

Article 11

Interest

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such interest may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the interest is a resident of the other Contracting State the tax so charged shall not exceed 10 per cent of the gross amount of the interest.

3. Notwithstanding the provisions of paragraph 2, interest arising in a Contracting State and paid to a resident of the other Contracting State who is the beneficial owner thereof shall be taxable only in that other State to the extent that such interest:

- (a) is a penalty charge for late payment;
- (b) is paid by the central bank of a Contracting State; or
- (c) is paid with respect to indebtedness resulting from the sale or furnishing on credit by a resident of that other State of any equipment, merchandise or services, except where the sale or furnishing is made, or the interest is paid, between associated enterprises within the meaning of subparagraphs (a) or (b) of paragraph 1 of Article 9.

4. Notwithstanding the provisions of paragraph 2:

(a) interest arising in a Contracting State and paid in respect of indebtedness of the government of that State or of a political subdivision or local authority thereof shall, provided that the interest is beneficially owned by a resident of the other Contracting State, be taxable only in that other State;

(b) interest arising in Sweden and paid to a resident of Canada shall be taxable only in Canada if it is paid in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by the Export Development Corporation;

(c) interest arising in Canada and paid to a resident of Sweden shall be taxable only in Sweden if it is paid in respect of a loan made, guaranteed or insured, or a credit extended, guaranteed or insured by the Exportkreditnämnden; and

(d) interest arising in a Contracting State and paid to a resident of the other Contracting State which was constituted and is operated exclusively to administer or provide benefits under one or more pension, retirement or other employee benefits plans shall not be taxable in the first-mentioned State provided that:

- (i) the resident is the beneficial owner of the interest and is generally exempt from tax in the other State; and
- (ii) the interest is not derived from carrying on a trade or a business or from a related person.