

Part II. Treaties and Tax Legislation

Subpart A.—Tax Conventions

EMBASSY OF THE UNITED STATES OF AMERICA

No. 201

The Embassy of the United States of America presents its compliments to the Ministry of Foreign Affairs of the State of Bahrain and has the honor to propose that the two Governments conclude an agreement to exempt from income tax, on a reciprocal basis, certain income derived from the international operation of a ship or ships and aircraft as follows:

The Government of the United States of America, in accordance with sections 872(b) and 883(a) of the U.S. internal revenue code of 1986, agrees to exempt from U.S. federal income tax gross income derived from the international operation of a ship or ships or aircraft by individuals who are residents of Bahrain (other than U.S. citizens or residents) and corporations that are organized in Bahrain, in each case, that are engaged in the international operation of a ship or ships or aircraft. This exemption shall be granted on the basis of equivalent exemptions granted by Bahrain to individual residents of the United States and to corporations organized in the United States.

In the case of a Bahrain corporation, the exemption shall apply only if the corporation meets the ownership or public trading requirements of U.S. Law. For purposes of such ownership requirements, the Government of Bahrain shall be treated as an individual resident of Bahrain.

Gross income derived from the international operation of a ship or ships or aircraft includes:

- (i) income from the rental on a full (time or voyage) basis of a ship or ships or aircraft used in international transport;
- (ii) income from the rental on a bareboat basis of a ship or ships or aircraft used in international transport;
- (iii) income from the rental of containers and related equipment used in international transport that is incidental to income from the international operation of a ship or ships or aircraft;
- (iv) gains from the sale or other alienation of a ship or ships or aircraft used in international transport; and

--(v) income derived by an individual or corporation otherwise engaged in the international operation of a ship or ships or aircraft from active participation in a pool, an alliance, joint venture, international operating agency, or other venture, that is itself engaged in the international operation of a ship or ships or aircraft

The Embassy, on behalf of the Government of the United States of America, proposes that if the foregoing is acceptable to the Government of Bahrain, this note and the Ministry's reply note shall constitute an agreement between the two Governments, which shall enter into force on the date of the Ministry's reply note and shall have effect with respect to taxable years beginning on or after January 1, 1999. It shall remain in force until terminated by either Government giving written notice to the other Government through diplomatic channels.

The Embassy of the United States avails itself of this opportunity to renew to the Ministry of Foreign Affairs of the State of Bahrain the assurance of its highest consideration.



Embassy of the United States of America
Manama, September 1, 1999.

STATE OF BAHRAIN
MINISTRY OF FOREIGN AFFAIRS

دولة البحرين
وزارة الخارجية

6/100/231-13306

Ref.

الرقم

12th September, 1999

Dare

التاريخ

Note Verbale

The Ministry of Foreign Affairs of the State of Bahrain presents its compliments to the Embassy of the United States of America to the State of Bahrain and has the honour to acknowledge receipt of the Embassy's note of 1st September, 1999 proposing an agreement to exempt from Bahrain tax gross income derived from the international operation of a ship or ships or aircraft by individual residents of the United States and by corporations organized in the United States, in each case, that are engaged in the international operation of a ship or ships or aircraft. This exemption shall be granted on the basis of equivalent exemptions granted by the United States to individuals who are residents of Bahrain (other than U.S. citizens or residents) and to corporations that are organized in Bahrain.

The terms of the agreement are as follows:

The Government of Bahrain agrees to exempt from Bahrain tax gross income derived from the international operation of a ship or ships or aircraft by individuals who are residents of the United States and corporations that are organized in the United States, in each case, that are engaged in the international operation of a ship or ships or aircraft.

This exemption is granted on the basis of equivalent exemptions granted by the United States under the terms of your note of 1st September, 1999.

Gross income derived from the international operation of a ship or ships or aircraft includes:

- (i) income from the rental on a full (time or voyage) basis of ship or ships or aircraft used in international transport;
- (ii) income from the rental on a bareboat basis of a ship or ships or aircraft used in international transport;

- (iii) income from the rental of containers and related equipment used in international transport that is incidental to income from the international operation of a ship or ships or aircraft;
- (iv) gains from the sale or other alienation of a ship or ships or aircraft used in international transport; and
- (v) income derived by an individual or corporation otherwise engaged in the international operation of a ship or ships or aircraft from active participation in a pool, in alliance, joint venture, international operating agency, or other venture, that is itself engaged in the international operation of a ship or ships or aircraft.

The Ministry of Foreign Affairs of the State of Bahrain confirms that the Government of Bahrain accepts the proposal contained in the Embassy's Note No.201 and that the Embassy's note and this note in reply constitute an agreement between the two Governments, which shall enter into force on the date of this note and shall have effect with respect to taxable years beginning on or after January 1, 1999. It shall remain in force until terminate by either Government giving written notice to the other Government through diplomatic channels.

The Ministry of Foreign Affairs of the State of Bahrain takes this opportunity to renew to the Embassy of the United States of America the assurances of its highest consideration.



Ministry of Foreign Affairs
State of Bahrain

12th September 1999