



**THE REPUBLIC OF UGANDA**

**IN THE TAX APPEALS TRIBUNAL AT KAMPALA**

**APPLICATION NO. 009 OF 2025**

**TECHNO THREE UGANDA LIMITED .....APPLICANT**

**VERSUS**

**UGANDA REVENUE AUTHORITY.....RESPONDENT**

**BEFORE: HON. CRYSTAL KABAJWARA, HON. KABAKUMBA MASIKO,  
HON. WILLY NANGOSYAH**

**RULING**

**I. Introduction**

1. This application challenges an assessment of Shs. 312,539,675 issued by the Respondent on the grounds that the Applicant overclaimed interest expenses contrary to section 25 of the Income Tax Act ("ITA"). The Applicant seeks the following orders:

- (i) A declaration that the Applicant is not part of a group of companies,
- (ii) A declaration that the assessment of Shs. 312,539,675 is untenable under the law.

**II. Background facts**

2. The Applicant provides construction and civil engineering services in Uganda. The Applicant's shareholders registered other companies with the intention of carrying on business in Uganda in the future. Therefore, the companies are non-operational as they have not yet commenced the respective business activities. However, they have been filing nil income tax returns for the periods since their incorporation.

3. On 16 January 2024, the Respondent issued the Applicant with the following assessments on the grounds that the Applicant had overclaimed interest expense for the respective periods:
  - (i) January 2018 to December 2018 of Shs.354,452,642,
  - (ii) January 2019 to December 2019 of Shs. 288,885,148,
  - (iii) January 2020 to December 2020 of Shs. 475,175,601.
4. On 22 December 2024, the Respondent issued a decision disallowing the objection wholly and upholding the assessments on the grounds that the company has a common underlying ownership with other companies pursuant to the provisions of Section 25 (3) of the Income Tax Act.
5. The companies alleged to have a common underlying ownership as non-trading entities with no economic benefit and have nil income tax returns from incorporation. Therefore, substantively, the Applicant is not part of an economic group and should be allowed its full interest deduction in respect of debts owed to it.

### **III. Issues for determination**

6. The key issue to be determined is whether the Applicant is liable to pay the tax assessed arising from the Respondent's restriction of the Applicant's interest deduction.

### **IV. Representation and evidence**

7. Ms. Winnie Atwine represented the Applicant, while Ms. Christine Mpumwire appeared for the Respondent.
8. Pursuant to the Tribunal's directions, the parties adduced evidence in support of their respective positions. The Applicant's case was supported by the witness statement of Mr. Sukhjeet Singh, the Financial Controller of the Applicant company. In response, the Respondent filed an affidavit sworn by Ms. Naume Cherotine, a Supervisor in the Business Policy Unit of the Domestic Taxes Department of the Respondent, on 26 November 2025, setting out the Respondent's position in opposition to the application.

9. Mr Sukhjeet Singh, the Financial Controller of the Applicant, was the Applicant's first witness (AW1). He stated in his witness statement that the shareholders of the Applicant company registered other companies, namely Satech Industries Limited, Roma Granite and Marbles Limited, and Naguru Hill Holdings Limited, for prospective business ventures. The Applicant company commenced business and has remained operational, whereas the other companies did not conduct any business because their shareholders lacked sufficient capital or cash flows to commence operations and achieve the purpose for which the companies were incorporated.
10. Naguru Holdings Ltd was primarily incorporated for the purposes of purchasing a residence for the shareholders who are non-Ugandans and engage in the real estate business at a later stage. The company has since purchased Naguru Apartments, which is solely for the shareholders' residences.
11. Furthermore, Satech Industries Limited was incorporated on 16 July 2021, and as such, for purposes of this tax period, it should not be considered because it was not yet incorporated, and in any case, the company was struck out of the Register of Companies since the company was not operational.
12. With respect to Naguru Holdings Ltd and Roma Granite and Marbles Limited, both companies have not been operational and have been filing their respective nil returns for the assessed period. The companies alleged to have a common underlying ownership are non-trading entities with no economic benefit and have filed nil returns from incorporation to maintain the companies on the register, in anticipation that the government will make the payments, and for the shareholders of the Applicant to commence operations in the respective companies.

