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2013

**CONVENTION**  
**BETWEEN THE STATE OF ISRAEL**  
**AND**  
**THE UNITED MEXICAN STATES**  
**FOR THE AVOIDANCE OF DOUBLE TAXATION**  
**AND FOR THE PREVENTION OF FISCAL EVASION**  
**WITH RESPECT TO TAXES ON INCOME AND ON CAPITAL**

The Government of the State of Israel and the Government of the United Mexican States,

**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, which shall hereafter be referred to as the "Convention", and to further develop and facilitate their relationship,

**HAVE AGREED** as follows:

**Article 1**  
**PERSONAL SCOPE**

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

**Article 2**  
**TAXES COVERED**

1. This Convention shall apply to taxes on income and on capital imposed by each of the Contracting States.
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, as well as taxes on capital appreciation.
3. The existing taxes to which the Convention shall apply are in particular:
  - a) in the case of the United Mexican States:
    - (i) the income tax (el impuesto sobre la renta); and
    - (ii) the asset tax (el impuesto al activo);(hereinafter referred to as "Mexican tax");
  - b) in the case of Israel:
    - (i) the income tax;
    - (ii) the company tax;
    - (iii) the capital gains tax;
    - (iv) the tax imposed upon gains from the alienation of immovable property under the Land Appreciation Tax Law; and
    - (v) tax on capital as imposed under the Property Tax Law;(hereinafter referred to as "Israeli tax").

4. The Convention shall apply also to any 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. 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

1. For the purposes of this Convention, unless the context otherwise requires:
  - a) The term "Mexico" means the United Mexican States; when used in a geographical sense it includes the territory of the United Mexican States; as well as the integrated parts of the Federation; the islands, including the reefs and cays in the adjacent waters; the islands of Guadalupe and Revillagigedo; the continental shelf and the seabed and sub-soil of the islands, cays and reefs; the waters of the territorial seas and the inland waters and beyond them the areas over which, in accordance with the international law, Mexico may exercise its sovereign rights of exploration and exploitation of the natural resources of the seabed, sub-soil and the supra-jacent waters; and the air space of the national territory to the extent and conditions established by international law;
  - b) The term "Israel" means the State of Israel and when used in a geographic sense comprises the territories of the State of Israel and the part of the seabed and subsoil under the sea over which the State of Israel has sovereign rights in accordance with international law; and including the area, over which, in accordance with international law and the law of the State of Israel, Israel is entitled to exercise its rights regarding exploration and exploitation of natural resources which are found under the sea;
  - c) the terms "a Contracting State" and "the other Contracting State" mean Mexico or Israel, as the context requires;
  - d) the term "person" includes an individual, a company and any other body of persons;
  - e) the term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes;
  - f) 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;

- g) the term "national", means:
    - (i) any individual possessing the nationality of a Contracting State;
    - (ii) any legal person, partnership or association deriving its status as such from the laws in force in a Contracting State;
  - h) 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 one of the Contracting States;
  - i) the term "competent authority", means:
    - (i) in the case of Mexico, the Ministry of Finance and Public Credit;
    - (ii) in the case of Israel, the Minister of Finance or his authorized representative.
2. a) As regards the application of the Convention by a Contracting State, any term not defined therein shall have the meaning which it has under the laws of that State concerning the taxes to which the Convention applies. The meaning of a term under the taxation law of that State shall have priority over the meaning provided for such term in other branches of law of that State.
- b) If as a result of the provisions of sub-paragraph a), the meaning of a term under the laws of a Contracting State is different from the meaning of that term under the laws of the other Contracting State, the competent authorities of the Contracting States may, in accordance with the provisions of Article 26, agree upon a common meaning of that term.

#### **Article 4**

#### **RESIDENT**

1. For the purposes of this Convention, the term "resident of a Contracting State", means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management, place of incorporation or any other criterion of a similar nature. However, a person will not be deemed to be a resident of a Contracting State by virtue only of his being liable to tax in that State in respect 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 State with which his personal and economic relations are closer (centre of vital interests);

- b) if the State in which he has his centre of vital interests cannot be determined, he shall be deemed to be a resident of the State in which he has a permanent home available to him; if he has a permanent home available to him in both States, or if he has not a permanent home available to him in either 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 States or in neither of them, he shall be deemed to be a resident of the State of which he is a national;
  - d) if he is a national of both 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 State in which its place of effective management is situated. If the State in which its place of effective management cannot be determined, the competent authorities of the Contracting States shall settle the question by mutual agreement.

