

GOVERNMENT OF PAKISTAN
REVENUE DIVISION
FEDERAL BOARD OF REVENUE

Islamabad, the September 25, 2009

NOTIFICATION

(Income Tax)

S.R.O. 820(I)/2009 WHEREAS the Government of the Islamic Republic of Pakistan and the Kingdom of Bahrain have signed a Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income on the 27th June, 2005, as reproduced in the Annexure to this notification;

AND WHEREAS the aforesaid Convention has been ratified by both the Contracting States and the Instruments of Ratification have been exchanged;

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 provisions of the said Convention shall have effect from the date of exchange of Instruments of Ratification and shall apply,-

(a) in 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 upon which the Convention enters into force; and
- (ii) with regard to other taxes, in respect of taxable years beginning on or after the first day of July next following the date upon which the Convention enters into force. The provisions of Article 8 shall be applicable to income derived from international air traffic as from the beginning of operations by Gulf Air in Pakistan; and

(b) in case of the Kingdom of Bahrain-

- (i) in respect of withholding tax on income that is derived on or after the first day of January in the calendar year next following that in which the Agreement enters into force; and
- (ii) in respect of other Bahrain tax, in relation to income, profits or gains of any year of income beginning on or after the first day of January in the calendar year next following in which the Agreement enters into force.

**CONVENTION
BETWEEN THE GOVERNMENT
OF THE ISLAMIC REPUBLIC OF PAKISTAN
AND THE GOVERNMENT OF THE KINGDOM OF BAHRAIN
FOR THE AVOIDANCE OF DOUBLE TAXATION AND
THE PREVENTION OF FISCAL EVASION WITH
RESPECT TO TAXES ON INCOME.**

Preamble

The Government of the Islamic Republic of Pakistan and the Government of the Kingdom of Bahrain desiring to conclude a Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and to promote and strengthen the economic relations between the two countries,

Have agreed as follows:

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 on its political sub-divisions, 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.
3. The existing taxes to which the Convention shall apply are:
 - (a) in Pakistan:
 - (i) the income tax;
 - (ii) the super tax; and
 - (iii) the surcharge;

(hereinafter referred to as “Pakistan tax”); and

(b) in the case of Bahrain:

any tax imposed on total income or on elements of income including taxes on gains from the alienation of movable property, as well as taxes which are similar to those to which the Convention applies in the case of Pakistan;

(hereinafter referred to as “Bahrain tax”).

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

Article 3 **General Definitions**

1. For the purposes of this Convention, unless the context otherwise requires:
- (a) the term “Pakistan” when used in a 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; and
 - (b) the term “Bahrain” means the territory of the Kingdom of Bahrain as well as the maritime areas, seabed and subsoil over which Bahrain exercises, in accordance with international law, sovereign rights and jurisdiction;
 - (c) the terms “Contracting State(s)” and the “other Contracting State(s)” mean Pakistan or Bahrain, as the context requires;
 - (d) the term “company” means any body corporate or any entity constituted or recognised under the laws of one or other of the Contracting States or which is treated as a company or body corporate for tax purposes;
 - (e) the term “competent authority” means:
 - (i) in Pakistan, the Central Board of Revenue or its authorised representatives, and
 - (ii) in the case of Bahrain the Minister of Finance or his authorised representative.
 - (f) 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;