13. The Respondent filed an affidavit deponed by Ms. Naume Cherotine, a Supervisor in the Business Policy Unit of the Domestic Taxes Department of the Respondent, and sworn on 26 November 2025.
14. The Respondent stated that the assessment of Shs. 312,539,675 was lawfully issued, valid, and enforceable, and the Applicant is not entitled to the reliefs sought.
15. The Respondent prayed that this Honourable Tribunal finds that the Applicant is part of the group within the meaning of Section 25(5)(b) of the Income Tax Act due to common underlying ownership with other companies that is Satech Industries Limited, Roma Grante and Marbles Limited and Naguru Hill Holdings Limited, and thus, is restricted to claiming up to 30% of the Tax Earnings before interest, tax, depreciation and amortization.

**V. Submissions of the Applicant.**

16. The Applicant submitted that its shareholders, that is Jang Bahader Singh Wazir, Amandeep Singh, registered three other companies, namely, Satech Industries Limited, Roma Granite and Marbles Limited, and Naguru Hill Holdings Limited for prospective business.
17. The income tax assessments for overclaimed interest expense totalling to Shs. 1,118,513,391 is premised on the Applicant being a member of a group of companies. The Applicant submits that it is not a member of the group of companies, as the other companies are inactive and have no traceable economic relationship with the Applicant. Consequently, the Applicant is entitled to the whole interest deduction.
18. The Applicant cited Section 25 of the Income Tax Act ("ITA"), which provides for as follows:

*"(1) Subject to this Act, a person is allowed a deduction for interest incurred during the year of income in respect of a debt obligation to the extent that the debt obligation has been incurred by the person in the production of income included in gross income.*

*(2) In this section, "debt obligation" includes an obligation to make a swap payment arising*

*under a swap agreement and shares in a building society.*

*(3) The amount of deductible interest in respect of all debts owed by a taxpayer who is a member of a group, other than a financial institution, microfinance deposit taking institution, tier 4 microfinance institution or person carrying on insurance business, shall not exceed thirty per cent of the tax earnings before interest, depreciation and amortisation.*

*(5) In this section, "group" means persons other than individuals, with common underlying ownership."*

19. The Applicant also quoted Section 2 of the ITA, which defines "underlying ownership", in relation to a person other than an individual, as an interest held in, or over, the person directly or indirectly through interposed companies, partnerships or trusts by an individual or by a person not ultimately owned by individuals.
20. The Applicant submitted that Satech Industries Limited was incorporated on 16 July 2021. This disqualifies it from being a member of a group of companies for the audit period, which covered 2018 to 2020. Satech Industries Limited was also struck off the Register of companies by the time of assessment of the disputed tax, and as such was a non-existing company at the time.
21. Furthermore, Roma Granite and Marbles Limited was incorporated on 25 February 2020. The company's shareholders are Jang Bahader Singh Wazir, Amandeep Singh Sains and Piyush Mishra. Whereas the company was incorporated within the tax period that was assessed by the Respondent, the company has not yet commenced operations to attract a tax liability. Its annual income tax return for the year ended 31 December 2020 was a nil income tax return.
22. In addition, Naguru Hill Holdings Limited was incorporated on 11 July 2014. Its shareholders are Jang Bahader Singh Wazir, Dilip Bhandari, Basilio Anselam Lobo, Kodiyalam Raman Sridharan, James Rattos, Raghu Rami

Reddy Muli, Ganesh Muddu Bangera, Kirti Shan Shantilal. The company was incorporated to purchase a residence for non-Ugandan shareholders and, at a later stage, to engage in real estate business. It has since purchased Naguru Apartments, which is purely a residential property for shareholders, but has not yet commenced business or commercial transactions to attract any tax liability.

23. Furthermore, Naguru Holdings Ltd does not derive any income from the said apartments as they are only residences for the shareholders of the company. The company filed nil returns for the years 2018 to 2020, indicating that it has not conducted any business transactions and is not in operation.

24. The Applicant invited this Tribunal to distinguish the facts of this case and depart from its earlier decided cases vide ***Aponye Uganda Limited v URA, TAT 80/2021*** and ***Moil Uganda Limited v URA, TAT 149/ 2023***. Where the tribunal held:

*“a company is said to have a common underlying ownership where they have a common shareholding.”*

25. The Applicant also invited the Tribunal to adopt a liberal interpretation of the law and apply a purposive approach as in the present case, there is no economic incentive to attract a tax liability.

