Andorra; Czech Republic

Tax Treaty Between Andorra and Czech Republic – Details

17 November 2023

Report from Filip Krajcuska, Associate, IBFD

Details of the Andorra - Czech Republic Income and Capital Tax Treaty (2022), signed on 23 November 2022, have become available. The treaty was concluded in the Czech, Catalan and English languages, all texts being equally authentic. In the case of any divergence, the English text shall prevail. The treaty is effective from 1 January 2024.

The treaty broadly follows the OECD Model (2017) and establishes the following limits on the contracting state's withholding tax (WHT) rate:

- 5% on dividends if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends; otherwise 10%;
- 0% on interest; and
- 5% on royalties paid for any copyright of literary, artistic or scientific work including cinematograph films; otherwise 10%.

Deviations from the OECD Model (2017) include the following:

- article 5 also includes a farm, plantation, agricultural pastoral or other place where agriculture, forestry or other similar activities are carried on, in the definition of permanent establishment;
- article 5 states that the term permanent establishment also includes the furnishing of services, including consultancy services (exceeding in the aggregate 6 months within any 12-month period);
- article 7 is based on the OECD Model (2008);
- article 8 specifies that profits from the operation of ships or aircraft in international traffic include profits from the rental on a bare boat basis of ships or aircraft and profits from the use, maintenance or rental of containers (including trailers and related equipment for the transport of containers) used for the transport of goods;
- article 9 notes that article 9(2) shall not apply in the case when one of the enterprises concerned is liable to penalty with respect to fraud, gross negligence or wilful default;
- article 16 stipulates that the provisions of article 16(1) and 16(2) shall not apply if a visit to one state is wholly or mainly supported by public funds of the other state or political subdivisions/local authorities. In such case, the income is taxable only in the state in which the entertainer or the sportsperson is a resident; and
- the treaty does not contain a provision for assistance in the collection of taxes.

Both states apply the credit method for elimination of double taxation (article 22).

The treaty will apply indefinitely until termination by one of the contracting states (article 29).