

CONVENTION WITH THE UNION OF SOVIET SOCIALIST REPUBLICS  
ON MATTERS OF TAXATION

*Convention, with Related Letters, Signed at Washington June 20, 1973;  
Ratification Advised by the Senate of the United States of America December 15, 1975;  
Ratified by the President of the United States of America December 17, 1975;  
Ratified by the Union of Soviet Socialist Republics December 24, 1975;  
Ratifications Exchanged at Moscow December 30, 1975;  
Proclaimed by the President of the United States of America January 22, 1976;  
Entered into Force January 29, 1976; Effective January 1, 1976.*

GENERAL EFFECTIVE DATE UNDER ARTICLE XIII: 1 JANUARY 1976

TABLE OF ARTICLES

Article I-----	Taxes Covered
Article II-----	General Definitions
Article III-----	Income Subject to Tax
Article IV-----	Income of Representation
Article V-----	Shipping and Aircraft
Article VI-----	Exemptions
Article VII-----	Taxation on Citizens
Article VIII-----	Application of Treaty
Article IX-----	Exemption of Transaction Giving Rise to Exempt Income
Article X-----	Non-Discrimination
Article XI-----	Mutual Agreement Procedure
Article XII-----	Exchange of Information
Article XIII-----	Entry into Force
Article XIV-----	Termination
Notes of Exchange-----	of 20 June, 1973
Letter of Submittal -----	of 10 September, 1973
Letter of Transmittal-----	of 19 September, 1973
The "Saving Clause"-----	Article VII

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

## TRANSMITTING

THE CONVENTION BETWEEN THE UNITED STATES OF AMERICA AND  
THE UNION OF SOVIET SOCIALIST REPUBLICS ON MATTERS OF TAXATION,  
WITH RELATED LETTERS, SIGNED AT WASHINGTON ON JUNE 20, 1973

## LETTER OF SUBMITTAL

DEPARTMENT OF STATE,  
*Washington, September 10, 1973.*

The PRESIDENT,  
*The White House.*

THE PRESIDENT: I have the honor to submit to you, with a view to its transmission to the Senate for advice and consent to ratification, the Convention between the United States of America and the Union of Soviet Socialist Republics on Matters of Taxation, with related letters, signed at Washington on June 20, 1973.

The Convention was formulated as a result of technical discussions between officials of this Government and officials of the Government of the Union of Soviet Socialist Republics. The Department of State and the Department of the Treasury cooperated in the negotiation of this Convention and it has the approval of both Departments.

The primary purpose of this Convention is to promote economic and cultural relations between the two countries by eliminating tax barriers to the extent possible. The Convention deals primarily with taxes at the Federal level in the case of the United States and with All-Union taxes in the case of the Soviet Union.

Because of limited contact in the past, the citizens and commercial enterprises of each country have had little exposure to the tax system of the other country. Taking into account the tax problems which are likely to arise in conjunction with less restricted intercourse between the two countries, the Convention outlines the circumstances under which each country may tax the business firms of, and visitors from, the other country.

The general content of the Convention is similar to conventions between the United States and other countries on the avoidance of double taxation on income. However, because of the dissimilarities between the taxation systems of the two countries, in this Convention somewhat more emphasis than usual is given to tax exemptions. Examples of the types of payments made between the two countries which will be exempt from taxation in the source country are: (a) rentals or royalties for the use of patents, copyrights, equipment, and know-how; (b) payments for engineering, architectural, and other

technical services; (c) interest on indebtedness in connection with the financing of trade between the two countries; (d) reinsurance premiums; and (e) income from the sale of goods effected through a commission agent.

The Convention provides reciprocal exemption from tax for shipping and aircraft operations. It also provides that an individual will be exempt from tax on income from personal services if he is present in the host State for six months or less, and will be exempt for longer periods if he falls into a specified category such as teacher or student. In the case of students, the exemption may be for as long as five years.