26. The Applicant cited ***Mangin Vs Inland Revenue Commissioner, All ER 179***, where Lord Donovan, in his leading judgment, set out four principles of interpretation, which were further adopted by Lord Diplock in the case of ***Carver Vs Duncan, All ER 645***, as follows:

*“i) Firstly, words are given their ordinary meaning. They are not to be given any other meaning simply because their object is to frustrate tax avoidance devices.*

*ii) Secondly, one has to look merely at what is clearly said; there is no room for intendment. There is no equity about tax. There is no presumption as to tax. Nothing is to be read and nothing is to be implied. One has to look fairly on the language used.*

*iii) Thirdly, the object of the construction statute being to ascertain the will of the legislature, it may be presumed that neither injustice nor absurdity was intended. If, therefore, a literal interpretation would produce that result, and the language admits of an interpretation which would avoid it, then a literal interpretation would be wrong. Then such an interpretation should be adopted"*

*iv) Fourthly, the history of an enactment and the reasons which led to its being passed may be used as aid to its construction."*

27. The Applicant argued that Section 25 (5) of the ITA was intended to cap tax-deductible interest at 30% for a company that is a member of a group of companies. The intention of the lawmakers was to limit interest deductions for multinational companies that are members of groups of companies. This is aimed at ensuring that such companies don't reduce their chargeable income in Uganda to benefit other operating companies outside Uganda. This was part of a broad approach to tackle tax base erosion and profit shifting to meet other policy goals, such as avoiding competition issues between domestic and multinational groups, reducing the general tax bias in favour of debt funding over equity, or complying with constitutional obligations to equal treatment of taxpayers.
28. The Applicant further submitted that it obtained an asset loan, import loan and overdraft following the discounting of its contracts and has been paying interest on all loans to the financial institutions, to wit Bank of Africa and Bank of Baroda, as indicated in the financial statement for the periods assessed.
29. The Applicant further submitted that the Respondent's actions continue to cripple and suffocate it, given the loan payment obligations and investments in the government's contracted projects that have not yet been paid off. The Applicant believes that if Section 25 is applied literally, it will be subject to 48% in taxes, which will, in turn, affect its cash flows and retained earnings, thereby failing to reinvest and meet its future obligations and, subsequently, leading to its closure.

## VI. Submissions of the Respondent

30. The Respondent maintained that the Applicant is a member of the group due to common underlying ownership with Satech Industries Limited, Roma Granite, Marbles Limited and Naguru Hill Holdings Limited, and thus, is restricted to claiming up to 30% of the Tax Earnings before interest, tax, depreciation and amortisation (EBITDA). The Respondent argued that the exception under Section 25(3) limits a taxpayer who is a member of a group to an interest expense deduction not exceeding 30% of the EBITDA.
31. Regarding the Applicant's argument for adopting the purposive approach to interpreting tax treaties, the Respondent stated that, in interpreting tax statutes, one must look to the plain language of the Act without reading into it, as was held in *Uganda Revenue Authority Vs Siraje Hassan Kajura, S.C.C.A. No. 009 of 2015*.
32. The Respondent further argued that the rationale for Section 25 was also emphasised in *Rwenzori Bottling Company Limited vs URA TAT Application Number 21 of 2021*, where it was held:
- "A comparison of the two sections shows that there was no limit on the interest deduction a taxpayer was allowed in a fiscal year before the amendment. The old section was also not concerned with a taxpayer who was a member of a group as defined... By limiting the interest that is allowed as a deductible allowance, the income chargeable to tax increases..."*
33. Furthermore, the Respondent contended that the wording of **Section 25(5)(b)** of the Income Tax Act is clear and free from ambiguity. The Section simply states that a group is a group of persons other than individuals with a common underlying ownership.
34. The Respondent submitted that the Applicant, along with Satech Industries Limited, Roma Grante, Marbles Limited and Naguru Hill Holdings Limited, has a common underlying ownership due to having the same shareholders. The Respondent established that:

- (i) For Roma Granite and Marbles Limited - Jang Bahader Singh Wazir owns 34 % shares and Amandeep Singh owns 33% shares.
- (ii) For Naguru Hill Holdings Limited – Jang Bahader Singh Wazir owns 10% of the shareholding
- (iii) Satech industries – the shareholders Mr. Jang Bahader Singh Wazir holding 35% shares while Mr. Amandeep Singh holds 35% of the shares.

