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**Law No. (12) of 2012 ratifying the Convention Between the Government of the Kingdom Of Bahrain And the Government of the Democratic Socialist Republic of Sri Lanka for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income**

We, Hamad bin Isa Al Khalifa King of the Kingdom of Bahrain

Having reviewed the Constitution,

The Convention Between the Government of the Kingdom Of Bahrain And the Government of the Democratic Socialist Republic of Sri Lanka for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income,Signed definitively in Colombo on 24 June 2011.

**Article one**

The Convention Between the Government of the Kingdom Of Bahrain And the Government of the Democratic Socialist Republic of Sri Lanka for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect To Taxes on Income,Signed definitively in Colombo on 24 June 2011 and attached to this Law, has been ratified.

**Article two**

The Prime Minister and the ministers - each within his jurisdiction- shall implement this Law and it shall come into force from the day following the date of its publication in the Official Gazette.

**King of Kingdom of Bahrain**

**Hamad bin Isa Al Khalifa,**

Issued at Riffa Palace:

20 Rabi' Al-awwal 1433 A.H.

Corresponding to: 13 March 2012

**Convention Between the Government of the Kingdom Of Bahrain And the Government of the Democratic Socialist Republic of Sri Lanka for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect To Taxes on Income**

The Government of the Kingdom of Bahrain and the Government of the Democratic Socialist Republic of Sri Lanka, desiring to conclude a Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income,

**Article -1-**

Persons Covered

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 a 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.

3- The existing taxes to which the Convention shall apply are:

**(a) in the Kingdom of Bahrain:** income tax payable under Legislative Decree No. (22)/1979 (hereinafter referred to as “Bahrain tax”).

**(b) in Sri Lanka:**

(1) the income tax. including the income tax based on the turnover of enterprises licensed by the Board of Investment

(2) Social Responsibility Levy imposed under the Finance Act. No. (5) of 2005, in relation to income tax.

(hereinafter referred to as “Sri Lanka tax”)

4- The Convention shall apply also to any identical or substantially similar taxes on income, 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 each other of any substantial changes made in their taxation laws.

Article -3-

General Definitions

1- For the purposes of this Convention, unless the context otherwise requires:

a-(1) the term “Bahrain" means the territory of the Kingdom of Bahrain as well as the maritime areas, seabed and subsoil over which Bahrain exercises, in accordance with international law, sovereign rights and jurisdiction.

(2) the term “**Sri Lanka**” means the territory of the Democratic Socialist Republic of Sri Lanka, including its land territory, internal waters and territorial sea, air space above them as well as the exclusive economic zone and continental shelf where the Democratic Socialist Republic of Sri Lanka exercises or may hereafter exercise sovereign rights and jurisdiction in conformity with international law and its national legislation.

b- the terms “**a** **Contracting State**” and “**the other Contracting State**” mean Bahrain or Sri Lanka as the context requires.

c- the term “**person**” includes individuals, companies and any other body of persons.

d- the term "company" means any body corporate or any entity which is treated as a body corporate for tax purposes or any other entity constituted or recognised under the laws of one or other of the Contracting States as a body corporate.

e- 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.

f- the term “international traffic” means any transport by a ship or aircraft operated by an enterprise that 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.

g- the term “national” means:

1- any individual possessing the nationality of that Contracting State.

2- any legal person, partnership or association deriving its status as such from the laws in force in that Contracting State.

h– the term “**competent authority**” means:

1- **in the Kingdom of Bahrain**: the Minister for Finance or his authorised representative.

2- in **Sri Lanka**, the Commissioner General of Inland Revenue.

i- the term "tax" means Bahrain or Sri Lanka tax, as the context requires, but shall not include any amount which is payable in respect of any default or omission in relation to the taxes to which this Convention applies or which represents a penally or fine imposed relating to those taxes.

2- As regards the application of this Convention at any time by a Contracting State, any term not defined therein shall, unless the context otherwise requires, have the meaning that it has at that time under the law of that Contracting State for the purposes of the taxes to which the Convention applies.

any meaning under the applicable tax laws of that State shall prevail over a meaning given to the term under other laws of that State.

