

## Serbia and Montenegro - Sri Lanka Income and Capital Tax Treaty (1985)

**Status:** In Force

**Conclusion Date:** 7 May 1985.

**Entry into Force:** 22 March 1986.

**Effective Date:** 1 January 1987 (Yugoslavia); 1 April 1987 (Sri Lanka) (see [Article 28](#)).

**Note:** Serbia and Montenegro ceased to exist on 5 June 2006. Serbia is the legal successor of the state union of Serbia and Montenegro. The position regarding the applicability of the former Yugoslavia treaty of 7 May 1985 remains unclear: based on current information there is no official statement from Sri Lanka regarding the applicability of the former Yugoslavia treaty in relations with Serbia and Montenegro. In practice Serbia and Montenegro generally continued to apply the former conventions. Serbia will continue to apply this treaty in relations between Serbia and Sri Lanka. Montenegro has declared that it will honour all tax treaties that applied with respect to Serbia and Montenegro. However, application of the treaty with Montenegro has to be confirmed by Sri Lanka.

### CONVENTION BETWEEN THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA AND THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA FOR THE AVOIDANCE OF DOUBLE TAXATION WITH RESPECT TO TAXES ON INCOME AND ON CAPITAL

#### 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 and on capital imposed on behalf of a Contracting State or of its political subdivisions or local authorities, irrespective of the manner in which they are levied.
2. There shall be regarded as taxes on income and on capital all taxes imposed on total income, on total capital, or on elements of income or of capital, including taxes on gains from the alienation of movable or immovable property, taxes on the total amounts of wages or salaries paid by enterprises, as well as taxes on capital appreciation.
3. The taxes to which the Convention shall apply are:
  - (a) in Yugoslavia:
    - (i) the tax on income of organizations of associated labour;
    - (ii) the tax on personal income derived from dependent personal services;
    - (iii) the tax on personal income derived from agricultural activities;
    - (iv) the tax on personal income derived from independent economic and non-economic activities;
    - (v) the tax on personal income derived from copyrights, patents and technical innovations;
    - (vi) the tax on revenue from capital and capital rights;
    - (vii) the tax on capital;
    - (viii) the tax on total revenue of citizens;
    - (ix) the tax on profits of foreign persons derived from investments in a domestic organization of associated labour for the purposes of joint business operations;
    - (x) the tax on profits of foreign persons derived from investment projects;
    - (xi) the tax on revenue of foreign persons derived from passenger and cargo transport; (hereinafter referred to as "Yugoslav tax");

- (b) in Sri Lanka:
    - (i) the income tax, including the income tax based on the turnover of the enterprises licensed by the Greater Colombo Economic Commission;
    - (ii) the wealth tax;
 (hereinafter referred to as "Sri Lanka tax").
4. The Convention shall apply also to any identical or substantially similar taxes which are imposed 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 to each other any substantial changes which have been made in their respective laws.

### Article 3 General definitions

1. For the purposes of this Convention:
  - (a) the terms "a Contracting State" and "the other Contracting State" mean Yugoslavia or Sri Lanka as the context requires;
  - (b) the term "Yugoslavia" means the territory of the Socialist Federal Republic of Yugoslavia and includes any area outside the territorial sea of Yugoslavia which has been or may hereafter be designated under the laws of Yugoslavia and in accordance with international law, as an area within which the rights of Yugoslavia to the sea-bed and subsoil and their natural resources may be exercised;
  - (c) the term "Sri Lanka" means the territory of the Democratic Socialist Republic of Sri Lanka and includes any area outside the territorial sea of Sri Lanka which has been or may hereafter be designated under the laws of Sri Lanka and in accordance with international law, as an area within which the rights of Sri Lanka to the sea-bed and subsoil and their natural resources may be exercised;
  - (d) the term "nationals" means:
    - (i) in the case of Yugoslavia, all individuals possessing the nationality of the Socialist Federal Republic of Yugoslavia under the Yugoslav laws in force;
    - (ii) in the case of Sri Lanka: i. all individuals possessing the nationality of Sri Lanka; ii. all legal persons, partnerships and associations deriving their status as such from the laws in force in Sri Lanka;
  - (e) the term "person" means:
    - (i) in the case of Yugoslavia, an individual and any legal person;
    - (ii) in the case of Sri Lanka, an individual, a company and any other body of persons;
  - (f) the term "company" means:
    - (i) in the case of Yugoslavia, any organisation of associated labour and any other legal person subject to tax;
    - (ii) in the case of Sri Lanka, any body corporate or any entity which is treated as a body corporate for tax purposes;
  - (g) the terms "enterprise of a Contracting State" and "enterprise of the other Contracting State" mean, as the context requires, in the case of Yugoslavia an organisation of associated labour and other self-managed organisation and community, working people who individually perform activities independently and an enterprise established outside the territory of Yugoslavia carried on by a resident of Yugoslavia, and in the case of Sri Lanka, an enterprise carried on by a resident of Sri Lanka;
  - (h) the term "international traffic" means any transport by a ship or aircraft operated by an enterprise which has its place of effective management in a Contracting State, except when the ship or aircraft is operated solely between places in the other Contracting State;
  - (i) the term "competent authority" means:
    - (i) in the case of Yugoslavia, the Federal Secretariat of Finance or its authorised representative;
    - (ii) in the case of Sri Lanka, the Commissioner-General of Inland Revenue.
2. As regards the application of the Convention by a Contracting State, any term not defined therein shall have the meaning which it has under the law of that State concerning the axes to which the Convention applies.

