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Budget 2016-17: Experts unhappy with dividend distribution tax

Taxation of dividend above Rs10 lakh in hands of individuals, HUFs and firms who are tax-residents at 10% amounts to 'discrimination' compared with non-residents who are not taxed similarly, say experts

P.R. Sanjai

In his attempt to mobilise additional resources to help the rural economy and keep the environment clean, finance minister Arun Jaitley on Monday proposed a dividend distribution tax (DDT) that will uniformly apply to all investors regardless of their income slabs. Photo: Mint

Mumbai: Industry experts have expressed unhappiness with the government's proposal to tax the dividend income of investors, regardless of their tax slabs.

In his attempt to mobilise additional resources to help the rural economy and keep the environment clean, finance minister Arun Jaitley on Monday proposed a dividend distribution tax (DDT) that will uniformly apply to all investors regardless of their income slabs.

"Persons with relatively higher income can bear a higher tax cost. I, therefore, propose 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 (Hindu Undivided Families) and firms receiving dividend in excess of ₹10 lakh per annum," Jaitley said in his budget speech.

Jairaj Purandare, chairman, at consultancy firm JMP Advisors Pvt Ltd said the taxation of dividend above ₹10 lakh in the hands of individuals, HUFs and firms who are tax-residents in India at 10% amounts to "discrimination" of residents compared with non-residents who are not taxed similarly.

"The same income is taxed thrice (economic triple taxation and juridical double taxation in hands of company) namely, corporate tax, DDT and additional 10% tax. Promoters who are directly holding shares in their companies will be hit compared to promoters who hold shares through intermediate holding companies," Purandare added.

He clarified that taxable trusts, like family trusts having multiple beneficiaries, may be taxed if the aggregate amount of dividend in the hands of such trust exceeds ₹10 lakh, even if the share of an individual beneficiary is below ₹10 lakh.

Riaz Thingna, 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 whammy because while taxing the rich, there is no relief for the poor.

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