**Article -4-**

**Resident**

For the purposes of this Convention, the term "resident of a Contracting State" means

(a)- in the case of Bahrain, any person who is present in Bahrain for a period or periods totalling in the aggregate at least (183) days in the fiscal year concerned, a company or other legal person which is incorporated or has its place of management in Bahrain.

(b)- in the case of the Sri Lanka, any person who, under the laws of the Sri Lanka, is liable to tax therein by reason of his domicile, residence, place of incorporation, place of management, or any other criterion of a similar nature.

and also includes that State and any political subdivision or local authority thereof. This term, however, does not include any person who is liable to tax in that State in respect only of income from sources in that State.

1- 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 Contracting States or in neither of them, he shall be deemed to be a resident only 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 endeavour to settle the question by mutual agreement.

3- Where by reason of the provisions of Paragraph (1) of this Article a person other than natural person is a resident of both Contracting States, then it shall be deemed to be a resident only of the State in which its place of effective management is situated. If the State in which its place of effective management is situated cannot be determined, then the competent authorities of the Contracting States shall endeavour to settle the question by mutual agreement.

**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.

d- a factory.

e- a workshop.

f- a mine, an oil or gas well, a quarry or any other place of extraction of natural resources.

g- premises used as sales outlets.

h- a warehouse in relation to a person providing storage facilities for others.

3- The term “permanent establishment” likewise encompasses:

(a) a building site, a construction, assembly or installation project, a drilling rig or ship used for the exploration or development of natural resources, including supervisory activities in connection therewith, but only where such site, project or activities continue for a period of more than 183 days within any twelve month period.

(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 within the country for a period or periods aggregating more than 183 days within any twelve month period.

4- An enterprise shall be deemed to have a permanent establishment in a Contracting State and to carry on business through that permanent establishment if in that State it carries on any activity which is directly connected with the exploration for or production of crude oil or other natural hydrocarbons from the ground in that State either for its own account or in refining crude oil owned by it or by others, where soever produced, in its facilities in that State.

5- Notwithstanding the preceding provisions of this Article, the term “permanent establishment” shall not include:

(a) the use of facilities solely for the purpose of storage, display or 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 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 of collecting information, for the enterprise.

(e) the maintenance of a fixed place of business solely for the purpose of carrying on. for the enterprise, any other activity of a preparatory or auxiliary character. However, the provisions of sub-paragraph (a) to (e) shall not be applicable where the enterprise maintains any other fixed place of business in the other Contracting State through which the business of the enterprise is wholly or partly carried on.

6- Notwithstanding the provisions of Paragraphs (1) and (2). where a person -other than an agent of an independent status to whom Paragraph (8) 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 (5) above,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.

(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.

(c) habitually secures orders in the first-mentioned State for the enterprise and other enterprises which he runs or controls..

7- Notwithstanding the preceding provisions of this Article, an insurance enterprise of a Contracting State shall, except in regard to re-insurance, be deemed to have a permanent establishment in the other Contracting State if it collects premiums in the territory of that other State or insures risks situated therein through a person other than an agent of an independent status to whom paragraph (8) of this Article applies.

8- 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, when the activities of such an agent are devoted wholly or principally on behalf of that enterprise, he shall not be considered an agent of an independent status within the meaning of this paragraph, if it is shown that the transactions between the agent and the enterprise were not made on the basis of the common interest..

9- 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, which 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, rights to which the provisions of general law respecting land property apply, usufruct of immovable property and rights to variable or fixed payments as consideration for the working of, or the right to work, mineral deposits, sources and other natural resources; ships, boats and aircraft shall not be regarded as immovable property.

3- The provisions of Paragraphs (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**

The gains 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 gains of the enterprise may be taxed in the other State but only so much of them as is attributable to:

(a) that permanent establishment.