The Convention departs from the pattern of the usual tax convention in its provisions relating to specified types of business income and to the earnings of newspaper, radio and TV correspondents. Ordinarily, United States treaties provide that a foreign firm having a place of business in the United States continues to be subject to tax on business profits "effectively connected" with the United States place of business; otherwise, the income is often exempt. The same principle applies in this Convention, but income from several types of activity is exempt whether or not the Soviet or United States enterprise has a place of business in the other country. One such exemption is income from sales through a broker. Taking into account the Soviet system, income of United States companies from sales to Soviet Trading Organizations will be treated as tax exempt income from sales through a broker. The reciprocal two-year income tax exemption granted journalists and correspondents in this Convention is a departure from prior practice made to accommodate one of the principal Soviet desiderata.

At present, the Soviet tax structure is less developed in respect to foreign entities and persons than is the United States tax structure. United States tax rates on individual income, especially for employed persons, are presently generally higher than those in the Soviet Union. Further, United States companies dealing with the Soviet Union, according to available information, have generally dealt adequately with potential taxation in their agreements with Soviet trading organizations. As a result of these factors, the present tax benefits of this Convention will appear to be more in favor of the Soviet Union. However, the Convention provides a significant potential benefit for the United States and its citizens in limiting the tax impact of the expected development of the Soviet tax system, which is almost certain to treat foreign persons and entities on the basis of reciprocity. Further the Convention contains a non-discrimination clause which should provide significant protection to United States interests. Through its system of exemptions, the Convention should largely insulate the entities and citizens of the parties from income tax in the other state. As with most tax conventions, a principal benefit is to free to a great extent the companies and persons involved from the compliance and administrative problems of dealing with a foreign tax system. This, in turn, can be expected to contribute to the smooth development of United States-Soviet Union trade, cooperation, and exchanges.

This Convention enters into force thirty days after the exchange of instruments of ratification. The provisions of the Convention shall, however, have effect for income derived on or after January 1 of the year following the year in which the instruments of ratification are exchanged. The Convention will remain in effect for a minimum of three years after which it will continue in effect indefinitely, but may

then be terminated by either country by notice given at least six months before the end of any calendar year.

A technical memorandum explaining the principal features of this Convention is being prepared by the Department of the Treasury for the use of the Senate. It is hoped that the Senate will consider and approve this Convention at an early date.

Respectfully submitted,

KENNETH RUSH,  
*Acting Secretary of State.*

Enclosure: Convention.

#### LETTER OF TRANSMITTAL

THE WHITE HOUSE, *September 19, 1973.*

*To the Senate of the United States:*

With a view to receiving the advice and consent of the Senate to ratification, I transmit herewith the Convention between the United States of America and the Union of Soviet Socialist Republics on Matters of Taxation, with related letters, signed at Washington on June 20, 1973.

For the information of the Senate, I transmit also the report of the Department of State with respect to the Convention.

The primary purpose of this Convention is to promote economic and cultural relations between the two countries by eliminating tax barriers to the extent possible. The general content of the Convention is similar to conventions between the United States and other countries on the avoidance of double taxation on income. However, because of dissimilarities between the tax systems of the two countries and the limited experience of each with the tax system of the other, in this Convention somewhat more emphasis than usual is given to tax exemptions.

Through its system of exemptions, the Convention should largely insulate the entities and citizens of the respective parties from income tax in the other state. As with most tax conventions, a principal benefit is to free to a great extent the companies and persons involved from the compliance and administrative problems of dealing with a foreign tax system. This, in turn, can be expected to contribute to the smooth development of the United States-Soviet Union trade, cooperation, and exchanges. I recommend that the Senate give prompt consideration to the Convention and consent to its ratification.

RICHARD NIXON.

THE PRESIDENT OF THE UNITED STATES OF AMERICA

A PROCLAMATION

CONSIDERING THAT:

The Convention between the United States of America and the Union of Soviet Socialist Republics on Matters of Taxation, with related letters, was signed at Washington on June 20, 1973, the text of which Convention, with related letters, in the English and Russian languages, is hereto annexed:

The Senate of the United States of America by its resolution of December 15, 1975, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention, with related letters;

The Convention, with related letters, was ratified by the President of the United States of America on December 17, 1975, in pursuance of the advice and consent of the Senate, and was ratified on the part of the Union of Soviet Socialist Republics on December 24, 1975;

It is provided in Article XIII of the Convention that the Convention shall enter into force on the thirtieth day after the exchange of instruments of ratification, with effectiveness on January 1 of the year following the year in which the instruments of ratification are exchanged;

The instruments of ratification of the Convention were exchanged at Moscow on December 30, 1975, and accordingly the Convention, with related letters, enters into force on January 29, 1976, effective January 1, 1976;

Now, THEREFORE, I, Gerald R. Ford, President of the United States of America, proclaim and make public the Convention, with related letters, to the end that it shall be observed and fulfilled with good faith on and after January 29, 1976, by the United States of America and by the citizens of the United States of America and all other persons subject to the jurisdiction thereof.

