STATUTORY INSTRUMENTS

1961 No. 2467

INCOME TAX

The Double Taxation Relief (Taxes on Income) (Pakistan) Order, 1961

Laid before the House of Commons in draft
Made - - - - 21st December, 1961

At the Court at Buckingham Palace, the 21st day of December, 1961

Present,

The Queen's Most Excellent Majesty in Council

Whereas a draft of this Order was laid before the Commons House of Parliament in accordance with the provisions of subsection (6) of section three hundred and forty-seven of the Income Tax Act, 1952(a), and an Address has been presented to Her Majesty by that House praying that an Order may be made in the terms of this Order:

Now, therefore, Her Majesty, in exercise of the powers conferred upon Her by subsection (1) of the said section three hundred and forty-seven, as amended by section seventeen of the Finance Act, 1961(b), and of all other powers enabling Her in that behalf, is pleased, by and with the advice of Her Privy Council, to order, and it is hereby ordered, as follows:—

1. This Order may be cited as the Double Taxation Relief (Taxes on Income) (Pakistan) Order, 1961.

2. It is hereby declared—

(*a*) that the arrangements specified in the Agreement set out in the Schedule to this Order have been made with the Government of Pakistan with a view to affording relief from double taxation in relation to income tax or profits tax and taxes of a similar character imposed by the laws of Pakistan; and

(*b*) that it is expedient that those arrangements should have effect.

W. G. Agnew.

SCHEDULE

AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE GOVERNMENT OF PAKISTAN FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL EVASION WITH RESPECT TO TAXES ON INCOME

The Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Pakistan,

(a) 15 & 16 Geo. 6 & 1 Eliz. 2. c. 10. (b) 9 & 10 Eliz. 2. c. 36.

Desiring to conclude an agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income,

Have agreed as follows:—

ARTICLE I

(1) The taxes which are the subject of the present Agreement are:—

(*a*) In the United Kingdom of Great Britain and Northern Ireland:
The income tax (including surtax) and the profits tax (hereinafter referred to as "United Kingdom tax").

(*b*) In Pakistan:
The income-tax and super-tax (hereinafter referred to as "Pakistan tax").

(2) The present Agreement shall also apply to any identical or substantially similar taxes subsequently imposed in addition to, or in place of, the taxes specified in paragraph (1) of this Article by either Contracting Government or by the Government of any territory to which the present Agreement is extended under Article XVII.

ARTICLE II

(1) In the present Agreement, unless the context otherwise requires:

(*a*) The term "United Kingdom" means Great Britain and Northern Ireland;

(*b*) The term "Pakistan" means the Provinces of Pakistan and the Federal Territory of Karachi;

(*c*) The terms "one of the territories" and "the other territory" mean the United Kingdom or Pakistan, as the context requires;

(*d*) The term "tax" means United Kingdom tax or Pakistan tax, as the context requires;

(*e*) The term "person" includes any body of persons, corporate or not corporate;

(*f*) The term "company" means any body corporate or not corporate, assessed as a company under the relevant laws of either Contracting Government;

(*g*) The term "resident of the United Kingdom" means—

(i) Any company whose business is managed and controlled in the United Kingdom; or

(ii) Any other person who is resident in the United Kingdom for the purposes of United Kingdom tax and not resident in Pakistan for the purposes of Pakistan tax;

(*h*) The term "resident of Pakistan" means—

(i) Any company whose business is managed and controlled in Pakistan; or

(ii) Any other person who is resident in Pakistan for the purposes of Pakistan tax and not resident in the United Kingdom for the purposes of United Kingdom tax;

(*i*) The terms "resident of one of the territories" and "resident of the other territory" mean a person who is a resident of the United Kingdom or a person who is a resident of Pakistan, as the context requires;

(*j*) The terms "United Kingdom enterprise" and "Pakistan enterprise" mean respectively an industrial or commercial enterprise or undertaking carried on by a resident of the United Kingdom and an industrial or commercial enterprise or undertaking carried on by a resident of Pakistan; and the terms "enterprise of one of the territories" and "enterprise of the other territory" mean a United Kingdom enterprise or a Pakistan enterprise, as the context requires;

(*k*) The term "industrial or commercial profits" includes rents or royalties in respect of motion picture films and films for use in connection with television, but does not include income in the form of dividends, interest, rents, or royalties, or a fee or other remuneration derived by an enterprise from the management, control or supervision of the trade, business or other activity of another enterprise or concern, or remuneration for labour or personal services, or income from the operation of ships or aircraft;

