

competent authority in the former State is satisfied that the corporate relationship between the two corporations has been arranged or is maintained primarily with the intention of taking advantage of this paragraph.

3. Notwithstanding the provisions of Article XXII of this Convention paragraph 1 or paragraph 2, or both, of this Article, may be terminated without notice on or after the termination of the three-year period beginning with the effective date of this Convention by either of the contracting States imposing a rate of income tax in excess of the rate of 15 percent prescribed in paragraph 1 or in excess of the rate of 5 percent prescribed in paragraph 2.

4. The provisions of this Article shall not be construed so as to contravene the Tax Convention between Canada and the United States of America, effective January 1, 1936, to April 29, 1941.

ARTICLE XII

Dividends and interest paid on or after the effective date of this Convention by a corporation organized under the laws of Canada to individual residents of Canada, other than citizens of the United States of America, or to corporations organized under the laws of Canada shall be exempt from all income taxes imposed by the United States of America.

ARTICLE XIII

Corporations organized under the laws of Canada, more than 50 percent of the outstanding voting stock of which is owned directly or indirectly throughout the last half of the taxable year by individual residents of Canada, other than citizens of the United States of America, shall be exempt from any tax imposed by the United States of America with respect to accumulated or undistributed earnings, profits, income or surplus of such corporations. With respect to corporations organized under the laws of Canada not exempt from such tax under the provisions of this Article the competent authorities of the two contracting States will consult together.

ARTICLE XIV

1. (a) The United States income tax liability for any taxable year beginning prior to January 1, 1936, of any individual resident of Canada, other than a citizen of the United States of America, or of any corporation organized under the laws of Canada, remaining unpaid as of the date of signature of this Convention may be adjusted on a basis satisfactory to the Commissioner: Provided, That the amount to be paid in settlement of such liability shall not exceed the amount of the liability which would have been determined if—

- (A) the Revenue Act of 1936 as modified by the Tax Convention between Canada and the United States of America, effective January 1, 1936, to April 29, 1941 (except in the case of a corporation organized under the laws of Canada more than 50 percent of the outstanding voting stock of which was owned directly or indirectly throughout the last half of the taxable year by citizens or residents of the United States of America) and
- (B) Articles XII and XIII of this Convention had been in effect for such year.

If the taxpayer was not, within the meaning of the Revenue Act of 1936 engaged in trade or business within the United States of America and had no office or place of business therein during the taxable year, the amount of interest and penalties shall not exceed 50 percent of the amount of the tax with respect to which such interest and penalties have been computed.

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