(b) sales in that other Contracting State of goods or merchandise of the same or similar kind as those sold through 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. However, no such deduction shall be allowed in respect of amounts, if any, paid already (That excludes payments for expenses actually incurred) by the permanent establishment to the head office of the enterprise or any of its other offices, by way of royalties, fees or other similar payments in return for the use of patents or other rights, or by way of commission, for specific services performed or for management, or. except in the case of a banking enterprise, by way of interest on moneys lent to the permanent establishment. Likewise, no account shall be taken, in the determination of the profits of a permanent establishment or any other subsidiaries thereof,

4- In so far as it has been customary in a Contracting State to determine the gains to be attributed to a permanent establishment on the basis of an apportionment of the total gains of the enterprise to its various parts, nothing in paragraph 2 of this Article shall preclude that Contracting State from determining the gains 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 contained in this Article.

5- For the purposes of the preceding paragraphs, the gains 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.

6- 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- Gains derived in a Contracting State by an enterprise of the other Contracting State from the operation of ships in international traffic may be taxed in the first- mentioned State, but the tax so charged shall be reduced by an amount equal to 50% thereof.

2- Gains from the operation of aircraft in international traffic shall be taxable only in the Contracting State of which the enterprise operating the aircraft is a resident.

3- The provisions of Paragraphs (1) and (2) of this Article shall also apply to gains from the participation in a pool, a joint business or an international operating agency.

**Article -9-**

**Associated Enterprises**

1- 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 gains 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 gains of that enterprise and taxed accordingly.

2- If either Contracting State includes the gains of its enterprise and levies thereupon taxes accordingly, the gains of the enterprise of the other Contracting State which have been taxed in that latter Contracting State shall be deemed to be gains which may be realized for the project of the first State if the circumstances of the projects are the same as those which may exist between two projects which are independent of each other, the other Contracting State shall make an appropriate adjustment to the tax which it has imposed on such gains. In determining the amount of such adjustment, the other provisions of this Convention shall be taken into account and the competent authorities of the two Contracting States shall consult with each other when necessary.

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 if the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed:

(a) 5% of the gross amount of dividends if the beneficial owner is an entity wholly owned by the Government of the contracting State.

(b) 7.5% of the gross amount of dividends in all other cases

The provisions of this paragraph shall not affect the taxation of the company in respect of the gains resulting from the paid dividends.

3- The term “**dividends**” as used in this Article means 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 laws of the 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 beneficial owner 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 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-**

**Income From Debt-Claims**

1- Income from debt-claims 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 income may also be taxed in the Contracting State in which it arises and according to the laws of that State, but if the beneficial owner of the income is a resident of the other Contracting State, the tax so charged shall not exceed (10%) of the gross amount of the income.

3- Notwithstanding the provisions of Paragraph (2) of this Article, income from debt- claims arising in a Contracting State and paid to a resident of the other Contracting State, being the beneficial owner of such income, shall be taxable only in that other Contracting State if such resident is:

(a) the Government of the other Contracting State, administrative subdivision or a local authority thereof.

(b) the central bank of the other Contracting State or a corporate body (including financial institutions) controlled or owned by that State, a political or administrative subdivision or local authority thereof.

4- The terms “income from debt-claims'’ or “income” as used in this Article mean income from debt-claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits, and in particular, income from government securities and income from bonds or debentures, including premiums and prizes attaching to such securities, bonds or debentures. Penalty charges for late payment shall not be regarded as income for the purpose of this Article.

5- The provisions of Paragraphs (1) and (2) of this Article shall not apply if the beneficial owner of the income, being a resident of a Contracting State, carries on business in the other Contracting State in which the income 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 income 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.

6- Income shall be deemed to arise in a Contracting State when the payer is that State itself, a local authority, or a resident of that State. Where, however, the person paying the income, whether he is a resident of a Contracting State or has not owned in a Contracting State a permanent establishment or a fixed base in connection with the indebtedness on which the income is paid , and such income is borne by such permanent establishment or fixed base, then such income shall be deemed to arise in the State in which the permanent establishment or fixed base is situated.

7- Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the income, 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 beneficial owner 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, subject to the other provisions of this Convention.

