

TABLE OF CONTENTS

I.	INTRODUCTION	7
II.	ISSUES RAISED BY THE TAX TREATMENT OF PERMANENT ESTABLISHMENTS	9
A.	The recognition of profits or losses	10
B.	Contractual freedom or limited recognition of arrangements concluded between permanent establishments and the rest of the enterprise of which they form part	14
C.	Principle of a distinct and separate enterprise: arm's length price or allocation of expenses	16
C.1	Goods, technology and trademarks, services, financial transactions	17
	a) Goods	19
	b) Technology and trademarks	20
	c) Services	21
	d) Financial assets	21
C.2	Attribution of a capital endowment, capital raised from external sources (borrowing) or own funds in the form of interest-bearing loans	22
D.	Taxation of actual profits; consolidation	24
E.	Special cases	26
F.	Attribution of profits and principle of non-discrimination	26
G.	Methods for the elimination of double taxation	26
III.	CONCLUSIONS AND SUGGESTIONS	28

Annex I -- XL IFA CONGRESS, NEW YORK 1986	31
Annex II -- QUESTIONNAIRE ON THE ISSUES RAISED BY THE TAX TREATMENT OF PERMANENT ESTABLISHMENTS	34
A. The recognition of profits or losses	34
B. Contractual freedom or limited recognition of arrangements concluded between permanent establishments and the rest of the enterprise of which they form part	36
C. Principle of a distinct and separate enterprise (Article 7, OECD Model Tax Convention)	36
D. Taxation of actual profits; consolidation	37
E. Special cases (excluding those mentioned in Article 5, paragraph 4 of the OECD Model Tax Convention)	38
F. Attribution of profits and principle of non-discrimination . . .	38
G. Methods for the elimination of double taxation	39
Annex III -- PROPOSED MODIFICATIONS TO THE COMMENTARY ON ARTICLE 7 OF THE MODEL TAX CONVENTION . .	40