

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 a resident of the other Contracting State is the beneficial owner of the interest 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 paid in connection with the sale on credit of any equipment or merchandise by the purchasing person to the selling person, except where the sale is made between associated persons;
- (b) is paid in respect of indebtedness of the government of a Contracting State or of a "Land", or political subdivision or local authority thereof;
- (c) is paid to the Canadian Export Development Corporation or to the German "Kreditanstalt für Wiederaufbau" or the "Deutsche Gesellschaft für Wirtschaftliche Zusammenarbeit";
- (d) is paid to the government of a Contracting State or of a "Land", or political subdivision thereof, or to the central bank of a Contracting State; or
- (e) is paid to a resident of the other State which was constituted and is operated exclusively to administer or provide benefits under one or more pension, retirement or other employee benefits plans provided that:
  - (aa) the resident is generally exempt from income tax in the other State, and
  - (bb) the interest is not derived from carrying on a trade or a business or from an associated person.

For the purpose of subparagraphs (a) and (e), a person is associated with another person if it is related to, or controlled or managed by the other person or if both persons are related to, or controlled by or managed by a third person. For the purpose of the preceding sentence, a person is related to another person if more than 50 per cent of the voting shares belongs to the other person, to persons with whom the other person is associated, or to other persons so associated with it.

4. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures as well as income which is subjected to the same taxation treatment as income from money lent by the laws of the State in which the income arises. However, the term "interest" does not include income dealt with in Article 10.

5. The provisions of paragraphs 1 to 3 shall not apply if the beneficial owner of the interest, being a resident of a Contracting State, carries on business in the other Contracting State in which the interest arises, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14, as the case may be, shall apply.