## **Article 5**

### **PERMANENT ESTABLISHMENT**

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;
  - f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources; and
  - g) an installation or structure used for the exploration of natural resources.
3. The term "permanent establishment" likewise encompasses:
  - a) a building site, a construction, assembly or installation project or supervisory activities in connection therewith, but only where such site, project or activities continue for a period of more than 6 months;

b) the furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose, but only where activities of that nature continue (for the same or a connected project) within the country for a period or periods aggregating more than 12 months within any 24 month period.

4. Notwithstanding the preceding provisions of this Article, 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 advertising, for the supply of information, for scientific research, for preparatory work relating to the placement of loans or for similar activities which have a preparatory or auxiliary character, for the enterprise;

f) 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;

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

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person - other than an agent of an independent status to whom paragraph 7 applies - is acting on behalf of an enterprise and has, and habitually exercises, in a Contracting State an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to have a permanent establishment in that 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.

6. Notwithstanding the foregoing provisions of this Article, an insurance enterprise of a Contracting State shall, except in regard to reinsurance, be deemed to have a permanent establishment in the other Contracting State if it collects premiums in that other State or insures risks situated therein through a person other than an agent of independent status to whom paragraph 7 applies.
7. An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business and that in their commercial or financial relations with the enterprise, conditions are not made or imposed that differ from those generally agreed to by independent agents.
8. 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 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**

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 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, boats 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**

1. The profits of an enterprise of a Contracting State shall be taxable only in that 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 State but only so much of them as is attributable to that permanent establishment and marketing profits in relation to sales in that other State of goods or merchandise of the same or similar kind as the goods or merchandise sold through that permanent establishment. However, the profits derived from the aforementioned sales shall not be taxable in the other State if the enterprise demonstrates that such sales have been carried out for reasons other than obtaining a benefit under this Convention.
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 permanent establishment, including executive and general administrative expenses so incurred, whether in the State in which the permanent establishment is situated or elsewhere. However, no such deduction shall be allowed in respect of such amounts, if any, paid (otherwise than toward reimbursement of actual expenses) by the permanent establishment to the head office of the enterprise or any of its other offices, by way of royalties, fees or other similar payments in return for the use of patents or other rights, by way of commission, for specific services performed or for management, or, except in the case of a bank, by way of interest on moneys lent to the permanent establishment.
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**

#### **INTERNATIONAL TRANSPORT**

1. Profits of an enterprise of a Contracting State from the operation of ships or aircraft in international traffic shall be taxable only in that State. The term "profits" as used herein shall include income from the use or demurrage of containers (including trailers, barges and related equipment for the transport of containers) used for the transport in international traffic of goods or merchandise, if such income is incidental to the international transport profits of the enterprise.
2. Profits referred to in paragraph 1 shall not include profits from the provision of accommodation or transportation other than from the operation of ships or aircraft in international traffic.
3. If the place of effective 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 harbor of the ship is situated, or, if there is no such home harbor, in the Contracting State of which the operator of the ship is a resident.
4. The provisions of paragraph 1 shall also apply to profits from the participation in a pool, a joint business or an international operating agency.

### **Article 9**

#### **ASSOCIATED ENTERPRISES**

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, may 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 State - and taxes accordingly - profits on which an enterprise of the other Contracting State has been charged to tax in that other State and the profits so included are profits which would have accrued to the enterprise of the first-mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises, then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits where that other State considers the adjustment justified. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the Contracting States shall if necessary consult each other.
3. The provisions of paragraph 2 shall not apply in the case of fraud, gross negligence or willful default.

#### **Article 10 DIVIDENDS**

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 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 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 directly or indirectly at least 10 per cent of the capital of the company paying the dividends where that latter company is a resident of Israel and the dividends are paid out of profits which are subject to tax in Israel at a rate which is lower than the normal rate of Israeli company tax;
  - (c) 10 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, "jouissance" shares or "jouissance" rights, mining shares, founders 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 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 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 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 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 state.