IN TESTIMONY WHEREOF, I have signed this proclamation and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington this twenty-second day of January in the year of our Lord one thousand nine hundred seventy-six and of the Independence of the United States of America the two hundredth.

GERALD R. FORD

By the President  
JOSEPH JOHN SISCO  
*Acting Secretary of State*

CONVENTION BETWEEN THE UNITED STATES  
OF AMERICA AND THE UNION OF SOVIET SOCIALIST REPUBLICS  
ON MATTERS OF TAXATION

The President of the United States of America and the Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics, desiring to avoid double taxation and to promote the development of economic, scientific, technical and cultural cooperation between both States, have appointed for this purpose as their respective plenipotentiaries:

The President of the United States of America:  
George P. Shultz, Secretary of the Treasury of the USA; and  
The Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics:  
Nikolai Semenovitch Patolichev, Minister of Foreign Trade of the USSR;

Who have agreed as follows:

ARTICLE I  
(Taxes Covered)

1. The taxes which are the subject of this Convention are:
  - (a) In the case of the Union of Soviet Socialist Republics, taxes and dues provided for by the All-Union legislation;
  - (b) In the case of the United States of America, taxes and dues provided for by the Internal Revenue Code.

2. This Convention shall also apply to taxes and dues substantially similar to those covered by paragraph 1, which are imposed in addition to, or in place of, existing taxes and dues after the signature of this Convention.

ARTICLE II  
(General Definitions)

In this Convention, the terms listed below shall have the following meaning:

1. "Soviet Union" or "USSR" means the Union of Soviet Socialist Republics and, when used in a geographical sense, means the territories of all the Union Republics. Such term also includes:
  - (a) The territorial sea thereof, and
  - (b) The seabed and subsoil of the submarine areas adjacent to the coast thereof, but beyond the territorial sea, over which the Soviet Union exercises sovereign rights, in accordance

with international law, for the purpose of exploration for and exploitation of the natural resources of such areas. However, it is understood that such term includes such areas only to the extent that the person, property or activity with respect to which questions of taxation arise is connected with such exploration or exploitation.

2. "United States" or "USA" means the United States of America and, when used in a geographical sense, means the territories of all the states and of the District of Columbia. Such term also includes

(a) The territorial sea thereof, and

(b) The seabed and subsoil of the submarine areas adjacent to the coast thereof, but beyond the territorial sea, over which the United States exercises sovereign rights, in accordance with international law, for the purpose of exploration for and exploitation of the natural resources of such areas. However, it is understood that such term includes such areas only to the extent that the person, property or activity with respect to which questions of taxation arise is connected with such exploration or exploitation.

3. "Resident of the Soviet Union" means:

(a) a legal entity or any other organization treated in the USSR as a legal entity for tax purposes which is created under the laws of the Soviet Union or any Union Republic and

(b) an individual resident in the Soviet Union for purposes of its tax.

4. "Resident of the United States" means:

(a) a corporation or any other organization treated in the United States as a corporation for tax purposes which is created or organized under the laws of the United States or any state thereof or of the District of Columbia and

(b) an individual resident in the United States for purposes of its tax.

5. "Contracting State" means the United States or the Soviet Union, as the context requires.

6. The term "competent authorities" means:

(a) in the case of the Soviet Union, the Ministry of Finance

(b) in the case of the United States, the Secretary of the Treasury or his delegate.

