Third Period – The 1943 Mexico Draft and the OECD 1963 Draft and 1977 Model	9
1.6 Fourth Period – The 1980 UN Model, Services PEs and E-Commerce	11
Chapter 2	
Elements of the Basic Definition: Fixed Place of Business	15
2.1 Fixed Place of Business – The Assets PE	15
A. Character of a ‘Place of Business’	16
B. Geographic Fixation of the Place of Business – a Fixed Place	20
1. Basic Rule	20
2. Touring and Moving Target Rulings	22
C. Permanence of Business Operations – Minimum Duration, Recurrent and One Shot Ventures	24
1. Six Months Minimum Duration Cases	25
2. One Shot Ventures (Less Than 6 Months)	26
3. Recurrent Multi-Year Ventures	28
4. Beginning and Ending Dates	30
5. Deviations in State Practice	31
D. ‘At the Disposal’ of the NRE (Control of the POB by the NRE)	32
1. The OECD 1977 Commentary is Ambiguous	33
2. Use of Client Offices or Equipment	35

Table of Contents

3.	Home Office Cases	42
E.	Whose Business is Conducted at the Place	44
1.	Automated POB PEs	44
2.	The Requirement that the Business of the NRE Be Conducted There	46
3.	The Mere Leasing of Real or ICS Property Does Not Create a PE of the Lessor	47
4.	Joint Venturers Who Are Not Partners or Dependent Agents	49
5.	Attribution of Business of Subcontractors to Main Contractors	51
2.2	'Prima Facie' Examples of a Fixed Place of Business	54
A.	An 'Office'	54
B.	'Place of Management'	57
1.	Modes of Expression	58
2.	A 'Place of Effective Management'	59
3.	Management or Technical Expertise'	61
4.	Ownership Distinguished	61
5.	Requirement of Situs	62
6.	Permanence	62
C.	A 'Branch'	63
D.	A 'Store or Other Sales Outlet'	65
E.	'Factory'	69
F.	'Workshop'	70
G.	'Warehouse'	71
1.	American Warehouse Rulings	72
2.	The UN Model Provision	73
3.	US Treaties	74
H.	Other Named Places	74
I.	Agricultural and Timber Land	74
J.	Rental Real Estate	76
K.	Ships/Equipment/Containers/Race Horses	78
1.	Substantial Equipment or Machinery Clauses	79
2.	Computers and Servers	80
3.	Logging and Other Equipment	81
4.	The Race Horse Rulings	82
5.	Net Leasing of Containers	85
6.	Vending Machines, Servers and Other Automated Equipment	86
7.	Semisubmersible Drilling Vessels	86
8.	Other Ships	87
2.3	Business Activity – What Is It?	87

Chapter 3	
Building Sites and Construction or Assembly Projects	89
3.1 Background	89
3.2 Building Sites	92
3.3 Construction Projects	92
3.4 Installation Projects	94
3.5 Assembly Project	94
3.6 Supervisory Activities	95
3.7 The Time Limit Exemption	99
A. Stand-Alone Status of CAS PEs	99
B. Beginnings	102
C. Pre-design and Fabrication Outside the Source Country Does Not Count	103
D. Tacking of the Time Spent by Subcontractors	104
E. When Do Projects End? Interruptions and Post-Completion Work	108
3.8 The Geographic Limits – Stand-Alone Projects vs Aggregation	109
3.9 Construction Projects Absent Treaty Provisions	113
Chapter 4	
Special Provisions for Mineral Extraction	115
4.1 ‘Mine’	115
4.2 ‘Oil or Gas Well’	116
4.3 ‘Quarry’	117
4.4 ‘Other Place of Extraction of Natural Resources’	117
4.5 Relation to Business Activity Requirement	118
4.6 Operations in Contiguous Waters	118
A. Area of Operations	119
B. Subjects of the Provision	120
C. Stand-Alone vs Aggregated Offshore Drilling Projects	121
D. Bareboat Leasing and Renting	123
Chapter 5	
Agency Permanent Establishments	125
5.1 Agency Permanent Establishments – The Parameters	125
A. Exempt Preparatory and Auxiliary Activities	127
B. No Fixed Place of Business Needed	127
5.2 Agency Distinguished from Principal to Principal Dealings	129
A. Principals and Their Activities	131

