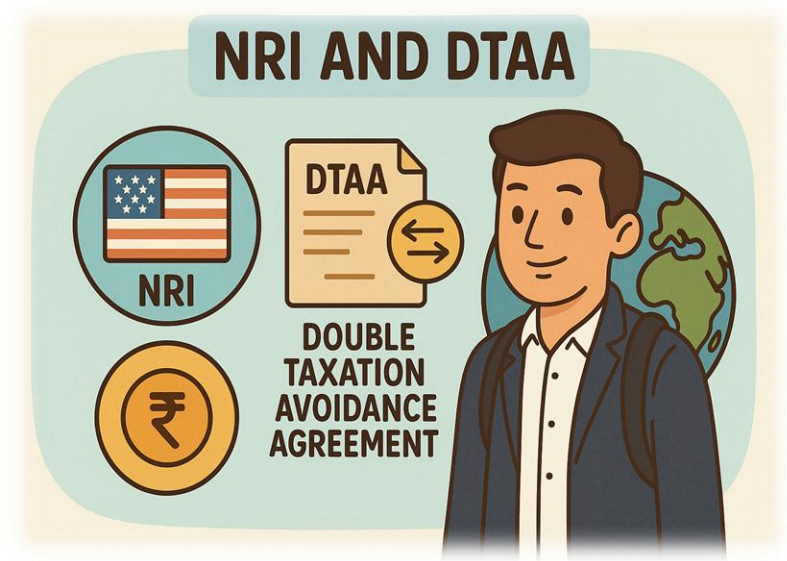


# NRI Taxation and Double Tax Avoidance Agreements (DTAA)



The Double Tax Avoidance Agreement (DTAA), also referred to as a tax treaty or tax convention, is an agreement between two countries aimed at reducing or eliminating the burden of double taxation on the same income. This typically occurs when the same income is taxable in both the country of residence and the country of source.

## Key points:

1. **Purpose:** DTAA seeks to clarify and allocate taxing rights between countries, thereby preventing the same income from being taxed twice.
2. **Negotiation Outcome:** Where both countries claim taxing rights, the treaty may allow one country to tax the income and the other to provide a tax credit for taxes paid abroad.
3. **Application:** For example, rental income earned by an NRI in India may be taxed in India (source-based) and again in the USA (residence-based). Under the India-USA DTAA, credit for taxes paid in India can be claimed in the USA.
4. **Scope:** DTAAs may be comprehensive (covering various types of income) or limited (covering only specific types of income).
5. **Countries with No Personal Taxation:** Challenges arise in jurisdictions with no personal tax laws, such as the UAE or Qatar, where tax credits may not be utilized.

**6. Tax Rates:** Two sets of tax rates apply:

- ❖ As per domestic tax laws
- ❖ As per the DTAA

In some cases, domestic tax rates may be more favourable than DTAA rates. For instance, interest income on NRO deposits may be taxed more advantageously under domestic law.

**7. Refunds:** Tax credits under DTAA do not result in tax refunds. They only reduce the tax liability to the extent of taxes paid in the other country.

**8. Computation of Tax Credit:** The method of calculating foreign tax credits varies by country and is not standardized across all treaties.



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### **Mumbai (Fort)**

First Floor, Laxmi Building,  
Sir P.M. Road, Fort,  
Mumbai – 400001  
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Email: **contact@dsaca.co.in**

### **Mumbai (Goregaon)**

119, Shivam Chambers, 1st Floor,  
S V Road, Goregaon (W),  
Mumbai 400 062  
Tel: +022-49791142  
Email: **contact@dsaca.co.in**

### **Hyderabad**

H No. 272/3RT, Flat No: 301,  
Padmaja Apartments,  
Beside Axis Bank, S R Nagar,  
Hyderabad – 500 038  
Tel: +918096205680  
Email: **venkat@dsaca.co.in**

### **Doha-Qatar**

Al Rufaa Tower, 1st Floor,  
Office No.1,2&3, Old Salata,  
PO Box: 30653, Doha – Qatar  
Mob: +97466039427  
Contact: **naresh@aksaa.qa**  
Website: **https://www.aksaa.qa**

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