### ARTICLE III

#### (Income Subject to Tax)

1. The following categories of income derived from sources within one Contracting State by a resident of the other Contracting State shall be subject to tax only in that other Contracting State:

(a) rentals, royalties, or other amounts paid as consideration for the use of or right to use literary, artistic, and scientific works, or for the use of copyrights of such works, as well as the rights to inventions (patents, author's certificates), industrial designs, processes or formulae, computer programs, trademarks, service marks, and other similar property or rights, or for

industrial, commercial, or scientific equipment, or for knowledge, experience, or skill (know-how);

(b) gains derived from the sale or exchange of any such rights or property, whether or not the amounts realized on sale or exchange are contingent in whole or in part, on the extent and nature of use or disposition of such rights or property;

(c) gains from the sale or other disposition of property received as a result of inheritance or gift;

(d) income from the furnishing of engineering, architectural, designing, and other technical services in connection with an installation contract with a resident of the first Contracting State which are carried out in a period not exceeding 36 months at one location;

(e) income from the sale of goods or the supplying of services through a broker, general commission agent or other agent of independent status, where such broker, general commission agent or other agent is acting in the ordinary course of his business;

(f) reinsurance premiums; and

(g) interest on credits, loans and other forms of indebtedness connected with the financing of trade between the USA and the USSR except where received by a resident of the other Contracting State from the conduct of a general banking business in the first Contracting State.

2. A Contracting State shall not attribute taxable income to the following activities conducted within that Contracting State by a resident of the other Contracting State:

(a) the purchase of goods or merchandise;

(b) the use of facilities for the purpose of storage or delivery of goods or merchandise belonging to the resident of the other Contracting State;

(c) the display of goods or merchandise belonging to the resident of the other Contracting State, and also the sale of such items on termination of their display;

(d) advertising by a resident of the other Contracting State, the collection or dissemination of information, or the conducting of scientific research, or similar activities; which have a preparatory or auxiliary character for the resident.

#### ARTICLE IV

##### (Income of Representation)

1. Income from commercial activity derived in one Contracting State by a resident of the other Contracting State, shall be taxable in the first Contracting State only if it is derived by a representation.

2. The term "representation" means:

(a) with regard to income derived within the USSR, an office or representative bureau established in the USSR by a resident of the United States in accordance with the laws and regulations in force in the Soviet Union;



(b) with regard to income derived within the USA, an office or other place of business established in the USA by a resident of the Soviet Union in accordance with the laws and regulations in force in the United States.

3. In the determination of the profits of a representation, there shall be allowed as deductions from total income the expenses that are connected with the performance of its activity, including executive and general administrative expenses.

4. This article applies to income, other than income of an individual dealt with in Article VI, from the furnishing of tour performances and other public appearances.

5. The provisions of this article shall not affect the exemptions from taxes provided for by Articles III and V.

#### ARTICLE V (Shipping and Aircraft)

1. Income which a resident of the Soviet Union derives from the operation in international traffic of ships or aircraft registered in the USSR and gains which a resident of the USSR derives from the sale, exchange, or other disposition of ships or aircraft operated in international traffic by such resident and registered in the USSR shall be exempt from tax in the United States.

2. Income which a resident of the United States derives from operation in international traffic of ships or aircraft registered in the USA and gains which a resident of the USA derives from the sale, exchange, or other disposition of ships or aircraft operated in international traffic by such resident and registered in the USA shall be exempt from tax in the Soviet Union.

3. Remuneration derived by an individual from the performance of labor or personal services as an employee aboard ships or aircraft operated by one of the Contracting States or a resident thereof in international traffic shall be exempt from tax in the other Contracting State if such individual is a member of the regular complement of the ship or aircraft.

#### ARTICLE VI (Exemptions)

##### *1. Special exemptions.*

Income derived by an individual who is a resident of one of the Contracting States shall be exempt from tax in the other Contracting State as provided in subparagraphs (a) through (f).

(a) *Governmental employees.*

(1) An individual receiving remuneration from government funds of the Contracting State of which the individual is a citizen for labor or personal services performed as an employee of governmental agencies or institutions of that Contracting State in the discharge of governmental functions shall not be subject to tax on such remuneration in that other Contracting State.

