

deduction or relief is provided under the laws of Canada, tax payable in Malta on profits, income or gains arising in Malta 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 resident in 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 resident in Malta.

2. For the purposes of paragraph 1 (a), tax payable in Malta by a resident of Canada in respect of dividends, interest or royalties received by it from a company which is a resident of Malta, shall be deemed to include any amount which would have been payable as Malta tax for any year but for an exemption from, or reduction of, tax granted for that year or any part thereof under:

- (a) the provisions of section 6B of the Aids to Industries Ordinance, 1959, so far as they were in force on, and have not been modified since, the date of signature of this Agreement, or have been modified only in minor respect so as not to affect their general character;
- (b) any other special provisions of the law of Malta designed to promote investments necessary for the economic development of Malta which may subsequently be made granting an exemption or reduction of tax which is agreed by the competent authorities of the Contracting States to be of a substantially similar character, if it has not been modified thereafter or has been modified only in minor respects so as not to affect its general character;

provided that any deduction from Canadian tax granted in accordance with the provisions of this paragraph shall not exceed 15 per cent of the gross amount of the dividends, interest or royalties.

3. In the case of Malta, double taxation shall be avoided as follows:

Subject to the provisions of the law of Malta regarding the allowance of a credit against Malta tax in respect of foreign tax, where, in accordance with the provisions of this Agreement, there is included in a Malta assessment income from sources within Canada, or elements of capital situated in Canada, the Canadian tax on such income or elements of capital, as the case may be, shall be allowed as a credit against the relative Malta tax payable thereon.

4. For the purposes of this Article, profits, income or gains of a resident of a Contracting State which are taxed in the other Contracting State in accordance with this Agreement shall be deemed to arise from sources in that other State.