

GOVERNMENT OF PAKISTAN
REVENUE DIVISION
FEDERAL BOARD OF REVENUE

Islamabad, the 26th June, 2008

NOTIFICATION
(Income Tax)

S.R.O. 690(I)/2008.- WHEREAS the Government of the Islamic Republic of Pakistan and the Government of the Lebanese Republic have executed a Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to taxes on income on the 31st August 2005, as set out in the Annexure to this notification;

NOW, THEREFORE, in exercise of the powers conferred by sub-section (1) of section 107 of the Income Tax Ordinance, 2001 (XLIX of 2001), the Federal Government is pleased to direct that the Convention shall enter into force upon the exchange of instruments of ratification and its provisions shall have effect:-

- (a) In the case of the Islamic Republic of Pakistan-
 - (i) with regard to taxes withheld at source, in respect of amounts paid or credited on or after the first day of July next following the date on which the Convention enters into force; and
 - (ii) with regard to other taxes, for the tax year beginning on or after the first day of July next following the date on which the Convention enters into force and subsequent years.
- (b) In the case of the Lebanese Republic-
 - (i) in respect of taxes withheld at source, to the income derived on or after the first day of January in the calendar year next following the year in which the Convention enters into force; and
 - (ii) in respect of other taxes, on profit and income derived on or after the first day of January in the calendar year next following the year in which the Convention enters into force.

Annexure

CONVENTION

**Between the Lebanese Republic
and the
Islamic Republic of Pakistan
For the Avoidance of Double Taxation
and the
Prevention of Fiscal Evasion With
Respect to Taxes on Income**

PREAMBLE

The Government of the Lebanese Republic and the Government of the Islamic Republic of Pakistan, desiring to promote and strengthen their economic co-operation by concluding a Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income have agreed as follows:

Chapter I Scope of the Convention

Article 1 Persons covered

This Convention shall apply to persons who are residents of one or both of the Contracting States.

Article 2 Taxes Covered

1. This convention shall apply to taxes on income imposed on behalf of a Contracting State or of its local authorities or its administrative - territorial units, irrespective of the manner in which they are levied.
2. There shall be regarded as taxes on income all taxes imposed on total income or on elements of income, including taxes on gains from the

alienation of movable or immovable property, taxes on the total amount of wages or salaries paid by the enterprises and other similar remuneration.

3. The existing taxes to which this Convention shall apply are in particular:

a) In the case of Lebanon:

- (i) the tax on the profits of industrial, commercial and non commercial professions;
- (ii) the tax on salaries, wages and pensions;
- (iii) the tax on income derived from movable capital (such as interest, dividends and the like);
- (iv) the tax on income from built property; (hereinafter referred to as "Lebanese tax")

b) In the case of Pakistan:

- (i) the income tax; and
- (ii) the Surcharge (hereinafter referred to as "Pakistan tax")

4. The Convention shall apply also to any identical or substantially similar taxes which are imposed after the date of signature of this Convention in addition to, or in place of, the existing taxes referred to in paragraph 3. The competent authorities of the Contracting States shall notify each other of any significant changes made in their respective taxation laws.

Chapter II Definitions

Article 3 General Definitions

1. For the purposes of this Convention, unless the context otherwise requires:

- a) the terms "a Contracting State" and "the other Contracting State" mean Lebanon or Pakistan as the context requires;
- b) the term "Lebanon" means the territory of the Lebanese Republic including its territorial sea as well as the exclusive economic zone over which Lebanon exercises sovereignty, sovereign rights and jurisdiction in accordance with its internal law and with the international law, concerning the

exploration and the exploitation of the natural, biological, and mineral resources existing in the sea waters, sea-bed and subsoil of these waters;

- c) the term "Pakistan" used in the geographical sense means Pakistan as defined in the Constitution of the Islamic Republic of Pakistan and includes any area outside the territorial waters of Pakistan which under the laws of Pakistan and international law is an area within which Pakistan exercises sovereign rights and exclusive jurisdiction with respect to the natural resources of the seabed, subsoil and superjacent waters;
- d) the term "tax" means Lebanese tax or Pakistan tax as the context requires, but shall not include any amount which is payable in respect of any default or omission in relation to the taxes to which the Convention applies or which represents a penalty imposed relating to those taxes;
- e) the term "person" includes an individual, a company and any other entity which is treated as a taxable unit under the taxation laws in force in the respective Contracting States;
- f) the term "company" means any body corporate or any other entity which is treated as a body corporate for tax purposes;
- g) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State and an enterprise carried on by a resident of the other Contracting State;
- h) the term "national" means:
 - i) any individual possessing the nationality of a Contracting State;
 - ii) any legal person, partnership or association deriving its status from the laws in force in the Contracting State;
- i) the term "international traffic" means any transport by a ship, boat, aircraft, railway or road vehicle operated by an enterprise which has its place of effective management in a Contracting State, except when such transport is operated solely between places situated in the other Contracting State;

