

**CONVENTION BETWEEN
THE REPUBLIC OF PANAMA
AND
THE STATE OF ISRAEL
FOR THE AVOIDANCE OF DOUBLE TAXATION
AND THE PREVENTION OF FISCAL EVASION
WITH RESPECT TO TAXES ON INCOME**

The Government of the Republic of Panama and the Government of the State of Israel;

Desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income;

Have agreed as follows:

**Chapter I
Scope of the Convention**

**ARTICLE 1
Persons Covered**

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 imposed on behalf of a Contracting State or of its political subdivisions or local authorities, irrespective of the manner in which they are levied.

2. There shall be regarded as taxes on income all taxes imposed on total income, or on elements of income, including taxes on gains from the alienation of movable or immovable property, taxes on the total amounts of wages or salaries paid by enterprises, as well as taxes on capital appreciation.

3. The existing taxes to which the Convention shall apply are in particular:

a) in Israel:

- i) the income tax and company tax (including tax on capital gains); and
- ii) the tax imposed on gains from the alienation of property according to the Real Estate Taxation Law.

(hereinafter referred to as “Israeli tax”);

b) in Panama:

the Income Tax provided in the Fiscal Code, Book IV, Title I, and its related decrees and regulations.

(hereinafter referred to as “Panamanian tax”).

4. The Convention shall apply also to any identical or substantially similar taxes that are imposed after the date of signature of the Convention in addition to, or in place of, the existing taxes. The competent authorities of the Contracting States shall notify each other of any significant changes that have been made in their taxation laws.

Chapter II Definitions

ARTICLE 3 General Definitions

1. For the purposes of this Convention, unless the context otherwise requires:

- a) the term “Israel” means the State of Israel and when used in a geographical sense comprises the territory in which the Government of the State of Israel has taxation rights, including its territorial sea, as well as those maritime areas adjacent to the outer limit of the territorial sea, including seabed and subsoil thereof over which the State of Israel, in accordance with international law and the laws of the State of Israel, exercises its sovereign or other rights and jurisdiction;
- b) the term "Panama" means the Republic of Panama and, when used in a geographical sense, means the territory of the Republic of Panama, including inland waters, its airspace, the territorial sea and any area outside the territorial sea upon which, in accordance with International Law and on application of its domestic legislation, the Republic of Panama exercises, or may exercise in the future, jurisdiction or sovereign rights with respect to the seabed, its subsoil and superjacent waters, and their natural resources;
- c) the terms “a Contracting State” and “the other Contracting State” mean Israel or Panama, as the context requires;
- d) the term “person” includes an individual, a company, a trust and any other body of persons;

- e) the term “company” means any body corporate or any entity that is treated as a body corporate for tax purposes;
- f) the term “enterprise” applies to the carrying on of any business;
- g) 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;
- h) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise that has its place of effective management in a Contracting State, except when the ship or aircraft is operated solely between places in the other Contracting State;
- i) the term “competent authority” means:
 - (i) in Israel, the Minister of Finance or his authorised representative;
 - (ii) in Panama, the Ministry of Economy and Finance or its authorised representative;
- j) The term “national”, in relation to a Contracting State, means:
 - (i) any individual possessing the nationality or citizenship of that Contracting State; and
 - (ii) any legal person, partnership or association deriving its status as such from the laws in force in that Contracting State;
- k) the term “business” includes the performance of professional services and of other activities of an independent character.

2. As regards the application of the Convention at any time by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have the meaning that it has at that time under the law of that State for the purposes of the taxes to which the Convention applies, any meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

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, and also includes that State and any political subdivision or local authority thereof. This term, however, does not include any person who is liable to tax in that State in respect only 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 only 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, he shall be deemed to be a resident only 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, or if he has not a permanent home available to him in either State, he shall be deemed to be a resident only 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 only 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 or a trust is a resident of both Contracting States, the competent authorities of the Contracting States shall endeavour to settle the question by mutual agreement having regard to its place of effective management. In the absence of such agreement, such person shall not be entitled to claim any relief or exemption from tax provided for by the Convention.

4. Where by reason of the provisions of paragraph 1 a trust is a resident of both Contracting States, the competent authorities of the Contracting States shall endeavour to determine its residence by mutual agreement. In the absence of such agreement, such person shall not be entitled to claim any relief or exemption from tax provided for by the Convention.

