

# INTERPRET ARTICLE 11 FOR TAXATION OF FOREIGN-SOURCED INTEREST INCOME

**Q Dear Commissioner,**  
Under the Uganda-India Double Taxation Agreement, how does URA interpret Article 11 regarding taxation of foreign-sourced interest income?

**A Dear Reader,**  
URA interprets Article 11 as allocating taxing rights between the two contracting states. Interest arising in India and paid to a Ugandan resident will be taxed in Uganda as the country of residence, while India, as the source state, is permitted to tax the income at a limited rate of up to 10% of the gross

amount where the recipient is the beneficial owner. In practice, URA applies this alongside Section 17(2) of the Income Tax Act, meaning such foreign interest is declared and taxed in Uganda as part of the resident's worldwide income, with a foreign tax credit available for any tax paid in India.

## Why is foreign interest income tax high?

**Q Dear Commissioner,**  
Why is foreign interest income taxed at individual marginal tax rates of up to 30%, while comparable domestic bank interest is commonly subject to a lower withholding tax rate of approximately 15%?

**A Dear Reader,**  
The distinction reflects Uganda's policy design and administrative framework. Domestic interest is subject to a final withholding tax of 15% under Section 127, which simplifies compliance and also supports domestic savings and investment by offering a clear, predictable rate. In contrast, foreign interest income has no withholding mechanism and is treated as property income under Section 20, requiring declaration and taxation at marginal rates. While this may result in a higher effective rate, taxpayers are encouraged to voluntarily declare offshore income, with the assurance that foreign tax credits are available to mitigate double taxation.

## Treaty principle of non-discrimination under Article 24

**Q Dear Commissioner,**  
Does URA consider the application of a higher effective tax rate on foreign passive income to be consistent with the treaty principle of non-discrimination under Article 24?

**A Dear Reader,**  
Yes, URA considers the approach consistent with Article 24 because the difference arises from the mechanism of taxation rather than the nationality of the taxpayer. The domestic withholding regime supports local investment and simplifies tax administration, while foreign income is taxed through the standard assessment system. Importantly, both domestic and foreign interest remain within the tax net, and taxpayers earning offshore income are encouraged to comply voluntarily, with relief available through foreign tax credits to ensure fairness.



## ASK URA COMMISSIONER GENERAL

Every Thursday, the Uganda Revenue Authority (URA) Commissioner General, John Musinguzi Rujoki, answers your questions.



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## Guidelines on foreign interest income earned from NRE

**Q Dear Commissioner,**  
Has URA issued any public guidelines clarifying the tax treatment of foreign interest income earned from non-resident external (NRE) fixed deposits?

**A Dear Reader,**  
URA has not issued guidance specific to NRE fixed deposits as a separate category. However, the applicable tax treatment is clearly provided for under the Income Tax Act. As a Ugandan resident, you are subject to tax on your worldwide income under Section 17(2), and any interest earned from NRE fixed deposits is treated as foreign-sourced interest income. This income is classified as property income under Section 20 and must be declared in your annual return and taxed at the applicable marginal rates.

Where tax has been paid in India, including within the limits of the Uganda-India Double Taxation Agreement, a foreign tax credit may be declared upon self-assessment and will be granted in accordance with the law, thereby reducing the risk of double taxation.

URA has also taken proactive steps to enhance compliance and provide guidance through its Voluntary Disclosure Programme, launched in November 2023, with reminder notices issued in December 2024 and November 2025 encouraging taxpayers to voluntarily declare foreign incomes and assets. Through these initiatives, URA continues to provide clarity, promote transparency, and encourage taxpayers to regularise their offshore income while benefiting from available relief mechanisms.

## Promoting fairness, neutrality

**Q Dear Commissioner,**  
Would URA consider applying a tax treatment aligned with the domestic withholding tax rate for passive foreign interest income in order to promote fairness and neutrality?

**A Dear Reader,**  
To align taxation of foreign interest income with the domestic withholding rate requires a legislative reform rather than administrative action by URA. The current system reflects the absence of a withholding mechanism on foreign income and the broader principle of taxing residents on their worldwide income at marginal rates. In the meantime, the foreign tax credit framework remains the key mechanism for ensuring fairness and reducing the overall tax burden on cross-border passive income. However, should you have any tax policy change proposals, please write to the commissioner, tax policy department, Ministry of Finance, Planning and Economic Development.

## Double taxation agreements

**Q Dear Commissioner,**  
How does URA reconcile the objectives of double taxation agreements (DTAs), including fairness, neutrality, and avoidance of excessive taxation, with the current treatment of foreign interest income?

**A Dear Reader,**  
URA applies double taxation agreements alongside domestic law to achieve these objectives. While Uganda retains taxing rights over residents' worldwide income, treaties such as the Uganda-India DTA limit source-country taxation and allow credits for tax paid abroad. This ensures that cross-border income is not taxed excessively.

At the same time, the domestic withholding regime supports local investment, while the broader tax framework remains neutral by bringing both domestic and foreign income into the tax base. Taxpayers earning offshore passive income are, therefore, encouraged to declare it, benefiting from relief provisions that help maintain fairness within the system as we develop Uganda together.

## Give taxpayers clearer guidance on foreign passive income

**Q Dear Commissioner,**  
Can URA provide clearer guidance to taxpayers on the declaration and taxation of foreign passive income to avoid uncertainty and double taxation concerns?

**A Dear Reader,**  
Yes, URA has consistently provided guidance and strengthened clarity through the voluntary disclosure programme, which offers a structured pathway for taxpayers to regularise offshore income while addressing double taxation concerns. Key steps for compliance include:

- List offshore accounts: Identify all foreign bank, investment and insurance accounts.
- Calculate undeclared income: Determine all inflows received through these accounts for the year of income (for example, January-December 2024).
- Determine asset values: Record account balances as at year-end and declare in the income tax return.
- Amend or file returns: Use the voluntary disclosure window to amend the previous one-year (FY 2023/24, FY 2024/25), or file anew, declaring all offshore income.
- Self-assess and declare foreign tax credit: Compute tax due and claim credit for any tax paid abroad.
- Pay tax due: Settle the principal tax liability.
- Complete FAD form: Fill the Foreign Asset Disclosure form.
- Attach supporting documents: Include assessment notice, payment receipt, and proof of ownership.
- Submit to URA: Forward the complete disclosure to the commissioner, tax investigations.

This approach promotes transparency, reduces uncertainty, and reassures taxpayers that while worldwide income is taxable, relief mechanisms exist to ensure fairness and avoid double taxation.