- (g) the term “international traffic” means any transport by a ship or aircraft operated by an enterprise of a Contracting State, except when the ship or aircraft is operated solely between places in the other Contracting State;
 - (h) the term “national” means:
 - (i) in the case of Pakistan:
 - (a) any individual possessing the citizenship or nationality of Pakistan;
 - (b) any legal person or association deriving its status as such from the laws in force in Pakistan;
 - (ii) in the case of Bahrain:
 - (a) any individual possessing Bahraini nationality under the laws of Bahrain; and
 - (b) any company, a body of persons or any other entity capable of legal existence under the laws of Bahrain;
 - (i) the term “person” includes an individual, a company and any other body of persons which is treated as an entity for tax purposes, and
 - (j) the term “tax” means Pakistan tax or Bahrain tax, as the context requires.
2. As regards the application of the provisions of the Convention at any time by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have the meaning which 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:
- (a) in Pakistan any person who, under the laws of Pakistan is liable to tax therein by reason of his domicile, residence, place of management or any other criterion of a similar nature, but this term does not include any person who is liable to tax in Pakistan in respect only of income from sources therein;
 - (b) in Bahrain, the Kingdom of Bahrain, its local authorities, any Statutory body thereof and any person who under the laws of the Kingdom of Bahrain is domiciled or resident in, a citizen of or having their place of incorporation or management within the Kingdom of Bahrain.

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 to him in both States, he shall be deemed to be a resident only of the State with which his personal and economic relations are closer (“centre of vital interests”);
 - (b) if the State in which he has his centre of vital interests cannot be determined, or if he does not have 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; and
 - (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 only of the 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 warehouse;
 - (g) a sales outlet;
 - (h) a mine, an oil or gas well, a quarry or any other place of extraction or exploitation of natural resources; and
 - (i) a refinery.
3. The term “permanent establishment” likewise encompasses a building site, a construction, assembly or installation project or any supervisory activity in connection with such site or project, but only where such site, project or activity continues for a period of more than six months.

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, or display 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, or display;
 - (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 maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or for collecting information, for the enterprise;
 - (e) 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
 - (f) the maintenance of a fixed place of business solely for any combination of activities mentioned in subparagraphs (a) to (e), 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 6 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 that activities of such person are limited to those mentioned in paragraph 4 which, if exercised through a fixed place of business, would not make this fixed place of business a permanent establishment under the provisions of that paragraph.
6. 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, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.
7. 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.

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 property accessory to immovable property, livestock and equipment used in agriculture and forestry, rights to which the provisions of the general law respecting landed property apply, usufructs 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 and aircraft 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 paragraphs 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 the determination of the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the business 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. However, no such deduction shall be allowed in respect of amounts, if any, paid (otherwise than towards reimbursement of actual expenses) by the permanent establishment to the head office of the enterprise or any of its other offices, by way of royalties, fees or other similar payments in return for the use of patents or other rights, or by way of commission, for specific services performed or

- for management or except in the case of a banking enterprise, by way of interest on moneys lent to the permanent establishment. Likewise, no account shall be taken, in the determination of the profits of a permanent establishment, for amounts charged (otherwise than towards reimbursement of actual expenses) by the permanent establishment to the head office of the enterprise or any of its other offices, by way of royalties, fees or other similar payments in return for the use of patents or other rights, or by way of commission for specific services performed or for management or except in the case of a banking enterprise by way of interest on moneys lent to the head office of the enterprise or any of its other offices.
4. In so far as it has been customary in a Contracting State to determine the profits to be attributed to a permanent establishment on the basis of any 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 those Articles shall not be affected by the provisions of this Article.
 8. Nothing in this Convention will affect the rights of the Government of Bahrain to tax income in Bahrain derived from engaging in the exploration or the production of crude oil or other natural hydrocarbons from the ground of Bahrain, or in refining crude oil in Bahrain pursuant to Amiri Decree No.22/1979.

Article 8

Air Transport and Shipping

1. The income of an enterprise of a Contracting State arising from the operation of aircraft (including any income arising from the incidental lease or charter of aircraft or any other activity connected with such transport) or ships in international traffic shall be taxable only in the State in which the place of incorporation or management is situated.
2. Notwithstanding the preceding paragraph of this Article, such part of those profits arising from the business of operation of aircraft or ships in international traffic, as corresponds to the share of a Contracting State in an enterprise engaged in the operation of aircraft or ships in international traffic, shall be exempt from the taxes referred to in paragraph 3 of Article 2.