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; and
 - f) a mine, an oil or gas well, a quarry or any other place of extraction, exploration or exploitation of natural resources.
3. Likewise the term “permanent establishment” 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 lasts for a period or periods exceeding, in the aggregate, more than 270 days within any twelve-month period.
 - b) the rendering of services in a Contracting State, including consulting services, by an enterprise through employees or other personnel engaged by the enterprise, but only where these employees or personnel are present in that Contracting State for the performance of the same or connected project, during a period or periods aggregating more than 270 days in any twelve month period.
4. For the purposes of determining the duration of activities under paragraph 3, the period during which activities are carried on in a Contracting State by an enterprise associated with another enterprise shall be aggregated with the period during which activities are carried on by the enterprise with which it is associated if the first-mentioned activities are connected with the activities carried on in that State by the last-mentioned enterprise, provided that any period during which two or more associated enterprises are carrying on concurrent activities is counted only once. An enterprise shall be deemed to be associated with another enterprise if one is controlled directly or indirectly by the other, or if both are controlled directly or indirectly by a third person or persons.
5. 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 carrying on, for the enterprise, any other activity of a preparatory or auxiliary character;
- f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs a) to e), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

6. 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.

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.

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.

Chapter III Taxation of Income

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.

ARTICLE 7 Business Profits

1. 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 that are attributable to the permanent establishment in accordance with the provisions of paragraph 2 may be taxed in that other State.
2. For the purposes of this Article and Article 22, the profits that are attributable in each Contracting State to the permanent establishment referred to in paragraph 1 are the profits it might be expected to make, in particular in its dealing with other parts of the enterprise, if it were a separate and independent enterprise engaged in the same or similar activities under the same or similar conditions, taking into account the functions performed, assets used and risks assumed by the enterprise through the permanent establishment and through the other parts of the enterprise.
3. Where, in accordance with paragraph 2, a Contracting State adjusts the profits that are attributable to a permanent establishment

of an enterprise of one of the Contracting States and taxes accordingly profits of the enterprise that have been charged to tax in the other State, the other State shall, to the extent necessary to eliminate double taxation on these profits, make an appropriate adjustment to the amount of the tax charged on those profits. In determining such adjustment, the competent authorities of the Contracting States shall if necessary consult each other.

4. 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

Shipping and Air Transport

1. Profits from the operation of ships or aircraft in international traffic shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.

2. 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 harbour of the ship is situated, or, if there is no such home harbour, in the Contracting State of which the operator of the ship is a resident.

3. 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. 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.

ARTICLE 10
Dividends and Distributions by a Real Estate Investment Company

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 beneficial owner of the dividend is a resident of the other Contracting State, the tax so charged shall not exceed:

- a) 15 per cent of the gross amount of the dividends if the beneficial owner of the dividends is a resident of the other Contracting State.
- b) 5 per cent of the gross amount of the dividends if the beneficial owner of the dividends is a pension scheme which is a resident of the other Contracting State;

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. Distributions made by a real estate investment company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State. However, such distributions may also be taxed in the Contracting State of which the real estate investment company making the distributions is a resident and according to the laws of that State, but if the beneficial owner of these distributions is a resident of the other Contracting State and holds directly less than 10 per cent of the capital of that company the tax so charged shall not exceed 20 per cent of the gross amount of the distributions.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the distributions are made.

4. 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.

5. The provisions of paragraphs 1, 2 and 3 shall not apply if the beneficial owner of the dividends or of the distributions by a real estate investment company, being a resident of a Contracting State, carries on business in the other Contracting State of which the company paying the dividends or making the distributions is a resident, through a permanent establishment situated therein and the holding in respect of which the dividends or distributions are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

6. 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 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.

This paragraph shall apply also to distributions made by a real estate investment company.

7. Notwithstanding any other provision of this Convention, where a company which is a resident of a Contracting State has a branch which constitutes a permanent establishment in the other Contracting State, the net profits under article 7, paragraph 1, may be subject to an additional tax in that other State, in accordance with its laws, but the additional charge shall not exceed 5 per cent of the amount of the profits attributable to such permanent establishment.

8. The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the shares or other rights in respect of which the dividend is paid to take advantage of this Article by means of that creation or assignment.