### 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.

2. Where by reasons of the provisions of paragraph 1 of this Article 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 of this article 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 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, and
- (f) a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

3. The term "permanent establishment" likewise encompasses:

- (a) a building site, a construction, assembly or installation project, but only where such site, project or activities continue for a period of more than 275 days;
- (b) the furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged by the enterprise for such purpose, but only where activities of that nature continue (for the same or a connected project) within the country for a period or periods aggregating more than 275 days within any 12-month period.

4. Notwithstanding the provisions of paragraphs 1, 2 and 3 of this Article the term "permanent establishment" shall be deemed not to include:

- (a) the use of facilities solely for the purpose of storage, display or occasional delivery of goods or merchandise belonging to the enterprise;
- (b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display or occasional delivery;
- (c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise;
- (d) the 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, supply of information, scientific research or similar activities which have a preparatory or auxiliary character, for the enterprise;
- (f) the maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs (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 of this Article, where a person -- other than an agent of an independent status to whom paragraph 6 of this Article applies -- is acting in a Contracting State on behalf of an enterprise of the other Contracting State, that enterprise shall be deemed to have a permanent establishment in the first-mentioned Contracting State in respect of any activities which that

person undertakes for the enterprise, if such a person:

- (a) has and habitually exercises in that State an authority to conclude contracts in the name of the enterprise, unless the activities of such person are limited to those mentioned in paragraph 4 of this Article 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; or
- (b) has no such authority, but habitually maintains in the first-mentioned State a stock of goods or merchandise from which he regularly delivers goods or merchandise on behalf of the enterprise.

6. 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 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.

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 the 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" in this Convention shall have the meaning which it has under the law of the Contracting State in which the property in question is situated. Ships, boats and aircraft shall not be regarded as immovable property.

3. The provisions of paragraph 1 of this Article 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 of this Article 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 of this Article where an enterprise of a Contracting State carries on business in the other Contracting State through a permanent establishment situated therein, there shall in each Contracting State be attributed to that permanent establishment the profits which it might be expected to make if it were a distinct and separate enterprise engaged in the same or similar activities under the same or similar conditions and dealing wholly independently with the enterprise of which it is a permanent establishment.

3. In determining the profits of a permanent establishment, there shall be allowed as deductions expenses which are incurred for the purposes of the 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.

4. The profits to be attributed to a permanent establishment shall be determined on the basis of separate business books kept by the permanent establishment. If such books do not constitute an adequate basis for the purposes of determining the profits of the permanent establishment, then such profits may be determined on the basis of an apportionment of the total profits of the enterprise to its various parts. The method of apportionment adopted shall, however, be such that the result shall be in accordance with the principles embodied in this Article. If necessary the competent authorities of the Contracting States shall endeavour to agree on the method for apportioning the profits of the enterprise.

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. The provisions of this Article shall apply to the profits derived in Yugoslavia by a resident of Sri Lanka from his participation in a joint business operation with a Yugoslav enterprise.

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. Profits derived from the operation of ships or aircraft in international traffic shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.

2. Notwithstanding the provisions of paragraph 1 of this Article profits derived from the operation of ships in international traffic may be taxed in the Contracting State in which such operation is carried on, but the tax so charged shall not exceed 50% of the tax otherwise imposed by the internal law of that State. For the purposes of this paragraph, the amount of such profits subject to tax in Sri Lanka shall not exceed 6% of the sum receivable in respect of the carriage of passengers or freight embarked in Sri Lanka.

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 Contracting State in which the home harbour of the ship is situated, or if there is no such home harbour, in the Contracting State of which the operator of the ship is a resident.

