

**CONVENTION BETWEEN
THE REPUBLIC OF ITALY AND
THE ISLAMIC REPUBLIC OF PAKISTAN
FOR THE AVOIDANCE OF DOUBLE TAXATION AND THE PREVENTION OF FISCAL
EVASION WITH RESPECT TO TAXES ON INCOME¹.**

The Government of the Republic of Italy and
the Government of the Islamic Republic of Pakistan,
desiring to conclude a Convention for the avoidance of double taxation and the prevention of fiscal
evasion with respect to taxes on income, have agreed as follows:

Article 1 - Personal scope

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 each Contracting State
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 and taxes
on the total amounts of wages or salaries paid by the enterprises, as well as taxes on capital
appreciation.

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

(a) in the case of Italy:

(i) the personal income tax (imposta sul reddito delle persone fisiche), and

(ii) the corporate income tax (imposta sul reddito delle persone giuridiche) whether or not they
are collected by withholding at source (hereinafter referred to as "Italian tax");

(b) in the case of Pakistan:

- the income tax;

- the super tax; and

- surcharge (hereinafter referred to as "Pakistan tax").

¹ Date of Conclusion: 22 June 1984. Entry into Force: 27 February 1992. Effective Date: 1 January 1992 (see Article 30).

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 by either Contracting State or by the Government of any territory to which the present Convention is extended under Article 28 of this Convention. At the end of each year, the competent authorities of the Contracting States shall notify each other of significant changes which have been made in their respective taxation laws.

Article 3 - *Definitions*

1. In this Convention, unless the context otherwise requires:

(a) the term "Pakistan" 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 is an area within which the rights of Pakistan with respect to the sea bed and sub-soil and their natural resources may be exercised;

(b) the term "Italy" means the Republic of Italy and includes any area beyond the territorial waters of Italy which, in accordance with the laws of Italy concerning the exploration for and the exploitation of natural resources, may be designated as an area within which the rights of Italy with respect to the sea bed and sub-soil and natural resources may be exercised;

(c) the terms "a Contracting State" and "the other Contracting State" mean Italy or Pakistan as the context requires;

(d) the term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes;

(e) the term "person" includes an individual, a company and other body of persons;

(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 "national" means:

(i) any individual possessing the nationality of a Contracting State;

(ii) any legal person, partnership, association and any other entity deriving its status as such from the law in force in a Contracting State;

(h) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise of one of the Contracting States, except when the ship or aircraft is operated solely between places in the other Contracting State;

(i) the term "competent authority" means:

- in the case of Italy, the Ministry of Finance;

- in the case of Pakistan, the Central Board of Revenue.

2. As regards the application of the Convention by a Contracting State any term not otherwise defined shall, unless the context otherwise requires, have the meaning which it has under the law of that Contracting State relating to the taxes which are the subject of the Convention.

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. But this term does not include any person who is liable to tax in that State in respect only of income from sources in that State.

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 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 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 has not a permanent home available to him in either State, he shall be deemed to be a resident 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 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 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 in which the business of the enterprise is wholly or partly carried on.

2. The term "permanent establishment" shall include especially:

(a) a place of management;

(b) a branch;

(c) an office;

(d) a factory;

(e) a workshop;

(f) a mine, a quarry or other place of extraction of natural resources;

(g) permanent sales exhibition;

(h) a building site or construction, installation or assembly project or supervisory activities in connection therewith, where such site, project or activity continues for a period of more than 6 months;

(i) the furnishing of services, including consultancy services by an enterprise through employees or other personnel, where activities of that nature continue for the same project or a connected project within the country for a period or periods aggregating more than 3 months.

3. The term "permanent establishment" shall not be deemed 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 advertising, for the supply of information, for scientific research or for similar activities which have a preparatory or auxiliary character, for the enterprise.

4. A person acting in a Contracting State for or on behalf of an enterprise of the other Contracting State - other than an agent of independent status to whom paragraph 5 applies - shall be deemed to be a permanent establishment in the first-mentioned State if:

(a) he has, and habitually exercises in that State, an authority to conclude contracts for or on behalf of the enterprise, unless his activities are limited to the purchase of goods or merchandise for the enterprise; or

(b) he habitually maintains in the first-mentioned State a stock of goods or merchandise from which he regularly delivers goods or merchandise for or on behalf of the enterprise.

5. An enterprise of a Contracting State shall not be deemed to have a permanent establishment in the other Contracting State merely because it carries on business in that other State through a broker, general commission agent or any other agent of an independent status, where such persons are acting in the ordinary course of their business. However, where the activities of such an agent are devoted wholly, or almost wholly on behalf of that enterprise, or a group of centrally controlled enterprises he would not be considered an agent of an independent status within the meaning of this paragraph.