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 15 per cent of the gross amount of the interest.
3. Notwithstanding the provisions of paragraph 2, interest arising in a Contracting State and paid to a resident of the other Contracting State shall be taxable only in that other State, if
 - a) the beneficial owner of the interest is a Contracting State, the Central Bank of a Contracting State, any of its political subdivisions or local authorities;
 - b) the interest is paid by the Government of that Contracting State, a political subdivision, a local authority or the Central Bank thereof;
 - c) the beneficial owner of the interest is a pension scheme which is a resident of the other Contracting State;
 - d) the beneficial owner of the interest is a resident of the other Contracting State and such interest relates to corporate bonds traded on a Stock Exchange in the first-mentioned State and which were issued by a company which is a resident of that State.
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 such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as interest for the purpose of this Article.
5. The provisions of paragraphs 1, 2 and 3 shall not apply if the beneficial owner 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, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

6. Interest shall be deemed to arise in a Contracting State when the payer is 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 in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment, then such interest shall be deemed to arise in the Contracting State in which the permanent establishment 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, having regard to the debt-claim for which it is 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.

8. The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the debt-claim in respect of which the interest is paid to take advantage of this Article by means of that creation or assignment.

ARTICLE 12

Royalties

1. Royalties arising in a Contracting State and beneficially owned by 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 beneficial owner of the royalties is a resident of the other contracting State, the tax so charged shall not exceed 15 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 software, cinematograph films, or films or tapes and other means of image or sound reproduction, any patent, trade mark, drawings, designs or models, plans, secret formulas or processes, or for the use of, or the right to use, industrial, commercial, or scientific equipment or for information (know-how) concerning industrial commercial or scientific experience.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner 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, and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

5. Royalties shall be deemed to arise in a Contracting State when the payer is 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 in connection with which the liability to pay the royalties was incurred, and such royalties are borne by such permanent establishment, then such royalties shall be deemed to arise in the Contracting State in which the permanent establishment 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.

7. The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the rights in respect of which the royalties are paid to take advantage of this Article by means of that creation or assignment.

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. a) Gains derived by a resident of a Contracting State from the alienation of shares or comparable interests, deriving more than 50 per cent of their value directly or indirectly from immovable property situated in the other Contracting State may be taxed in that other State.

b) Sub-paragraph a) shall not apply to gains from the alienation of shares in which there is regular trading on a Stock Exchange, if the gains were derived by a resident of a Contracting State who was the beneficial owner of the

alienated shares for the whole period for which the capital gains are calculated, unless:

- (i) the gains are from the alienation of shares in a real estate investment company mentioned in Article 10; or
- (ii) the shares were acquired at a time when the company was not listed on a Stock Exchange. In such case, only the gains computed by reference to a period before which there was regular trading in those shares on a Stock Exchange may be taxed in the other Contracting State; or
- (iii) the gains are from the alienation of shares as a result of a takeover bid.

3. 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, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise), may be taxed in that other State.

4. Gains 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 Contracting State in which the effective management of the enterprise is situated.

5. Gains derived by a resident of a Contracting State from the alienation of shares or comparable interests representing more than 50 per cent of the vote, value or capital stock in a company resident of the other contracting State may be taxed in that other State. However, the tax so charged shall not exceed 5 per cent of the taxable capital gain.

6. Gains from the alienation of any property other than that referred to in paragraphs 1, 2, 3, 4 and 5 shall be taxable only in the Contracting State of which the alienator is a resident, if that resident was a beneficial owner of the alienated property for the whole period for which the capital gains are calculated.

7. Where a person, who was a resident of a Contracting State and has become a resident of the other Contracting State, paragraph 5 shall not prevent the first-mentioned State from taxing under its domestic law the capital gains on property of that person at the time of change of residence. In the case of subsequent alienation of such property capital gains on such property up to the time of change of residence shall not be taxed in the other State. In such case, capital gains will be taxed proportionately by both Contracting States in

accordance with the period that the alienator was a resident of each Contracting State.

8. Notwithstanding the provisions of previous paragraphs of this Article, a Contracting State may tax gains from the alienation of property situated in that State, where the alienator is a resident of the other Contracting State and the alienation is not subject to tax in the other Contracting State. Shares or comparable interests of a company which is a resident of a Contracting State shall be regarded as a property situated in that Contracting State.

9. The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the rights in respect of which the income is paid to take advantage of this Article by means of that creation or assignment.

ARTICLE 14

Income From Employment

1. Subject to the provisions of Articles 15, 17, 18 and 19, 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 twelve 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 not a resident of the other State; and
- c) the remuneration is not borne by a permanent establishment 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 the Contracting State in which the place of effective management of the enterprise is situated.

4. Income from severance pay paid to a resident of a Contracting State in consideration of past employment in both Contracting States, shall be taxed in each Contracting State according to the period of employment in that State.

