

5. Where a company which is a resident of a Contracting State derives profits or income from the other Contracting State, that other State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other State, nor subject the company's undistributed profits to a tax on undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State.

6. Notwithstanding any provision in this Convention, Canada may impose on the earnings of a company attributable to permanent establishments in Canada, tax in addition to the tax which would be chargeable on the earnings of a company incorporated in Canada, provided that the rate of such additional tax so imposed shall not exceed 5 per cent. For the purpose of this provision, the term "earnings" means the profits attributable to such permanent establishments in Canada (including gains from the alienation of property forming part of the business property, referred to in paragraph 2 of Article 13, of such permanent establishments) in accordance with Article 7 in a year and previous years after deducting therefrom:

- (a) business losses attributable to such permanent establishments (including losses from the alienation of property forming part of the business property of such permanent establishments) in such year and previous years;
- (b) all taxes chargeable in Canada on such profits, other than the additional tax referred to herein;
- (c) the profits reinvested in Canada, provided that the amount of such deduction shall be determined in accordance with the existing provisions of the law of Canada regarding the computation of the allowance in respect of investment in property in Canada, and any subsequent modification of those provisions which shall not affect the general principle hereof; and
- (d) five hundred thousand Canadian dollars (\$500,000) less any amount deducted:
 - (i) by the company, or
 - (ii) by a person related thereto from the same or a similar business as that carried on by the company,

under this sub-paragraph (d); for the purposes of this sub-paragraph (d), a company is related to another company if one company directly or indirectly controls the other, or both companies are directly controlled by the same person or persons, or if the two companies deal with each other not at arm's length.

The provisions of this paragraph shall also apply with respect to earnings from the alienation of immovable property in Canada by a company carrying on a trade in immovable property without a permanent establishment in Canada but only insofar as these earnings may be taxed in Canada in accordance with the provisions of Article 6 or paragraph 1 of Article 13.