## **Article 11 INTEREST**

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the interest is a resident of the other Contracting State, the tax so charged shall not exceed 10 per cent of the gross amount of the interest.
3. Notwithstanding the provisions of paragraph 2, interest referred to in paragraph 1 shall be taxable only in the Contracting State in which the beneficial owner is a resident if:
  - a) the beneficial owner is a Contracting State, a political subdivision or a local authority thereof;
  - b) the interest is paid by any one of the entities mentioned in subparagraph a);

- c) the interest arises in Israel and is paid in respect of a loan for a period of not less than 3 years granted, guaranteed or insured, or a credit for such period granted, guaranteed or insured, by Banco Nacional de Comercio Exterior, S.N.C. or Banco Nacional de Obras y Servicios Públicos, S.N.C. or Nacional Financiera, S.N.C., or Mexico; or
  - d) the interest arises in Mexico and is paid in respect of a loan for a period of not less than 3 years granted, guaranteed or insured, or a credit for such period granted, guaranteed or insured, by the Bank of Israel, by the Israeli Company for the Insurance of Risks arising in International Trade, or Israel.
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 bonds or debentures, as well as all other income that is treated as income from money lent in accordance with the taxation law of the Contracting State in which the income arises, but does not include any income which is treated as a dividend under Article 10. Penalty charges for late payment shall not be regarded as interest for the purpose of this Article.
5. The provisions of paragraphs 1, 2, 3 and 4 shall not apply if the recipient 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 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 State itself, a political subdivision, a local authority or a resident of that 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 and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the 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, for whatever reason, 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**

1. Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.
2. However, such royalties may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the recipient is the beneficial owner of the royalties, the tax so charged shall not exceed 10 per cent of the gross amount of the royalties.
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, video recordings, and films or tapes for radio or television broadcasting), any patent, 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. The term "royalties" also includes gains derived from the alienation of any such right or property which are contingent on the productivity, use or disposition thereof.
4. The provisions of paragraphs 1 and 2 shall not apply if the recipient 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 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 where the payer is that State itself, a political subdivision, a local authority or a resident of that 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 and the royalties are borne by that permanent establishment or fixed base, then the 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 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 13**  
**CAPITAL GAINS**

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 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 a permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.
3. Gains derived by an enterprise 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 State.
4. Gains derived by a resident of a Contracting State from the sale, exchange or other disposition, directly or indirectly, of shares or similar rights in a company which is a resident of the other Contracting State, may be taxed in that other State, but only if the resident of the first-mentioned State owned either directly or indirectly at any time within the twelve-month period preceding such sale, exchange or other disposition, shares representing 5 per cent or more of the capital of the company. However the tax so charged shall not exceed 25 per cent of the taxable gain. For the purposes of this paragraph indirect ownership shall be deemed to include, but not be limited to, ownership by a related person.
5. Gains from the alienation of shares or similar rights being shares in a company, 50 per cent or more of the assets of which consist of immovable property situated in a Contracting State, may be taxed in that State. Gains from the alienation of an interest in a partnership, trust or estate, 50 per cent or more of the assets of which consist of immovable property situated in a Contracting State, may be taxed in that State.
6. Gains from the alienation of any property other than that referred to in Article 12 or in the preceding paragraphs of this Article shall be taxable only in the Contracting State of which the alienator is a resident.

**Article 14**  
**INDEPENDENT PERSONAL SERVICES**

1. Income derived by an individual resident of a Contracting State in respect of professional services or other activities of an independent character shall be taxable only in that State unless the resident has regularly available a fixed base

in the other Contracting State for the purpose of performing such activities. If such resident has such a fixed base, the income may be taxed in the other State but only so much of it as is attributable to the fixed base. For the purposes of this Convention such resident of a Contracting State shall be considered to have a fixed base in the other Contracting State throughout any twelve month period only if he is present in that other State for more than 183 days in aggregate in that period.

2. The term "professional services" includes especially independent scientific, literary, artistic, educational or teaching activities as well as the independent activities of physicians, lawyers, engineers, architects, dentists, and accountants.

### **Article 15 DEPENDENT PERSONAL SERVICES**

1. Subject to the provisions of Articles 16, 18, 19 and 20, 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 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 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 State if:
  - a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in any 12 month period commencing or ending in the fiscal year concerned; and
  - b) the remuneration is paid by, or on behalf of, an employer who is resident in the first-mentioned State; and
  - c) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other 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, may be taxed in that State.

