COMPANIES RUSH TO DECLARE INTERIM DIVIDENDS

TO BEAT UNION BUDGET 2016 CHANGES

- Companies are rushing to pay dividends to shareholders before the end of 31 March, 2016 after finance minister Arun Jaitley introduced a 10% additional tax on individuals with dividend income of over Rs.10 lakh in the budget for the year starting 1 April,2016.

- Budget 2016 proposes tax at the rate of 10% of gross amount of dividend in addition to applicable DDT, For investors receiving dividend in excess of Rs 10 lakh per annum.

- Through the Finance Bill 2016, a new section has been introduced (i.e. 115BBDA) to provide that, where the dividend is to be paid to resident individuals, HUFs and Firms then, there would be an additional tax at the rate of 10% in the hands of the investors. This step by the Hon'ble Finance Minister aims at taxing such portion of income which was getting escaped from the ambit of tax, in the hands of those investors, who are subjected to higher tax rate (i.e. 30%). The above amendment would be made effective from the Assessment Year 2017-18 (i.e. previous year 2016-17).

- With the provision of additional 10% tax to be imposed on the investor is on receipt dividend income, the Indian market is witnessing a rush to declare interim dividends. The above amendment would be made effective from the Assessment Year 2017-18 (i.e. previous year 2016-17.

- Dividend income received by investors was already taxed through Dividend Distribution Tax (DDT). Now, budget 2016 proposes that in addition to DDT paid by the companies, tax at the rate of 10% of gross amount of dividend will be payable by the recipients, that is, individuals, HUFs and firms resident in India receiving dividend in excess of Rs 10 lakh per annum.

- Dividend Distribution Tax (DDT) uniformly applies to all investors irrespective of their income slabs. This is perceived to distort the fairness and progressive nature of taxes. Persons with relatively higher income can bear a higher tax cost.

- Board meetings have been announced by nearly 275 companies since 29 February 2016 to consider payment of interim dividend, Boards of more than 60 companies have already approved dividend payouts to shareholders and fixed record date, shows data collected from stock exchanges.

- The rush to pay interim dividend is intended to beat the new tax introduced by the Union Budget 2016. A number of Indian companies still have high promoter holdings, which means that these promoters earn significant amounts through dividend payments.

- Declaration and payment of dividend before 31 March 2016 is a one-time opportunity for such companies to mitigate additional 10% tax liability for the individual promoters. However, companies must fulfil dividend payments on or before 31 March 2016 to ensure mitigation of tax liability in the hands of the individual," said Pranay Bhatia, tax partner, BDO India LLP, a tax and advisory firm.

- Proposed dividend distribution tax (DDT) will uniformly apply to all investors regardless of their income slabs.

- RiazThingna, Director at Grant Thornton Advisory Pvt Ltd said dividend tax is levied at 10% on individuals and HUFs in the high income bracket while DDT poses as a double setback because while taxing the rich, there is no relief for the poor.

- Once the move comes into effect from April 1, 2016, companies may avoid declaring high dividends and may opt for the more tax-effective buy-back option.

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