

# Exchange of Notes

between the Government of Hong Kong and  
the Government of Canada amending the  
Air Services Agreement  
of 24 June 1988

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the Government of Hong Kong and the Government of Canada  
amending the Air Services Agreement of 24 June 1988**

No. 1

Secretary of Economic Services to the Commissioner for Canada  
at Hong Kong

Economic Services Branch  
Hong Kong

23 May 1996

Dear Commissioner,

I have the honour to refer to the Agreement between the Government of Hong Kong and the Government of Canada concerning Air Services, done in Hong Kong on 24 June 1988, and to propose on behalf of the Government of Hong Kong that the following shall be included as Article 8A to the said Agreement:

“ARTICLE 8A

**Avoidance of Double Taxation**

- (1) Profits or income from the operation of aircraft in international traffic derived by an airline of one Contracting Party, including participation in inter-airline commercial agreements or joint business ventures, shall, if they are subject to tax in the area of that Contracting Party, be exempt from any tax on profits or income imposed by the Government of the other Contracting Party.
- (2) Capital and assets of an airline of one Contracting Party relating to the operation of aircraft in international traffic shall be exempt from all taxes on capital and assets imposed by the Government of the other Contracting Party.
- (3) Gains from the alienation of aircraft operated in international traffic and movable property pertaining to the operation of such aircraft which are received by an airline of one Contracting Party shall be exempt from any tax on gains imposed by the Government of the other Contracting Party.
- (4) In this Article:
  - (a) the term “profits or income” includes gross receipts and revenues derived directly from the operation of aircraft in international traffic, including:
    - (i) the charter or rental of aircraft;
    - (ii) the sale of tickets or similar documents, either for the airline itself or for any other airline;  
and

- (iii) interest from earnings, provided that such earnings are related to the operation of aircraft in international traffic;
  - (b) the term “international traffic” means the transportation of persons and/or cargo (including mail) except when such transportation is solely between places in the area of the other Contracting Party.
  - (c) the term “airline of one Contracting Party” means, in the case of Hong Kong, an airline incorporated and having its principal place of business in Hong Kong and, in the case of Canada, an airline resident in Canada for purposes of income taxation.
- (5) The above provisions shall not have effect as long as an Agreement for the avoidance of double taxation with respect to taxes on income providing for similar exemptions shall be in force between the two Contracting Parties.
- (6) This Article shall have effect:
- (a) for Hong Kong, for the years of assessment commencing on or after 1 April 1994;
  - (b) for Canada, for the 1994 taxation year and subsequent years.”

If the Government of Canada agrees with the foregoing proposal, I have the honour to propose that the present Note and your Note in reply to that effect shall constitute an Agreement between our two Governments which will enter into force on the date when it has been confirmed in writing by both Governments.

I avail myself of this opportunity to renew to you the assurance of my highest consideration.

Gordon SIU  
Secretary for Economic Services

**Exchange of Notes between  
the Government of Canada and the Government of Hong Kong  
amending the Air Services Agreement of 24 June 1988**

GPO Box 11142  
Central, Hong Kong  
1 August 1996

Mr. Stephen Ip  
Secretary for Economic Services  
Government Secretariat  
2nd Floor, Main and East Wings  
Central Government Office  
Hong Kong

Dear Mr. Ip,

I have the honour to acknowledge the receipt of your Note, dated May 23, 1996, which reads as follows:

“I have the honour to refer to the Agreement between the Government of Hong Kong and the Government of Canada concerning Air Services, done in Hong Kong on 24 June 1988, and to propose on behalf of the Government of Hong Kong that the following shall be included as Article 8A to the said Agreement:

“ARTICLE 8A

Avoidance of Double Taxation

- (1) Profits or income from the operation of aircraft in international traffic derived by an airline of one Contracting Party, including participation in inter-airline commercial agreements or joint business ventures, shall, if they are subject to tax in the area of that Contracting Party, be exempt from any tax on profits or income imposed by the Government of the other Contracting Party.
- (2) Capital and assets of an airline of one Contracting Party relating to the operation of aircraft in international traffic shall be exempt from all taxes on capital and assets imposed by the Government of the other Contracting Party.
- (3) Gains from the alienation of aircraft operated in international traffic and movable property pertaining to the operation of such aircraft which are received by an airline of one Contracting Party shall be exempt from any tax on gains imposed by the Government of the other Contracting Party.
- (4) In this Article:
  - (a) the term “profits or income” includes gross receipts and revenues derived directly from the operation of aircraft in international traffic, including:
    - (i) the charter or rental of aircraft;

- (ii) the sale of tickets or similar documents, either for the airline itself or for any other airline; and
  - (iii) interest from earnings, provided that such earnings are related to the operation of aircraft in international traffic;
- (b) the term “international traffic” means the transportation of persons and/or cargo (including mail) except when such transportation is solely between places in the area of the other Contracting Party.
- (c) the term “airline of one Contracting Party” means, in the case of Hong Kong, an airline incorporated and having its principal place of business in Hong Kong and, in the case of Canada, an airline resident in Canada for purposes of income taxation.
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- (6) This Article shall have effect:
- (a) for Hong Kong, for the years of assessment commencing on or after 1 April 1994;
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If the Government of Canada agrees with the foregoing proposal, I have the honour to propose that the present Note and your Note in reply to that effect shall constitute an Agreement between our two Governments which will enter into force on the date when it has been confirmed in writing by both Governments.

I avail myself of this opportunity to renew to you the assurance of my highest consideration.”

In reply, I have the honour to inform you that the Government of Canada agrees with the above proposal and that therefore your Note, together with this reply, which is equally authentic in English and French (copy attached), shall constitute an Agreement between the two Governments which will enter into force on the date when it has been confirmed in writing by both Governments.

I avail myself of this opportunity to renew to you the assurance of my highest consideration.

Sincerely,

Garrett LAMBERT  
Commissioner for Canada