6. 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 as 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 and rights to which the provisions of general law respecting landed property apply. Usufruct of immovable property and rights to variable or fixed payments as considerations for the working of, or the right to work, mineral deposits, sources and other natural resources shall also be considered as "immovable property". 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 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 or has carried 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:

(a) that permanent establishment; or

(b) sales of goods or merchandise of the same or similar kind as those sold, or from other business activities of the same or similar kind as those effected, through 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 deduction 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.

4. Notwithstanding the provisions of paragraph 3, no deduction shall be allowed in respect of amounts paid or 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:

(a) royalties, fees or other similar payments in return for the use of patents or other rights;

(b) commission for specific services performed or for management; and

(c) interest or moneys lent to the permanent establishment except in case of a banking institution.

5. 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 embodied in this Article.

6. 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.

7. 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.

8. 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.

Article 8 - Shipping and air transport

1. Income derived by an enterprise of a Contracting State from the operation in international traffic of ships or aircraft shall be taxable in that State.

2. Notwithstanding the provisions of paragraph 1, income derived by an enterprise of a Contracting State from operation of ships or aircraft in the other State may be taxed in that other State, but the tax so charged shall be reduced by 50%.

3. The provisions of paragraphs 1 and 2 shall also apply to income derived by an enterprise of a Contracting State from its participation in a pool, a joint business or in an international agency.

Article 9 - Associated enterprises

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.

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 be taxed in the Contracting State of which the company paying the dividends is a resident, and according to the law of that State, but if the recipient is the beneficial owner of the dividends the tax so charged shall not exceed:

(a) 15% of the gross amount of the dividends, if the recipient company holds directly at least 25% of the capital of the company paying the dividends and the latter company is engaged in an industrial undertaking;

(b) 25% of the gross amount of the dividends in all other cases.

3. The term "dividends" as used in this Article means income from shares, "jouissance" shares or "jouissance" rights, mining shares, founder's shares or other rights, 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 taxation law of the State in which the company making the distribution is a resident.

4. The provisions of paragraphs 1 and 2 shall not apply if the recipient 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 professional 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 a case the dividends are taxable in that other State according to its own law.

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 recipient maintains 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.

6. The provisions of this Article shall not affect the taxation of the company in respect of the profits out of which the dividends are paid.

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 be taxed in the Contracting State in which it arises, and according to the law of that State, but if the recipient is the beneficial owner of the interest, the tax so charged shall not exceed 30% of the gross amount of the interest.
3. The term "interest" as used in this Article means income from Government securities, bonds or debentures, whether or not secured by mortgage and whether or not carrying a right to participate in profits, and debt-claims of every kind as well as all other income assimilated to income from money lent by the taxation law of the State in which the income arises.
4. The provisions of paragraphs 1 and 2 shall not apply if the recipient 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 professional 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 a case, the interest is taxable in that other State according to its own law.
5. Interest shall be deemed to arise in a Contracting State when the payer is that State itself, a political or an administrative subdivision, a local authority 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 in connection with which the indebtedness on which the interest is paid was incurred, and such interest is borne by such permanent establishment, then such interest shall be deemed to arise in the Contracting State in which the permanent establishment is situated.
6. Where, owing to a special relationship between the payer and the recipient or between both of them and some other person, the amount of the interest paid, 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 recipient in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In that case, the excess part of the payments shall remain taxable according to the law of each Contracting State, due regard being had to the other provisions of this Convention.
7. Notwithstanding the provisions of paragraphs 1 and 2, interest arising in a Contracting State shall be exempt from tax in that State if:
 - (a) the payer of the interest is the Government of that Contracting State; or
 - (b) the interest is paid to the Government of the other Contracting State or any agency or instrumentality (including a financial institution) wholly owned by that other Contracting State.

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 be taxed in the Contracting State in which they arise and according to the law of that State, but if the recipient is the beneficial owner of the royalties the tax so charged shall not exceed 30% of the gross amount of royalties as defined in paragraph 3.
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 films or tapes for television or broadcasting, any patent, trade mark, design or model, plan, secret formula or process for the use of, or the right to use, industrial, commercial or scientific equipments or for information concerning industrial, commercial or scientific experience.
4. The provisions of paragraphs 1 and 2 shall not apply if the recipient 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 professional 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 a case, the royalties are taxable in that other Contracting State according to its own law.
5. Royalties shall be deemed to arise in a Contracting State when the payer is that State itself, a political or an administrative subdivision, a local authority or a resident of that State. Where, however, the person paying the royalties, whether he is resident of a Contracting State or not, has in a Contracting State a permanent establishment in connection with which the liability to pay the royalties was incurred, and such royalties are borne by such permanent establishment, then such royalties shall be deemed to arise in the Contracting State in which the permanent establishment is situated.
6. Where, owing to a special relationship between the payer and the recipient or between both of them and some other person, the amount of the royalties paid, having regard to the use, right or information for which these are paid, exceeds the amount which would have been agreed upon by the payer and the recipient in the absence of such relationship, the provisions of this Article shall apply only to the last-mentioned amount. In that case, the excess part of the payments shall remain taxable according to the law of each Contracting State, due regard being had to the other provisions of this Convention.