- j) the term "competent authority" means:
- (i) in the case of Lebanon, the Minister of Finance or his authorized representative,
 - (ii) in the case of Pakistan, the Central Board of Revenue or its authorized representative,

2. As regards the application of the Convention at any time by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have the meaning that it has at that time under the law of that State for the purposes of the taxes to which the Convention applies, any meaning under the applicable tax laws of that State prevailing over a meaning given to the term under other laws of that State.

Article 4 Resident

1. For the purposes of this Convention, the term "resident of a Contracting State" means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, place of management or any other criterion of a similar nature. This term, however, does not include any person who is liable to tax in that State in respect only of income from sources in that State situated therein.

2. Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then his status shall be determined as follows:

- a) he shall be deemed to be a resident only of the State in which he has a permanent home available to him; if he has a permanent home available in both States, he shall be deemed to be a resident only of the State with which his personal and economic relations are closer (center of vital interests);
- b) if the State in which he has his center of vital interests cannot be determined, or if he has not a permanent home available to him in either State, he shall be deemed to be a resident only of the State in which he has an habitual abode;
- c) if he has an habitual abode in both States or in neither of them, he shall be deemed to be a resident only of the State of which he is a national;

- d) if he is a national of both States or of neither of them, the competent authorities of the Contracting States shall settle the question by mutual agreement.

3. Where by reason of the provisions of paragraph 1 a person other than an individual is a resident of both Contracting States, then it shall be deemed to be a resident of the Contracting State in which its place of effective management is situated.

Article 5 Permanent Establishment

1. For the purposes of this Convention, the term "permanent establishment" means a fixed place of business through which the business of an enterprise is wholly or partly carried on.

2. The term "permanent establishment" includes especially:

- a) A place of management;
- b) A branch;
- c) An office;
- d) A factory;
- e) A workshop;
- f) A farm or any plantation; and
- g) A mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

3. The term "permanent establishment" likewise encompasses:

- a) a building site, a construction, assembly or installation project, but only where such site, project or activities continue for a period of more than six months within any twelve months period;
- b) the furnishing of services by an enterprise of a Contracting State through employees or other personnel engaged for such purposes in the other Contracting State, provided that such activities continue for the same project or a connected project for a period or periods aggregating more than three months within any twelve months period.

4. Notwithstanding the preceding provisions of this Article, the term "permanent establishment" shall be deemed not to include:

- a) the use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the enterprise;
- b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or delivery;
- c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
- d) the sale of goods or merchandise belonging to the enterprise displayed in the frame of an occasional temporary fair or exhibition after the closing of the said fair or exhibition;
- e) the maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or for collecting information, for the enterprise;
- f) the maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character; and
- g) the maintenance of a fixed place of business solely for any combination of the activities mentioned in subparagraphs a) to f), provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

5. Notwithstanding the provisions of paragraphs 1 and 2, where a person other than an agent of an independent status to whom paragraph 7 applies is acting on behalf of an enterprise and has, and habitually exercises, in a Contracting State an authority to conclude contracts in the name of the enterprise, that enterprise shall be deemed to have a permanent establishment in that State in respect of any activities which that person undertakes for the enterprise, unless the activities of such person are limited to the purchase of goods or merchandise for the enterprise.

6. Notwithstanding the preceding provisions of this Article, an insurance company, except for reinsurance, of a Contracting State shall be deemed to have a permanent establishment in the other Contracting State if it collects

premiums in the territory of that other State or insures risks situated therein through a person other than an agent of an independent status to whom paragraph 7 applies.

7. An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, a general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

8. The fact that a company which is a resident of a Contracting State controls or is controlled by a company which is a resident of the other Contracting State, or which carries on business in that other State (whether through a permanent establishment or otherwise), shall not of itself constitute either company a permanent establishment of the other.