(2) Labor or personal services performed by a citizen of one of the Contracting States shall be treated by the other Contracting State as performed in the discharge of governmental functions if such labor or personal services would be treated under the internal laws of the first Contracting State as so performed. However, it is understood that persons engaged in commercial activity, such as employees or representatives of commercial organizations of the USA and employees or representatives of the foreign trade organizations of the USSR, shall not be considered in the USSR and USA respectively as engaged in the discharge of governmental functions.

(3) The provisions of this Convention shall not affect the fiscal privileges of diplomatic and consular officials under the general rules of international law or under special agreements.

*(b) Participants in programs of intergovernmental cooperation.*

An individual who is a resident of one of the Contracting States and who is temporarily present in the other Contracting State under an exchange program provided for by agreements between the governments of the Contracting States on cooperation in various fields of science and technology shall not be subject to tax in that other Contracting State on remuneration received from sources within either Contracting State.

*(c) Teachers and researchers.*

(1) An individual who is a resident of one of the Contracting States and who is temporarily present in the other Contracting State at the invitation of a governmental agency or institution or an educational or scientific research institution in that other Contracting State for the primary purpose of teaching, engaging in research, or participating in scientific, technical or professional conferences shall not be subject to tax in that other Contracting State on his income from teaching or research or participating in such conferences.

(2) Subparagraph (1) shall not apply to income from research if such research is undertaken primarily for the benefit of a private person or commercial enterprise of the USA or a foreign trade organization of the USSR. However, subparagraph (1) shall apply in all cases where research is conducted on the basis of intergovernmental agreements on cooperation.

*(d) Students.*

An individual who is a resident of one of the Contracting States and who is temporarily present in the other Contracting State for the primary purpose of studying at an educational or scientific research institution or for the purpose of acquiring a profession or a specialty shall be exempt from taxes in the other Contracting State on a stipend, scholarship, or other substitute type of allowance, necessary to provide for ordinary living expenses.

*(e) Trainees and specialists.*

An individual who is a resident of one of the Contracting States, who is temporarily present in the other Contracting State for the primary purpose of acquiring technical, professional, or commercial experience or performing technical services, and who is an employee of, or under contract with, a resident of the first-mentioned Contracting State, shall not be subject to tax in that other Contracting State on remuneration received from abroad. Also, such individual shall not be subject to tax in that other Contracting State on amounts received from sources within that other Contracting State which are necessary to provide for ordinary living expenses.

*(f) Duration of exemptions.*

The exemptions provided for under subparagraphs (b), (c), (d), and (e) of this article shall extend only for such period of time as is required to effectuate the purpose of the visit, but in no case shall such period of time exceed:

- (1) One year in the case of subparagraphs (b) (Participants in programs of intergovernmental cooperation) and (e) (Trainees and specialists);
- (2) Two years in the case of subparagraph (c) (Teachers and researchers); and
- (3) Five years in the case of subparagraph (d) (Students). If an individual qualifies for exemption under more than one of subparagraphs (b), (c), (d), and (e), the provisions of that subparagraph which is most favorable to him shall apply. However, in no case shall an individual have the cumulative benefits of subparagraphs (b), (c), (d), and (e) for more than five taxable years from the date of his arrival in the other Contracting State.

*2. General exemptions.*

Income derived by an individual who is a resident of one of the Contracting States from the performance of personal services in the other Contracting State, which is not exempt from tax in accordance with paragraph 1. of this article, may be taxed in that other Contracting State, but only if the individual is present in that other Contracting State for a period aggregating more than 183 days in the taxable year.

ARTICLE VII  
(Taxation on Citizens)

This Convention shall not restrict the right of a Contracting State to tax a citizen of that Contracting State.

ARTICLE VIII  
(Application of Treaty)

This Convention shall apply only to the taxation of income from activity conducted in a Contracting State in accordance with the laws and regulations in force in such Contracting State.

## ARTICLE IX

### (Exemption of Transaction Giving Rise to Exempt Income)

If the income of a resident of one of the Contracting States is exempt from tax in the other Contracting State, in accordance with this Convention, such resident shall also be exempt from any tax which is at present imposed or which may be imposed subsequently in that Contracting State on the transaction giving rise to such income.

