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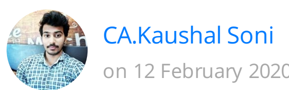
Will scrapping of DDT, encounter Investors or Indian Economy?


CA.Kaushal Soni
on 12 February 2020

Recently the entire world economy is in slow down. IMF also cuts India's growth forecast to 4.8% for 2019 and growth projection improved to 5.8% in 2020. India's $5 Trillion tailspin economy was just about to flip this time.

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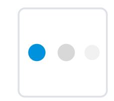
The recent budget has portrayed the concept of "More business, Less tax" ie, less tax burden on business organizations to attract the domestic as well as foreign corporations to set up more businesses in aspiring india which may strengthen our economy.

In budget 2020-2021, Finance Minister, Nirmala Sitaraman proposed to abolish Dividend Distribution Tax on corporates. Earlier, DDT liability was in the hands of corporate at the time of distributing dividend to shareholders. In proposed budget, tax liability has been shifted to recipient of dividend income at normal applicable tax rates ie. Investors.

Even after last year's corporate tax cut, total tax levy of corporate tax at minimum of 25% and DDT at the rate of 20.56% took effectively tax about to 45%. Earlier, foreign shareholders could not be able to claim credit for DDT paid by their Indian businesses. Now, with DDT gone, investors will enjoy claiming credit for all taxes paid including DDT in their home countries.

This step will improve the performance of companies with increase cash profits and hence investor's expectation for required rate of return would be high which would affect valuations of portfolio as investors must reevaluate their investments based on dividend



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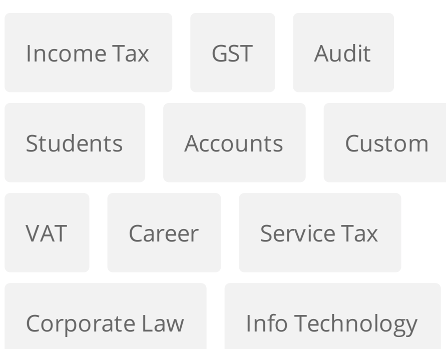


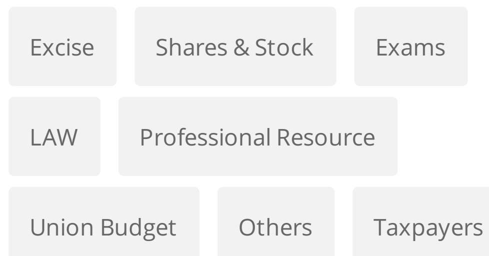
paying and growth stock. Now, company's debt may reduced which will improve leverage and liquidity ratio. Moreover, company will have more surplus available for expansion of projects.

When it comes to domestic investors, they will be losing cash by paying more taxes on dividend as compared to earlier when the tax liability on "specified assessee" under section 115BBDA was more than INR 1 million. Now, on every income of dividend, tax liability will arise. This change will adversely affect many promoters and high net worth individual investors who own shares in companies as their tax burden may shoot up to 43%, while to restructure their holdings to reduce tax outgo, if they hold the stakes through companies or LLPs, it will be much lower than individual capacity. TDS provision on dividend income in excess of INR 5000 may badly hit working capital or opportunity cost.

Further, this will benefit taxpayers who are in 10% tax bracket as net cash flow in their hands will go up whereas for taxpayers in 20% tax bracket it will be neutral. But, taxpayers in 30% tax bracket will end up paying more tax to exchequer.

This change highly in favor of foreign investors who invest in shares or units of mutual funds in India. To attract more foreign investments, tax rate is kept at 20% subject to availability of treaty benefits between countries. Subsequently, more foreign exchange fund will come to india from FPIs for investment purpose because now they are empowered to pay less tax in proposed budget. This move can gradually appreciate indian currency in value and maintain currency demand-supply in foreign exchange markets.

Today, most crucial task for the government is to boost Indian economy and the proposed budget walks towards the direction of "More consumption, Less saving". More people spending will reduce interest rates , increase demand and supply functions for the manufacturing of products which will create more jobs and ultimately come out of deflation or stagflation.



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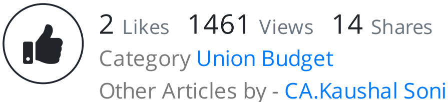

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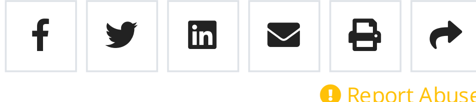

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What is the effect of DDT withdrawal on dividend income (from listed shares) of NRI individual investing through PIS & non-PIS (NRO) accounts?

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Taxability in the hands of NRI recipient at normal applicable tax rates on dividend income arise in india.

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Dividend income for NRI will be taxable at 20% & no TDS Where the dividend is received from GDRs of Indian company or public sector company purchased in foreign currency tax shall be charged at 10% without TDS Non-residents can avail of DTAA https://t.co/7Un8fbc89Q The article indicates 20% tax. Can you please elaborate on this.

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DDT was cutting benifit either the beneficiary below from tax liability or above

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