Chapter III Taxation of Income

Article 6 Income From Immovable Property

1. Income derived by a resident of a Contracting State from immovable property (including income from agriculture or forestry) situated in the other Contracting State may be taxed in that other State.

2. The term "immovable property" shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. The term shall in any case include all property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of general law respecting landed property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships, boats, aircraft, railway and road vehicles shall not be regarded as immovable property.

3. The provisions of paragraph 1 shall apply to income derived from the direct use, letting or use in any other form of immovable property.

4. The provisions of paragraph 1 and 3 shall also apply to the income from immovable property of an enterprise and to income from immovable property used for the performance of independent personal services.

Article 7 Business Profits

1. The profits of an enterprise of a Contracting State shall be taxable only in that State unless the enterprise carries on business in the other Contracting State through a permanent establishment situated therein. If the enterprise carries on business as aforesaid, the profits of the enterprise may be taxed in the other State but only so much of them as is attributable to that permanent establishment.

2. Subject to the provisions of paragraph 3, where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.

3. In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the permanent establishment, including executive and general administrative expenses so incurred, whether in the State in which the permanent establishment is situated or elsewhere. Such deductions shall be determined in accordance with domestic law.

4. Insofar as it has been customary in a Contracting State to determine the profits to be attributed to a permanent establishment on the basis of an apportionment of the total profits of the enterprise to its various parts, nothing in paragraph 2 shall preclude that Contracting State from determining the profits to be taxed by such an apportionment as may be customary; the method of apportionment adopted shall, however, be such that the result shall be in accordance with the principles contained in this Article.

5. No profits shall be attributed to a permanent establishment by reason of the mere purchase by that permanent establishment of goods or merchandise for the enterprise.

6. For the purposes of the preceding paragraphs, the profits to be attributed to the permanent establishment shall be determined by the same method year by year unless there is good and sufficient reason to the contrary.

7. Where profits include items of income which are dealt with separately in other Articles of this Convention, then the provisions of these Articles shall not be affected by the provisions of this Article.

Article 8 **Shipping, Air, Road and Railways Transport**

1. Profits from the operation of ships, boats, aircraft, railway and road vehicles in international traffic shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.
2. If the place of effective management of a shipping enterprise is aboard a ship, or boat then it shall be deemed to be situated in the Contracting state in which the home harbor of the ship or boat is situated, or, if there is no such home harbor, in the Contracting State of which the operator of the ship or boat is a resident.
3. The provisions of paragraph 1 shall also apply to profits derived from the participation in a pool, a joint business or an international operating agency.

Article 9 **Associated Enterprises**

1. Where:
 - a) an enterprise of a Contracting State participates directly or indirectly in the management, control or capital of an enterprise of the other Contracting State; or
 - b) the same persons participate directly or indirectly in the management, control or capital of an enterprise of the Contracting State and an enterprise of the other Contracting State,

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, then 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.

2. Where a Contracting State includes in the profits of an enterprise of that State -and taxes accordingly- profits on which an enterprise of the other Contracting State has been charged to tax in that other State and the profits so included are profits which would have accrued to the enterprise of the first -mentioned State if the conditions made between the two enterprises had been those which would have been made between independent enterprises then that other State shall make an appropriate adjustment to the amount of the tax charged therein on those profits. In determining such adjustment, due regard shall be had to the other provisions of this Convention and the competent authorities of the Contracting States shall, if necessary, consult each other.

Article 10 Dividends

1. Dividends paid by a company which is a resident of a Contracting State to a resident of the other Contracting State may be taxed in that other State.

2. However, such dividends may also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but if beneficial owner of the dividends is a resident of the other Contracting State the tax so charged shall not exceed 10 per cent of the gross amount of the dividends.

This paragraph shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

3. The term "dividends" as used in this Article means income from shares, "jouissance" shares, or other rights, mining shares, founders' shares not being debt-claims, participating in profits, as well as income from other corporate rights which is subjected to the same taxation treatment as income from shares by the laws of the States of which the company making the distribution is a resident.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the dividends, being a resident of a Contracting State, carries on business in other Contracting State of which the company paying the dividends is a resident, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the holding in respect of which the dividends are 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.