Article 13 - *Capital gains*

1. Gains from the alienation of immovable property, as defined in paragraph 2 of Article 6, 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 for the purpose of performing professional services, including such gains from the alienation of such a permanent establishment (alone or together with the whole enterprise) or of such a fixed base, may be taxed in that other State. However, gains from the alienation of ships and aircraft operated by an enterprise of a Contracting State in international traffic and movable property pertaining to the operation of such ships or aircraft, shall be taxable only in that Contracting State.

3. Gains from the alienation of shares of the capital stock of a company the property of which consists directly or indirectly principally of immovable property situated in a Contracting State may be taxed in that State.

4. Gains from the alienation of shares other than those mentioned in paragraph 3 representing a substantial participation in a company which is a resident of a State may be taxed by that State.

5. Gains from the alienation of any property other than that referred to in paragraphs 1, 2, 3 and 4, 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 independent activities of a similar character shall be taxable only in that State. However, in the following circumstances such income may be taxed in the other Contracting State i.e.:

(a) if he has a fixed base regularly available to him in the other Contracting State for the purpose of performing his activities; in that case, only so much of the income as is attributable to that fixed base may be taxed in the other Contracting State; or

(b) if his stay in the other Contracting State is for a period or periods amounting to or exceeding in the aggregate 183 days in the fiscal year, or

(c) if the remuneration for his services in the other Contracting State derived from residents of that Contracting State exceeds 75,000 rupees or its equivalent in Italian currency in the fiscal year, notwithstanding that his stay in that State is for a period or periods amounting to less than 183 days during the fiscal year.

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, 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 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 the fiscal year concerned, and either

(b) the remuneration is paid by, or on behalf of, an employer who is not a resident of the other State, or

(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 in respect of an employment exercised aboard a ship or aircraft operating in international traffic may be taxed in the Contracting State in which the place of effective management of the enterprise is situated.

Article 16 - Directors' 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 or a similar organ of a company which is a resident of the other Contracting State shall be taxable only in that other State.

2. The provisions of paragraph 1 shall likewise apply to payments received by an official of a company in a top level managerial position who carries out functions which are of a nature similar to those performed by a person referred to in paragraph 1.

Article 17 - Artists and athletes

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

Article 18 - Pensions

Subject to the provisions of paragraph 2 of Article 19, pensions and other similar remuneration paid to a resident of a Contracting State in consideration of past employment shall be taxable only in that State.

Article 19 - Government service

1. (a) Remuneration, other than pensions, paid by a Contracting State or a political or administrative subdivision or local authority thereof to any individual in respect of services rendered to that State or subdivision or local authority thereof 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 recipient is a resident of that other Contracting State, who:

(i) is a national of that State, or

(ii) did not become resident of that State solely for the purpose of performing the services.

2. (a) Any pension paid by, or out of funds created by, a Contracting State or a political or administrative subdivision or a local authority thereof to any individual in respect of services rendered to that State or subdivision or local authority thereof shall be taxable only in that State.

(b) However, such pension shall be taxable only in the other Contracting State if the recipient is a national of and a resident of that State.

3. The provisions of Articles 15, 16 and 18 shall not apply to remuneration and pensions in respect of services rendered in connection with any trade or business carried on by one of the Contracting States or a political or administrative sub-division or a local authority thereof.

Article 20 - *Students and trainees*

1. An individual who was a resident of a Contracting State immediately before visiting the other Contracting State and is temporarily present in that Contracting State solely as a student at a university, college or other similar educational institution or as a business apprentice shall, from the date of his first arrival in that Contracting State in connection with that visit, be exempt from tax in that Contracting State:

(a) on all remittances from abroad for purposes of his maintenance, education or training, and

(b) for a period not exceeding in the aggregate of five years on any remuneration for personal services rendered in that Contracting State with a view to supplementing the resources available to him for such purposes.