4. The provisions of paragraphs 1 and 2 shall also apply to profits from the participation in a pool, a joint business or an international operating 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 also be taxed in the Contracting State of which the company paying the dividends is a resident and according to the laws of that State, but the tax so charged shall not exceed 12.5% of the gross amount of the dividends.

3. The term "dividends" as used in this Article means, in respect of Sri Lanka, income from 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 that State of which the company making the distribution is a resident.

4. The provisions of paragraphs 1 and 2 of this Article 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 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 of this Convention, as the case may be, shall apply.

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

## **Article 11**

### **Interest**

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

2. However, interest referred to in paragraph 1 of this Article may also be taxed in the Contracting State in which it arises, and according to the laws of that State, but the tax so charged shall not exceed 10% 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 from 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 of this Article 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 independent personal services from a fixed base situated therein, and the debt-claim in respect of which the interest is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14 of this Convention, as the case may be, shall apply.

5. Interest shall be deemed to arise in a Contracting State when the payer is that State itself, a political subdivision, a local authority or a resident of that State.

6. Notwithstanding the provisions of paragraph 5 of this Article the interest shall be deemed to arise in the Contracting State in which the payer of the interest has a permanent establishment or a fixed base with which the loan on which the interest is paid is effectively connected and which bears the interest, whether or not the payer of the interest is a resident of the Contracting State.

7. Where, by reason of 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 such case, the excess part of the payments shall remain taxable according to the laws of each Contracting State, due regard being had to the other provisions of this Convention.

## **Article 12**

### **Royalties**

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

2. The royalties referred to in paragraph 1 of this Article may also be taxed in the Contracting State in which they arise and according to the laws of that State, but the tax so charged shall not exceed 10% of the gross amount of the royalties.

3. The term "royalties" as used in this Article means payments of any kind received as a consideration for the use of, or the right to use, any copyright of literary, artistic or scientific work including cinematograph films and films and tapes for television or radio broadcasting, any patent, trade mark,

design or model, plan, secret formula or process, or for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial or scientific experience.

4. The provisions of paragraphs 1 and 2 of this Article 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 independent personal services from a fixed base situated therein and the right or property in respect of which the royalties are paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14 of this Convention, as the case may be, shall apply.

5. Royalties shall be deemed to arise in a Contracting State when the payer is that Contracting State itself, a political subdivision, a local authority or a resident of that Contracting State.

6. Notwithstanding the provisions of paragraph 5 of this Article, the royalties shall be deemed to arise in the Contracting State in which the payer of the royalties has a permanent establishment or a fixed base with which the liability to pay the royalties was incurred and which bears the royalties whether or not the payer of the royalties is a resident of the Contracting State.

7. Where, by reason of 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 they are paid, exceeds the amount which would be agreed upon between 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 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 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 the Contracting State in which the place of effective management of the enterprise is situated.

4. Gains from the alienation of stocks and shares of a company which is a resident of Sri Lanka representing a participation of 25% or more may be taxed in Sri Lanka.

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

### **Article 14**

#### **Independent personal services**

1. Income derived by a resident of a Contracting State in respect of professional services or other activities of an independent character may be taxed in that State. Except as provided in paragraph 2 of this Article, such income shall be exempt from tax in the other Contracting State.

2. Income derived by a resident of a Contracting State in respect of professional services or other activities of an independent character in the other Contracting State may be taxed in that other State, if the resident is present in that other State for a period or periods exceeding in the aggregate 183 days within any 12-month period, whether or not such resident maintains a fixed base in that other State.

3. 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, 17, 18, 19 and 20 of this Convention, 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 of this Article, 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 within any 12-month period, and
  - (b) the remuneration is paid, by or on behalf of, a person 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 person has in the other State.
3. (a) Wages and salaries paid by a Contracting State or a political subdivision or a local authority thereof to an individual shall be taxable only in that State.  
(b) Wages and salaries paid by a Contracting State or a political subdivision or a local authority thereof to an individual shall be taxable only in the other Contracting State if a recipient, who performs work in that other State, is a resident of that State and who:
  - (i) is a national of that State, or
  - (ii) did not become a resident of that State solely for the purpose of work performed.
4. Wages and salaries derived by an individual for work performed in connection with a business carried on by a Contracting State or a political subdivision or a local authority thereof, shall be taxable in accordance with the provisions of paragraphs 1 and 2 of this Article.
5. (a) Wages and salaries derived by individuals who are nationals of Yugoslavia in respect of their work in the Joint Economic Representation of Yugoslavia, or the Tourist Federation of Yugoslavia, shall be taxable only in Yugoslavia.  
(b) Wages and salaries derived by individuals who are nationals of Sri Lanka in respect of their work for the Ceylon Tourist Board shall be taxable only in Sri Lanka.
6. Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic may be taxed in the Contracting State in which the place of effective management of the enterprise is situated.