Notably, Mr. Jang Bahader Singh Wazir appears as a shareholder in all four companies, and Mr. Amandeep Singh appears in three companies

35. In ***Aponye Uganda Limited Vs URA TAT Application No.80 of 2021***, this Honourable Tribunal stated:

*"... Companies with the same owners usually fall in the same group of companies. The reason why deductible interest allowed is limited is because they maybe sharing the same funding."*

#### **The importance of Section 25(5)(b) Income Tax Act**

36. The Respondent also cited ***Pepper v Hart 3 WLR 1032***, where the House of Lords emphasised that courts should use a purposive approach which seeks to give effect to the legislation's purpose and consider extraneous materials that illuminate the context in which the legislation was enacted. Since the ITA provides a clear definition of what constitutes a member of a group and the meaning of common underlying ownership, the Legislature's intention can be inferred from the provision's clear wording.
37. In support this position, the Respondent ***cited Bank of England Vs Vagliano Brothers, 1891 AC, 107***, where it was held that the law should be ascertained by The Respondent concluded by stating that the intention of Parliament in enacting Section 25 (5)(b) of the ITA is to restrict deductible interest for taxpayers who are members of a group. All the above-mentioned companies that form the group are duly registered in Uganda.

This common underlying ownership places the Applicant within a group with Satech Industries Limited, Roma Grante and Marbles Limited and Naguru Hill Holdings Limited, thereby subjecting it to the provisions of Section 25(3). Consequently, the Applicant's deductible interest must be capped at 30% of EBITDA.

38. Regarding the Applicant's prayer for damages, the Respondent submitted that the Applicant has not shown or proved any damage, loss or injury as a result of the actions by the Respondent. If the basis of the entitlement to damages had been proved (which is not the case here) then the Applicant would have been expected to justify why it seeks for the amount sought. The Respondent prayed for costs of the application.

## VII. The Determination

39. Having considered the evidence and submissions of both parties, this is the decision of the Tribunal.
40. At the centre of this dispute is section 25 (3) of the ITA, which restricts interest deductions to 30% of Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). The restriction applies to entities that are part of a group, i.e., those that share common underlying ownership.
41. Section 25(3) of the ITA reads:  
*"The amount of deductible interest in respect of all debts owed by a taxpayer who is a member of a group, other than a financial institution, microfinance deposit taking institution, tier 4 micro-finance institution or person carrying on insurance business, shall not exceed thirty per cent of the tax earnings before interest, tax, depreciation and amortisation."*
42. Furthermore, the term "group" is defined in **section 25 (3)** of the ITA to mean persons other than individuals with common underlying ownership. This definition has been considered by this Tribunal in two cases - ***Aponye Uganda Limited v URA, TAT 80/2021, and Moil Uganda Limited v URA, TAT 149/2023*** - and in both cases it was stated that companies are said

to have common underlying ownership when they have common shareholding.

43. Looking at the facts of this case, it is not in doubt that the Applicant has common shareholding with other companies, namely, Satech Industries Limited, Roma Granite, Marbles Limited and Naguru Hill Holdings Limited. The common shareholders, as per the certificates of incorporation, which are marked as Exhibit F, at page 21 of the Applicant's Trial Bundle, show that the Applicant's shareholders, Jang Bahader Singh Wazir and Amandeep Singh are also shareholders of the three other companies.
44. Therefore, it is not in doubt that on the face of it, the Applicant belongs to a group by virtue of the shareholding that is common with three other companies, at least on paper.
45. This should be an open-and-shut case at this point. However, there is a critical factor that distinguishes this case from ***Aponye and Moil (supra)***: the other members of the group are non-trading or dormant. The Respondent has not disputed or contested this fact. The difference of opinion between the two parties is one of principle.
46. On the one hand, the Applicant argued that since the other members of the group are non-trading companies, there is no economic relationship between them and the Applicant and as a result, there is no economic incentive for the interest deduction restriction to apply. The Applicant has invited the Tribunal to adopt a purposive rule of the interpretation of tax statutes, which looks at the intention of the Legislature. The Applicant's argument is that the Legislature could not have intended for the provision to result in an absurdity where form prevails over economic substance. In support of their position, the Applicants cited the case of ***Mangin Vs Inland Revenue Commissioner***, where it was held that *since the object of a statute is to ascertain the will of the legislature, it may be presumed that neither injustice nor absurdity was intended, and if a literal interpretation would produce that result, then a literal interpretation would be wrong.*

