

2. Subject to the laws of Malaysia regarding the allowance as a credit against Malaysian tax of tax payable in any country other than Malaysia, tax payable in Canada in respect of income derived therefrom shall be allowed as a credit against Malaysian tax payable in respect of that income.

3. In the case of Canada, double taxation shall be avoided as follows:

- (a) Subject to the existing provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions (which shall not affect the general principle hereof) and unless a greater deduction or relief is provided under the laws of Canada, tax payable in Malaysia on profits, income or gains arising in Malaysia shall be deducted from any Canadian tax payable in respect of such profits, income or gains.
- (b) Subject to the existing provisions of the law of Canada regarding the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions (which shall not affect the general principle hereof) for the purpose of computing Canadian tax, a company resident in Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate resident in Malaysia.

4. For the purpose of paragraph 3(a), tax payable in Malaysia by a resident of Canada shall be deemed to include

- (a) in respect of dividends received by it from a company which is a resident of Malaysia, any amount which would have been payable as Malaysian tax for any year but for an exemption from, or reduction of, tax granted for that year or any part thereof under:
 - (i) Sections 21, 22 and 26 of the Investment Incentives Act 1968 of Malaysia so far as they were in force on, and have not been modified since, the date of signature of this Agreement, or have been modified only in minor respects so as not to affect their general character; and except to the extent that any of the said provisions has the effect of exempting or relieving for a period in excess of ten years the income or profits out of which the dividends are paid; or
 - (ii) any other provisions which may subsequently be made granting an exemption or reduction of tax which is agreed by the competent authorities of the Contracting States to be of a substantially similar character, if it has not been modified thereafter or has been modified only in minor respects so as not to affect its general character:

provided that any deduction from Canadian tax granted in accordance with the provisions of this paragraph shall not exceed an amount equal to 15 per cent of the gross amount of the dividends;

- (b) in the case of interest to which paragraph 3 of Article XI applies, an amount not exceeding a sum equivalent to tax at a rate of 15 per cent on the gross amount of the interest in respect of Malaysian tax which would have been payable but for the exemption granted under paragraph 27 of Schedule 6 to the Income Tax Act 1967 of Malaysia; or