## ARTICLE X

### (Non-Discrimination)

1. A citizen of one of the Contracting States who is a resident of the other Contracting State shall not be subjected in that other Contracting State to more burdensome taxes than a citizen of that other Contracting State who is a resident thereof carrying on the same activities.

2. A citizen of one of the Contracting States who is a resident of the other Contracting State or a representation established by a resident of the first Contracting State in the other Contracting State shall not be subjected in that other Contracting State to more burdensome taxes than are generally imposed in that State on citizens or representations of residents of third States carrying on the same activities. However, this provision shall not require a Contracting State to grant to citizen or representations of residents of the other Contracting State tax benefits granted by special agreements to citizens or representations of a third State.

3. The provisions of paragraphs 1. and 2. of this article shall apply to taxes of any kind imposed on the Federal or All-Union level, the state or Republic level, and on the local level.

## ARTICLE XI

### (Mutual Agreement Procedure)

1. If a resident of one of the Contracting States considers that the action of one or both of the Contracting States results or will result for him in taxation not in accordance with this Convention, he may, notwithstanding the remedies provided by the laws of the Contracting States, present his case to the competent authorities of the Contracting State of which he is a resident or citizen. Should the claim be considered to have merit by the competent authorities of the Contracting State to which the claim is made, they shall endeavor to come to an agreement with the competent authorities of the other Contracting State with a view to the avoidance of taxation not in accordance with the provisions of this Convention.

2. In the event that such an agreement is reached the competent authorities of the Contracting States shall, as necessary, refund the excess amounts paid, allow tax exemptions, or levy taxes.

## ARTICLE XII (Exchange of Information)

The competent authorities of the Contracting States shall notify each other annually of amendments of the tax legislation referred to in paragraph 1. of Article I and of the adoption of taxes referred to in paragraph 2. of Article I by transmitting the texts of amendments or new statutes and notify each other of any material concerning the application of this Convention.

## ARTICLE XIII (Entry into Force)

This Convention shall be subject to ratification and shall enter into force on the thirtieth day after the exchange of instruments of ratification. The instruments of ratification shall be exchanged at Moscow as soon as possible.

The provisions of this Convention shall, however, have effect for income derived on or after January 1 of the year following the year in which the instruments of ratification are exchanged.

## ARTICLE XIV (Termination)

1. This Convention shall remain in force for a period of three years after it takes effect and shall remain in force thereafter for an indefinite period. Either of the Contracting States may terminate this Convention at any time after three years from the date on which the Convention enters into force by giving notice of termination through diplomatic channels at least six months before the end of any calendar year. In such event, the Convention shall cease to have effect beginning on January 1 of the year following the year in which notice is given.

2. Notwithstanding the provisions of paragraph 1. of this article, upon prior notice to be given through diplomatic channels, the provisions of subparagraphs (e), (f), or (g) of paragraph 1. of Article III and the provisions of Article IX may be terminated separately by either Contracting State at any time after three years from the date on which this Convention enters into force. In such event such provisions shall cease to have effect beginning on January 1 of the year following the year in which notice is given.

In witness whereof, the plenipotentiaries of the two Contracting States have signed the present Convention and have affixed their seals thereto.

Done at Washington, this 20th day of June, 1973, in duplicate, in the English and Russian languages, both texts being equally authentic.

For the President of the United States of America  
GEORGE P. SHULTZ

For the Presidium of the Supreme Soviet of the Union of Soviet Socialist Republics  
NIKOLAI S. PATOLICHEV

## NOTES OF EXCHANGE

[TRANSLATION]

WASHINGTON, *JUNE 20, 1973.*

Mr. GEORGE P. SCHULTZ  
*Secretary of the Treasury,*  
*United States of America.*

DEAR Mr. SECRETARY: In connection with the Income Tax Convention signed today, I should like to state our understanding of the agreement reached by the delegations of the United States of America and of the Union of Soviet Socialist Republics concerning the application of certain provisions of the Convention.

1. In connection with Article III, subparagraph 1.(e), it is our understanding that Soviet foreign trading organizations perform the functions of a broker or general commission agent for various Soviet industrial and other organizations in the purchase of goods and services from foreign suppliers. Accordingly, a representation of a United States commercial organization in the Soviet Union making sales to a Soviet foreign trading organization will be regarded as making sales through a broker or general commission agent.