**Article 16****Fees derived from work on joint business board (directors' fees)**

1. Directors' fees and similar payments derived by a resident of Yugoslavia in his capacity as a member of the board of directors of a company which is a resident of Sri Lanka may be taxed in Sri Lanka.
2. Fees and other similar payments derived by a resident of Sri Lanka in his capacity as a member of a joint business board of a company which is a resident of Yugoslavia may be taxed in Yugoslavia.

**Article 17****Artistes and athletes**

1. Notwithstanding the provisions of Articles 14 and 15 of this Convention, income derived by theatre, motion picture, radio or television artistes, musicians, athletes and other entertainers from their personal activities as such may be taxed in the Contracting State in which these activities are exercised.
2. Where income in respect of activities exercised by an entertainer or an athlete referred to in paragraph 1 of this Article accrues not to that entertainer himself or athlete but to another person, that income may, notwithstanding the provisions of Articles 7, 14 and 15 of this Convention, be taxed in the Contracting State in which the activities of the entertainer or athlete are exercised.



3. Notwithstanding the provisions of paragraphs 1 and 2 of this Article, income derived in respect of the activities referred to in paragraph 1 of this Article within the framework of cultural or sports exchange programmes agreed to by both Contracting States shall be exempted from taxation in the Contracting State in which these activities are exercised.

#### **Article 18** **Pensions**

1. Pensions and other similar remuneration paid to a resident of a Contracting State in consideration of past employment shall be taxable only in the Contracting State of which the recipient of the pension is a resident.

2. (a) Any pension paid by a Contracting State or a political subdivision or a local authority thereof out of the budget or special funds to any individual 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. Any pension derived by an individual for work performed in connection with any business carried on by one of the Contracting States or a political subdivision or a local authority thereof shall be taxable only in the Contracting State of which the individual is a resident.

#### **Article 19** **Students**

1. Payments which a student, or business apprentice or trainee, who is or was immediately before visiting a Contracting State a resident of the other Contracting State and who is present in the first-mentioned State solely for the purpose of his education or training receives for the purpose of his maintenance, education or training shall not be taxed in that State, provided that such payments arise from sources outside that State.

2. Income derived by a student, or apprentice or business trainee in respect of activities exercised in a Contracting State in which he is present solely for the purpose of his education or training, shall not be taxable in that State, unless it exceeds the amount necessary for his maintenance, education or training.

#### **Article 20** **Professors**

1. An individual who visits a Contracting State for the purpose of teaching or carrying out research at a university, college or other recognised educational institution in that Contracting State and who is or was immediately before that visit a resident of the other Contracting State, shall be exempt from taxation in the first-mentioned Contracting State on remuneration for such teaching or research for a period not exceeding two years from the date of his first visit for that purpose.

2. The provisions of paragraph 1 of this Article shall not apply to income from research if such research is undertaken not in the public interest but primarily for the private benefit of a specific person or persons.

#### **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 only in that State.

2. The provisions of paragraph 1 of this Article shall not apply to income, other than income from immovable property, if the recipient of such income, being a resident of a Contracting State, carries on business in the other Contracting State through a permanent establishment situated therein, or performs in that other State independent personal services from a fixed base situated therein, and the right or property in respect of which the income is paid is effectively connected with such permanent establishment or fixed base. In such case the provisions of Article 7 or Article 14, as the case may be, shall apply.

**Article 22**  
**Capital**

1. Capital represented by immovable property owned by a resident of a Contracting State and situated in the other Contracting State may be taxed in that other State.
2. Capital represented by 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 by 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 may be taxed in that other State.
3. Capital represented by ships and aircraft operated in international traffic and by movable property pertaining to the operation of such ships and aircraft shall be taxable only in the Contracting State in which the place of effective management of the enterprise is situated.
4. All other elements of capital of a resident of a Contracting State shall be taxable only in that State.