**Article -12-**

**Royalties And Fees For Technical Services**

1- Royalties or fees for technical services 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 or fees for technical services may also be taxed in the Contracting State in which they arise, and according to the laws of that State, but if the beneficial owner of the royalties or fees for technical services is a resident of the other Contracting State the tax so charged shall not exceed 10% of the gross amount of the royalties or fees for technical services.

3- (a) 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 cinematography films or films or tapes used for television or radio broadcasting, any patent, trade mark, design or model, computer software programme, 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.

(b) The term "fees for technical services" as used in this Article means payments of any kind, other than those mentioned in Articles (14) and (15) of this Convention as consideration for managerial or technical or consultancy services, including the provision of services or technical or other persons.

4- The provisions of Paragraph (1) and (2) shall not apply if the beneficial owner of the royalties or fees for technical services being a resident of a Contracting State, carries on business in the other Contracting State in which the royalties or fees for technical services 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 or fees for technical services are 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.

5- (a) Royalties and fees for technical services shall be deemed to arise in a Contracting State when the payer is that State itself, a political sub-division, a local authority or a resident of that State. Where, however, the person paying the royalties or, fees for technical services, whether he is a resident of a Contracting State or not. has in a Contracting State a permanent establishment or a fixed base in connection with which the liability to pay the royalties or fees for technical services was incurred, and such royalties or fees for technical services are borne by such permanent establishment of fixed base, then such royalties or fees for technical services shall be deemed to arise in the Contracting State in which the permanent establishment or fixed base is situated.

(b) Where under sub-paragraph (a) royalties or fees for technical services do not arise in one of the Contracting States, and the royalties relate to the use of, or the right to use, the right or property, or the fees for technical services relate to services performed, in one of the Contracting States, the royalties or fees for technical services shall be deemed to arise in that Contracting State.

6- Where, by reason of a special relationship between the payer and the beneficial owner or between both of them and some other person, the amount of the royalties or fees for technical services, having regard to the use, right or information for which they are paid, exceeds the amount which would have been agreed upon by the payer and the beneficial owner 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, subject 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, including such gains from the alienation of such a permanent establishment (alone or with the whole enterprise), may be taxed in that other State.

3- Gains derived by a resident of a Contracting State 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 that State.

4- Gains from the alienation of any property, other than that referred to in paragraphs (1), (2) and (3). shall be taxable only in the Contracting State of which the alienator is a resident.

5- The term "alienation” means the sale, exchange, transfer, or relinquishment of the property or the extinguishment of any rights therein or the compulsory acquisition thereof under any law in force in the respective Contracting States.

**Article (14)**

**Independent Personal Services**

1- Income derived by an individual who is a resident of a Contracting State from the performance of professional services or other independent activities of a similar character shall be taxable only in that State except in the following circumstances when such income may also be taxed in the other Contracting State.

(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 that other State.

(b) If his stay in the other Contracting State is for a period or periods amounting to or exceeding in the aggregate (183) days during any twelve month period commencing or ending in the fiscal year concerned; in that case, only so much of the income as is derived from his activities performed in that other State may be taxed .

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) and (19), 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 Contracting 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 that other Contracting State for a period or periods not exceeding in the aggregate 183 days within any twelve month period commencing or ending in the fiscal year concerned; and

b- the remuneration is paid by, or on behalf of, an employer 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 employer has in that other Contracting State.

3- Notwithstanding the preceding provisions of this Article, remuneration derived in respect of an employment exercised aboard a ship or aircraft operated in international traffic by an enterprise of a Contracting State shall be taxable only in that State

**Article -16-**

**Directors’ Fees**

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 artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Contracting State, may he taxed in that other State.

**Article -17-**

**Artists And Sportsmen**

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 artiste, or a musician, or as a sportsman, from his personal activities as such exercised in the other Contracting State, may he taxed in that other State.

2- Where income in respect of personal activities exercised by an artist or a sports person in his capacity as such accrues not to the artist or sports person 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 artists or sports person are exercised.

