

Frequently Asked Questions ('FAQs') on Taxation of Dividend

A. Resident Shareholders

1. **I am a resident individual shareholder. Will my dividend be subject to TDS? If yes, are there any exceptions?**

Rate of TDS on dividend payment to resident individual shareholders:

- With effect from 1 April 2020, dividend income is taxable in the hands of the shareholders at applicable rates of tax. The Company is required to deduct tax at source under section 194 of the Income-tax Act, 1961 ("the Act") @ 10%, subject to the following:

| Sr No | Particulars | Rate of TDS applicable | Section |
|--------------|--|-------------------------------|------------------|
| 1 | PAN is not available/ Invalid PAN | 20% | 206AA of the Act |
| 2 | Non-filer of return of income tax for the financial year preceding the financial year in which tax is deductible and aggregate amount of tax deducted and collected at source is Rs. 50,000 or more. | 20% | 206AB of the Act |

Exceptions:

- However, no tax shall be deducted at source on the dividend payable to a resident Individual if the total dividend to be received from the Company during a financial year does not exceed Rs.5,000; or if an eligible resident shareholder provides a valid declaration in Form 15G/ 15H to the Company.
- Further, if a shareholder has obtained a lower or nil withholding tax certificate from the tax authorities and provides a copy of the same to the Company, tax shall be deducted on the dividend payable to such shareholder at the rate specified in the said certificate.

2. I am a non-individual resident shareholder. Will the dividend be subject to TDS? If yes, are there any exceptions?

Rate of TDS on dividend payment to resident non-individual shareholders:

- ▶ With effect from 1st April 2020, the dividend income is taxable in the hands of the shareholders under section 194 of the Act @ 10%, provided:
 - a) PAN is registered by the shareholder with the Depository. If the same is not registered, then tax would be deducted at source @ 20% as per section 206AA of the Act.
 - b) Rate of TDS under section 206AB of the Act shall be higher of the following:
 - i. twice the rate specified in the relevant provision of the Act
 - ii. twice the rate or rates in force; or
 - iii. the rate of five per cent.

* Specified Person means a person who has not filed the return of income for the assessment year relevant to the previous year immediately preceding the financial year in which tax is required to be deducted, for which the time limit for furnishing the return of income under section 139(1) of the Act has expired, and aggregate of tax deducted and collected at source is Rs. 50,000 or more.

- In this regard, the company shall assess the 'Specified Person' based on the functionality provided by the Income Tax Department for compliance check under section 206AB.
- If any Resident or Non- Resident member is falling in the category of 'Specified Person' as per the above functionality by Income Tax Department, the company shall be obliged to deduct tax at higher rate as per section 206AB of the Act, viz. 20% for resident shareholders and 40% (plus applicable surcharge and cess) for non-resident shareholders.
- In case of non-resident shareholders not holding PAN, we shall be unable to verify whether such shareholder is a specified person under section 206AB of the Act as per the functionality provided by Income Tax Department. In order to avoid tax deduction at source at higher rate under section 206AB such shareholders may submit declaration that they are not obliged to file income tax return in India and/or they do not have permanent establishment in India.

Exceptions (subject to submission of documents):

- ▶ No tax shall be deducted at source on the dividend payable to the following resident non- individual shareholders on submission of certain documents as mentioned below:

- a) **Insurance Companies (Public & Other Insurance Companies):**
Registration certificate along with declaration that you are an Insurance company as defined under second proviso to section 194 of the Act.
- b) **Mutual Funds:** Certificate of registration under section 10(23D) of the Act issued by the appropriate authority.
- c) **Category I / Category II Alternative Investment Fund:** Certificate of registration/declaration evidencing that you are a Category I / Category II Alternative Investment Fund, as defined under Section 10(23FBA) and clause (a) of Explanation 1 to Section 115UB of the Act [covered by Notification No. 51/2015 dated June 25, 2015].
- d) **National Pension Scheme Trust:** Registration certificate / declaration that you qualify as NPS Trust for the purpose of section 197A (1E) of the Act, and that your income is eligible for exemption under section 10(44) of the Act.
- e) **Entities unconditionally exempt under section 10:**
Documentary evidence and self-declaration substantiating that you are an entity covered by Circular No. 18 of 2017 issued by the Central Board of Direct Tax and your income is unconditionally exempt under section 10 of the Act and that you are not statutorily required to file return of income under Section 139 of the Act.
- f) **Government:** Documentary evidence and self-declaration that it is a Corporation set up under specific legislation whose income is exempt and can be considered as a „Government“ and qualifies for exemption under section 196 of the Act.
- g) **Where lower/ nil withholding certificate is submitted:** If a shareholder has obtained a lower or nil withholding tax certificate from the tax authorities and provides a copy of the same to the Company, tax shall be deducted on the dividend payable to such shareholder at the rate specified in the said certificate.