ARTICLE 15

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 of a company which is a resident of the other Contracting State may be taxed in that other State.

ARTICLE 16

Artistes and Sportspersons

1. Notwithstanding the provisions of Articles 7 and 14, income derived by a resident of a Contracting State as an entertainer, such as a theatre, 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.

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 sportsperson himself but to another person, that income may, notwithstanding the provisions of Articles 7 and 14, be taxed in the Contracting State in which the activities of the entertainer or sportsperson are exercised.

3. The provisions of paragraphs 1 and 2 shall not apply to income derived from activities exercised in a Contracting State by an entertainer or sportsman if the visit to that State is supported in more than 50 per cent by one or both of the Contracting States or local authorities thereof or by public funds of one or both of the Contracting States or by an institution which is recognised by one or both of the Contracting States as a not-for-profit institution. In such a case, the income shall be taxable in accordance with the provisions of Article 7 or 14, as the case may be.

ARTICLE 17

Pensions

Subject to the provisions of paragraph 2 of Article 18, 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 18
Government Service

1. a) Salaries, wages and other similar remuneration 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. Notwithstanding the provisions of paragraph 1, pensions and other similar remuneration 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.
3. The provisions of Articles 14, 15, 16 and 17 shall apply to salaries, wages, pensions, and other similar remuneration 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 19
Professors, Teachers and Researchers

1. An individual who visits one of the Contracting States for the purpose of teaching or engaging in research at a university, college, school or other recognised educational institution in that Contracting State, and who immediately before that visit was a resident of the other Contracting State, shall, for a period not exceeding three years from the date of his first arrival in that first-mentioned State for that purpose, be exempt from tax in that Contracting State on the remuneration for such teaching or research.
2. No exemption shall be granted under paragraph 1 with respect to any remuneration for research if such research is undertaken not in the public interest but primarily for the private benefit of a specific person or persons.

ARTICLE 20

Students

Payments which a student or 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 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

1. Items of income beneficially owned by a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention shall be taxable only in that State.

2. The provisions of paragraph 1 shall not apply to income, other than income from immovable property as defined in paragraph 2 of Article 6, if the beneficial owner of such income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment. In such case the provisions of Article 7 shall apply.

3. Where, by reason of a special relationship between the resident referred to in paragraph 1 and some other person, or between both of them and some third person, the amount of the income referred to in that paragraph exceeds the amount (if any) which would have been agreed upon between them in the absence of such a relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such a case, the excess part of the income shall remain taxable according to the laws of each Contracting State, due regard being had to the other applicable provisions of this Convention.

4. Notwithstanding the provisions of previous paragraphs of this Article, items beneficially owned by a resident of a Contracting State and arising in the other Contracting State may be taxed in that other State, if aforesaid items of income are not subject to tax in the first-mentioned Contracting State.

5. The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the rights in respect of which the income is paid to take advantage of this Article by means of that creation or assignment.

Chapter IV
Methods for Elimination of Double Taxation

ARTICLE 22
Elimination of Double Taxation

1. In the case of Panama double taxation shall be avoided as follows:

- a) where a resident of Panama derives income which, in accordance with the provisions of this Convention, may be taxed in Israel, Panama will exempt such income from taxes.
- b) where, in accordance with any provision of the Convention income derived by a resident of Panama is exempt from tax in Panama, Panama may nevertheless, in calculating the amount of tax on the remaining income or capital of such resident, take into account the exempted income.

2. In the case of Israel double taxation shall be avoided as follows:

- a) where a resident of Israel derives income which, in accordance with the provisions of this Convention, may be taxed in Panama, Israel shall (subject to the laws of Israel regarding the allowance of a credit of foreign taxes, which shall not affect the general principle contained in this paragraph) allow as a deduction from the tax on the income of that resident, an amount equal to the tax paid in Panama.
- b) such deductions shall not, however, exceed that part of the income tax as computed before the deduction is given, which is attributable to the income which may be taxed in Panama.

3. For the purposes of paragraphs 1 and 2, profits, income and gains owned by a resident of a Contracting State which may be taxed in the other Contracting State in accordance with this Convention shall be deemed to arise from sources in that other State.

Chapter V
Special Provisions

ARTICLE 23
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 with respect to residence, are or may be subjected.

2. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably 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, paragraph 6 of Article 12 or paragraph 3 of Article 21 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. Enterprises 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. Nothing contained in this Article shall be construed as obliging either Contracting State to grant to individuals not resident in that State any of the personal allowances, reliefs and reductions for tax purposes which are granted to individuals so resident or to its nationals.