5.3	Dependent vs Independent Agents	133
	A. Historical Evolution of the Concept	134
	B. Legal Independence	137
	C. Economic Independence	140
	D. The Clause 5 vs 6 Gap	143
5.4	Authority to Conclude Contracts	144
	A. General vs Specific Authority	145
	B. Authority in Respect of Conduct of the Business Proper	149
	C. Apparent and Implied Authority	150
	D. Regular Exercise of Authority	152
	E. Non Authorized Employees and Representatives	153
5.5	Acting in the Ordinary Course of Their Business	154
	A. Degree and Nature of Agent's Authority	155
	B. Acting in Ordinary Course	155
5.6	Particular Agents	160
	A. Managing Agents	160
	B. Brokers and General Commission Agents	160
	1. Securities Brokers	161
	2. General Commission Agents	162
	C. Purchasing Agents	164
	D. Insurance Agents	165
	E. Delivery Agents	167
5.7	Commissionaires and the Relationship Between Independent Agents and Agency PEs	170
	A. The Stand-Alone Status of the Independent Agent Exception	175
5.8	Parent and Subsidiary	177
 Chapter 6		
	Preparatory and Auxiliary Activities and Places	183
6.1	'Storage'	186
6.2	'Display'	187
6.3	'Delivery'	188
6.4	'Goods or Merchandise'	189
6.5	'Maintenance of a Stock of Goods or Merchandise'	189
6.6	'Processing'	190
6.7	'Purchasing'	191
6.8	'Collecting Information'	192
6.9	'Preparatory' or 'Auxiliary' Activities	193
6.10	Representative offices	196
6.11	Combination of Activities	198

Chapter 7

Permanent Establishments – Services and Secondments 201

7.1	An Introduction to Service PEs	201
7.2	The Services PE Provisions	202
	A. UN Model Provision	202
	B. Optional OECD Commentary Provisions	202
7.3	Criticism of Services PE Provisions	204
7.4	Prevalence of Service PE Provisions	207
7.5	Interpretation of the Services PE Provision	208
	A. The Meaning of ‘Services’	208
	B. Services to be Rendered ‘in’ the Source State	209
	C. The Time Test	212
	D. Individuals Providing the Services – Secondment and Independent Contractor Issues	216
	E. Same Project or Connected Projects	226

Chapter 8

Tax in the Cloud – The Permanent Establishment Concept and the Digital Economy 231

8.1	Background	231
8.2	Overview of Previous OECD Work on e-Commerce	234
8.3	Additional Guidance on e-Commerce	239
	A. OECD Guidance on e-Commerce	239
	B. Case Law Guidance on e-Commerce	242
	C. Implications for Cloud Computing	245
8.4	The Way Forward	246
	A. Overview of Base Erosion and Profit Shifting (BEPS)	246
	B. Addressing the Challenges of the Digital Economy	247
	C. Summary of the Potential Options to Address the Broader Tax Challenges Raised by the Digital Economy	249

Chapter 9

PE Issues Arising from Centralized Tax Models 251

9.1	Introduction	251
	A. Centralized Operating Models	252
	1. Manufacturing	254
	2. Sales	254
	3. Development	255
	4. Shared Services	256
	5. Service Companies	256

Table of Contents

6. Procurement Companies	256
B. Common Issues Associated with Centralized Models	256
1. Binding of the Principal by the Local Entity: Legal vs Economic Binding	257
2. Creation of Dependent Agents	258
3. Full Business Cycles	259
4. Auxiliary Activities	261
5. Services	263
C. Design Implications of Article 5	264
1. Generic Design Implications	264
2. Specific Design Implications: Manufacturing and Sales	268
3. Manufacturing	268
4. Sales	269
9.2 Conclusions	270
Chapter 10	
Permanent Establishment and Partnerships	271
10.1 Limited Partnerships	272
A. Common Law Countries	272
B. Civil Law Countries	273
C. Partnerships and Trusts as Limited Partners (Tiering)	275
10.2 Natural Resource Partnerships	277
10.3 Non-Trading Partnerships	278
10.4 What is a Partnership?	279
Bibliography	285
Double-Taxation Conventions	285
Books and Key Articles	286
Table of Cases	289
Index	293