

through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, tax may be imposed by Canada on the industrial or commercial profits of the enterprise but only on so much of them as is attributable to that permanent establishment.

(2) Industrial or commercial profits of a Canadian enterprise shall be exempt from United Kingdom tax unless the enterprise carries on business in the United Kingdom through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, tax may be imposed by the United Kingdom on the industrial or commercial profits of the enterprise but only on so much of them as is attributable to that permanent establishment.

(3) Where an enterprise of one of the territories carries on business in the other territory through a permanent establishment situated therein, there shall be attributed to that establishment the industrial or commercial profits which it might be expected to make if it were an independent enterprise engaged in the same or similar activities under the same or similar conditions and dealing at arm's length with the enterprise of which it is a permanent establishment.

(4) In determining the industrial or commercial profits of an enterprise of one of the territories which are taxable in the other territory in accordance with the previous paragraphs of this Article, there shall be allowed as deductions all expenses of the enterprise (including executive and general administrative expenses) which would be deductible if the permanent establishment were an independent enterprise and which are reasonably connected with the profits so taxable, whether incurred in the territory in which the permanent establishment is situated or elsewhere.

(5) No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

(6) The term "industrial or commercial profits" means income derived by an enterprise from the conduct of a trade or business, including income derived by an enterprise from the furnishing of services of employees or other personnel, but it does not include dividends, interest, royalties (as defined in Articles 9, 10 and 11) or rents other than dividends, interest, royalties or rents effectively connected with a trade or business carried on through a permanent establishment which an enterprise of one of the territories has in the other territory; nor does the term include remuneration for personal (including professional) services.

(7) Nothing in the foregoing provisions of this Article shall affect any of the provisions of the law of the United Kingdom relating to the liability to tax of a life assurance company not having its head office in the United Kingdom in respect of income from the investments of its life assurance fund, being provisions which (except in so far as they were rendered ineffective by virtue of Article III of the Agreement between Canada and the United Kingdom with respect to taxes on income signed at Ottawa on 6 December, 1965) were in force on the date of signature of this Agreement, or which, if they have been modified since that date, have been modified only in minor respects so as not to affect their general character.

#### ARTICLE 7.

A resident of one of the territories shall be exempt from tax in the other territory on profits from the operation of ships or aircraft in international traffic.