5. Where a company which is a resident of a Contracting State derives profits or income from the other Contracting State, that other State may not impose any tax on the dividends paid by the company, except insofar as such dividends are paid to a resident of that other State or insofar as the holding in respect of which the dividends are paid is effectively connected with a permanent establishment or a fixed base situated in that other State, nor subject the company's undistributed profits to a tax on the company's undistributed profits, even if the dividends paid or the undistributed profits consist wholly or partly of profits or income arising in such other State.

Article 11 Interest

1. Interest arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

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 the beneficial owner of the interest is a resident of the other Contracting State, 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 shall be exempt from tax in that State if it is derived and beneficially owned by the Government, a political subdivision, a local authority or the Central Bank of the other Contracting State.

4. The term "interest" as used in this Article means income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures.

5. The provisions of paragraphs 1 and 2 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.

6. Interest shall be deemed to arise in a Contracting State when the payer is that State itself, a political subdivision, a local authority or the Central Bank of that State or a resident of that State. Where, however, the person paying the interest, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment or fixed base, then such interest shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.

7. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the interest, having regard to the debt-claim for which it is paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

Article 12 Royalties

1. Royalties arising in a Contracting State and paid to a resident of the other Contracting State may be taxed in that other State.

2. However, such royalties may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the recipient is the beneficial owner of the royalties is a resident of the other Contracting State, the tax so charged shall not exceed 7.5 per cent of the gross amount of the royalties.

3. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work, including cinematograph films and films or tapes for radio or television broadcasting, transmission to the public by satellite, cable, optic fiber or similar technology, any patent, trade mark, design or model, computer software, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience.

4. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties arise, through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the

right or property in respect of which the royalties are 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.

5. Royalties shall be deemed to arise in a Contracting State when the payer is that State itself, a local authority, an administrative - territorial unit or a resident of that State. Where, however, the person paying the royalties, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base in connection with which the liability to pay the royalties was incurred, and such royalties are borne by such permanent establishment or fixed base, then such royalties shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.

6. Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

Article 13 Capital Gains

1. Gains derived by a resident of a Contracting State from the alienation of immovable property referred to in Article 6 and situated in the other Contracting State may be taxed in the Contracting State in which such property is situated.

2. Gains from the alienation of movable property forming part of the business property of a permanent establishment which an enterprise of a Contracting State has in the other Contracting State or of movable property pertaining to a fixed base available to a resident of a Contracting State in the other Contracting State for the purpose of performing independent personal services, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise) or of such fixed base, may be taxed in that other State.

3. Gains from the alienation of ships, boats, aircraft, railway and road vehicles operated in international traffic or movable property pertaining to the operation of such means of transport shall be taxable only in the

Contracting State in which the place of effective management of the enterprise is situated.

4. Gains from the alienation of any property other than that referred to in paragraphs 1, 2 and 3 shall be taxable only in the Contracting State of which the alienator is a resident.

Article 14 Independent Personal Services

1. Income derived by a resident of a Contracting State in respect of professional services or other activities of an independent character shall be taxable only in that State except in the following circumstances, when such income may also be taxed in the other Contracting State:

- a) if he has a fixed base regularly available to him in the other Contracting State for the purposes of performing his activities; or
- b) if he is present in the other Contracting State for a period or periods amounting to or exceeding in the aggregate 183 days in any twelve months period commencing or ending in the calendar year concerned.

In the cases referred to in subparagraph a) or b) the income may be taxed in the other Contracting State but only so much of it as is attributable to the fixed base or is derived from the activities performed in the period in which the resident was present in that other State.

2. The term "professional services" includes especially independent scientific, literary, artistic, educational or teaching activities as well as the independent activities of professions such as physicians, lawyers, engineers, architects, dentists and accountants.

Article 15 Dependent Personal Services

1. Subject to the provisions of Articles 16, 18, 19, 20 and 21, salaries, wages and other similar remuneration derived by a resident of a Contracting State in respect of an employment shall be taxable only in that State unless the employment is exercised in the other Contracting State. If the

employment is exercised in the other Contracting State, such remuneration as is derived therefrom may be taxed in that other State.

2. Notwithstanding the provisions of paragraph 1, remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if:

- a) the recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days in any period of twelve months commencing or ending in the calendar year concerned; and
- b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State; and
- c) the remuneration is not borne by a permanent establishment or a fixed base which the employer has in the other State.

3. Notwithstanding the preceding provisions of this Article, remuneration derived by a resident of a Contracting State in respect of an employment exercised aboard a ship, boat, aircraft, railway and road vehicle operated in international traffic shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.

