the benefits under this Convention shall not apply to any item of income on which the tax in the third jurisdiction is less than 60 per cent of the tax that would be imposed in the first-mentioned Contracting State on that item of income if that permanent establishment were situated in the first-mentioned Contracting State. In such a case, any income to which the provisions of this paragraph apply shall remain taxable according to the domestic law of the other Contracting State, notwithstanding any other provisions of the Convention.

(b) The provisions of subparagraph (a) shall not apply if the income derived from the other Contracting State described in that subparagraph is derived in connection with or is incidental to the active conduct of a business carried on through the permanent establishment (other than the business of making, managing or simply holding investments for the enterprise's own account, unless these activities are banking, insurance or securities activities carried on by a bank, insurance enterprise or registered securities dealer, respectively).

(c) If the benefits under this Convention are denied pursuant to the provisions of subparagraph (a) with respect to an item of income derived by a resident of a Contracting State, the competent authority of the other Contracting State may, nevertheless, grant these benefits with respect to that item of income if, in response to a request by such resident, such competent authority determines that granting such benefits is justified in light of the reasons such resident did not satisfy the requirements of subparagraphs (a) and (b). The competent authority of the Contracting State to which a request has been made under the preceding sentence by a resident of the other Contracting State shall consult with the competent authority of that other Contracting State before either granting or denying the request.

9. Notwithstanding the other provisions of this Convention, a benefit under the Convention shall not be granted in respect of an item of income if it is reasonable to conclude, having regard to all relevant facts and circumstances, that obtaining that benefit was one of the principal purposes of any arrangement or transaction that resulted directly or indirectly in that benefit, unless it is established that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provisions of the Convention.

ARTICLE 23
ELIMINATION OF DOUBLE TAXATION

1. (a) When a resident of Iceland derives income which, in accordance with the provisions of this Convention, may be taxed in Japan, Iceland shall allow as a deduction from the tax on the income of that resident an amount equal to the Japanese tax paid in Japan.

(b) Such deduction shall not, however, exceed that part of the tax on the income, as computed before the deduction is given, which is attributable to the income that may be taxed in Japan.

(c) When a resident of Iceland derives income which, in accordance with the provisions of this Convention, shall be taxable only in Japan, Iceland may include this income in the tax base but shall allow as a deduction from the tax on the income of that resident that part of such tax which is attributable to the income derived from Japan.

2. Subject to the provisions of the laws of Japan regarding the allowance as a credit against Japanese tax of tax payable in any country other than Japan, where a resident of Japan derives income from Iceland which may be taxed in Iceland in accordance with the provisions of this Convention, the amount of Icelandic tax payable in respect of that income shall be allowed as a credit against the Japanese tax imposed on that resident. The amount of credit, however, shall not exceed the amount of the Japanese tax which is appropriate to that income.