

(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, Israeli tax payable under the law of Israel and in accordance with this Convention on profits, income or gains arising in Israel 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 Israel.

2. For the purpose of paragraph 1(a), Israeli tax payable by a resident of Canada

(a) in respect of profits attributable to a trade or business carried on by it in Israel, or

(b) in respect of dividends or interest received by it from a company which is a resident of Israel,

shall be deemed to include any amount which would have been payable as Israeli tax for any year but for an exemption from, or reduction of, tax granted for that year or any part thereof under—

(c) any of the following provisions, that is to say:

sections 45, 46, 47 and 47A of the Law for the Encouragement of Capital Investments, 5719-1959, as amended;

sections 5 and 6 of the Israeli Corporation Ltd. Law, 5729-1969; or

sections 6 and 7 of the Law for the Encouragement of Capital Investments (Major Capital Companies), 5733-1973;

so far as they were in force on, and have not been modified since, the date of signature of this Convention, 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 (other than section 45(2) of the Law for the Encouragement of Capital Investments, 5719-1959) has the effect of exempting or relieving a source of income for a period in excess of 10 years;

(d) any other provision 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