(*l*) The term "permanent establishment", when used with respect to an enterprise of one of the territories, means a branch, management, factory, or other fixed place of business, but does not include an agency unless the agent has, and habitually exercises, a general authority to negotiate and conclude contracts on behalf of such enterprise or has a stock of goods or merchandise from which he regularly fills orders on its behalf. In this connection—

(i) An enterprise of one of the territories shall not be deemed to have a permanent establishment in the other territory merely because it carries on business dealings in that other territory through a *bona fide* broker, general commission agent or other independent agent acting in the ordinary course of his business as such or because it makes purchases of goods or merchandise direct from an independent exporter in that other territory in the normal course of international trade; and

(ii) The fact that a company which is a resident of one of the territories has a subsidiary company which is a resident of the other territory or which is engaged in trade or business in that other territory (whether through a permanent establishment or otherwise) shall not of itself constitute that subsidiary company a permanent establishment of its parent company; and

(*m*) The term "taxation authorities" means, in the case of the United Kingdom, the Commissioners of Inland Revenue or their authorised representative and, in the case of Pakistan, the Central Board of Revenue or their authorised representative; and, in the case of any territory to which the present Agreement is extended under Article XVII, the competent authority for the administration in such territory of the taxes to which the present Agreement applies.

(2) Where under this Agreement any income is exempt from tax in one of the territories if (with or without other conditions) it is subject to tax in the other territory and that income is subject to tax in that other territory by reference to the amount thereof which is remitted to, or received in, that other territory, the exemption to be allowed under this Agreement in the first-mentioned territory shall apply only to the amount so remitted or received.

(3) In the application of the provisions of the present Agreement by one of the Contracting Governments, any term not otherwise defined shall, unless the context otherwise requires, have the meaning which it has under the laws of that Contracting Government relating to the taxes which are the subject of the present Agreement.

ARTICLE III

(1) The industrial or commercial profits of a United Kingdom enterprise shall not be subject to Pakistan tax unless the enterprise is engaged in trade or business in Pakistan through a permanent establishment situated therein. If it is so engaged, tax may be imposed on those profits by Pakistan, but only on so much of them as is attributable to that permanent establishment.

(2) The industrial or commercial profits of a Pakistan enterprise shall not be subject to United Kingdom tax unless the enterprise is engaged in trade or business in the United Kingdom through a permanent establishment situated therein. If it is so engaged, tax may be imposed on those profits by the United Kingdom, but only on so much of them as is attributable to that permanent establishment.

(3) Where an enterprise of one of the territories is engaged in trade or business in the other territory through a permanent establishment situated therein, there shall be attributed to such permanent establishment the industrial or commercial profits which it might be expected to derive in that other territory if it were an independent enterprise engaged in the same or similar activities under the same or similar conditions and dealing at arm's length with the enterprise of which it is a permanent establishment.

(4) In determining the industrial or commercial profits of a permanent establishment, there shall be allowed as deductions all expenses which would be deductible if the permanent establishment were an independent enterprise in so far as they are reasonably allocable to the permanent establishment, including executive and general administrative expenses so deductible and allocable, whether incurred in the territory in which the permanent establishment is situated or elsewhere.

ARTICLE IV

Where—

(*a*) an enterprise of one of the territories participates directly or indirectly in the management, control or capital of an enterprise of the other territory, or

(*b*) the same persons participate directly or indirectly in the management, control or capital of an enterprise of one of the territories and an enterprise of the other territory,

and, in either case, conditions are made or imposed between the two enterprises, in their commercial or financial relations, which differ from those which would be made between independent enterprises, any profits, which would, but for those conditions, have accrued to one of the enterprises but by reason of those conditions have not so accrued, may be included in the profits of that enterprise and taxed accordingly.

ARTICLE V

(1) Notwithstanding the provisions of Articles III and IV, profits derived by a resident of the United Kingdom from operating aircraft registered in the United Kingdom or ships whose port of registry is in the United Kingdom shall be exempt from Pakistan tax, unless the aircraft or ship is operated wholly or mainly between places within Pakistan.