It is understood that a firm acting in the USA as a broker, general commission agent or other agent for a Soviet foreign trade organization will not be considered to be of independent status if it is owned or otherwise controlled by an authorized organization of the Soviet Union.

It is also understood that if such a broker, general commission agent or other agent has no income other than commission income, such broker, general commission agent or other agent will be taxable only on such commission income.

2. In Article VI, subparagraphs 1.(d) and (e) provide exemption under certain circumstances of an amount "necessary to provide for ordinary living expenses." It is agreed that the exemption under

subparagraph 1.(e) in any taxable year will not apply to any amount in excess of \$10,000 or its equivalent in rubles, and that the exemption under subparagraph 1.(d) will generally apply to a lesser amount, to be determined in each specific case.

3. With respect to income mentioned in Article V, it is understood that each of the Contracting States will, if necessary, endeavor to secure exemption from taxes which may be imposed in Republics, states, or at the local level.

4. It is understood that both Contracting States continue to exercise tax jurisdiction over journalists and press, television, and radio correspondents on foreign assignment. Accordingly, it is agreed on the basis of reciprocity that subparagraph 1.(c) (1) of Article VI shall apply to such journalists and correspondents for a two-year period whether or not they are present in the other Contracting State at the invitation of a governmental agency or institution. It is understood that the exemption granted by the host country will apply only to compensation received from abroad.

5. It is understood that customs duties are not considered taxes for purposes of Article IX and paragraph 3. of Article X.

Please accept, Mr. Secretary, assurances of my highest consideration.

Sincerely yours,

(s) N.S. Patolichev  
N. PATOLICHEV.

THE SECRETARY OF THE TREASURY  
*Washington, D.C., June 20, 1973.*

Mr. NIKOLAI S. PATOLICHEV  
*Ministry of Foreign Trade,  
Union of Soviet Socialist Republics.*

DEAR Mr. MINISTER: In connection with the Income Tax Convention signed today, I should like to state our understanding of the agreement reached by the delegations of the United States of America and of the Union of Soviet Socialist Republics concerning the application of certain provisions of the Convention.

1. In connection with Article III, subparagraph 1.(e), it is our understanding that Soviet foreign trading organizations perform the functions of a broker or general commission agent for various Soviet industrial and other organizations in the purchase of goods and services from foreign suppliers. Accordingly, a representation of a United States commercial organization in the Soviet Union making sales to a Soviet foreign trading organization will be regarded as making sales through a broker or general commission agent.

It is understood that a firm acting in the USA as a broker, general commission agent or other agent for a Soviet foreign trade organization will not be considered to be of independent status if it is owned or otherwise controlled by an authorized organization of the Soviet Union.

It is also understood that if such a broker, general commission agent or other agent has no income other than commission income, such broker, general commission agent or other agent will be taxable only on such commission income.

2. In Article VI, subparagraphs 1.(d) and (e) provide exemption under certain circumstances of an amount "necessary to provide for ordinary living expenses." It is agreed that the exemption under subparagraph 1.(e) in any taxable year will not apply to any amount in excess of \$10,000 or its equivalent in rubles, and that the exemption under subparagraph 1.(d) will generally apply to a lesser amount, to be determined in each specific case.

3. With respect to income mentioned in Article V, it is understood that each of the Contracting States will, if necessary, endeavor to secure exemption from taxes which may be imposed in Republics, states, or at the local level.

4. It is understood that both Contracting States continue to exercise tax jurisdiction over journalists and press, television, and radio correspondents on foreign assignment. Accordingly, it is agreed on the basis of reciprocity that subparagraph 1.(c) (1) of Article VI shall apply to such journalists and correspondents for a two-year period whether or not they are present in the other Contracting State at the invitation of a governmental agency or institution. It is understood that the exemption granted by the host country will apply only to compensation received from abroad.

5. It is understood that customs duties are not considered taxes for purposes of Article IX and paragraph 3. of Article X.

Please accept, Mr. Minister, assurances of my highest consideration.

Sincerely yours,

GEORGE P. SHULTZ.