3- The provisions of Paragraphs (1) and (2) shall not apply to the income derived by a resident in a Contracting State from activities referred to in Paragraph (1) of this Article performed in the other Contracting State if the visits to that State are wholly or substantially supported by public funds of both Contracting States or either Contracting State,political divisions or local authorities thereof or such visits are conducted according to a cultural agreement between the two contracting States. In such case, the income shall be taxable only in the Contracting State in which the artist or the sportsman is a resident.

**Article -18-**

**Pensions And Annuities**

1-Without prejudice to the provisions of paragraph (2) of Article (1), any pensions or other similar remuneration paid to a resident of one of the Contracting States from a source in the other Contracting State in consideration of past employment or services in that other Contracting State and any annuity paid to such a resident from such a source may be taxed only in that other State where such remunerations are transferred.

2- The term “annuity” means a stated sum payable periodically at stated times during life or during a specified or ascertainable period of time under an obligation to make the payments in return for adequate and full consideration in money or money’s worth.

3- Notwithstanding the provisions of paragraph (1), pensions paid and other payments made under a public scheme which is part of the social security system of a Contracting State shall be taxable only in that State.

**Article -19-**

**Government Services**

1- (a) Salaries, wages and other similar remuneration, other than a pension, paid by the Government of a Contracting State or a Local Authority, to an individual in respect of services rendered to that State or authority shall be taxable only in that State.

(b) However, such salaries, wages and other similar remuneration shall be taxable only in the other Contracting State if the services are rendered in that other State and the individual is a resident of that State who:

(1)- is a national of that State.

(2) did not become a resident of that State solely for the purpose of rendering the services.

2- Any pension paid by, or out of funds created by, a Contracting State or a local authority thereof to an individual in respect of services rendered to that State or authority shall be taxable only in that State.

3- The provisions of Articles (15), (16) and (18) shall apply to salaries, wages and other similar remuneration and pensions in respect of services rendered in connection with a business carried on by a Contracting State or a local authority thereof.

4- For the purpose of this Article, the term “Government" shall include any State Government or local authority of either Contracting State and the Central Bank of either Contracting State.

**Article -20-**

**Teachers And Researchers**

1- A professor, teacher or researcher who is or was a resident of the Contracting State immediately before visiting the other Contracting State for the purpose of teaching or engaging in research, or both, at a university, college or other similar approved institution in that other Contracting State shall be exempt from tax in that other State on any remuneration for such teaching or research for a period not exceeding two years from the date of his/her arrival in that other State.

2- This Article shall not apply to remuneration which a professor or teacher receives for conducting research if the research is undertaken primarily for the private benefit of a specific person or persons.

**Article -21-**

**Students And Apprentices**

1- Payments which a student, apprentice, or business 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 for the purpose of his education or training receives for the purpose of his sustenance, education, or training shall not be taxed in that State, provided that such payments arise from sources outside that State.

2- An individual who is a resident of one of the Contracting States at the time he becomes temporarily present in the other Contracting State and who is so present as an employee of, or under contract with, a resident of the first-mentioned State, or as a participant in a programme sponsored by the Government of the other State or by any international organization for the primary purpose:

(a) acquiring technical, professional, or business experience from a person other than that resident of the first-mentioned State or other than a person related to such resident: or

(b) studying at a university or other recognized educational institution in that other State.

shall be exempt from tax in that other State for a period not exceeding one year with respect to his income from personal services.

**Article -22-**

**Other Income**

The laws in force in either of the Contracting States shall continue to govern the taxation of income except when express provisions to the contrary are made in this Convention.

**Article -23-**

**Elimination Of Double Taxation**

1- The laws in force in either of the Contracting States shall continue to govern the taxation of income in the respective Contracting States. When income is subject to tax in both Contracting States, relief from double taxation shall be given in accordance with the following paragraphs of this Article.

2- Where a resident of Bahrain derives income from Sri Lanka which in accordance with the provisions of this Convention, may be taxed in Sri Lanka the amount of Sri Lanka tax payable in respect of that income, shall be allowed as a deduction from the Bahrain tax imposed on that resident in respect of that income. The deduction shall not. However, exceed that part of the Bahrain tax which is attributable to such income.

