

FAQ'S - 'TAXATION ON DIVIDEND DISTRIBUTION'

1. Tax Deducted at Source (TDS) applicable to a resident individual shareholder with valid PAN:

- In accordance with the provisions of the Income Tax Act, 1961 (**'the Act'**) as amended by Finance Act 2020, with effect from April 1, 2020, the dividend income is taxable in the hands of shareholders. Accordingly, if any resident individual shareholder is in receipt of dividend exceeding Rs. 5,000 in a fiscal year, entire dividend will be subject to TDS @ 10%. The rate of 10% is applicable provided the shareholder has updated his/her Permanent Account Number (**'PAN'**) with the Depository/ Link Intime India Private Limited, Registrar and Transfer Agent (**'RTA'**) of the Company. Where PAN of shareholder is not available/ not updated with the Depository/ RTA or PAN provided by shareholder is invalid, then the rate TDS rate will be 20% as per section 206AA of the Act.
- If the dividend to a resident individual shareholder does not exceed Rs. 5,000 in financial year (**'FY'**) 2021-22, then there would be no TDS.
- Further, there would be no TDS in the cases where the shareholder provide valid Form 15G (for an individual who age is less than 60 years, with no tax liability on total income and income not exceeding maximum amount which is not chargeable to tax) or Form 15H (for individual above the age of 60 years with no tax liability on total income). Accordingly, if the resident individual shareholder provides declaration in Form 15G/ Form 15H, no TDS would be deducted.

2. TDS applicable to a resident individual shareholder without or invalid PAN:

- If the resident individual shareholder has not updated the PAN or has provided an invalid PAN to the depository/ RTA, then TDS rate will be 20%.

3. TDS applicable to a resident non-individual shareholder (HUF, Firm, AOP, BOI, Company):

- The entire dividend will be subject to TDS for non-individual resident shareholders without any threshold limit. The tax deduction rate will be 10% provided a valid PAN is updated with the company or the depository/ RTA. In all other cases, the TDS rate will be 20% as per section 206AA.

4. TDS applicable to Foreign Institutional Investors (FIIs) and Foreign Portfolio Investors (FPIs):

- TDS shall be 20% (plus applicable surcharge which is based on the status of the non-resident and health & education cess of 4%) on dividend paid to Foreign Institutional Investors (**'FIIs'**) and Foreign Portfolio Investors (**'FPIs'**) in view of specific provision under section 196D of the Act.
- However, as per Section 90 read with Section 196D of the IT Act, FPIs and FIIs have the option to be governed by the provisions of the Double Tax Avoidance Agreement (**'DTAA'**), read with Multilateral Instrument (**'MLI'**) between India and the country of tax residence of the

shareholder, if they are more beneficial to them. For this purpose, i.e. to avail the benefits under the DTAA read with MLI, FPIs/ FIIs will have to provide the following:

- Self-attested copy of PAN card allotted by the Indian income tax authorities or details as prescribed under rule 37BC of Income-tax Rules, 1962 in case PAN is not available.
- Copy of Tax Residency Certificate (in English language) for FY 2021-22 obtained from the revenue authorities of the country of tax residence.
- Self-declaration in Form 10F.
- Self-declaration for FY 2021-22 (covering the period from April 1, 2021 to March 31, 2022) on shareholder's letterhead, primarily (not exclusive list) covering the following:
 - Shareholder is eligible to claim the benefit of respective tax treaty;
 - Shareholder receiving the dividend income is the beneficial owner of such income;
 - Dividend income is not attributable/effectively connected to any Permanent Establishment ('PE') or Fixed Base in India.
- Please note that there is no threshold provided for which no tax will be withheld. Entire dividend is subject to withholding of tax.

5. Deduction of Tax at Higher rates in case of non-filers of returns (Section 206AB)

- With effective from July 1, 2021, section 206AB would be applicable. Section 206AB provides that the tax shall be deducted at the higher rates as provided under this section and also mentioned below, if the following conditions are satisfied:
 - A. Deductee (shareholder) has not filed the return of income for 2 assessment years relevant to the previous years immediately prior to the previous year in which tax is required to be deducted.
 - B. The due date to file such return of income, as prescribed under section 139(1), has expired; and
 - C. The aggregate amount of tax deducted and collected at source is Rs. 50,000/- or more in each of these 2 previous years.

Rate of TDS:

The tax shall be deducted at the higher of the following rates:

- A. Twice the rate specified in relevant provision of the Act (Rate specified u/s 194 is 10%.
- B. Twice the rate or rates in force; or
- C. 5%.