47. On the other hand, the Respondent's argument is that the wording of the provision is clear, and the intention of the Legislature can be inferred from the clear wording of the provision. Further, the Respondent argues that no exceptions should be read into the provision and cited the **Vagliano Brothers case (supra)** to support their position. In this case, it was stated that the purpose of a statute should be ascertained by interpreting its language, rather than by roaming over a vast number of authorities to discover what the law was.
48. Therefore, having considered all the above, we can conclude that the real question before this honourable Tribunal is whether the case before us warrants a departure from the literal rule of statutory interpretation in favour of the purposive rule.
49. The purposive rule for interpreting tax statutes is turned to when the literal meaning creates ambiguity, absurdity, or fails to capture the legislature's intent, or fails to align with broader policy goals. This is achieved by examining the Act's overall scheme, objects, and reasons to identify the "mischief" it was meant to cure. It is used to ensure the law's practical effectiveness, not just its text, but generally still starts with the words and only deviates when necessary. This purposive approach, which is also referred to as the "*Ramsay Principle*" originated from the case of **W.T. Ramsay Ltd. v IRC, [1982] AC, 300**, where courts look beyond artificial transactions and consider the overall economic reality
50. In **IRC v McGukian, [1997] 1 WLR 991**, Lord Steyn in his leading judgement stated that the Ramsay Principle is not based on a linguistic analysis of the meaning of particular words in a statute but is founded on a broad purposive interpretation, giving effect to the intention of Parliament. The principle asserts the power to examine the substance of a composite transaction and rejects formalism in fiscal matters, favouring a more realistic legal analysis.
51. Turning to the facts before us, how does one ascertain legislative intent? First, it is by looking at the clear words of the statute as was stated in the

***Vagliano Brothers case (supra)***. However, where the words of the statute lead to an absurdity or fails to capture the Legislature's intent, the history of an enactment and the reasons which led to its being passed may be used as aid to its construction (***Mangin Vs Inland Revenue Commissioner***).

52. Therefore, the first question that we ought to ask is, does the literal interpretation lead to an absurdity? Would it have been the intention of the Legislature, when framing section 25 (3), that the restrictions therein should also apply to a member of a group comprising non-trading entities that exist only on paper? To answer this question, we must turn to the history of the enactment and its reason as guided by the ***Vagliano Brother's case***.

**What is the history of Section 25 (3) and why was it passed?**

53. The purpose of section 25 is to prevent taxpayers from using interest payments to reduce their chargeable income. Indeed, Action 6 of the 2015 OECD Base Erosion and Profit Shifting Report recommended curbing excessive interest deductions and thin capitalisation schemes.
54. Before the enactment of section 25 (3) in 2018, interest limitation provisions were contained in section 89 of the ITA. This section disallowed tax deductions for interest on debt owed to foreign controlling entities if the company's foreign debt-to-equity ratio exceeded 1.5:1 (previously 2:1). This rule applied to foreign-controlled resident companies and aimed to restrict profit shifting through high interest payments.
55. However, the 2015 BEPS report established that thin capitalisation rules such as those in section 89 were no longer effective and recommended replacing them with a more robust earnings-based test "fixed ratio rule" capping net interest deductions at 10%–30% of EBITDA.
56. It is against the heels of the above recommendations that in 2018, Uganda replaced its thin capitalisation rules with the fixed ratio rule that is contained in section 25 (3) of the ITA. The difference, however, is that unlike section 89, which targeted foreign-controlled resident companies, i.e., subsidiaries

of multinational corporations, section 25 (3) extended the interest restriction to local enterprises.

