

- (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 modifications 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 Pakistan.

2. For the purposes of paragraph 1(a), tax payable in Pakistan by a resident of Canada

- (a) in respect of profits attributable to a trade or business carried on by it in Pakistan, or  
 (b) in respect of dividends, interest or royalties received by it from a company which is a resident of Pakistan,

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

— any of the following provisions, that is to say:

Notification S.R.O. 17(R), dated 1st July, 1960;

Notification S.R.O. 625(I)/72, dated 12th August, 1972;

Notification S.R.O. 861(I)/74, dated 29th August, 1974;

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 has the effect of exempting or relieving a source of income for a period in excess of ten years;

- any other subsequent enactment or statutory rule of Pakistan adopted in pursuance of its economic development granting an exemption or reduction of tax with respect to any item of income mentioned in subparagraphs (a) and (b) above and which is specified and agreed in letters exchanged between the competent authorities of the Contracting States, 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 in respect of dividends, interest or royalties shall not exceed an amount equal to 15 per cent of the gross amount thereof.

3. Subject to the provisions of the Pakistan Income Tax Act regarding the allowance as a credit against Pakistan tax of tax payable in a country outside Pakistan, tax payable in Canada, whether directly or by deduction, by a person resident in Pakistan, in respect of income from sources within Canada (including income accruing or arising in Canada but deemed under the provisions of the law of Pakistan to accrue or arise in Pakistan) shall be allowed as a credit against any Pakistan tax payable in respect of that income.