2. An individual who was a resident of a Contracting State immediately before visiting the other Contracting State and is temporarily present in that Contracting State solely for the purpose of study, research or training as a recipient of a grant, allowance or award from a scientific, educational, religious or charitable organization or under a technical assistance program entered into by the Government of a Contracting State shall for a period not exceeding two years from the date of his first arrival in that Contracting State in connection with that visit be exempt from tax in that Contracting State on:

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

(b) all remittances from abroad for the purposes of his maintenance, education or training; and

(c) any remuneration for personal services in that other Contracting State provided that such services are in connection with his study, research, training.

3. An individual who was a resident of a Contracting State immediately before visiting the other Contracting State and is temporarily present in that Contracting State solely as a trainee for the purpose of acquiring technical, professional or business experience, shall for a period not exceeding two years from the date of his first arrival in that Contracting State in connection with that visit be exempt from tax in that Contracting State on:

(a) all remittances from abroad for purposes of his maintenance, education or training, and

(b) for a period not exceeding in the aggregate of 5 years, any remuneration for personal services rendered in that Contracting State, provided such services are in connection with his studies or training.

Article 21 - Professors and teachers

1. The remuneration derived by a professor or a teacher who is a resident of a Contracting State at the beginning of a visit to the other Contracting State and is temporarily present in that other State for the purpose of teaching or carrying out advanced study or research, during a period not exceeding two years, at a university, college, school or other educational institution in that other Contracting State, shall be exempt from tax in that other State.

2. For the purposes of paragraph 1 of this Article, the term remuneration shall include remittances from sources outside the other State sent to enable the professor or teacher to carry out the purposes referred to in paragraph 1.

Article 22 - Income not expressly mentioned

Items of income of a resident of a Contracting State arising in the other Contracting State, not dealt with in the foregoing Articles of this Convention, may be taxed in both Contracting States.

Article 23 - Elimination of double taxation

1. In the case of Pakistan:

Where a resident of Pakistan owns items of income which are taxable in Italy, Pakistan, in determining its income taxes specified in Article 2 of this Convention, may include, unless specific provisions of this Convention otherwise provide, such items of income in its total income upon which such taxes are imposed. In such cases Pakistan shall deduct from the taxes so calculated Italian tax paid on the income, but in an amount not exceeding the amount which would be arrived at by applying the average rate of such tax to the doubly taxed income.

2. In the case of Italy:

Where a resident of Italy owns items of income which are taxable in Pakistan, Italy, in determining its income taxes specified in Article 2 of this Convention, may include, unless specific provisions of this Convention otherwise provide, such items of income in the base upon which such taxes are imposed. In such a case, Italy shall deduct from the taxes so calculated Pakistan tax paid on the income, but in an amount not exceeding that proportion of the aforesaid Italian tax which such items of income bear to the entire income. However, no deduction will be granted if the item of income is subjected in Italy to a final withholding tax by request of the recipient of the said income in accordance with the Italian law.

3. For the purposes of paragraphs 1 and 2 of this Article, where tax on business profits, dividends and interest arising in a Contracting State is exempted or reduced for a limited period of time to promote the economic development of that State, such tax which has been exempted or reduced shall be deemed to have been paid at an amount not exceeding 25%.

Article 24 - Non-discrimination

1. The 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 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. Except where the provisions of Article 9, paragraph 6 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.

4. 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.

5. In this Article, the term "taxation" means taxes which are the subject of this Convention.

Article 25 - 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 national laws 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 24, to that of the Contracting State of which he is a national. This case must be presented within three years from the first notification of the action giving rise to taxation not in accordance with 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 an appropriate 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.
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.
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 or for giving effect to the provisions of the Convention.

Article 26 - Exchange of information

1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the Convention and the domestic laws of the Contracting States concerning taxes covered by the Convention insofar as the taxation thereunder is not contrary to the Convention and in particular for the prevention of fiscal evasion. The exchange of information is not restricted by Article 1. Any information so exchanged 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 collection, enforcement or prosecution in respect of, or the determination of appeals in relation to, the taxes covered by the Convention. Such persons or authorities 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 one of the Contracting States the obligation:
 - (a) to carry out administrative measures at variance with the laws or the 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 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 27 - Diplomatic agents and consular officers

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

Article 28 - Territorial extension

1. This Convention may be extended, either in its entirety or with any necessary modifications to any State or territory for whose international relations either of the Contracting States is responsible and which imposes taxes substantially similar in character to those to which the Convention applies. Any such extension shall take effect from such date and subject to such modifications and conditions including conditions as to termination, as may be specified and agreed between the Contracting States in notes to be exchanged through diplomatic channels or in any other manner in accordance with their constitutional procedure.