### **Article 16 DIRECTORS' FEES**

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 or any similar organ, or as

a statutory auditor, or in the case of Mexico, in his capacity as an “administrador” or a “comisario”, of a company which is a resident of the other Contracting State, may be taxed in that other State.

### **Article 17** **ARTISTES AND SPORTSPERSONS**

1. Notwithstanding the provisions of Articles 14 and 15, income derived by a resident of a Contracting State as an entertainer, such as a theater, motion picture, radio or television artiste, or a musician, or as a sportsperson, from his personal activities as such exercised in the other Contracting State, may be taxed in that other State. Income referred to in this paragraph shall include income derived from any personal activities performed in the other Contracting State by such resident relating to his reputation as an entertainer or sportsperson.
2. Where income in respect of personal activities exercised by an entertainer or a sportsperson in his capacity as such accrues not to the entertainer or athlete 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 athlete are exercised.
3. The provisions of paragraphs 1 and 2 shall not apply to income derived from activities performed in a Contracting State by artistes or sportspersons if the visit to that State is substantially supported by public funds of the other Contracting State or a political subdivision or local authority thereof.

### **Article 18** **PENSIONS**

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 State

### **Article 19** **GOVERNMENT SERVICE**

1.
  - a) Salaries, wages and other similar 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 State or subdivision or authority shall be taxable only in that State.
  - b) However, such salaries, wages and other similar remuneration shall be taxable only in the other Contracting State if the services are rendered in



that State and the individual is a resident of that State who:

- (i) is a national of that State; or
  - (ii) did not become a resident of that State solely for the purpose of rendering the services.
2. a) Any pension paid by, or out of funds created by, a Contracting State or a political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority shall be taxable only in that 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 State.
3. The provisions of Articles 15, 16 and 18 shall apply to salaries, wages and other similar 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.

#### **Article 20 PROFESSORS AND STUDENTS**

1. A professor or teacher who visits a Contracting State for the purpose of teaching or carrying out research at an educational institution not operated for profit in that Contracting State and who was immediately before that visit a resident of the other Contracting State shall be exempt from tax in the first-mentioned State for a period not exceeding two years from the date of his arrival therein. An individual described herein shall be entitled to the benefits of this provision only once.
2. Paragraph 1 shall not apply to remuneration which a professor or teacher receives for conducting research if such research is undertaken primarily for the private benefit of a specific person or persons.
3. Payments which a student or a business apprentice 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 receives for the purpose of his maintenance, education or training shall not be taxed in that State, provided that such payments arise from sources outside that State.

#### **Article 21 OTHER INCOME**

Items of income of a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention may be taxable in the other Contracting State.

## Article 22

### CAPITAL

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 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 State.
3. Capital represented by ships and aircraft operated in international traffic and by boats engaged in inland waterways transport, and by movable property pertaining to the operation of such ships, aircraft and boats, shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.
4. All other elements of capital of a resident of a Contracting State shall be taxable only in that State.

## Article 23

### ELIMINATION OF DOUBLE TAXATION

1.
  - a) In accordance with the provisions and subject to the limitations of the laws of Mexico, as may be amended from time to time without changing the general principle hereof, Mexico shall allow its residents as a credit against the Mexican tax, the Israeli tax paid on income arising in Israel, or on the capital of that resident, in an amount not exceeding the tax payable in Mexico on such income or capital.
  - b) In the case of a Mexican company owning at least 10 per cent of the capital of a company which is a resident of Israel and from which the first-mentioned company receives dividends, Mexico shall allow as a credit against the Mexican tax, in addition to the credits allowed in subparagraph (a) hereof, the Israeli tax paid by the distributing company with respect to the profits out of which the dividends are paid.
2.
  - a) In accordance with the provisions and subject to the limitations of the laws of Israel, as may be amended from time to time without changing the general principle hereof, Israel shall allow its residents as a credit against

the Israeli tax, the Mexican tax paid on income arising in Mexico, or on the capital of that resident, in an amount not exceeding the tax payable in Israel on such income or capital.

- b) In the case of an Israeli company owning at least 10 per cent of the capital of a company which is a resident of Mexico and from which the first-mentioned company receives dividends, Israel shall allow as a credit against the Israeli tax, in addition to the credits allowed in subparagraph (a) hereof, the Mexican tax paid by the distributing company with respect to the profits out of which the dividends are paid. However, in any case such a dividend may be subject to tax in Israel at a rate that will not be less than 5 per cent of the gross amount of the dividend.

