

**Memorandum of Understanding Concerning Reciprocal Exemption  
with Respect to Certain Taxes on Air Transport Enterprises  
between the Department of North American Affairs of the Ministry of  
Foreign Affairs, Taipei and the Canadian Trade Office in Taipei**

The Department of North American Affairs, Ministry of Foreign Affairs, Taipei, and the Canadian Trade Office in Taipei,

Noting that the responsible authorities on Taiwan and in Canada intend to provide reciprocal relief from taxation to air transport enterprises resident on Taiwan and in Canada, consistent with the principle of reciprocal benefit, as set out in the Memorandum on Air Services of October 22, 1990;

Confirm the following understanding on how the responsible authorities on Taiwan and in Canada will implement the above-noted intention:

**I. COVERAGE**

1. The existing taxes to which the Memorandum of Understanding will apply are :
  - (a) on Taiwan, the profit seeking enterprise income tax and the business tax;
  - (b) in Canada, the income tax and capital tax imposed under the Canadian Income Tax Act, and the goods and services tax imposed under the Excise Tax Act.
2. This Memorandum of Understanding will also apply to any identical or substantially similar taxes which are imposed after the date of signature of this Memorandum of Understanding in addition to, or in place of, the existing taxes.
3. On Taiwan, air transport enterprises resident in Canada will be exempt from tax on the income, profits or revenue derived from international traffic earned on Taiwan. If an air transport enterprise resident in Canada, is registered for business tax, the international transportation services supplied by the enterprise will be subject to a zero-rating business tax (taxed at the rate of zero percent), and a credit is available for business tax paid on goods and services purchased for business use. However, goods and services may be purchased by the registered enterprise on a zero-rated basis, provided the requirements of Article 7 to the Business Tax Law are met. If the air transport enterprise is not registered for business tax, the acquisition of the goods and services by the enterprise may still be on a zero-rated basis, provided the requirements of the above-mentioned Article are met.

4. In Canada, air transport enterprises resident on Taiwan will be exempt from tax on:
  - (a) the income, profits or revenue derived from international traffic earned in Canada;
  - (b) the capital represented by aircraft operated by such enterprises in international traffic and by personal property used in the business of transporting passengers or goods in international traffic.
5. No Canadian goods and services tax (GST) levied under Part IX of the Excise Tax Act is paid on purchases of international transportation services in Canada, other than a passenger air transportation service to the continental United States. If an air transport enterprise resident on Taiwan, is registered for GST, a credit is available for GST paid on goods and services purchased for business use. However, fuel used in transporting passengers may be purchased by the enterprise on a zero-rated basis (taxed at the rate of zero percent). If the air transport enterprise is not registered for GST, the acquisition of the goods and services by the enterprise may be on a zero-rated basis (taxed at the rate of zero percent), provided the requirements of the zero-rating provisions in Part V of Schedule VI to the Canadian Excise Tax Act are met.
6. The provisions of the preceding paragraphs will also apply to income, profits or revenue from the participation in a pool, a joint business or an international operating agency.

## II. DEFINITIONS

For the purposes of this Memorandum of Understanding, unless the context otherwise requires:

- (a) the term "international traffic" means any transport by aircraft operated by an air transport enterprise, but in respect of an air transport enterprise resident on Taiwan excludes any voyage for which the principal purpose is to transport passengers or goods between places within Canada, and in respect of an air transport enterprise resident in Canada excludes any voyage for which the principal purpose is to transport passengers or goods between places on Taiwan;
- (b) the term "air transport enterprise" means an enterprise carrying on the business of transporting passengers or goods by aircraft; and
- (c) the term "income, profits or revenue derived from international traffic" means all income, profits or revenue from the operation of aircraft in international traffic, including income, profits or revenue that are incidental to the operation of aircraft in international traffic, from the charter or rental of aircraft, the rental of containers and related equipment and the maintenance of containers.

### III. NOTIFICATION AND CONSULTATIONS

1. At the end of each calendar year, the Department of North American Affairs, Ministry of Foreign Affairs, Taipei, and the Canadian Trade Office in Taipei will notify each other of any significant changes in the relevant tax laws which might affect reciprocal exemptions and the principle of reciprocal benefits.
2. Consultation may be requested at any time by the Department of North American Affairs, Ministry of Foreign Affairs, Taipei, or the Canadian Trade Office in Taipei for the purpose of amendment to the present Memorandum of Understanding or for its application or its interpretation. Such consultation will begin within 60 days from the date of receipt of any such request and decisions will be by mutual consent.

### IV. ENTRY INTO EFFECT

This Memorandum of Understanding will enter into effect upon signature and will have effect with respect to taxable years beginning after December 31, 1991.

### V. TERMINATION

The Department of North American Affairs, Ministry of Foreign Affairs, Taipei, or the Canadian Trade Office in Taipei may terminate this Memorandum of Understanding by giving written notice of termination to the other on or before 30 June in any year for this Memorandum of Understanding to cease to have effect as of 1 January of the following calendar year.

IN WITNESS THEREOF the undersigned have signed this Memorandum of Understanding in duplicated in the English language at Taipei this 10th day of July, 1995.

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FOR THE DEPARTMENT OF  
NORTH AMERICAN AFFAIRS OF  
THE MINISTRY OF FOREIGN  
AFFAIR, TAIPEI

Ronald Berlet

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FOR THE CANADIAN TRADE  
OFFICE IN TAIPEI