Article 16 Director's Fees

Director's fees and other similar payments derived by a resident of a Contracting State in his capacity as a member of the Board of Directors of a company which is a resident of the other Contracting State may be taxed in that other State.

Article 17 Artistes and Sportsmen

1. Notwithstanding the provisions of Articles 14 and 15, income derived by a resident of a Contracting State as an entertainer, such as a theater, motion picture, radio or television artiste, or a musician, or as a sportsman from his personal activities as such exercised in the other Contracting State, may be taxed in that other State.

2. Where income in respect of personal activities exercised by an entertainer or a sportsman in his capacity as such accrues not to the entertainer or sportsman himself but to another person, that income may, notwithstanding the provisions of Articles 7, 14 and 15, be taxed in the Contracting State in which the activities of the entertainer or sportsman are exercised.

3. Notwithstanding the provisions of paragraphs 1, income derived by an entertainer or an athlete who is a resident of a Contracting State from his personal activities as such exercised in the other Contracting State, shall be taxable only in the first-mentioned Contracting State, if the activities in the other Contracting State are supported wholly or substantially from the public funds of the first-mentioned Contracting, including any of its political subdivisions or local authorities.

Article 18

Pensions and Annuities

1. Any pension other than a pension referred to in Article 17 or any annuity derived by a resident of a Contracting State from sources within the other Contracting State may be taxed only in the first Contracting State.

2. The term "pension" means the periodic payment made in consideration of past services or by way of compensation for injuries received in the course of performance of services.

3. The term "annuity" 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 payments in return for adequate and full consideration in money or money's worth.

4. Notwithstanding the provisions of paragraph 1 of this Article pensions and other similar payments made under the social security legislation of a Contracting State shall be taxable only in that State.

Article 19

Government Service

1. a) Salaries, wages and other similar remuneration, other than a pension, paid by a Contracting State or a local authority thereof or an administrative - territorial unit thereof to an individual in respect of services rendered to that State or authority or unit shall be taxable only in that State.

- b) However, such remuneration shall be taxable only in the other Contracting State if the services are rendered in that State and the individual is a resident of that State who:
 - i) is a national of that State; or
 - ii) did not become a resident of that State solely for the purpose of rendering the services.
- 2. a) Any pension paid by, or out of funds created by a Contracting State or a local authority thereof or an administrative - territorial unit thereof to an individual in respect of services rendered to that State or authority or unit shall be taxable only in that State.
- b) However, such pension shall be taxable only in the other Contracting State if the individual is a resident of, and a national of, that State.
- 3. The provisions of Articles 15, 16 and 18 shall apply to salaries, wages and other similar remuneration and pensions in respect of services rendered in connection with a business carried on by a Contracting State or a local authority thereof or an administrative - territorial unit thereof.

Article 20 **Students and Apprentices**

- 1. A student a business trainee or an apprentice who is or was a resident of one of the Contracting States immediately before visiting the other Contracting State and who is present in that other State solely for he purpose of his education or training, shall be exempt from tax in that other State on:
 - a) payments made to him by persons residing outside that other State for the purposes of his maintenance, education or training; and
 - b) remuneration from employment in that other State provided that such employment is directly related to his studies or is undertaken for the purposes of his maintenance.
- 2. The benefits of subparagraph (b) of paragraph 1 shall extend only for such period of time as may be reasonable or academically or customarily required to complete the education or training undertaken, but in no event shall any individual have the benefits of this Article, from the date of his first arrival in that other Contracting State, for more than three consecutive years in the event of an apprentice and 7 years in the event of a student.

Article 21
Other Income

1. Subject to the provisions of paragraph 2, items of income of a resident of a Contracting State, wherever arising, which are not expressly dealt with in the foregoing articles of this Convention, shall be taxable only in that Contracting State.

2. The provisions of paragraph 1 shall not apply to income, other than income from immovable property as defined in paragraph 2 of Article 6, if the recipient of such income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the income 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.

Chapter IV
Methods of Avoidance of Double Taxation

Article 22
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 Convention.

2. In the case of Lebanon, double taxation shall be avoided as follows:

subject to the provisions of the laws of Lebanon regarding the allowances as a credit against Lebanese tax, the amount of Pakistan tax payable under the laws of Pakistan and in accordance with the provisions of this Convention whether directly or by deduction by a resident of Lebanon in respect of income from sources within Pakistan which has been subjected to tax both in Lebanon and Pakistan shall be allowed as a credit against the Lebanese tax payable in respect of such income but in an amount not exceeding that proportion of Lebanese tax which such income bears to the entire income chargeable to Lebanese tax.