57. However, the overarching aim of the interest restrictions is to prevent taxpayers from abusing interest deductions to reduce their chargeable income and thereby pay less tax. How can this be done in the local context? For example, where a loss-making company or an exempt taxpayer, UGCo, extends a loan to a profit-making sister company, UGX Co., UGXCo will claim a tax deduction for the interest expenses and reduce its taxable profits. If UGCo is loss-making, the interest income it would have earned from UGXCo will effectively not be subject to tax, as it will be absorbed by the loss. If UGCo is tax-exempt, it may not pay any tax on the interest income. Therefore, Section 25(3) is intended to prevent such abuses.

**Having given the above context, what did the Legislature take into consideration when they enacted section 25 (3) of the ITA?**

58. To answer the above question, we've taken the liberty to study the Hansard, which is the official transcripts of parliamentary debates. The Income Tax (Amendment) Bill, 2018, was debated on 24 May 2018 and we quote the debate below verbatim (especially since it was not lengthy).

***MR MUSASIZI:** Madam Chairperson, we propose to amend Clause 4 as follows.*

*i) In sub-clause (3) by deleting the words "who is a member of a group" and substituting the words "to other members of the same group or an associate".*

*ii) In sub-clause (5) (b) by substituting for the definition of the word "group" the following: "'group' means associates or companies with a common underlying ownership of 50 per cent or more.*

*The justification, Madam Chairperson, is to:*

- 1. Open up the restriction to debts owed to group members of the same group or associates; and*
- 2. To specify a minimum percentage of the common underlying ownership.*

**MR MWIRU:** Madam Chairperson, I rise to oppose that proposal by the chairperson. I propose that the Bill remains in the form it is proposed for one reason; when you read the object of the Bill, particularly in respect to this, it is to provide for restrictions on deductible interests. What is taking place is that group of companies keep on lending amongst them. So, the interest that would accrue and come to the country, they tend to treat it as part of allowable deductions, hence reducing the chargeable income.

So, if we are to proceed the way the chairperson is going, we are - In this case, we are looking at the multinational companies. They are the ones which are engaged in group of companies. I do not think the chairperson, hon. Musasizi, has a group of companies. What is taking place is that these multinational companies keep on lending amongst themselves and when it comes to the actual declaration, they would show they have lent amongst themselves.

Therefore, the interest accruing out of the sales forms part of the allowable deductions hence, reducing the chargeable income. Thank you.

**MR MUSASIZI:** Madam Chairperson, I am persuaded by my brother hon. Mwiru. Therefore, I concede. (Applause)

**THE CHAIRPERSON:** Honourable members, the question is that Clause 4 do stand part of the Bill.

(Question put and agreed to)

Clause 4 agreed to."

59. What can be deduced from the above debate?
- (i) The intention of the Legislature was to limit the extent to which persons use interest deductions to reduce their chargeable income.
  - (ii) The provision was intended to target multinational companies that lend amongst themselves (however, the provision in its current form also captured local businesses).

60. In the present case, we are faced with a scenario involving a local group of companies where all the members are non-trading or dormant save for one, the Applicant.

- (i) Other than the Applicant, all the other members have been filing NIL income tax returns, indicating they are non-trading;
- (ii) Satech Industries Limited was incorporated on 16 July 2021, which is outside the assessed period. In addition, this company was struck off the URSB company register as per exhibit E on page 20 of the Applicant's trial bundle.

It is also important to note that the interest in question arose from borrowings by the Applicant from third-party Ugandan bank lenders, namely, Bank of Baroda and Bank of Africa, who would have declared the interest income and paid the applicable taxes on it.

61. In view of the above facts and having established that the key objective of the provision is to limit the extent to which interest deductions are abused to reduce chargeable income, is it justified to apply the restriction to members of a group comprised of non-trading entities? Entities that merely exist on paper by virtue of an incorporation certificate at the URSB? Did the Legislature intend for the interest deductibility restrictions to apply to groups comprising of entities that have no active business operations, significant assets, or employees, and exist solely in their legal form? The short answer is no.

62. This is because the “substance over form principle”, which requires that tax outcomes should reflect the accurate, physical, or economic reality of a transaction rather than just documentation, is central to taxation. It ensures that tax burdens are fair and do not unnecessarily hinder economic growth or encourage artificial, non-productive behaviour.