3. If the place of effective management of a shipping enterprise is aboard a ship, then it shall be deemed to be situated in the State in which the home harbour of the ship is situated or, if there is no such home harbour, in the State of which the operator of the ship is a resident.
4. The provisions of the preceding paragraphs shall also apply to profits 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 a 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 included 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 may 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 accordingly to the laws of that State, but if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the dividend. 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 "jouissance" rights, mining shares, founders' shares or other rights not being debt-claims, participating in profits, as well as income treated as distribution by the taxation laws of the State 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 the 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 in so far as such dividends are paid to a resident of that other State or in so far 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 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

Income from Debt-Claims

1. Income from debt - claims 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 income from debt - claims may also be taxed in the Contracting State in which it arises according to the laws of that State, but if the beneficial owner of the income from debt - claims is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the income from debt - claims.
3. Notwithstanding the provisions of paragraph 2:
 - (a) Income from debt - claims arising in a Contracting State shall be exempt from tax in that State if it is derived and the beneficially owned by:
 - (i) the Government of the other Contracting State, or a political subdivision or a local authority thereof, or subject to the agreement of the competent authorities, any agency or instrument of that State or political subdivision or local authority;
 - (ii) the State Bank of Pakistan and the Bahrain Monetary Agency.

- (b) Income from debt - claims arising in a Contracting State shall be exempt from tax in that State if it is beneficially owned by a resident of the other Contracting State and is derived in connection with a loan or credit extended, endorsed or guaranteed by the Government of the first-mentioned State.
4. The term “income from debt - claims” 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. Penalty charges for late payment shall not be regarded as income from debt - claims for the purposes of this Article.
5. The provisions of paragraph 1, 2 and 3 shall not apply if the beneficial owner of the income from debt - claims being a resident of a Contracting State, carries on business in the other Contracting State in which the income from debt - claims 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 income from debt - claims 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. Income from debt - claims shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the income from debt - claims 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 income from debt - claims is paid was incurred, and such income from debt - claims is borne by such permanent establishment or fixed base, then such income from debt - claims shall be deemed to arise in the 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 income from debt - claims 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 and Fees for Technical Services

1. Royalties or fees for technical services 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 or fees for technical services may also be taxed in the Contracting State in which they arise and according to the laws of that State, but if the beneficial owner of the royalties or fees for technical services is a resident of the other Contracting State, the tax so charged shall not exceed 10 percent of the gross amount of the royalties or fees for technical services.
3. The term “royalties” as used in this Article means any consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work (including cinematograph films and films, tapes or discs for radio or television broadcasting), any patent, trade mark, design or model, plan, secret formula or process, or for information concerning industrial, commercial or scientific experience.
4. The term “fees for technical services” as used in this Article means any consideration (including any lump sum consideration) for the provision or rendering of any managerial, technical or consultancy services by a resident of a Contracting State in the other Contracting State but does not include consideration for any activities mentioned in paragraph 3 of Article 5. Article 14 or Article 15.
5. The provisions of paragraphs 1 and 2 shall not apply if the beneficial owner of the royalties or fees for technical services, being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties or fees for technical services 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 or fees for technical services 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.
6. Royalties or fees for technical services shall be deemed to arise in a Contracting State when the payer is a resident of that State. Where, however, the person paying the royalties or fee for technical services, whether he is a resident of a Contracting State or not, has in a Contracting State a permanent establishment or a fixed base with which the right, property or contract in respect of which the royalties or fees for technical services are paid is effectively connected, and such royalties or fees for technical services are borne by such permanent establishment or fixed base, then such royalties or fees for technical services shall be deemed to arise in the 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 royalties or fees for technical services, 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 that other State.
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 of an enterprise of a Contracting State from the alienation of ships or aircraft operated in international traffic or movable property pertaining to the operation of such ships or aircraft shall be taxable only in that State.
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 an individual who is 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 unless he has a fixed base regularly available to him in the other Contract State for the purpose of performing his activities. If he has such a fixed base, the income may be taxed in the other State but only so much of it as is attributable to that fixed base. For the purposes of this Convention, where an individual who is a resident of a Contracting State is present in the other Contracting State for a period or periods exceeding in the aggregate 183 days in any twelve-month period commencing or ending in the fiscal year concerned, he shall be deemed to have a fixed base regularly available to him in that other State and the income that is derived from his activities that are performed in that other State shall be attributable to that fixed base.
2. The term “professional services” includes especially independent scientific, literary, artistic, educational or teaching activities as well as the independent activities of physicians, lawyers, engineers, architects, dentists and accountants.

