

# New Provisions for Tax on Dividend from April 2020

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Finance Act 2020 has abolished tax on dividend levied under section 115O of Income Tax Act, 1961 popularly known as Dividend Distribution tax (DDT). With effect from 1 April 2020 dividends declared by the Indian companies have been made taxable in the hands of shareholders. The presentation gives a brief of taxation and compliances on declaration or distribution of dividend before and after abolition of DDT.



# 1

## Provisions for tax on Dividend

“Before 1 April 2020”

# Provisions for tax on Dividend

## (Before 1 April 2020)

### For Companies Declaring Dividend

- ☐ Tax on dividend was payable under section 115O by the company declaring dividend
- ☐ Effective rate of tax on dividend as per section 115O was 20.56%
- ☐ Dividend received from subsidiary company was allowed to be deducted under section 115O(1A) from dividend declared for the purpose of tax calculation

### For Shareholders receiving dividend

- ☐ Dividend referred in section 115O was exempt u/s 10(34) in the hands of Domestic company, Trust, specified institution, Non Resident and Foreign company if DDT is paid.
- ☐ In case of other assessee, Dividend upto Rs. 10 Lakhs is exempt and Dividend in excess of Rs. 10 lakhs was taxable under section 115BBDA @ 10% plus applicable surcharge and cess.

# 2

## Provisions for tax on Dividend

“ After 1 April 2020 ”

(In case of Resident Shareholders)

# Provisions for tax on Dividend

## (After 1 April 2020)

### (In case of Resident Shareholders)

#### For Companies Declaring Dividend

- ☐ TDS at the rate of 10% is to be deducted under section 194 by the company declaring dividend if dividend paid to the shareholder is more than Rs. 5000.
- ☐ TDS certificate to be issued to every shareholder whose TDS is deducted.
- ☐ If PAN of shareholder not available TDS at the rate of 20% shall be deducted as per section 206AA.

#### For Shareholders receiving dividend

- ☐ Dividend is taxable in the hands of shareholder as per tax slab rate applicable to such assessee.
- ☐ Deduction of Interest paid for earning dividend income can be claimed upto 20% of dividend Income under section 57
- ☐ Domestic Company receiving dividend from its subsidiary can claim deduction u/s 80M of amount lower of dividend received or dividend declared by receiver company.



# 3

## Provisions for tax on Dividend

“ After 1 April 2020 ”

(In case of Non Resident Shareholders)

# Provisions for tax on Dividend

## (After 1 April 2020)

(In case of Non Resident Shareholders)

### For Companies Declaring Dividend

- ☐ TDS at the rate of 20% (Plus Applicable Surcharge and Cess) is to be deducted by the company declaring dividend as per section 195 read with section 115A.
- ☐ TDS certificate to be issued to every shareholder whose TDS is deducted.
- ☐ Benefit of lower rate of tax as per DTAA may be given while deducting TDS subject to availability of Tax Residency Certificate, Form 10F, etc.

### For Shareholders receiving dividend

- ☐ Shareholder need not file return if TDS deducted at the rate prescribed in section 115A i.e. 20% (plus applicable surcharge and cess).
- ☐ Shareholder can claim the benefit of tax paid in India in their country of residence based on rules of that country.
- ☐ Shareholder may file return in India and claim the benefit of reduced rate as per DTAA and claim refund accordingly.





# Provisions for tax on Dividend

## (After 1 April 2020)

(In case of Non Resident Shareholders)

### For Companies Declaring Dividend

- ☐ Company declaring dividend is required to file form 15CA as per Rule 37BB for payment of dividend to non resident.
- ☐ If payment of dividend made to a non resident shareholder is more 5 Lakh, Company declaring dividend is also required to obtain certificate from Chartered Accountant in form 15CB as per Rule 37BB.

### For Shareholders receiving dividend

- ☐ Deduction of Interest paid for earning dividend income is not allowed under section 115A(3).





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# Tax Implication

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Nature	Tax Before 1 April 2020 #	Tax After 1 April 2020 *	New Regime is
Individual in Tax Bracket of below 20%	20.56%	Less than 20%	Beneficial
Individual in tax Bracket of 20%	20.56%	Equal to 20%	Neutral
Individual in tax Bracket of above 20%	20.56% + 10% on dividend above 10 Lacs	More than 20%	Detrimental ^
Firms and LLP	20.56%	30%	Detrimental
Domestic Companies	20.56%	30%/ 25% / 22% / 15%	Detrimental (Except 15% tax)
Foreign companies and non-residents	20.56%	20%	Beneficial \$

# This is effective rate of dividend tax including Surcharge and Cess payable by company declaring dividend.

\* The above rates are subject to Surcharge and Cess as applicable

^ if Individual fall under tax bracket of 25% as per tax slab u/s 115BAC, new regime of tax on dividend shall be beneficial.

\$ In new system the Non Resident Shareholder shall now be entitled to avail the credit of taxes paid in India in their country of resident subject to laws of that country. Also TDS may be lower than 20% depending upon the DTAA. DTAA with many countries like UK, US, Singapore, Mauritius, etc. limit the tax rates on dividends between 5% to 15%.



# Thanks!

**Any questions?**



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