63. Consequently, in light of the facts and circumstances of this case and the foregoing arguments, this application succeeds on the basis that a literal application of section 25 (3) would lead to an absurd result that was never

contemplated by the Legislature, as it would also create an unjust tax burden.

### Obiter

64. Given the history and principal purpose of section 25 (3), we would recommend that the Ministry of Finance revisit the policy considerations of section 25 (3) and (5) of the ITA, focusing on its intended purpose and whether it aligns with the country's broader economic goals. For example, Vision 2040, NDPIV, and the Tenfold Growth Strategy all address the importance of increasing access to credit for the private sector.

65. For example, **Vision 2040**, the nation's comprehensive, national development strategy, has identified access to credit as one of the factors affecting the business environment in Uganda. It states:

*"The World Economic Forum, Global Competitiveness Report 2009/10 ranks Uganda 112th out of 183 countries on a wide range of business indicators. This ranking is based on identified factors that affect the business environment in a country including; registering properties, trading across borders, protecting investors, starting a business, enforcing contracts and getting credit. The major constraints affecting doing business in Uganda include: poor access to finance..."*

66. Further, the **National Development Plan (NDP) IV** has identified the high cost of capital as one of the hinderances to achieving sustainable economic growth. It states at page 10:

***"The cost of capital (money) is relatively high and capital is short term in nature.***

*The high cost of capital, partly attributed to: speculative tendencies; oligopolistic nature of the banking sector; the high risk for many borrowers; government domestic borrowing that crowds out private sector credit; under capitalization of public banks, uncleared commercial cases; the low level of savings; high cost of operations by commercial banks; and application of a prime lending regime in a sub-prime market, increases the cost of production. Uganda's financial market is largely dominated by short-term capital that cannot finance long-term investments*

*due to underdeveloped finance institutions. Interest rates on loans continue to be high and have consequently made doing business in Uganda expensive for the private sector. Interest rates averaged 19.1% in the last 5 years against a Central Bank Rate of 8.4%”.*

67. Uganda's **Tenfold Growth Strategy**, which is designed to rapidly expand the GDP to US 500 billion by 2040, targets growing private sector credit from 11% of GDP (2023 base year) to 100% of GDP by 2040 (page 77).

68. In view of the above, there is need to review section 25 (3) and (5) in light of the above broader policy objectives. Specifically:

(i) The impact of the interest restrictions on the cost of business for local enterprise and the private sector; Unlike their multinational counterparts, local businesses do not have access to group balance sheets.

(ii) The unintended/undesirable consequences of the provision for example, whether the provision intended to discourage investors from setting up multiple companies? For example, if the owner of a dairy farm decides to set up a factory for veterinary drugs and borrows funds to purchase the plant and equipment, the factory, if housed in a separate company from the dairy farm, will be denied a full interest deduction. However, if the factory and the dairy business are housed in the same company, the business will enjoy the full interest deduction.

(iii) The other consideration is tax cohesion. The provision was intended to target multinational enterprises because once interest income leaves Uganda, it is no longer subject to tax. However, for domestic lending, there is tax cohesion, which ensures that tax advantages such as interest correspond directly to tax burdens within the same system. Therefore, where a local business borrows from a resident lender, whether related or not, the interest deduction claimed by the borrower corresponds directly to interest income that is taxable in the

hands of the lender. In the present application, the interest income paid to Bank of Africa and Bank of Baroda is subject to tax in the hands of the banks. The Respondent has the ability and capacity to trace that income. Therefore, there is a limited risk of base erosion.

69. We therefore recommend that the Ministry of Finance should consider the wider implications of section 25 (3) of the ITA with a view to restricting the provision to multinational enterprises, as its purpose is to prevent base erosion and profit shifting by such enterprises through interest deductions.

70. In the circumstances, this application is allowed, and the Tribunal makes the following orders:

- (i) The assessment of Shs. 312,539,675 is untenable and is hereby set aside.
- (ii) Costs of this application are awarded to the Applicant.

Dated at Kampala this 4<sup>th</sup> day of February 2026.

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**HON. CRYSTAL KABAJWARA**  
**CHAIRPERSON**

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**HON. KABAKUMBA MASIKO**  
**MEMBER**

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**HON. WILLY NANGOSYAH**  
**MEMBER**