Article 15
Dependent Personal Services

1. Subject to the provisions of Articles 16, 18, and 19, 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 so exercised, 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 twelve-month period commencing or ending in the fiscal year concerned;
 - (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 provision of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic by an enterprise of a Contracting State may be taxed in that State.

Article 16 **Director's Fees**

1. Directors fees and 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.
2. Salaries, wages and other similar remuneration derived by a resident of a Contracting State in his capacity as an official in a top-level managerial position of a company which is a resident of the other Contracting State may be taxed in that other State.

Article 17 **Entertainers and Sportspersons**

1. Notwithstanding the provisions of Articles 7, 14 and 15, income derived by a resident of a Contracting State as an entertainer, such as a theatre, motion picture, radio or television artiste, or a musician, or as sportsperson, 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 sportsperson in his capacity as such accrues not to the entertainer or sportsperson 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 sportsperson are exercised.

3. Income derived by a resident of a Contracting State from activities. exercised in the other Contracting State as envisaged in paragraph 1 and 2 of this Article, shall be exempt from tax in that other state if the visit to that other State is supported wholly or mainly by public funds of the first mentioned Contracting State, a political subdivision or a local authority thereof, or takes place under cultural agreement or arrangement between the Government of the Contracting State.

Article 18 **Pensions and Annuities**

1. Subject to the provisions of paragraph 2 of Article 19, pensions and other similar remuneration and annuities arising in a Contracting State and paid to a resident of the other Contracting State, may be taxed in the first-mentioned State.
2. Notwithstanding the provisions of paragraph 1, pensions and other similar payments made under the social security system of a Contracting State or a political subdivision or a local authority thereof shall be taxable only in that state.
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.

Article 19 **Government Service**

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

b) However, such salaries, wages and similar 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 political subdivision or a local authority thereof to an individual in respect of services rendered to that State or subdivision or authority 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, 17 and 18 shall apply to salaries, wages and similar remuneration, and to pensions in respect of services rendered in connection with a business carried on by Contracting State or a political subdivision or a local authority thereof.

Article 20

Students, Apprentices and Business Trainees

- 1. A student, apprentice or trainee who is present in a Contracting State solely for the purpose of his education or training and who is, or immediately before being so present, was a resident of the other Contracting state, shall be exempt from tax in the first mentioned State in respect of a stipend or scholarship received in that State and any payments received from outside that first mentioned State for the purposes of his maintenance, education or training.

Article 21

Other Income

- 1. Items of income of a resident of a Contracting State, wherever arising, not dealt with in the foregoing Articles of this Convention shall be taxable in that 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 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.
- 3. Notwithstanding the provisions of paragraphs 1 and 2, items of income of a resident of a Contracting State not dealt with in the foregoing Articles of the Convention and arising in the other Contracting State may also be taxed in that other State.

Article 22

Elimination of Double Taxation

- 1. Double taxation shall be eliminated by the Contracting States, as follows:
 - (a) Where a resident of a Contracting State derives income which, in accordance with the provisions of this Convention, may be taxed in the other Contracting

State, the first mentioned State shall allow as a deduction from the tax on the income of that resident, an amount equal to the tax paid in the other State. Such deduction shall not, however, exceed that part of the tax on income, as computed before the deduction is given, which is attributable to the income which may be taxed in such other State.

