
EXPLANATORY NOTE

(This note is not part of the Order)

The Convention with Lithuania is set out in Part I of the Schedule to this Order.

The Convention provides for business profits not arising through a permanent establishment to be taxed only in the country of the taxpayer's residence. Profits attributable to a permanent establishment may be taxed in the country in which the permanent establishment is situated (Articles 5 and 7).

Income from immovable property and gains derived from the alienation of such property may be taxed in the country in which the property is situated (Articles 6 and 13).

International shipping and air transport profits are generally to be taxed only in the country of residence of the operator (Article 8).

The Convention includes rules for determining taxable profits when a company in one country is related to a company in the other (Article 9).

The rate of tax imposed in the country of source on dividends derived by a resident of the other country is not to exceed 5 per cent. of the gross amount of the dividends when the beneficial owner is a company controlling at least 25 per cent. of the voting power in the company paying the dividends. In all other cases the rate of tax shall not exceed 15 per cent. of the gross amount of the dividends (Article 10).

The rate of tax imposed in the country of source on interest derived by a resident of the other country is not to exceed 10 per cent. of the interest flowing to the other country. Certain categories of interest (e.g. interest paid to the Government of the other country) will be exempt from tax in the source state (Article 11).

The rate of tax imposed in the country of source on royalties flowing to the other country shall not exceed 5 per cent. of the gross amount of royalties paid in respect of the use of industrial, commercial and scientific equipment. Other royalties may be taxed in the source country at a rate not exceeding 10 per cent. of their gross amount (Article 12).

Capital gains arising from the disposal of movable property are normally to be taxed only in the country of the taxpayer's residence. Gains arising from the disposal of assets of a permanent establishment or fixed base which the taxpayer has in the other country may be taxed in that other country (Article 13).

The earnings of temporary business visitors and some other individuals are, subject to certain conditions, to be taxed only in the country of the taxpayer's residence (Articles 14 and 15).

Fees received by a resident of one country in his capacity as a director of a company resident in the other country may be taxed in the latter country (Article 16).

Income derived from the activities of artistes and sportsmen may, with certain exceptions, be taxed in the country in which those activities are exercised (Article 17).

Occupational pensions (other than those paid in respect of Government service) and annuities are to be taxed only in the recipient's country of residence (Article 18). Government service remuneration and pensions are normally taxable only by the paying Government (Article 19).

Subject to certain conditions, payments made to visiting students and apprentices are to be exempt from tax in the country visited (Article 20). Income derived from the activities of professors and

teachers engaged in teaching or research may, subject to certain conditions and limitations, be exempt from tax in the country in which those activities are carried out (Article 21).

Other income not specified in the Convention will generally be taxed only by the country of which the beneficial owner is a resident (Article 22).

Special rules are included in respect of income or profits from activities connected with offshore exploration and exploitation activities. Trading profits from such activities are (subject to a de minimis time rule) deemed to arise through a permanent establishment and may be taxed in the country where the activities are carried on. Employees may, in general, be taxed in the country in which the employment is exercised (Article 23).

In general where income continues to be taxable in both countries, credit will be given by the country of the taxpayer's residence in respect of tax imposed by the other country (Article 24).

There are provisions safeguarding nationals and enterprises of one country against discriminatory taxation in the other country (Article 27). Provision is made for consultation and exchange of information between the taxation authorities of the two countries (Articles 28 and 29).

The Exchange of Notes set out in Part II of the Schedule clarifies the intended interpretation of particular aspects of the Convention.

The Convention will enter into force on the date of the later of the notifications by each country of the completion of its legislative procedures. The Convention is to take effect in the United Kingdom from 1st April in respect of corporation tax, and from 6th April for income tax and capital gains tax in the calendar year next following that in which it enters into force. The date of entry into force will in due course be published in the *London, Edinburgh and Belfast Gazettes*.