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The study of Dividend Distribution Tax in India and its impact on the Indian Companies.

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Abstract

Dividend is the share of the shareholder in the profit of the company. The dividend distribution tax charged under section 115-O prior to the budget Jan 2020 maintains the liability on the companies paying dividend to pay the dividend. The company had already paid tax on the income earned by it before paying dividend. With the Budget 2020 the provision of 115-O is cancelled and without an iota of doubt it will reduce the cost of doing business in India. The tax on dividend being shifted to the individual shareholder would pave a wider road for globally accepted regime of taxing the shareholders to pay for the dividend earned. The analyze the impact of dividend distribution tax prior to the January 2020 budget.

Key Words: Dividend distribution tax, Net Profit, Indian Companies, Dividend,

Objectives of research:

1) To study the various provision affecting the payment and receipt of income by way of dividend.
2) To study the impact of these provisions on the individual tax payers.
3) To study the impact of these provisions on the companies.

Research Metodology.

I) Primary data would be collected from income tax professionals.
II) For the purpose of Secondary data:
   a) Books,
   b) Periodicals
   c) Balance sheet,
   d) Income tax Act.
   e) Online study materials.

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Hypothesis:

H1) Dividend distribution is reducing because of dividend distribution tax.

H2) The tax incidence on the companies is very high.

Literature Review:

Several studies Modigliani urged the investors to prefer the shares because of tax return. The Institute of Company Secretory in their Study materials opined that A domestic company is liable to pay tax on the amounts distributed, declared or paid as dividend (whether interim or otherwise), it shall be payable @15% plus surcharge and education cess & SHEC in addition to the income tax payable.

Deloitte in the article "Indian Taxation and Investments" 2015: Indian tax incentivies are designed to channel investments to specific industries, to promote the development of economically lagging regions and encourage export oriented goods and services industries. The Indian government has to offer a number of benefits, including tax and non-tax incentives for establishing new starts ups, special purpose vehicles, SEZ by announcing tax holidays depending upon the industries and region. A weighted deductions of two hundred per cent for in house research is also announced.

Introduction:

The concept of dividend distribution tax is being a matter of great debated from decades. Profits earned by the company is of the same nature as that earned by the shareholders. Even where the share of the partners in the partnership firms is exempt from tax Sec. 10(2A) but this doesn't suffice in the hands of the shareholders. Dividend is share of the shareholder in the profit of the company. Dividend distribution tax is an additional tax on chargeable on the payment of dividend by the company making business to be carried on by them a herculean task. The concept of dividend distribution tax prior to January 2020 budget is applicable for Indian companies and the foreign are exempted from it. If the profit is retained in the business it is called retained earnings than the question of paying DDT does not arise. Payment of Dividend is subject to Dividend Distribution Tax. The incidence of dividend distribution tax is on the company. As the company has already paid tax on the net profit still the company is liable to pay dividend distribution tax as per Sec. 115-0. From the period post Finance Act 2003 there is a bonanza for the new start ups, special purpose vehicles, and special economic zones.

In India the concept of corporate taxation is a double edge sword. At the very outset the profits of the companies are taxed before allowing dividend as a deduction than again the company is liable to pay tax at the rate in force on the dividend distribution tax. Taxing dividends on the hands of the companies have been badly criticized by at large by everyone withholding the concept of double taxation to their defense. A zero-dividend payout is not uncommon for young rapidly growing companies with good investment opportunities. Dividend is taxable as income under Sec. 2(24)(ii).

The list of ten highest dividend paying companies is given below:

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Largest dividend Distributing companies

FY. 19. EGIT database

SR. No.	Name of the Company	Dividend paid (in crores)	Dividend Distribution Tax @ 20.5% (Rs. In crores)
1	TCS	11257	2313
2	INFOSYS	9366	1925
3	ONGC	8806	1810
4	INDIAN OIL CORP	8693	1786
5	HINDUSTAN ZINC	8451	1737
6	COAL INDIA	8106	1666
7	ITC	7049	1449
8	VEDANTA	7005	1440
9	NTPC	6016	1236
10	HUL	4762	979

Sections affecting payment or receipt of Dividend in India:

1) Dividend Income (Sec. 8): shall be the income of the previous year in which it is so declared, distributed or paid by the Company. Interim dividend any interim dividend shall be deemed to be the income of the previous year in which the amount of such dividend is irrevocably made available by the company.
2) Income deemed to accrue or arise in India (Sec. 9): is is the dividend paid by an Indian company outside India.
3) Exempted divdends: (Sec. 10(26)):
   a) A member of schedule tribes in the specified sates any income which arise or accrues to him by way of dividend.
   b) Sec. 10(26AAA) in case of an individual, being a Sikkimese, any income which accrues or arises to him by way of Dividend.
4) Sec. 115-O Tax of Dividend Distribution: A company paying, declare and distribute dividend, in addition to the income-tax chargeable in respect of the total income of a domestic company for any assessment year, from the current or accumulated profits shall be charged to additional income-tax (hereafter referred to as tax on distributed profits) at the rate of fifteen per cent.
5) Reduction in aggregates of Dividend of the domestic company:
   i) Sec. 115-O(1A)(a) if the domestic subsidiary has paid Dividend Distribution tax, the amount which is chargeable to tax under Sec. 115-O shall be reduced by the amount of dividend received from the domestic subsidiary.
   ii) Sec. 115-O(1A)(b) where the subsidiary paying dividend is a foreign company the onus of paying tax is on the domestic parent company as per section 115BBD.

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iii) Sec. 115-O(1A) the amount of dividend, if any, paid to any person for, or on behalf of, the New Pension System Trust.

6) Dividend distribution tax is payable by the Domestic company paying, declaring or distributing dividend, even if no tax is payable by the said company on the profits earned.

   Dividend distribution tax is not allowed as deduction to a domestic company or any of its shareholders.

7) The payment of dividend distribution tax is final payment and no credits shall be allowed to the company or any other person.

8) Sec. 115BBD: Tax on certain dividends received from foreign companies: the Indian company receiving dividend shall pay tax at the flat rate of fifteen percent.

9) Sec. 115BBDA. Tax on dividend in the hands of individual shareholders to be taxed at the rate fifteen per cent on the amount exceeding ten lacs.

Findings:

At the outset, it will be reasonable to indicate the general characteristics (and our method of selecting) of the companies whose dividend practices have been studied on an individual basis.

Four select companies for the time span of four years are evaluate. Few key factors in the selection of specimen companies were considered including company size, regularity in the dividend rates, average earnings on invested capital, balance-sheet, stability of earnings, capitalization.

The following companies were assessed.

Percentage of Dividend to Net Profit before tax

Table 1

Name of the company	March 19	March 18	March 17	March 13\6
Birla Steel	19.05%	17.20%	22.39%	13.03%
Tata Steel	11.01%	8.23%	9.33%	8.89%
Jindal	****	7.44%	12.55%	8.06%
SAIL	****	1.95%	1.98%	2.06%

Observations: In the above table dividend is related to profit before tax just to measure the impact of dividend on the profit before tax. As the dividend distribution tax is dependent upon the distribution of dividend. There is not a high alarming rate of dividend payment as compared to the profit before tax except in the case of Birla steel. On an average the companies had maintained their respective rate of dividend.

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Hence hypothesis (H1) Dividend distribution is reducing because of dividend distribution tax stands rejected.

Dividend Distribution Tax to Net Profit

Table 2

Name of the company	March 19	March 18	March 17	March 16
Birla Steel	3.88	3.50	3.80	2.17
Tata Steel	2.12	1.63	0.62	1.47
Jindal	***	1.67	2.18	1.54
SAIL	***	0.39	0.34	0.34

From the table 1.2 it is clear that none of the companies under consideration had paid more than 2-3% on an average towards dividend distribution tax. Hence it is incorrect to say that Dividend Distribution tax amounts to double taxation in its totality.

Hence hypothesis (H2) The tax incidence on the companies is very high stands rejected.

Conclusion: though the term dividend distribution of tax is highly criticized but it pulls out a very small proportion from the pockets of the companies. As tax incentives are always applauded by the companies than they should be willing to part with the small quantum of tax. With the removal of dividend distribution tax will boost companies to pay either more dividend or to utilize the saving of dividend distribution tax to fullest benefits. The domestic companies will be equated with the multinationals as the later were not receiving credit of dividend distribution tax. Whereas tears will set rolling on the cheeks of promoter owners holding equity individually or in a trust when they lie in 43% tax bracket.

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