(2) Notwithstanding the provisions of Articles III and IV, profits derived by a resident of Pakistan from operating aircraft registered in Pakistan or ships whose port of registry is in Pakistan shall be exempt from United Kingdom tax, unless the aircraft or ship is operated wholly or mainly between places within the United Kingdom.

ARTICLE VI

(1) Where a company, which is a resident of one of the territories, derives profits or income from sources within the other territory, there shall not be imposed in that other territory any form of taxation on dividends paid by the company to persons not resident in that other territory, or any form of taxation chargeable in connection with or in lieu of the taxation of dividends or any tax in the nature of an undistributed profits tax on undistributed profits of the company, whether or not those dividends or undistributed profits represent, in whole or in part, profits or income so derived:

Provided that nothing contained in this paragraph shall affect the provisions of the Pakistan law providing for the allowance of rebate of super-tax at a higher rate to companies which make such arrangements, as may be prescribed in this behalf, for the declaration and payment of dividends and the deduction of super-tax from dividends paid by them than that allowed to other companies:

Provided further that nothing contained in this paragraph shall have the effect that super-tax may be imposed on the profits of a company, which is

a resident of the United Kingdom and which does not make the aforesaid prescribed arrangements, at a rate exceeding the rate payable by a company, which makes those arrangements, by more than 10 *per cent.*

(2) The rate of Pakistan super-tax on dividends paid to a public company, being a resident of the United Kingdom, by a company, being a resident of Pakistan and engaged in an industrial undertaking in Pakistan, shall, if the first-mentioned company owns more than fifty *per cent.* of the voting shares of the latter company and the dividends are allocable to profits of the industrial undertaking and Pakistan income-tax and super-tax has been paid by the Pakistan company on such profits, not exceed the following percentages, namely:—

(*a*) 15 *per cent.* in the case of industrial undertakings set up before the fifteenth day of August, 1947; and

(*b*) 10 *per cent.* in the case of industrial undertakings set up after the fourteenth day of August, 1947.

(3) The provisions of section 23A of the Pakistan Income-tax Act relating to the compulsory distribution of company profits shall not apply to the income of a company, being a resident of Pakistan, more than fifty *per cent.* of the voting shares of which are owned by a public company, being a resident of the United Kingdom, if the first-mentioned company is engaged in an industrial undertaking in Pakistan and its undistributed profits are wholly or mainly retained for the purposes of industrial development and expansion in Pakistan.

(4) Where an individual, who is a resident of the United Kingdom and is not engaged in any trade or business in Pakistan through a permanent establishment situated therein, receives a dividend in respect of which he is subject to United Kingdom tax from a company which is incorporated in Pakistan, the Pakistan tax payable by him in respect of the aforesaid dividend shall not exceed the Pakistan tax which would have been payable by him in respect of that dividend computed at the rates which would have been applicable to his total world income if he had been resident and ordinarily resident in Pakistan and the aforesaid total world income had been his total income:

Provided that nothing contained in this paragraph shall entitle such an individual to a refund of income-tax deemed to have been paid by him under the provisions of section 49B of the Pakistan Income-tax Act in respect of that dividend.

(5) Dividends paid by a company which is a resident of the United Kingdom to a resident of Pakistan, who is subject to tax in Pakistan in respect thereof and does not carry on a trade or business in the United Kingdom through a permanent establishment situated therein, shall be exempt from United Kingdom surtax.

(6) In paragraphs (2) and (3) of this Article—

(*a*) The term "public company" means, in relation to any year of assessment,—

(i) a company which does not restrict the right to transfer its shares, which does not prohibit the issue of its shares to the public or the sale of its shares at a recognised stock exchange and of which shares carrying more than 50 *per cent.* of the voting power were held or controlled at any time during the previous year by not less than six persons; or

(ii) a company all the shares of which were held at the end of the previous year by one or more such public companies as defined in sub-paragraph (*a*) (i) of this paragraph; and

(*b*) The term "industrial undertaking" means—

(i) an undertaking engaged in—

(*aa*) The manufacture of goods or materials or the subjection of goods or materials to any process which results in substantially changing their original condition; or

(*bb*) Ship-building; or

(*cc*) Electricity, hydraulic power, gas or water supply; or

(*dd*) Mining including the working of an oil-well or the source of any mineral deposit; or

(ii) any other undertaking which is declared by the taxation authorities in Pakistan to be an industrial undertaking for the purposes of Pakistan tax laws.

