

**EXCHANGE OF LETTERS BETWEEN CCNAA AND AIT RELATING
TO RELIEF FROM DOUBLE TAXATION
ON EARNING DERIVED FROM OPERATION OF SHIPS CRAFT**

Signed on May 31,1988; Entered into force on May 31, 1988

Mr. James W. C. Wang
Chief, Business Division
Coordination Council for
North American Affairs
133 Po Ai Road
Taipei

May 31, 1988

Dear Mr. Wang:

The American Institute in Taiwan (AIT) proposes to the Coordination Council for North American Affairs (CCNAA) the conclusion of an agreement amending the agreement of February 8 and 26, 1972 to exempt from income tax, on a reciprocal basis, income derived by residents/citizens and corporations of the territory represented by the other party from the international operation of ships and aircraft. The terms of the agreement are as follows:

---The AIT, in accordance with sections 872(b) and 883(a) of the Internal Revenue Code, and 22 U.S.C. 3305, agrees to exempt from tax gross income derived from the international operation of ships or aircraft by individuals who are residents of the territory represented by CCNAA (other than citizens of the territory represented by AIT) and corporations organized in the territory represented by CCNAA. This exemption is granted on the basis of equivalent exemptions granted by CCNAA to citizens of the territory represented by AIT (who are not residents of the territory represented by CCNAA) and to corporations organized in the territory represented by AIT (which are not subject to tax by the territory represented by CCNAA on the basis of residence).

---In the case of a corporation, the exemption shall apply only if the corporation meets either of the following conditions:

- (1) more than fifty percent of the value of the corporation's stock is owned, directly or indirectly, by individuals who are residents of the territory represented by CCNAA or of a country which grants a reciprocal exemption to citizens and corporations of the territory represented by AIT; or
- (2) the corporation's stock is primarily and regularly traded on an established securities market in the territory represented by CCNAA, or is wholly owned by a corporation whose stock is so traded and which is also organized in the territory represented by CCNAA.

For purposes of the exemption from taxation by the territory represented by AIT, subparagraph (1) will be considered to be satisfied if the corporation is a "controlled foreign corporation" under the Internal Revenue Code.

---Gross income includes all income derived from the international operation of ships or aircraft, including income from the rental of ships or aircraft on a full (time or voyage) basis and income from the rental of containers and related equipment which is incidental to the international operation of ships or aircraft. It also includes income from the rental on a bareboat basis of ships and aircraft used for international transport.

---The AIT considers that this letter, together with the CCNAA's reply letter confirming that CCNAA agrees to these terms, constitutes an agreement which shall enter into force on the date of CCNAA's reply letter and shall have effect with respect to taxable years beginning on or after January 1, 1987.

---Either party may terminate this agreement by giving written notice of termination.

Sincerely,

Philip T. Lincoln, Jr.
Chief
Economic/Commercial Section

May 31, 1988

Communications Programs Office
American Institute in Taiwan
Taipei Office
7, Lane 134, Hsin Yi Road, Sec. 3, Taipei
Attention: Mr. Philip T. Lincoln, Jr.
Chief
Economic/Commercial Section

Dear Mr. Lincoln:

I have the honor to acknowledge receipt of your letter (AIT B - 366) of today's date, which reads as follows:

"Dear Mr. Wang:

The American Institute in Taiwan (AIT) proposes to the Coordination Council for North American Affairs (CCNAA) the conclusion of an agreement amending the agreement of February 8 and 26, 1972 to exempt

from income tax, on a reciprocal basis, income derived by residents/citizens and corporations of the territory represented by the other party from the international operation of ships and aircraft. The terms of the agreement are as follows:

----The AIT, in accordance with sections 872(b) and 883(a) of the Internal Revenue Code, and 22 U.S.C. 3305, agrees to exempt from tax gross income derived from the international operation of ships or aircraft by individuals who are residents of the territory represented by CCNAA (other than citizens of the territory represented by AIT) and corporations organized in the territory represented by CCNAA. This exemption is granted on the basis of equivalent exemptions granted by CCNAA to citizens of the territory represented by AIT (who are not residents of the territory represented by CCNAA) and to corporations organized in the territory represented by AIT (which are not subject to tax by the territory represented by CCNAA on the basis of residence).

----In the case of a corporation, the exemption shall apply only if the corporation meets either of the following conditions:

- (1) more than fifty percent of the value of the corporation's stock is owned, directly or indirectly, by individuals who are residents of the territory represented by CCNAA or of a country which grants a reciprocal exemption to citizens and corporations of the territory represented by AIT; or
- (2) the corporation's stock is primarily and regularly traded on an established securities market in the territory represented by CCNAA, or is wholly owned by a corporation whose stock is so traded and which is also organized in the territory represented by CCNAA.

For purposes of the exemption from taxation by the territory represented by AIT, subparagraph (1) will be considered to be satisfied if the corporation is a "controlled foreign corporation" under the Internal Revenue Code.

----Gross income includes all income derived from the international operation of ships or aircraft, including income from the rental of ships or aircraft on a full (time or voyage) basis and income from the rental of containers and related equipment which is incidental to the international operation of ships or aircraft. It also includes income from the rental on a bareboat basis of ships and aircraft used for international transport.

----The AIT considers that this letter, together with the CCNAA's reply letter confirming that CCNAA agrees to these terms, constitutes an agreement which shall enter into force on the date of CCNAA's reply letter and shall have effect with respect to taxable years beginning on or after January 1, 1987.

---Either party may terminate this agreement by giving written notice of termination."

In reply, I have the pleasure to confirm that CCNAA agrees to the above proposal in your letter, and that your proposal, together with this reply, constitutes an agreement which enters into force on today's date.

Sincerely yours,

James W. C. Wang
Chief
Business Division