

Paragraph 1 of Article XI of the Income Tax Convention of 1942 provides that "the rate of income tax imposed by one of the contracting States, in respect of income (other than earned income) derived from sources therein, upon individuals residing in, or corporations organized under the laws of, the other contracting State, shall not exceed 15% for each taxable year".

This paragraph now has been modified by the Supplementary Convention of December 20, 1967 to provide that it shall not apply in respect of income derived from sources in one of the countries and paid to a corporation organized under the laws of the other country if the latter corporation is not subject to income tax in the last-mentioned country because it is not resident there for purpose of its income tax.

#### Explanatory Note

The standard United States rate of withholding tax on investment income paid to non-residents of the United States is 30%, but in accordance with Article XI quoted above, this rate is reduced to 15% when paid to a company incorporated in Canada.