Article 8 - Shipping and Air Transport

- Profits derived by an enterprise of a Contracting State from the operation by that enterprise of ships or aircraft in international traffic shall be taxable only in that State i.e., not operated solely between places within the other Contracting State.

- Profits shall mean profits derived by an enterprise from the transportation by sea or air respectively of passengers, mail, livestock or goods carried on by the owners or lessees or charterers of ships or aircraft including-
  - sale of tickets for such transportation on behalf of others;
  - other activity directly connected with such transportation; and
  - rental of ships or aircraft incidental to any activity directly connected with such transportation.

  Further;
  - Leasing of a ship or aircraft fully equipped, crewed and supplied would be covered;
  - Profits from inland transportation in the course of the enterprise in the course of international traffic through other enterprises would also be covered. However this does not cover operations of enterprise providing internal transportation service;
  - Lease of containers by an enterprise in connection with international traffic covered;
  - Income activities from participation in international pooling arrangements for incidental services would also be covered.

- For the purposes of this Article, interest on funds connected with the operation of ships or aircraft in international traffic shall be regarded as profits derived from the operation of such ships or aircraft, and the provisions of Article 11 (Interest) shall not apply in relation to such interest.

- Gains derived by an enterprise of a Contracting State described above from the alienation of ships, aircraft or containers owned and operated by the enterprise, the income from which is taxable only in that State, shall be taxed only in that State.

Discussion:

✓ *The terms "enterprise of a Contracting State" mean respectively an enterprise carried on by a resident of a Contracting State. Where 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.*
If the place of effective management of a shipping enterprise or of an inland waterways transport enterprise is aboard a ship or boat, then it shall be deemed to be situated in the Contracting State in which the home harbour of the ship or boat is situated, or, if there is no such home harbour, in the Contracting State of which the operator of the ship or boat is a resident.

✓ *Income Tax Act*
Sec 44B – deals with the shipping business of non residents. Presumes 7.5% of the aggregate of the amounts specified.