ARTICLE VII

Interest on bonds, debentures, deposits, securities, notes or any other form of indebtedness (including mortgages or bonds secured by real property) in connection with trade, business or other transactions carried on in one of the territories shall, for the purposes of Article XIV, be treated as income from sources within that territory and may be taxed in that territory.

ARTICLE VIII

(1) Any royalty derived from sources within one of the territories by a resident of the other territory, who is subject to tax in that other territory in respect thereof and is not engaged in trade or business in the first-mentioned territory through a permanent establishment situated therein, shall be exempt from tax in that first-mentioned territory.

(2) In this Article, the term "royalty" means any royalty or other amount paid as consideration for the use of, or for the privilege of using, any copyright, patent, design, secret process or formula, trade mark or other like property, but does not include any rent or royalty in respect of motion picture films or films for use in connection with television or any royalty or other amount paid in respect of the operation of a mine or quarry or of any other extraction of natural resources.

(3) Where any royalty exceeds a fair and reasonable consideration in respect of the rights for which it is paid, the exemption provided by the present Article shall apply only to so much of the royalty as represents such fair and reasonable consideration.

(4) Any capital sum derived from sources within one of the territories from the sale of patent rights by a resident of the other territory, who is not engaged in trade or business in the first-mentioned territory through a permanent establishment situated therein, shall be exempt from tax in that first-mentioned territory.

ARTICLE IX

(1) Remuneration, including pensions and annuities, paid by or on behalf of the Government of the United Kingdom to any individual for services rendered to that Government in the discharge of Governmental functions shall be exempt from tax in Pakistan, if the individual is not ordinarily resident in Pakistan or, where the remuneration is not a pension or annuity, is ordinarily resident in Pakistan solely for the purpose of rendering those services.

(2) Remuneration, including pensions and annuities, paid by or on behalf of the Government of Pakistan to any individual for services rendered to that Government in the discharge of Governmental functions shall be exempt from tax in the United Kingdom, if the individual is not ordinarily resident in the United Kingdom or, where the remuneration is not a pension or annuity, is ordinarily resident in the United Kingdom solely for the purpose of rendering those services.

(3) For the purposes of this Article, the term "Government of Pakistan" shall include the Government of a Province or a State in Pakistan.

(4) The foregoing provisions of this Article shall not apply to payments in respect of services rendered in connection with any trade or business carried on by either of the Contracting Governments for purposes of profit.

ARTICLE X

(1) An individual, who is a resident of the United Kingdom, shall be exempt from Pakistan tax on profits or remuneration in respect of personal (including professional) services performed within Pakistan in any year of assessment, if—

(*a*) he is present within Pakistan for a period or periods not exceeding in the aggregate 183 days during that year, and

(*b*) the services are performed for, or on behalf of, a resident of the United Kingdom, and

(*c*) the profits or remuneration are subject to United Kingdom tax.

(2) An individual, who is a resident of Pakistan, shall be exempt from United Kingdom tax on profits or remuneration in respect of personal (including professional) services performed within the United Kingdom in any year of assessment, if—

(*a*) he is present within the United Kingdom for a period or periods not exceeding in the aggregate 183 days during that year, and

(*b*) the services are performed for, or on behalf of, a resident of Pakistan, and

(*c*) the profits or remuneration are subject to Pakistan tax.

(3) The provisions of paragraphs (1) and (2) of this Article shall not apply to the profits or remuneration of public entertainers, such as stage, motion picture, radio or television artists, musicians and athletes.

(4) Where an individual is in any year domiciled in the United Kingdom and is in that year resident in Pakistan for the purposes of Pakistan tax but not ordinarily resident in Pakistan, the income, profits and gains accruing or arising to him without Pakistan during that year and not received in or brought into Pakistan during that year shall not be included in his income for that year subject to tax in Pakistan unless they are derived from a business controlled, or a profession or vocation set up, in Pakistan.

(5) For the purposes of paragraph (4) of this Article, an individual shall be deemed to be not ordinarily resident in Pakistan in any year if—

(*a*) he has not been resident in Pakistan for the purposes of Pakistan tax in nine out of the ten years preceding that year, or

(*b*) he has not during the seven years preceding that year been in Pakistan for a period of, or for periods amounting in all to, more than two years.

