

2. The competent authority of the taxing State may, when necessary, in execution of paragraph 1 of this Article, rectify the accounts produced, notably to correct errors and omissions or to re-establish the prices or remuneration entered in the books at the value which would prevail between independent persons dealing at arm's length.

3. If (a) an establishment does not produce an accounting showing its own operations, or (b) the accounting produced does not correspond to the normal usages of the trade in the country where the establishment is situated or (c) the rectifications provided for in paragraph 2 of this Article cannot be effected the competent authority of the taxing State may determine the industrial and commercial profit by applying such methods or formulae to the operations of the establishment as may be fair and reasonable.

4. To facilitate the determination of industrial and commercial profit allocable to the permanent establishment, the competent authorities of the contracting States may consult together with a view to the adoption of uniform rules of allocation of such profits.

ARTICLE IV

1. (a) When a United States enterprise, by reason of its participation in the management or capital of a Canadian enterprise, makes or imposes on the latter, in their commercial or financial relations, conditions different from those which would be made with an independent enterprise, any profits which should normally have appeared in the balance sheet of the Canadian enterprise but which have been, in this manner, diverted to the United States enterprise, may be incorporated in the taxable profits of the Canadian enterprise, subject to applicable measures of appeal.

(b) In order to effect the inclusion of such profits in the taxable profits of the Canadian enterprise, the competent authority of Canada may, when necessary, rectify the accounts of the Canadian enterprise, notably to correct errors and omissions or to re-establish the prices or remuneration entered in the books at the values which would prevail between independent persons dealing at arm's length. To facilitate such rectification the competent authorities of the contracting States may consult together with a view to such determination of profits of the Canadian enterprise as may appear fair and reasonable.

2. The same principle applies, *mutatis mutandis*, in the event that profits are diverted from a United States enterprise to a Canadian enterprise.

ARTICLE V

Income which an enterprise of one of the contracting States derives from the operation of ships or aircraft registered in that State shall be exempt from taxation in the other contracting State.

The present Convention will not be deemed to affect the exchange of notes between the United States of America and Canada, dated August 2 and September 17, 1928, providing for relief from double income taxation on shipping profits.*

ARTICLE VI

Wages, salaries and similar compensation paid by the Government, or an agency or instrumentality thereof, of one of the contracting States or by the political subdivisions or territories or possessions thereof to citizens of such State residing in the other State shall be exempt from taxation in the latter State.

Pensions and life annuities derived from within one of the contracting States and paid to individuals residing in the other contracting State shall be exempt from taxation in the former State.

* For the exchange of notes see Canada Treaty Series 1928, No. 9.