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

subject to the provisions of the laws of Pakistan regarding the allowances as a credit against Pakistan tax, the amount of Lebanese tax payable under the laws of Lebanon and in accordance with the provisions of this Convention whether directly or by deduction by a resident of Pakistan in respect of income from sources within Lebanon which has been subjected to tax both in Pakistan and Lebanon shall be allowed as a credit against the Pakistan tax payable in respect of such income but in an amount not exceeding that proportion of Pakistan tax which such income bears to the entire income chargeable to Pakistan tax.

4. Income which, in accordance with the provisions of this Convention, is not to be subjected to tax in a Contracting State, may be taken into account for calculating the rate of tax to be imposed in that Contracting State.

Chapter V Special provisions

Article 23 Non-Discrimination

1. Nationals of a Contracting State shall not be subjected in the other Contracting State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of that other State in the same circumstances, in particular with respect to residence, are or may be subjected. This provision shall, notwithstanding the provisions of article 1, also apply to persons who are not residents of one or both of the Contracting States.

2. Stateless persons who are residents of a Contracting State shall not be subjected in either Contracting State to any taxation or any requirement connected therewith, which is other or more burdensome than the taxation and connected requirements to which nationals of the State concerned in the same circumstances are or may be subjected.

3. The taxation on a permanent establishment which an enterprise of Contracting State has in the other Contracting State shall not be less favorably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities in the same circumstances. The provisions of this Article shall not be construed as obliging a Contracting State to grant to residents of the other Contracting State any

personal allowances, reliefs and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents.

4. Except where the provisions of paragraph 1 of Article 9, paragraph 7 of Article 11, or paragraph 6 of Article 12, apply, interest, royalties and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State. Similarly, any debts of an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable capital of such enterprise, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

5. Enterprises of a Contracting State, the capital of which is wholly or partly owned or controlled, directly or indirectly, by one or more residents of the other Contracting State, shall not be subjected in the first-mentioned State to any taxation or any requirement connected therewith which is other or more burdensome than the taxation and connected requirements to which other similar enterprises of the first-mentioned State are or may be subjected.

6. Nothing contained in the preceding paragraphs of this Article shall be construed as affecting any provision of the domestic laws of the Contracting States regarding the imposition of tax on a non-resident person.

Article 24

Mutual Agreement Procedure

1. Where a resident of a Contracting State considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with the provisions of this Convention, he may, irrespective of the remedies provided by the domestic law of those States, present his case to the competent authority of the Contracting State of which he is a resident. The case must be presented within 3 years from the first notification of the action resulting in taxation not in accordance with the provisions of the Convention.

2. The competent authority shall endeavor, if the objection appears to it to be justified and if it is not itself able to arrive at a satisfactory solution, to resolve the case by mutual agreement with the competent authority of the other Contracting State, with a view to the avoidance of taxation which is not in accordance with the Convention. Any agreement reached shall be

implemented notwithstanding any time limits in the domestic law of the Contracting States.

3. The competent authorities of the Contracting States shall endeavor to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of this Convention. They may also consult together for the elimination of double taxation in cases not provided for in the Convention.

4. The competent authorities of the Contracting States may communicate with each other directly for the purpose of reaching an agreement, in the sense of the preceding paragraphs. When it seems advisable in order to reach agreement to have an oral exchange of opinions, such exchange may take place through a Commission consisting of representatives of the competent authorities of the Contracting States.

Article 25 **Exchange of Information**

1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes of every kind and description imposed on behalf of a Contracting State of its local authorities or its administrative-territorial units, in so far as the taxation thereunder is not contrary to the Convention, especially in order to prevent fraud or evasion in respect of such taxes. The exchange of information is not restricted by Article 1 or 2. Any information received by a Contracting State shall be treated as secret in the same manner as information obtained under the domestic laws of that State, and shall be disclosed only to persons or authorities (including courts and administrative bodies) involved in the assessment or collection of, the enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by the Convention. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

2. The exchange of information or documents shall be either on a routine basis or on a request with reference to particular cases or both. The competent authorities of the Contracting States shall agree from time to time on the list of the information or documents which shall be furnished on a routine basis.