ARTICLE XI

(1) Any pension or annuity (other than a pension or annuity of the kind referred to in paragraphs (1) and (2) of Article IX) derived from sources within one of the territories by an individual who is a resident of the other territory and subject to tax in that other territory in respect thereof shall be exempt from tax in the first-mentioned territory.

(2) In this Article, the term "annuity", where it first appears, means a stated sum payable periodically at stated times during life or during a specified or ascertainable period of time, under an obligation to make the payment in return for adequate and full consideration in money or money's worth.

ARTICLE XII

A professor or teacher from one of the territories, who receives remuneration for teaching, during a period of temporary residence not exceeding two years, at a university, college, school or other educational institution in the other territory, shall be exempt from tax in that other territory in respect of that remuneration.

ARTICLE XIII

(1) An individual, who immediately before visiting one of the territories, is a resident of the other territory and is temporarily present in the first-mentioned territory solely as a student at a recognised university, college or school in the first-mentioned territory, or as a business apprentice therein, shall be exempt from tax in the first-mentioned territory on—

(*a*) all remittances from the second-mentioned territory for the purposes of his maintenance, education or training; and

(*b*) any remuneration for personal services rendered in the first-mentioned territory with a view to supplementing the resources available to him for such purposes.

(2) An individual, who immediately before visiting one of the territories, is a resident of the other territory and is temporarily present in the first-mentioned territory for a period not exceeding two years for the purpose of study, research or training solely as a recipient of a grant, allowance or award from a scientific, educational, religious or charitable organisation or under a technical assistance programme entered into by one of the Contracting Governments shall be exempt from tax in the first-mentioned territory on—

(*a*) the amount of such grant, allowance or award; and

(*b*) any remuneration for personal services rendered in the first-mentioned territory provided such services are in connection with his study, research or training or are incidental thereto.

(3) An individual, who immediately before visiting one of the territories, is a resident of the other territory and is temporarily present in the first-mentioned territory for a period not exceeding twelve months solely as an employee of, or under contract with, the Government or an enterprise of the second-mentioned territory for the purpose of acquiring technical, professional or business experience shall be exempt from tax in the first-mentioned territory on—

(*a*) all remittances from the second-mentioned territory for the purposes of his maintenance, education or training; and

(*b*) any remuneration, so far as it is not in excess of 500 pounds sterling or its equivalent sum in Pakistan rupees at the official rate of exchange, for personal services rendered in the first-mentioned territory, provided such services are in connection with his studies or training or are incidental thereto.

ARTICLE XIV

(1) Subject to the provisions of the law of the United Kingdom regarding the allowance as a credit against United Kingdom tax of tax payable in a territory outside the United Kingdom, Pakistan tax payable, whether directly or by deduction, in respect of income from sources within Pakistan shall be allowed as a credit against any United Kingdom tax payable in respect of that income.

Where such income is an ordinary dividend paid by a company which is a resident of Pakistan, the credit shall take into account (in addition to any Pakistan tax appropriate to the dividend) the Pakistan tax payable in respect of its profits by the company paying the dividend, and where it is a dividend paid on participating preference shares and representing both a dividend at the fixed rate to which the shares are entitled and an additional participation in profits, the Pakistan tax so payable by the company shall likewise be taken into account in so far as the dividend exceeds that fixed rate.

(2) For the purposes of paragraph (1) of this Article, the term "Pakistan tax payable" shall—

(*a*) include the agricultural income tax imposed by the Government of any Province in Pakistan and any tax of a substantially similar character imposed after the date of signature of this Agreement by the Government

of Pakistan or any Province or State in Pakistan or by the Government of any territory to which the present Agreement is extended under sub-paragraph (*b*) of paragraph (3) of Article XVII; and

(*b*) be deemed to include any amount which would have been payable as Pakistan tax for any year but for an exemption granted for that year or any part thereof under—

(i) any of the following provisions or statutory rules, that is to say:—

(*aa*) section 15BB of the Pakistan Income-tax Act;

(*bb*) clauses (xiii) and (xiv) of sub-section (3) of section 4 of the said Act; and

(*cc*) notification S.R.O.17(R) dated the 1st July, 1960, under section 60 (1) of the said Act,

so far as they were in force on, and have not been modified since, the date of the signature of this Agreement, or have been modified only in minor respects so as not to affect their general character; or

(ii) any other provision or statutory rule which may subsequently be made granting an exemption which is agreed by the taxation authorities of the Contracting Governments 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.

