

V. METHODS FOR PREVENTION OF DOUBLE TAXATION

ARTICLE 23

Elimination of Double Taxation

1. The laws in force in either of the Contracting States will continue to govern the taxation of income in the respective Contracting States except where provisions to the contrary are made in this Agreement.
2. In the case of Canada, double taxation shall be avoided as follows:
 - (a) Subject to the existing provisions of the law of Canada regarding the deduction from tax payable in Canada of tax paid in a territory outside Canada and to any subsequent modification of those provisions -- which shall not affect the general principle hereof -- and unless a greater deduction or relief is provided under the laws of Canada, tax payable in India on profits, income or gains arising in India shall be deducted from any Canadian tax payable in respect of such profits, income or gains.
 - (b) Subject to the existing provisions of the law of Canada regarding the determination of the exempt surplus of a foreign affiliate and to any subsequent modification of those provisions -- which shall not affect the general principle hereof -- for the purpose of computing Canadian tax, a company which is a resident of Canada shall be allowed to deduct in computing its taxable income any dividend received by it out of the exempt surplus of a foreign affiliate which is a resident of India.
 - (c) Where a resident of Canada owns capital which, in accordance with the provisions of the Agreement may be taxed in India, Canada shall allow as a deduction from the tax on capital of that resident an amount equal to the capital tax paid in India. Such deduction shall not, however, exceed that part of the capital tax (as computed before the deduction is given) which is attributable to the capital which may be taxed in India.
 - (d) Where in accordance with any provision of the Agreement income derived or capital owned by a resident of Canada is exempt from tax in Canada, Canada may nevertheless, in calculating the amount of tax on the remaining income or capital of such resident, take into account the exempted income or capital.
3. In the case of India, double taxation shall be avoided as follows:
 - (a) The amount of Canadian tax paid, under the laws of Canada and in accordance with the provisions of the Agreement, whether directly or by deduction, by a resident of India, in respect of income from sources within Canada which has been subjected to tax both in India and Canada shall be allowed as a credit against the Indian tax payable in respect of such income but in an amount not exceeding that proportion of Indian tax which such income bears to the entire income chargeable to Indian tax.
 - (b) Where a resident of India owns capital, which, in accordance with the provisions of the Agreement, may be taxed in Canada, India shall allow as a deduction from the tax on the capital of that resident an amount equal to the capital tax paid in Canada. Such deduction shall not, however, exceed that part of the capital tax (as computed before the deduction is given) which is attributable to the capital which may be taxed in Canada.