3- Where a resident of Sri Lanka derives income from Bahrain which in accordance with the provisions of this Convention may be taxed, in Bahrain the amount of Bahrain tax payable in respect of that income, shall be allowed as a credit against the Sri Lanka tax imposed on that resident in respect of that income. The credit shall not. however, exceed that part of the Sri Lanka tax which is attributable to such income.

4- 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- 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.

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 earning 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, relief and reductions for taxation purposes on account of civil status or family responsibilities which it grants to its own residents. This provision shall not be constructed as preventing a Contracting State from charging the profits of a permanent establishment which a company of the other Contracting State has in the first mentioned State at a rate of tax which is higher than that imposed on the gains of a similar company of the first mentioned Contracting State, nor as being in conflict with the provisions of paragraph (3) of Article (7).

3- 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.

4- 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 the provisions of this Convention, he may, irrespective of the remedies provided by the domestic law 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. The case shall be presented within three years from the first notification of the action resulting in taxation not in accordance with the provisions of 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 a satisfactory 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 this Convention. Any Convention 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 purpose of reaching an agreement in the sense of the preceding paragraphs. The competent authorities, through consultations, shall develop appropriate bilateral procedures, conditions, methods and techniques for the implementation of the mutual agreement procedure provided for in this Article.

**Article -26-**

**Exchange Of Information**

1- The competent authorities of the Contracting States shall exchange such information as is foreseeably relevant for carrying out the provisions of this Convention or to the administration or enforcement of the domestic laws concerning taxes of every kind and description imposed on behalf of the Contracting States, insofar as the taxation thereunder is not contrary to the Convention. The exchange of information is not restricted by Articles (1) and (2).

2- Any information received under paragraph (1) by a Contracting State 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) concerned with the assessment or collection of, the enforcement or prosecution in respect of, the determination of appeals in relation to the taxes referred to in paragraph (1), or the oversight of the above. Such persons or authorities shall use the information only for such purposes. They may disclose the information in public court proceedings or in judicial decisions.

3- In no case shall the provisions of paragraphs 1 and 2 be construed so as to impose on a Contracting State 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 trade, business, industrial, commercial or professional secret or trade process, or information, the disclosure of which would be contrary to public policy.

d- to supply information which is not owned by the authorities or is not in the possession or control of persons who come under their territorial jurisdiction.

4- If information is requested by a Contracting State in accordance with this Article, the other Contracting State shall use its information gathering measures to obtain the requested information, even though that other State may not need such information for its own tax purposes. The obligation contained in the preceding sentence is subject to the limitations of paragraph (3) but in no case shall such limitations be construed to permit a Contracting State to decline to supply information solely because it has no domestic interest in such information.

5- In no case shall the provisions of paragraph (3) be construed to permit a Contracting State to decline to supply information solely because the information is held by a bank, other financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interests in a person.

**Article -27-**

**Diplomatic Agents And Consular Officers**

Nothing in this Convention shall affect the fiscal privileges of diplomatic agents or consular officers 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 on the thirtieth day after the date on which diplomatic notes indicating the completion of internal legal procedures necessary in each country for the entry into force of this Convention have been exchanged. Provisions of this Convention shall apply for taxable years and periods beginning on or after the first day of January following that year in which this Convention enters into force.

**Article -29-**

**Termination**

This Convention shall continue in effect 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 five years from the date of its entry into force, give written notice of termination to the other contracting State through the diplomatic channels. In such event this Convention shall cease to have effect as respects income derived during the taxable years beginning on or after the first day of January in the calendar year following that year in which the notice of termination is given.

in witness whereof the undersigned, duly authorized thereto by their governments, have signed this

Done in duplicate at Colombo on 24 June 2011, in Arabic, Sinhala, and English Languages, all texts being equally authentic. In the case of divergence in interpretation, the English text shall prevail.

For the Government of the Kingdom of Bahrain

For the Government of the Democratic Socialist Republic of Sri Lanka