

2. Pensions arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in the State in which they arise, and according to the law of that State. However, in the case of periodic pension payments, the tax so charged shall not exceed the lesser of

- (a) 15 per cent of the gross amount of the payment, and
- (b) the rate determined by reference to the amount of tax that the recipient of the payment would otherwise be required to pay for the year if he were resident in the contracting State in which the payment arises.

3. Notwithstanding the provisions of paragraphs 1 and 2, pensions paid out of public funds of Malaysia or of funds of any State government or local authority of Malaysia to any individual in respect of services rendered to the Government of Malaysia or any State government or local authority of Malaysia in the discharge of governmental functions shall be taxable only in Malaysia unless the individual is a national of, and a resident of Canada.

4. Annuities arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in the State in which they arise, and according to the law of that State; but the tax so charged shall not exceed 15 per cent of the gross amount of the payment. However, this limitation does not apply to lump-sum payments arising on the surrender, cancellation, redemption, sale or other alienation of an annuity, or to payments of any kind under an income-averaging annuity contract.

5. Notwithstanding anything in this Agreement:

- (a) pensions and allowances received from Canada under the Pension Act, the Civilian War Pensions and Allowances Act or the War Veterans Allowances Act and compensation received under regulations made under section 7 of the Aeronautics Act shall not be taxable in Malaysia so long as they are not subject to Canadian tax;
- (b) pensions and allowances received from Malaysia under paragraphs 7, 8 and 9 in Part I of Schedule 6 to the Income Tax Act, 1967 of Malaysia shall not be taxable in Canada so long as they are not subject to Malaysian tax.

ARTICLE XIX

Government Service

1. (a) Remuneration, other than a pension, paid by a Contracting State or a political subdivision or a local authority thereof to any individual in respect of services rendered to that State or subdivision or local authority thereof shall be taxable only in that State.
- (b) However, such remuneration shall be taxable only in the Contracting State of which the recipient is a resident if the services are rendered in that State and the recipient did not become a resident of that State solely for the purpose of performing the services.