(3) Subject to the provisions of the Pakistan Income-tax law regarding the allowance as a credit against Pakistan tax of tax payable in a country outside Pakistan, United Kingdom tax payable, whether directly or by deduction, by a person resident in Pakistan, in respect of income from sources within the United Kingdom (including income accruing or arising in the United Kingdom but deemed, under the provisions of the law of Pakistan, to accrue or arise in Pakistan) shall be allowed as a credit against any Pakistan tax payable in respect of that income.

(4) Notwithstanding the provisions of paragraphs (1) and (3) of this Article, where tax is imposed by both Contracting Governments on income derived from sources outside both Pakistan and the United Kingdom by a company which is resident in Pakistan for the purposes of Pakistan tax and is also resident in the United Kingdom for the purposes of United Kingdom tax, there shall be allowed against the tax imposed by each Contracting Government a credit which bears the same proportion to the amount of that tax (as reduced by any credit allowed in respect of tax payable in the country from which the income is derived) or to the amount of the tax imposed by the other Contracting Government (reduced as aforesaid), whichever is the less, as the former amount (before any such reduction) bears to the sum of both amounts (before any such reduction).

(5) For the purposes of this Article, profits or remuneration for personal (including professional) services performed in one of the territories shall be treated as income from sources within that territory, and the services of an individual whose services are wholly or mainly performed in ships or aircraft operated by a resident of one of the territories (other than ships or aircraft operated wholly or mainly between places in the other territory) shall be treated as performed in that territory.

ARTICLE XV

(1) The taxation authorities of the Contracting Governments shall exchange such information (being information which is available under their respective taxation laws in the normal course of administration) as is necessary for carrying out the provisions of the present Agreement or for the prevention of fraud or for the administration of statutory provisions against legal avoidance in relation to the taxes which are the subject of the present Agreement. Any information so exchanged shall be treated as secret and shall not be disclosed to any persons other than those concerned with the assessment and collection

of the taxes which are the subject of the present Agreement. No information as aforesaid shall be exchanged which would disclose any trade, business, industrial or professional secret or trade process.

(2) The taxation authorities of the Contracting Governments may consult together, as may be necessary, for the purpose of carrying out the provisions of the present Agreement.

ARTICLE XVI

(1) The residents of one of the territories shall not be subjected in the other territory to any taxation or any requirement connected therewith which is other, higher or more burdensome than the taxation and connected requirements to which the residents of the latter territory are or may be subjected.

(2) The enterprises of one of the territories shall not be subjected in the other territory, in respect of profits attributable to their permanent establishment in that other territory, to any taxation which is other, higher or more burdensome than the taxation to which the enterprises of that other territory and, in the case of companies, to which enterprises of that other territory assessed as companies under the relevant laws of that other territory are or may be subjected in respect of the like profits.

(3) In this Article, the term "taxation" means the taxes which are the subject of the present Agreement.

(4) Nothing contained in this Article shall be construed—

(*a*) as obliging either of the Contracting Governments to grant to persons not resident in its territory those personal allowances and reliefs for tax purposes which are by law available only to persons who are so resident, or to charge persons (other than companies), who are not resident in its territory, at the lower rates of income tax chargeable only on persons (other than companies) who are so resident; or

(*b*) as affecting the provisions of paragraphs (1) and (4) of Article VI.

ARTICLE XVII

(1) The present Agreement may be extended, either in its entirety or with modifications, to any territory to which this Article applies and which imposes taxes substantially similar in character to those which are the subject of the present Agreement and any such extension shall take effect from such date and subject to such modifications and conditions (including conditions as to termination) as may be specified and agreed between the Contracting Governments in notes to be exchanged for this purpose.

(2) The termination in respect of Pakistan or the United Kingdom of the present Agreement under Article XIX shall, unless otherwise expressly agreed by both Contracting Governments, terminate the application of the present Agreement to any territory to which the Agreement has been extended under this Article.

(3) The territories to which this Article applies are—

(*a*) In relation to the United Kingdom:
Any territory other than the United Kingdom for whose international relations the United Kingdom is responsible;

(*b*) In relation to Pakistan:
Any territory other than Pakistan for whose international relations Pakistan is responsible.