#### **Article 24 NON-DISCRIMINATION**

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 State in the same circumstances in particular in respect of residence, are or may be subjected. This provision 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 of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favorably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities.
3. Except where the provisions of paragraph 1 of Article 9, paragraph 7 of Article 11, or 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 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 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 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.
6. The provisions of this Article 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.

7. The provisions of this Article or of Article 10 shall not be construed as prohibiting the imposition of a branch tax by a Contracting State.

#### **Article 25** **LIMITATION OF BENEFITS**

1. A person who is a resident of a Contracting State and derives income from sources within the other Contracting State shall not be entitled in that other Contracting State, to the benefits of this Convention if:
  - (a) 50 % or more of the beneficial interest in such person (or in the case of a company, 50% or more of the voting power or value of the company's shares) is owned, directly or indirectly, by any combination of one or more individuals who are not residents of a Contracting State; or
  - (b) 50% or more of the gross income of such person is used in substantial part, directly or indirectly, to meet liabilities (including liabilities for interest or royalties) to persons who are residents of a state other than a Contracting State.
2. The provisions of paragraph (1) shall not apply if the person deriving the income is one of the following:
  - (a) an individual;
  - (b) an entity engaged in the active conduct of a trade or business in the first-mentioned Contracting State (other than the business of making or managing investments, unless these activities are banking or insurance activities carried on by a bank or insurance company), and the income derived from the other Contracting State is derived in connection with, or is incidental to, that trade or business;
  - (c) a company in whose principal class of shares there is substantial and regular trading on a recognized stock exchange; or
  - (d) an entity that is a not-for-profit organization and that by virtue of that status, is generally exempt from income tax in its Contracting State of residence, provided that more than half of the beneficiaries, members or participants, if any, in such organization are persons that are entitled, under this article, to the benefits of this Convention.
3. (a) A person who is not entitled to the benefits of the Convention pursuant to the preceding provisions of this Article may nevertheless be granted the benefits of the Convention if the competent authority of the State in which

the income in question arises so determines.

- (b) If one of the Contracting States proposes to deny benefits to a resident of the other Contracting State by reason of this Article, the competent authorities of the Contracting States shall upon request of a competent authority consult each other.
- (c) The competent authorities of the Contracting States shall consult together with a view to developing a commonly agreed application of the provisions of this article.

### **Article 26**

#### **MUTUAL AGREEMENT PROCEDURE**

1. Where a person considers that the actions of one or both of the Contracting States 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 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 24, 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 Convention. Any agreement reached shall be implemented within ten years from the due date or actual date of filing the return, whichever is later or a longer period if allowed under the domestic law of that other State.
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 regarding cases not provided for in the 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 the preceding paragraphs. 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.
5. Notwithstanding any other treaty, agreement or convention to which the Contracting States are parties, any tax issue between the Contracting States, including a dispute over whether this Convention applies, shall be settled only

under this Article unless the competent authorities agree otherwise.

6. If any difficulty or doubt arising as to the interpretation or application of this Convention cannot be resolved by the competent authorities of the Contracting States pursuant to the previous paragraphs of this Article, the case may, if both competent authorities and the taxpayer agree, be submitted to arbitration, provided that the taxpayer agrees in writing to be bound by the decision of the arbitration board. The decision of the arbitration board in a particular case shall be binding on both States with respect to that case. The procedures shall be established between the States by notes to be exchanged through diplomatic channels.

### **Article 27**

### **EXCHANGE OF INFORMATION**

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. 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 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 and for purposes of value added taxes imposed by the Contracting States. 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 a Contracting State the obligation:
  - a) to carry out administrative measures at variance with the laws and administrative practice of that or 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 the 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 (ordre public).

**Article 28**  
**DIPLOMATIC AGENTS AND CONSULAR OFFICERS**

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

**Article 29**  
**ENTRY INTO FORCE**

1. The Contracting States shall notify each other that the constitutional requirements for the entry into force of this Convention have been complied with.
2. This Convention shall enter into force on the date of the latter of the notifications referred to in paragraph 1 and its provisions shall apply:
  - a) in respect of taxes withheld at source, to amounts of income derived on or after 1 January 2000;
  - b) in respect of other taxes on income, to such taxes chargeable for any taxable year beginning on or after 1 January 2000.

