Dividend, Inter Corporate & Bonus Share.

Dividend and Bonus share issue is also important from tax point of view for companies & shareholders.

1) Dividends from domestic companies
Shareholders of companies receive income on shares. It is called dividend

→ Dividend paid or declared by Indian company is an exempted income in the hands of shareholders

→ So, now dividend is not taxable.
For the assessment year 2015-16 the following points should be kept in view from taxation point of view.

(i) Dividend from domestic Company Sec 10(34)
Dividend recd from domestic company is exempted from tax for shareholders. So it will not be included in computation of income from other sources.

(ii) Payment of tax from paying company (Sec 115O to 115Q)
Though the dividend is exempt for shareholders, but the paying company is liable to pay tax on such amount.

If domestic company declares or pays any dividend during the previous year, it will liable to pay tax 15% + surcharge 12% and 4% Health education cess thereon for (ie) gross rate of dividend tax is as follows :-

Effective gross rate 20.5553% on dividend declared or distributed

3) Collection charges & Interest is not allowed
 - dividend is exempt from tax, therefore no deduction will be allowed in respect of collection charges & interest on loan taken for purchasing shares.

4) No tax deduction at Source
 The paying company will not deduct tax at source in respect of dividend paid

5) Some dividend are taxable
 The following dividend income are taxable for receiver.
 (a) Dividend recd from a non-domestic company or foreign company.
 (b) Dividend recd from co-operative society.

(4) Income from UTI or other mutual funds units

Any income by the way of dividend or otherwise on units of UTI or other mutual fund is exempt from tax for receiver.

However the Unit trust of India or Mutual fund shall be liable to pay tax @ 15% + surcharge 12% (w.e.f 1.4.15 @ 12%) and education cess @ 4% thereon in respect of such payment.

So income from Units is not taxable and will not be included under the head income from other sources.

(5) Inter Corporate Dividend.
When a company invest in funds in another company's shares & gets dividend on such shares it will be exempt for receiver company

In other words shareholders company shall not be liable to pay dividend recd on its holding in other companies

On the other hand dividend paying company shall be liable to pay dividend tax u/s 115-O at the following manner:

Normal rate of dividend tax on dividend distributed - 15%. (15/100-15)
(+) Surcharge @ 12%. (w.e.f 1.4.15 @ 12%.) on tax calculated as above.
(+) 4% education cess on aggregate amount of dividend tax on surcharge thereon (12%)
Effective dividend tax rate is 20.553%.

Bonus Share

Bonus shares mean shares allotted by a company to its existing shareholders without any consideration.

The following provision is applicable regarding bonus shares -
" In relation to the financial asset (bonus share) allotted to the assessee without any payment & on the basis of holding of any other financial assets, shall be taken to be nil in case of such assessee".

The impact of above amendment will be as under -

(a) Original shares and bonus shares acquired before 1.4.2001

If the original shares and bonus shares both are acquired by the assessee before 1.4.2001 & transferred during the previous year, the cost of acquisition will be taken -

(i) Actual cost of original shares or market value on 1.4.2001, whichever is higher

(ii) In the case of bonus shares - market value on 1.4.2001

Eg: Mr. Baldeva bought 500 shares of Tata Steels Ltd @ Rs 40 on 1st Jan 1998. Thereafter company alloted bonus share was Rs 60. In this situation cost of acquisation of original shares & bonus shares will be taken @ Rs 60.

(b) Original share acquired before 1.4.2001 & bonus shares acquired after 31.3.2001

→ In this situation cost of acquisation after 31.3.2001

→ Original shares - Actual cost or fair market value on 1.4.2001, whichever is higher

Bonus Share - NIL

Example : Mrs Mamta Parmar purchased 1000 shares of Colgate Ltd on 1.4.95 @ Rs 50. Fair market value of the share was Rs 45 each on 1.4.2001. The company alloted bonus share in the ratio 1:1 cost of acquisation will be.

(i) Original Share - Actual Cost Rs 50

or

Fair market value on 1.4.2001 Rs 45 whichever is higher, Rs 50.

(ii) Bonus Share - NIL

Original Share & bonus share both are acquired after 31.3.2001

In this situation cost of acquisation will be

(i) Original shares - Actual Cost.

(ii) Bonus Share - NIL

Example : Mr. Sharad Kasliwal purchased 2000 shares of Reliance Industries Ltd on 1.8.2003 @ Rs 48. The company alloted him bonus shares in the ratio of 2:5 on 1st June 2009. Cost of acquisation will be

(i) Original Shares - Actual Cost Rs 48 per share

(ii) Bonus Shares - NIL.