**Article 23**  
**Methods for elimination of double taxation**

1. In Yugoslavia, double taxation shall be avoided as follows:
  - (a) where a resident of Yugoslavia derives income or owns capital which, in accordance with the provisions of this Convention, may be taxed in Sri Lanka, Yugoslavia shall, subject to the provisions of paragraphs 2 and 3 of this Article, exempt such income or capital from tax;
  - (b) where a resident of Yugoslavia derives income which, in accordance with the provisions of Articles 8, 10, 11 and 12 of the Convention, may be taxed in Sri Lanka, Yugoslavia shall allow as a deduction from the tax on the income of that resident an amount equal to the tax paid in Sri Lanka. Such deduction shall not, however, exceed that part of the tax, as computed before the deduction is given, which is appropriate to the income derived from Sri Lanka;
  - (c) where in accordance with any provision of the Convention income derived or capital owned by a resident of Yugoslavia is exempt from tax in Yugoslavia, Yugoslavia may in calculating the amount of tax on the remaining income or capital of such resident apply the rate of tax which would have been applicable if the exempted income or capital had not been so exempted.
2. In Sri Lanka, double taxation shall be avoided as follows:
  - Yugoslav tax payable in respect of income derived from Yugoslavia or capital owned in Yugoslavia shall be allowed as a credit against Sri Lanka tax payable in respect of that income or that capital. The credit shall not, however, exceed that part of the Sri Lanka tax as computed before the credit is given, which is appropriate to such item of income or capital.
3. For the purpose of allowance as a credit in a Contracting State the tax paid in the other Contracting State shall be deemed to include the tax which is otherwise payable in that other State but has been reduced or waived by that State under its legal provisions for tax incentives.

**Article 24**  
**Non-discrimination**

1. Residents 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 residents of that other State in the same circumstances are or may be subjected.
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 7 of Article 11, or paragraph 7 of Article 12,

of this Convention apply, interest, royalties and other disbursements paid by an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable profits of such enterprise, be deductible under the same conditions as if they had been paid to a resident of the first-mentioned State. Similarly, any debts of an enterprise of a Contracting State to a resident of the other Contracting State shall, for the purpose of determining the taxable capital of such enterprise, be deductible under the same conditions as if they had been contracted to a resident of the first-mentioned State.

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. The provisions of this Article shall apply to the taxes referred to in Article 2 of this Convention.

#### **Article 25** **Mutual agreement procedure**

1. Where a resident of a Contracting State considers that the actions of one or both of the Contracting States result or will result for him in taxation not in accordance with this Convention, he may, notwithstanding 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. The case must be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of this 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 not in accordance with the Convention. Any agreement reached shall be implemented notwithstanding any time limits in the domestic law of the Contracting States.

3. The competent authorities of the Contracting States shall 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 this Convention.

4. The competent authorities of the Contracting States may communicate with each other directly for the purposes of reaching an agreement in the sense of paragraphs 1, 2 and 3 of this Article.

#### **Article 26** **Exchange of information**

1. The competent authorities of the Contracting States shall exchange such information as is necessary for carrying out the provisions of this Convention or of the domestic laws of the Contracting States concerning taxes covered by the Convention insofar as the taxation thereunder is in accordance with the Convention. Any information so exchanged shall be treated as secret and shall be disclosed only to persons or authorities involved in the assessment, collection or enforcement of the taxes covered by the Convention.

2. In no case shall the provisions of paragraph 1 of this Article be construed so as to impose on the competent authority of one of the Contracting States the obligation:

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

#### **Article 27** **Diplomatic agents and consular officials**

1. Nothing in this Convention shall affect the fiscal privileges of diplomatic agents or consular

officials under the general rules of international law or under the provisions of special agreements.

## **Article 28**

### **Entry into force**

This Convention shall enter into force when the Contracting States notify each other through diplomatic channels that all conditions for its entering into force are fulfilled on their part, and shall have effect after the expiration of 30 days from the date of exchange of the last notification:

- (a) in Yugoslavia:
  - in respect of the taxes on income and on capital beginning on or after the first day of January in the calendar year following that in which the last notification has been exchanged.
- (b) in Sri Lanka:
  - in respect of the taxes on income and on capital for any year of assessment commencing on or after the first day of April in the calendar year following that in which the last notification has been exchanged.

## **Article 29**

### **Termination**

This Convention shall remain in force until terminated by a Contracting State. Either Contracting State may terminate the Convention, through diplomatic channels, by giving notice of termination on or before the thirtieth day of June in a calendar year after the fifth year from the date of entry into force of the Convention. In such event, the Convention shall cease to have effect:

- (a) in Sri Lanka:
  - in respect of the taxes on income and on capital for any year of assessment commencing on or after the first day of April in the calendar year following that in which the notice of termination has been given.
- (b) in Yugoslavia:
  - in respect of the taxes on income and on capital for any calendar year beginning on or after the first day of January in the calendar year following that in which the notice of termination has been given.

In witness whereof the undersigned, being duly authorised thereto, have signed this Convention.

Done at Colombo this 7thJ day of May 1985 in two originals in the Sinhala, Serbocroatian and English languages, both copies being equally authentic. In the case of divergence of interpretation the English text shall prevail.