**Article 30**  
**TERMINATION**

This Convention shall remain in force until terminated by one of the Contracting States. Either Contracting State may terminate the Convention, through diplomatic channels, by giving notice of termination at least six months before the end of any calendar year following after the period of five years from the date on which the Convention enters into force. In such event the Convention shall cease to have effect:

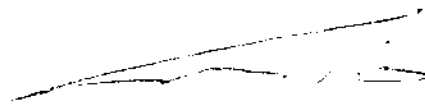
- a) in respect of taxes withheld at source, to amounts of income derived on or after 1 January in the calendar year next following the year in which the notice is given;

- b) in respect of other taxes on income, to such taxes chargeable for any taxable year beginning on or after 1 January in the calendar year next following the year in which the notice is given.

In witness whereof the undersigned, duly authorized hereto, have signed this Convention.

Done in Mexico D.F. on the 20 day of July 1999, which corresponds to the 7 day of Av 5759, in two original copies, each in the Hebrew, Spanish, and English languages, the three texts being equally authentic. In case there is any divergence of interpretation of the provisions of this Convention, the English text shall prevail.

  
\_\_\_\_\_  
For the Government of  
the State of Israel

  
\_\_\_\_\_  
For the Government of  
the United Mexican States



## PROTOCOL

At the moment of signing the Convention this day concluded between the Government of the United Mexican States and the Government of the State of Israel for the Avoidance of Double Taxation and for the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital, the undersigned have agreed upon the following provisions which shall be an integral part of the Convention.

1. With reference to Article 4

It is understood that a partnership, trust or estate or any entity, other than a corporation, treated under Mexican or Israeli law as a corporation is a resident of a Contracting State only to the extent that the income it derives is subject to tax in that State as income of a resident, either in the hands of the partnership, estate or trust, or in the hands of its partners or beneficiaries.

2. With reference to paragraph 7 of Article 5

An agent shall not be deemed to act in the ordinary course of his business in the following circumstances:

- a) where he assumes risks on behalf of the enterprise;
- b) where he exercises activities that economically correspond to those of the enterprise and not to his own activities;
- c) where he receives his remuneration, regardless of the result of its activities.

3. With reference to Article 8.

Residents of Israel, whose profits derived from Mexico are subject to the provisions of Article 8 of the Convention, may not be subjected to the Mexican asset tax on the assets used to produce such profits.

4. With reference to Article 8

For the purposes of this Article profits from the operation of ships or aircraft in international traffic include profits derived from the rental of ships or aircraft on a full (time or voyage) basis. They also include profits from the rental of ships or aircraft on a bareboat basis if such rental profits are accessory to profits described in paragraph 1.

5. With reference to subparagraph c) of paragraph 2 of Article 25

The term "recognized securities exchange" means:

- a) in the case of Israel, the Tel Aviv Stock Exchange and any other Israeli stock exchange that may be approved by the Minister of Finance;
- b) in the case of Mexico, stock exchanges duly authorized under the terms of the Stock Market Law (*Ley de Mercado de Valores*) of January 2, 1975; and
- c) any other stock exchange agreed upon by the competent authorities of the Contracting States.

6. With reference to Article 12.

It is understood that the asset tax imposed by Mexico shall, with respect to residents of Israel who are not subject to tax upon those assets in accordance with Articles 5 or 7 of this Convention, not be applied other than in respect of assets referred to in paragraph 3 of Article 12, which are tangible assets. Should in such circumstances taxation be imposed, Mexico shall grant a credit against the tax on such assets in an amount equal to the income tax (if any) which would have been imposed with respect to such assets, at the rate of tax prescribed under Mexican Income Tax law and not at the rate provided for in Article 12 of the Convention.


7. With reference to paragraph 3 of Article 12

For the purposes of this paragraph, the term "royalties" shall also include the reception or the right to receive, as well as the use or the right to the use in connection with television or broadcasting, of visual images, sounds, or both, transmitted to the public either by satellite, cable, optic fibre or similar technology.

In witness whereof the undersigned, duly authorized hereto, have signed this Protocol.

Done at Mexico D.F. on the 20 day of July 1999, which corresponds to the 7 day of Av 5759, in duplicate, in the Hebrew, Spanish and English languages, all texts being equally authentic. In case of divergency of interpretation, the English text shall prevail.

  
For the Government of the  
State of Israel

  
For the Government of the  
United Mexican States