3. Is there any limit on the amount of dividend up to which no tax will be withheld in respect of resident shareholders?

- ▶ As stated above, no tax shall be deducted at source on the dividend payable to a **resident Individual** if the total dividend to be received from the Company during a financial year does not exceed Rs. 5,000.
- ▶ It may be noted that there is no such limit provided under the Act for resident non-individual shareholders, and hence the dividend shall be subject to TDS.

4. Is the above rate of 10% or 20% as the case may be, to be increased by surcharge and cess?

- ▶ In case of resident shareholders, the rate of TDS would not be increased by surcharge and cess.

5. I am a resident individual and my dividend receipt is subject to TDS but tax on my estimated total income of the year after including this dividend income will be Nil. Can I request the company not to deduct tax at source and to pay the entire dividend amount without deduction of tax at source?

- ▶ Yes, in such a case you can approach the company for non-deduction of tax at source. You will have to furnish a declaration in Form 15G (applicable to any person other than a company or a firm) / Form 15H (applicable to an individual above the age of 60 years), as the case may be the effect that the tax on his estimated total income of the year after including the dividend income on which tax is to be deducted will be nil.

6. If Form 15G/ Form 15H are submitted online, then whether submitting a physical copy is compulsory?

- ▶ No. If Form 15G/ 15H are duly executed and submitted online, then submission of physical copy is not required.

7. What if I do not submit Form 15G/ Form 15H?

- ▶ In case you do not submit Form 15G or Form 15H, the Company would deduct tax at applicable rates in case your total dividend income from the Company exceeds Rs. 5,000 in a financial year. However, you may file your return of income and claim appropriate refund, if eligible.

8. What is the due date to submit the documents/ declarations mentioned above?

- ▶ The documents/ declarations mentioned above are required to be submitted to the Registrar and Transfer Agent (“RTA”) on or before 23rd August, 2022.

B. Non-resident Shareholders

9. What is the rate of TDS on the dividend declared and paid to non-resident shareholders?

- ▶ For non-resident shareholders, the rate of TDS is 20% (plus applicable surcharge and cess) as per the Act. However, where a non-resident shareholder is eligible to claim benefit under the Double Taxation Avoidance Agreement (DTAA), and the tax rate provided in the respective DTAA is more beneficial than the rate provided in the Act, then the rate as per the

DTAA would be applied. In order to avail the DTAA benefit, non-resident shareholders would be required to submit certain documents as mentioned in **Annexure A**. Kindly note that extending the benefit of DTAA would depend on the completeness of documents submitted and is at the discretion of the Company.

Rate of TDS under section 206AB of the Act are as mentioned at above at Sr. No.2.

10. Is the above rate of 20% (as per the Act) to be increased by surcharge and cess?

- ▶ Yes, in case of non-resident shareholders, the TDS rate of 20% would be increased by applicable surcharge and health & education cess based on the status of the non-resident. However, in case TDS is deducted as per the beneficial rate provided in the DTAA (subject to submission of documents/ declaration), then the rate as prescribed in the DTAA would not be further increased by surcharge and cess.

11. What is the applicable rate of surcharge and cess for non-resident shareholders [including Foreign Institutional Investors (FIIs)/ Foreign Portfolio Investors (FPIs)]?

- ▶ The rate of surcharge depends upon the status of the non-resident and its income.

For non-resident shareholders being foreign companies (including FIIs/ FPIs being companies):

| Dividend income during the financial year | Surcharge Rate | Effective TDS rate (including applicable surcharge and cess) |
|--|-----------------------|---|
| Not exceeding Rs.1,00,00,000 | NIL | 20.80% |
| Exceeding Rs.1,00,00,000 but not exceeding Rs.10,00,00,000 | 2% | 21.216% |
| Exceeding Rs. 10,00,00,000 | 5% | 21.84% |

For non-resident shareholders being firms (including FIIs/ FPIs being firms):

| Dividend income during the financial year | Surcharge Rate | Effective TDS rate (including applicable surcharge and cess) |
|--|-----------------------|---|
| Not exceeding Rs. 1,00,00,000 | NIL | 20.80% |
| Exceeding Rs. 1,00,00,000 | 12% | 23.296% |