2. For the purposes of paragraph 1 of this Article, the term "Tax Paid" shall be deemed to include the amount of tax which would have been paid in a Contracting State as the case may be, but for an exemption or reduction granted in accordance with laws designed to promote economic development in that Contracting State.
3. A grant given by a Contracting State or a political subdivision thereof to a resident of the other Contracting State in accordance with laws designed to promote economic development in that first-mentioned State, shall not be taxable in the other State.

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. The taxation on a permanent establishment which an enterprise of a Contracting State has in the other Contracting State shall not be less favourably levied in that other State than the taxation levied on enterprises of that other State carrying on the same activities. This provision 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.
3. 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 that first-mentioned State are or may be subjected.
4. Except where the provisions of paragraph 1 of Article 9, paragraph 7 of Article 11 or paragraph 7 of Article 12 apply, income from debt - claim, royalties fees for technical services 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 resident of the first-mentioned State.

Article 24

Mutual Agreement Procedure

1. Where a person considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with 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 or, if his case comes under paragraph 1 of Article 23, to that of the Contracting State of which he is a national. The case must be presented within two 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 endeavour, 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 then 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 endeavour to resolve by mutual agreement any difficulties or doubts arising as to the interpretation or application of the 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. The competent authorities, through consultations, shall develop appropriate bilateral procedures, conditions, methods, and techniques for the implementation of the mutual agreement procedure provided for in this Article.

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 Agreement or of the domestic laws of the Contracting States concerning taxes covered by the Agreement insofar as the taxation thereunder is not contrary to the Agreement. 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) concerned with 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 Agreement. 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. In no case shall the provisions of paragraph 1 be construed so as to impose on a Contracting State the obligations:
 - (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) supply information, which would disclose any trade, 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.

Article 27

Entry Into Force

1. 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 date of receipt of the latter of these notifications.
2. The provisions of the Convention shall apply:-
 - (a) in 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 upon which the Convention enters into force; and

- (ii) with regard to other taxes, in respect of taxable years beginning on or after the first day of July next following the date upon which the Convention enters into force. The provisions of Article 8 shall be applicable to income derived from international air traffic as from the beginning of operations by Gulf Air in Pakistan;
- (b) in Bahrain:
 - (i) in respect of withholding tax on income that is derived on or after the first day of January in the calendar year next following that in which the Agreement enters into force;
 - (ii) in respect of other Bahrain tax, in relation to income, profits or gains of any year of income beginning on or after the first day of January in the calendar year next following in which the Agreement enters into force.

Article 28

Termination

1. This Convention shall remain in force indefinitely but either of the Contracting States may terminate the Convention through the diplomatic channel, by giving to the other Contracting State written notice of termination not later than 30 June of any calendar year starting five years after the year in which the Convention entered into force.
2. In such event the Convention shall cease to apply:
 - (a) in 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 such notice is given.
 - (b) in Bahrain:
 - (i) in respect of withholding tax on income that is derived by a non resident, in relation to income derived on or after the thirty first day of December in the calendar year next following that in which the notice of termination is given; and

- (ii) in respect of other Bahrain tax, in relation to income, beginning on or after the thirty first day of December in the calendar year next following that in which the notice of termination is given.

IN WITNESS WHEREOF the undersigned, being duly authorised thereto, have signed this Convention.

Done at Islamabad on 27th day of June 2005 in duplicate in the English and Arabic languages, all texts being equally authoritative except in the case of doubt when the English text shall prevail.

Sd/
For the Government of the
Islamic Republic of Pakistan

Sd/
For the Government of Kingdom of Bahrain

[C.No.2(4)Int.Taxes/97 (Bahrain-DTA)]

(Asrar Raouf)
Additional Secretary/Member Policy (Direct Taxes)