6. The provisions of this Article shall apply to the taxes referred to in Article 2 of this Convention.

ARTICLE 24

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 23, 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 notwithstanding any time limits in the domestic law of the Contracting States.

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 for the elimination of double taxation in 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.

ARTICLE 25

Exchange of Information

1. The competent authorities of the Contracting States shall exchange such information as is foreseeably relevant for carrying out the provisions of this Convention or to the administration or enforcement of the domestic laws of the Contracting States concerning taxes covered by this Convention imposed on behalf of the Contracting States, or of their political subdivisions or local authorities, insofar as the taxation thereunder is not contrary to this Convention. The exchange of information is not restricted by Article 1.

2. Any information received under paragraph 1 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) concerned with the assessment or collection of, the enforcement or prosecution in respect of, the determination of appeals in relation to taxes of every kind and description. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

3. In no case shall the provisions of paragraphs 1 and 2 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 of 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).

4. If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own tax purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph 3 but in no case shall such limitations be construed to permit a Contracting State to decline to supply information solely because it has no domestic interest in such information.

5. In no case shall the provisions of paragraph 3 be construed to permit a Contracting State to decline to supply information solely because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.

ARTICLE 26

Limitation of Benefits

1. Notwithstanding any other provision of this Convention, a resident of a Contracting State shall not receive the benefit of any reduction in or exemption from taxes provided for in this Convention by the other Contracting State if the main purpose or one of the main purposes of the creation or existence of such resident or any person connected with such resident was to obtain the benefits under this Convention that would not otherwise be available.

2. Nothing in this Convention shall affect the application of the domestic provisions to prevent fiscal evasion and tax avoidance concerning the limitation of expenses and any deductions arising from transaction between enterprises of a Contracting State and enterprises situated in the other Contracting State, if the main purpose or one of the main purposes of the creation of such enterprises or of the transactions undertaken between them, was to obtain the benefits under this Convention, that would not otherwise be available.

ARTICLE 27
Members of Diplomatic Missions
and Consular Posts

Nothing in this Convention shall affect the fiscal privileges of members of diplomatic missions or consular posts under the general rules of International Law or under the provisions of special agreements.

Chapter VI
Final Provisions

ARTICLE 28
Entry Into Force

1. The Governments of the Contracting States shall notify each other in writing, through diplomatic channels, of the completion of the internal procedures required by its law for the entry into force of this Convention.
2. The Convention shall enter into force on the date of the later of these notifications and shall thereupon have effect:
 - a) with respect to taxes withheld at source, on amounts paid on or after the first day of January of the calendar year following the year in which the Convention enters into force;
 - b) with respect to other taxes, on taxes levied for periods beginning on or after the first day of January of the calendar year following the year in which the Convention enters into force.
 - c) with respect to the exchange of information, the requests may be performed with regards to Information relating to any date within three (3) years prior to the entry into force of this Convention.

ARTICLE 29
Termination

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

- a) with respect to taxes withheld at source, on amounts paid on or after the first day of January of the calendar year following the year in which the notice is given;
- b) with respect to other taxes, on taxes levied for periods beginning on or after the first day of January of the calendar year following the year in which the notice is given.

IN WITNESS WHEREOF the undersigned, being duly authorized thereto by their respective Governments, have signed this Convention.

Done in duplicate at Jerusalem, this eighth (8th) day of November 2012, which corresponds to the twenty third (23rd) day of Cheshvan of 5773, of the Hebrew Calendar, in the Spanish, Hebrew and English languages, all texts being equally authoritative. In case of any divergence of the provisions of this Convention, the English text shall prevail.

**FOR THE GOVERNMENT OF
THE REPUBLIC OF PANAMA
(SIGNED)
FRANCISCO ÁLVAREZ DE
SOTO
Vice-minister of Foreign
Affairs**

**FOR THE GOVERNMENT OF
THE STATE OF ISRAEL
(SIGNED)
DANNY AYALON
Vice-minister of Foreign
Affairs**

PROTOCOL

At the signing of the Convention between the Republic of Panama and the State of Israel for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, the Government of the Republic of Panama and the Government of the State of Israel have agreed that the following provisions shall form an integral part of the Convention.