For other categories of non-resident shareholders, including FIIs/ FPIs:

| Dividend income during the financial year | Surcharge Rate | Effective TDS rate (including applicable surcharge and cess) |
|---|-----------------------|---|
| Not exceeding Rs. 50,00,000 | NIL | 20.80% |
| Exceeding Rs. 50,00,000 but not exceeding Rs. 1,00,00,000 | 10% | 22.88% |
| Exceeding Rs. 1,00,00,000 | 15% | 23.92% |

- ▶ The rate of health & education cess shall be 4% on the amount of tax liability and applicable surcharge.

12. Is there any limit on the amount of dividend up to which no tax will be withheld in respect of non-resident shareholders?

- ▶ There is no such limit provided under the Act for non-resident shareholders, and hence the entire dividend is subject to TDS.

13. When are the documents for claiming concessional rate benefit under the DTAA required to be submitted?

- ▶ A non-resident wanting to claim benefit of concessional tax rate under the DTAA should submit the documents to the RTA on or before 23rd August, 2022.

Common FAQs – for resident as well as non-resident shareholders:

14. Am I required to update the PAN? If yes, where should it be updated?

- ▶ Yes, shareholders are required to update their PAN. In case the shares are held in demat form, then the PAN needs to be updated with your Depository Participant; and in case shares are held in physical form, then the PAN needs to be updated with RTA.

- ▶ In addition to the above, all shareholders are requested to ensure that the below details are submitted and/or updated, as applicable, in their respective demat account(s) maintained with the Depository participant(s); or in case of shares held in physical form, with the Company / RTA for the purpose of complying with the applicable TDS provisions:
 - a) Residential status as per the Act i.e. Resident or Non-Resident for FY 2022-23;
 - b) Category of the Shareholder, viz. Mutual Fund, Insurance Company, Alternate Investment Fund (AIF) – Category I, II and III, Government (Central/ State Government), FPI/ FII, Foreign Company, Individual, Hindu Undivided Family (HUF), Firm, Limited Liability Partnership (LLP), Association of Persons (AOP), Body of Individuals (BOI) or Artificial Juridical Person, Trust, Domestic Company, etc.;
 - c) Email Address;
 - d) Bank account details; and
 - e) Address (including country).

Kindly note that for the purpose of deduction of tax at source, the Company would be relying on the data shared by RTA. In case the above details are not updated by the record date, then the Company will rely on the details as on the record date, as received from RTA.

15. How can a shareholder know the quantum of tax deducted from his dividend income by the company?

- ▶ To know the quantum of the tax deducted, the Company shall arrange to email the soft copy of the TDS certificate to shareholders at the registered email ID within the prescribed time, post payment of the said dividend, if declared at the AGM. Shareholders can also check Form 26AS from their e-filing account at <https://incometax.gov.in>
- ▶ You can also use the “View Your Tax Credit” facility available at www.incometax.gov.in. Please note the credit in Form 26AS shall be reflected after the TDS statement filed by company on a quarterly basis is processed by the tax authority.

16. Where can I find a consolidated list of documents/ declarations that are required to be submitted by me? What is the due date for submission of these documents/ declarations?

- ▶ A consolidated list of documents/ declarations is provided in **Annexure A**, the documents/ declarations, as applicable to you, are required to be submitted to the Company latest by 23rd August, 2022. Any document/ declaration submitted post 23rd August, 2022 will not be considered by the Company while deducting tax at source.

17. What if TDS is deducted at a higher rate in absence of submission of details/ documents within the prescribed time, viz. up to 23rd August, 2022?

- ▶ In case TDS is deducted at a higher rate in absence of receipt of details/ documents from shareholders by the due date of 23rd August, 2022, the shareholders may consider filing their return of income and claiming an appropriate refund, if eligible.

18. Any other query?

- ▶ In case you have any other queries, please feel free to send those queries to einward.ris@kfintech.com

Disclaimer: The afore-mentioned content is intended to act only as guidance to shareholders and are subject to Income Tax Act, 1961, amended from time to time and other applicable provisions. In case any provisions of applicable laws undergo a modification or replacement, the requirement as set out above shall stand revised in terms of the said amendment. Since the tax consequences are dependent on facts and circumstances of each case, the Shareholders are advised to consult their own tax consultant with respect to specific tax implications arising out of receipt of dividend.

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