7. Dividend Distribution Tax (DDT)

Prelims Level: Budget

Mains Level: GS-III Government Budgeting.

Why in News?

- Finance Minister announced abolition of DDT to be paid by companies in her budget speech.

DDT:

- A dividend is a return given by a company to its shareholders out of the profits earned by the company in a particular year.
- Dividend constitutes income in the hands of the shareholders which ideally should be subject to income tax.
- However, the income tax laws in India provide for an exemption of the dividend income received from Indian companies by the investors by levying a tax called the DDT on the company paying the dividend.

Who were required paid DDT?

- Any Domestic Company which is declaring/distributing dividend is required to pay DDT at the rate of 15% on the gross amount of dividend as mandated under Section 115O of the Income Tax Act.
- DDT was also applicable on Mutual Funds.

IAS GATEWAYY

Why it is Scrapped?

- Every MNE investing in India is faced with the question of tax-efficient repatriation of profits that accumulate here.
- The dividend that the holding company would receive would have already suffered substantial tax in India, although indirectly.
- The foreign company would normally be required to pay tax on the dividend so received in its home jurisdiction.
- sDDT being a tax in the Indian company and the foreign company not paying taxes directly on such Dividend Income in India, it would not be able to claim foreign tax credit in its Home Jurisdiction.
- This resulted in a double whammy for foreign companies as, at a group level, they suffered Double Taxation.