ARTICLE XVIII

The present Agreement shall come into force on the date when the last of all such things shall have been done in the United Kingdom and Pakistan as are necessary to give the Agreement the force of law in the United Kingdom and Pakistan respectively, and shall thereupon have effect—

(*a*) In the United Kingdom:
as respects income tax (including surtax), for any year of assessment beginning on or after the sixth day of April, 1960;

as respects profits tax, in respect of the following profits—

(i) profits by reference to which income tax is, or but for the present Agreement would be, chargeable for any year of assessment beginning on or after the sixth day of April, 1960; and

(ii) other profits being profits by reference to which income tax is not chargeable but which arise in any chargeable accounting period beginning on or after the first day of April, 1960, or are attributable to so much of any chargeable accounting period falling partly before and partly after that date as falls after that date;

(*b*) In Pakistan:
as respects income-tax and super-tax, for any year of assessment beginning on or after the first day of July, 1960.

ARTICLE XIX

The present Agreement shall continue in effect indefinitely but either of the Contracting Governments may, on or before the thirtieth day of June in any calendar year not earlier than the year 1963, give to the other Contracting Government written notice of termination and, in such event, the present Agreement shall cease to be effective—

(*a*) In the United Kingdom:

as respects income tax (including surtax), for any year of assessment beginning on or after the sixth day of April in the calendar year next following that in which the notice is given;

as respects profits tax in respect of the following profits—

(i) profits by reference to which income tax is chargeable for any year of assessment beginning on or after the sixth day of April in the calendar year next following that in which the notice is given;

(ii) other profits being profits by reference to which income tax is not chargeable, but which arise in any chargeable accounting period beginning on or after the first day of April in the next following calendar year or are attributable to so much of any chargeable accounting period falling partly before and partly after that date as falls after that date; and

(*b*) In Pakistan:
as respects income-tax and super-tax, for any year of assessment beginning on or after the first day of July in the calendar year next following that in which the notice is given.

In witness whereof the undersigned, duly authorised thereto, have signed the present Agreement.

Done in duplicate at London this twenty-fourth day of April, one thousand nine hundred and sixty-one.

SELWYN LLOYD

For the Government of the United Kingdom.

MOHAMED YOUSUF
Lt. General

For the Government of Pakistan.

EXPLANATORY NOTE

(This Note is not part of the Order, but is intended to indicate its general purport.)

The Agreement with Pakistan scheduled to this Order replaces the Agreement signed on 10th June, 1955. It is somewhat more extensive in scope than the earlier Agreement, in particular because it contains provisions designed to prevent the frustration of certain tax exemptions granted in Pakistan in order to encourage development there. Credit is to be given against United Kingdom tax for tax which would have been payable in Pakistan but for exemptions from Pakistan tax which are:—

(1) granted for the first four (and in some cases six) years on the profits of certain newly set-up industrial undertakings (Section 15BB of the Pakistan Income-tax Act);

(2) granted for a period not exceeding two years from arrival in Pakistan on the remuneration of certain visiting foreign technicians and teachers (Clauses (xiii) and (xiv) of sub-section (3) of Section 4 of the Pakistan Income-tax Act); or

(3) granted on the interest payable by industrial undertakings on certain approved loans (notification S.R.O. 17(R) dated 1st July, 1960, under Section 60 (1) of the Pakistan Income-tax Act).

Where a Pakistan company which has been granted exemption from Pakistan tax under (1) pays dividends to United Kingdom shareholders, the latter will be entitled to credit for the appropriate proportion of the tax spared to the company.

The Agreement provides that in the event of these exemptions having been modified after the date of the signature of the Agreement, but only in minor respects so as not to affect their general character, the recognition of the exemptions for credit purposes will continue to apply. Credit is, too, to be given for tax spared under any exemption granted after the date of signature of the Agreement if it is agreed by the taxation authorities of the two countries that it is "of a substantially similar character" (and, in the event of any such exemption having been subsequently modified, if it has been modified only in minor respects so as not to affect its general character).

The new Agreement also includes:—

(1) revised provisions relating to dividends which take account of recent changes in Pakistan tax law, and

(2) provisions authorising the allowance of extended relief to visiting students, business apprentices, recipients of grants or awards from certain organisations or under a technical assistance programme and certain employees going from one of the countries to the other country for less than a year to acquire technical, professional or business experience.

The new Agreement is to take effect for the fiscal year 1960-61.