1. In general:

- a) It is understood that the Convention shall not prevent a Contracting State from applying provisions in its domestic law on the prevention of tax evasion or tax avoidance where those provisions are used to challenge arrangements which constitute an abuse of the Convention.
- b) In a case of a person other than an individual, that its individual shareholders or holders of other comparable interests, directly or indirectly, are not identified, the person shall not be regarded as beneficial owner.
- c) In the case of Israel, with regard to the foreign occupational companies, Israel will not be prevented of applying the provisions of Article 5(5) of the Israeli Income Tax Ordinance, that is, the foreign occupational company shall be treated as if its business were controlled and managed in Israel.

2. With reference to Article 2 (Taxes Covered):

The provisions of this Convention shall not apply with regards to the tolls, duties or similar payments that might be applicable upon crossing the Panama Canal.

3. With reference to paragraph 1 of Article 4 (Resident):

It is understood that “a resident of a Contracting State” includes:

- a) a pension scheme established in that State; and
- b) an organisation that is established and is operated exclusively for religious, charitable, scientific, cultural, health or educational purposes (or for more than one of those purposes) and that is a resident of that State according to its laws, notwithstanding that all or part of its income or gains may be exempt from tax under the domestic law of that State.

4. With reference to paragraph 4 of Article 4 (Resident):

It is understood that in endeavouring to determine the residence of a trust for a certain period, the competent authorities will take into account all relevant factors, including:

- a) the law of the State that governs the establishment and operation of the trust;
- b) the location of the trust's assets;
- c) the residence of the settlor at the time the trust was settled and in the period in question; and
- d) the State in which the beneficiaries of the trust are resident for the period in question.

5. With reference to Article 6 (Income from Immovable Property):

It is understood that, under the law of Israel, the term "immovable property" includes any option or similar right to acquire immovable property situated in Israel.

6. With reference to Article 10 (Dividends and Distributions by a Real Estate Investment Company):

- a) it is understood that in the case of Israel, a Real Estate Investment Trust (REIT) means a real estate investment fund which meets the conditions of Article 64A3 of the Israeli Income Tax Ordinance, and in the case of Panama a Real Estate Investment Company which meets the conditions of paragraph 2 of Article 706 of the Fiscal Code;
- b) as for paragraph 7, it is understood that in Panama, the term "branch" refers to a foreign company registered in the Panamanian Public Registry to carry on business in the Republic of Panama.

7. With reference to paragraph 2(b)(iii) of Article 13 (Capital Gains):

It is understood that, in the case of Panama, a takeover bid means a public offering of purchase of stocks regulated by Article 94 of Law Decree number 1 of 1999.

8. With reference to Article 22 (Elimination of Double Taxation):

It is understood that Panama shall grant an exemption on gains related to a deemed alienation on emigration according to paragraph 7 of Article 13. The competent authorities of the Contracting States

shall, by mutual agreement, settle any issue that may arise concerning the mode of application of this exemption.

9. With reference to Article 25 (Exchange of Information)

- a) It is understood that information also includes documents.
- b) It is understood that an exchange of information will only be requested once the requesting Contracting State has exhausted all regular sources of information available under the internal taxation procedure.
- c) It is understood that the exchange of information provided in Article 25 does not include measures which constitute “fishing expeditions”.
- d) It is understood that the tax authorities of the requesting State shall provide the following information to the tax authorities of the requested State when making a request for information under Article 25 of the Convention:
 - (i) the identity of the taxpayer (including, if available, particulars facilitating that person's identification) whose tax or criminal liability is at issue;
 - (ii) the period of time for which the information is requested;
 - (iii) a statement of the information sought including its nature and the manner in which the requesting State wishes to receive the information from the requested State;
 - (iv) the tax purpose for which the information is sought;
 - (v) the name and, if available, the address of any person believed to be in possession of the requested information.
- e) It is further understood that Article 25 of the Convention shall not commit the Contracting States to exchange information on an automatic or a spontaneous basis.
- f) It is understood that in a case of an exchange of information, the administrative procedural rules regarding taxpayers' rights provided for in the requested Contracting State remain applicable before the information is transmitted to the requesting Contracting State. It is further understood that this provision aims at guaranteeing the taxpayer a fair procedure and not at preventing or unduly delaying the exchange of information process.

Done in duplicate at Jerusalem, this eighth (8th) day of November 2012, which corresponds to the twenty third (23rd) day of Cheshvan of 5773, of the Hebrew Calendar, in the Spanish, Hebrew and English languages, all texts being equally authoritative. In case of any divergence of the provisions of this Convention, the English text shall prevail.

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