2. Unless otherwise agreed by both Contracting States the denunciation of the Convention by one of them under Article 31 shall terminate, in the manner provided for in that Article, the application of the Convention to any State or territory to which it has been extended under this Article.

Article 29 - Refunds

1. Taxes withheld at the source in a Contracting State shall be refunded by request of the taxpayer or of the State of which he is a resident if the right to collect the said taxes is affected by the provisions of this Convention.

2. Claims for refund, that shall be produced within the time limit fixed by the law of the Contracting State which is obliged to carry out the refund, shall be accompanied by an official certificate of the Contracting State of which the taxpayer is a resident certifying the existence of the conditions required for being entitled to the application of the allowances provided for by this Convention.

3. The competent authorities of the Contracting States shall by mutual agreement settle the mode of application of this Article, in accordance with the provisions of Article 25 of this Convention.

Article 30 - Entry into force

1. The Convention shall be ratified and the instruments of ratification shall be exchanged at Islamabad as soon as possible.

2. The Convention shall enter into force upon the exchange of instruments of ratification and its provisions shall have effect:

(a) in Italy:

in respect of Italian tax for the taxable periods beginning on or after the first day of January in the calendar year in which the exchange of instruments of ratification takes place;

(b) in Pakistan:

in respect of Pakistan tax for the income years beginning on or after the first day of January in the calendar year in which the exchange of instruments of ratification takes place.

3. On entry into force of this Convention, the Agreement for avoidance of double taxation on income of air and maritime enterprises between Pakistan and Italy, signed on 8 June 1978, shall cease to be effective.

Article 31 - *Termination*

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

(a) in Italy:

in respect of Italian tax for the taxable periods beginning on or after the first day of January in the calendar year next following that in which notice of termination is given;

(b) in Pakistan:

in respect of Pakistan tax for the income years beginning on or after the first day of January in the calendar year next following that in which notice of termination is given.

Done in duplicate at Rome the 22nd day of June 1984 in the English and Italian languages, both texts being equally authentic. In case of divergence of interpretation the English text shall prevail.

PROTOCOL

At the signing of the Convention concluded today between the Republic of Italy and the Islamic Republic of Pakistan for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income the undersigned have agreed upon the following additional provisions which shall form an integral part of the said Convention.

It is understood:

- (a) that, with reference to Article 5, paragraph 2, if a warehouse is used for the purpose of delivery of goods, it would be treated as a permanent establishment;
- (b) that with reference to Article 7, paragraph 3, the expression "expenses which are incurred for the purposes of the permanent establishment" means the expenses directly connected with the activity of the permanent establishment;
- (c) that, with reference to Article 8, in determining its income tax each Contracting State shall include any local tax on income imposed under its internal law;
- (d) that, with further reference to Article 8, Pakistan has indicated that the source principle of taxation of income derived by an enterprise from operation in international traffic of ships or aircraft shall be adhered to in its future negotiations with other countries;
- (e) that, with reference to Article 10, paragraph 2, the term "industrial undertaking" means:
 - (i) the manufacture of goods or materials or the subjection of goods or materials to any process which results in substantially changing their original condition;
 - (ii) ship-building;
 - (iii) electricity, hydraulic power, gas and water supply;
 - (iv) mining including working of an oil-well or the source of any mineral deposit; and
 - (v) any other undertaking, which may be declared by the competent authority to be an industrial undertaking for the purposes of the said Article;
- (f) that, with reference to Articles 11 and 12, if Pakistan in future agreed to a lower rate of tax on interest and on royalties of a third State which is a member of OECD, then this lower rate shall likewise be applied to residents of Italy;
- (g) that, with reference to paragraph 3 of Article 12, a company whose investments in immovable property are equal to or more than 51% of its capital employed shall be deemed to be a company having investments principally in immovable property;
- (h) that, with reference to paragraph 4 of Article 13, a holding of 25% or more of equity capital shall be deemed to be a substantial participation in a company;

(i) that, with reference to paragraph 1 of Article 25, the expression "irrespective of the remedies provided by the national laws" means that the mutual agreement procedure is not alternative with the national contentious proceeding which shall be, in any case, preventively initiated, when the claim is related with an assessment of taxes not in accordance with this Convention;

(j) that the provision of paragraph 3 of Article 29 shall not prevent the competent authorities of the Contracting States from the carrying out, by mutual agreement, of other practices for the allowance of the reductions for taxation purposes provided for in this Convention.

Done in duplicate at Rome the 22nd day of June 1984 in the Italian and English languages, both texts being equally authentic. In case of divergence of interpretation the English text shall prevail.