3. In no case shall the provisions of paragraph 1 be construed so as to impose on a Contracting State the obligation:

- a) to carry out administrative measures at variance with the laws and administrative practice of that or of the other Contracting State;
- b) to supply information which is not obtainable under the laws or in the normal course of the administration of that or of the other Contracting State;
- c) to supply information which would disclose any business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy (ordre public).

Article 26
Members of Diplomatic Missions
and Consular Posts

Nothing in this Convention shall affect the fiscal privileges of members of diplomatic missions or consular posts under the general rules of international law or under the provisions of special agreements.

Chapter VI
Final provisions

Article 27
Entry Into Force

Each of the Contracting States shall notify to the other the completion of the procedures required by its law for the bringing into force of this Convention. The Convention shall enter into force on the 30th day after the date of the last notification indicating that both States have complied with the domestic legal procedures required in each State for its entry into force. The Convention shall apply:

- a) In the case of Lebanon:
 - i) in respect of taxes withheld at the source to the income derived on or after the first day of January in the calendar year next following the year in which the Convention enters into force; and

- ii) in respect of other taxes on profit and income derived on or after the first day of January in the calendar year next following the year in which the Convention enters into force.
- b) In the case of Pakistan:
- i) with regard to taxes withheld at the source, in respect of amounts paid or credited on or after the first day of July next following the date on which the Convention enters into force; and
 - ii) with regard to other taxes for the tax year beginning on or after the first day of July next following the date on which the Convention enters into force and subsequent years.

Article 28 Termination

1. This Convention shall remain in force indefinitely but either of the Contracting States may, on or before the thirtieth of June in any calendar year beginning after the expiration of a period of five years from the date of its entry into force, give the other Contracting State through diplomatic channels written notice of termination and, in such event, this Convention shall cease to have effect:

- a) In the case of Lebanon:
- i) in respect of taxes withheld at the source to the income derived on or after the first day of January in the calendar year next following the year in which the notice is given; and
 - ii) in respect of other taxes on profit and income derived on or after the first day of January in the calendar year next following the year in which the notice of termination is given.
- b) In the case of Pakistan:
- i) with regard to taxes withheld at source, in respect of amounts paid or credited after the end of the calendar year in which such notice is given; and

- ii) with regard to other taxes, in respect of taxable years beginning after the end of the calendar year in which the notice is given.

IN WITNESS WHEREOF the undersigned, being duly authorized thereto by their respective Governments, have signed this Convention.

DONE in duplicate at Beirut at 31st August 2005 in the English language, each text being equally authentic.

Sd/
FOR THE GOVERNMENT OF THE ISLAMIC
REPUBLIC OF PAKISTAN

Sd/
FOR THE GOVERNMENT OF
THE LEBANESE REPUBLIC

FBR, Government of Pakistan

PROTOCOL

On signing the Convention between the Lebanese Republic and the Islamic Republic of Pakistan for the avoidance of double taxation and the prevention of fiscal evasion, the undersigned plenipotentiaries have, in addition, agreed on the following provisions, which shall be regarded as an integral part of the said Convention:

(1) Ad Article 5 paragraph 6

When the activities of such an agent are devoted wholly or almost wholly on behalf of that enterprise and the profit/loss and the risk of such agency business are not borne by him, he will not be considered an agent of an independent status within the meaning of this paragraph.

(2) Ad Article 10 paragraph 3

A "jouissance share" is a share whose par value is paid to the shareholder by the company during its life, and whose owner enjoys all the rights pertaining to the share with the exception of redeeming its par value upon the dissolution and liquidation of the company.

(3) Ad Article 22 paragraphs 2 and 3

The phrases: "subject to the provisions of the laws of Lebanon regarding the allowances as a credit against Lebanese tax" and "subject to the provisions of the laws of Pakistan regarding the allowances as a credit against Pakistan tax" do not infringe the principle of allowance, but are related to the procedures and the enforcement of allowance.

DONE in duplicate Beirut at 31st August 2005 in the English language, each text being equally authentic.

Sd/
FOR THE GOVERNMENT OF THE ISLAMIC
REPUBLIC OF PAKISTAN

Sd/
FOR THE GOVERNMENT OF
THE LEBANESE REPUBLIC

[C.No.2(85)Int.Taxes/62 (Leb-DTA)]

(Usman Khalid Mirza)
Additional Secretary/Member (Direct Taxes)