As per the above, for Resident shareholders who have not filed the return of income for FY 2019-20 and FY 2018-19 and whose total TDS/ TCS during these years exceed Rs. 50,000, TDS will be done at 20%.

Where sections 206AA¹ and 206AB are applicable i.e., the specified person has not submitted the PAN as well as not filed the return; the tax shall be deducted at the higher of the two rates prescribed in these two sections.

The non-resident who does not have the permanent establishment is excluded from the scope of a specified person.

In this regard, the Company will use the online utility provided by Central Board of Direct Taxes ('CBDT') "**Compliance Check for Sections 206AB and 206CCA**". Refer **Circular No. 11 of 2021** issued by CBDT in this regard.

In case, a person fulfils the conditions of being a '**specified person**' as per the CBDT online utility, then tax will be deducted at higher rate as discussed above.

6. Benefit under Rule 37BA:

- In case where shares are held by intermediaries/ stock brokers and TDS is to be applied by the Company in the PAN of the beneficial shareholders, then intermediaries/ stock brokers will have to provide the details of such beneficial shareholders along with self-declaration that the shareholders are the beneficial owners and hence the TDS to be credited to beneficiary PAN.

7. TDS applicable to non-resident shareholders:

For non-resident shareholders, the rate of withholding tax is 20% (plus applicable surcharge and cess) as per Indian Income- tax Act, 1961. However, where a non-resident shareholder is eligible to claim the tax treaty benefit, and the tax rate provided in the respective tax treaty is beneficial to the shareholder, then the rate as per the tax treaty would be applicable subject to the submission of requisite documents. In order to avail the tax treaty benefits, non-resident shareholders would be required to submit **ALL the below** documents to the Company at its email id at cs@indiamart.com:

- Self-attested copy of PAN card allotted by the Indian income tax authorities or details as prescribed under rule 37BC of Income-tax Rules, 1962 in case PAN is not available.
- Copy of Tax Residency Certificate (in English language) for financial year 2021-22 obtained from the revenue authorities of the country of tax residence.
- Self-declaration in Form 10F.
- Self-declaration for FY 2021-22 (covering the period from 01 April 2021 to 31 March 2022) on shareholder's letterhead, primarily (not exclusive list) covering the following:
 - Shareholder is eligible to claim the benefit of respective tax treaty
 - Shareholder receiving the dividend income is the beneficial owner of such income
 - Dividend income is not attributable/effectively connected to any Permanent Establishment (PE) or Fixed Base in India.

¹ Rate of tax deduction under section 206AA is 20%

Please note that the Company is not obligated to apply the beneficial DTAA rates at the time of tax deduction/withholding on the dividend amount. Application of beneficial DTAA Rate shall depend upon the completeness and satisfactory review by the Company, of the documents submitted by the non- resident shareholder.

If the documents are not provided or are insufficient to apply the beneficial DTAA rates, then tax will be deducted at 20% including applicable surcharge and cess @ 4%.

Rates of surcharge for non-resident individuals, HUF, AOP, BOI:

Dividend Amount	Rate of Surcharge
Above Rs. 50 Lacs but not exceeding Rs. 1 Crore	10%
Above Rs. 1 Crore	15%

Rates of surcharge for non-resident companies:

Dividend Amount	Rate of Surcharge
Above Rs. 1 Crore but not exceeding Rs. 10 Crores	2%
Above Rs. 10 Crores	5%

8. TDS Non-Applicability:

- Mutual Funds: Certificate of registration under section 10(23D) of the Act issued by the appropriate authority
- 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.
- TDS applicable on Category I / Category II Alternative Investment Fund:
TDS is not applicable if 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].
- 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.
- 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.

- 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.
- 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.

9. Update of PAN:

Members holding shares in Demat form are required to update their PAN details with the Depository.

10. Timeline to submit the documents:

All the relevant documents should be emailed to the Company at cs@indiamart.com on or before August 31, 2021. Failure to do so, will attract higher TDS rates as mentioned in the above paragraphs.

11. Information on tax deducted:

Shareholders can check Form 26AS from their e-filing accounts at <https://incometaxindiaefiling.gov.in>.

Shareholders can also use the "View Your Tax Credit" facility available at www.incometaxindia.gov.in. Please note, the credit in Form 26AS would be reflected after the TDS Return is filed on a quarterly basis by the Company, and the same is processed by the Income-tax department.

13. Other relevant information:

- Shareholders may note that all documents to be submitted are required to be self-attested (the documents should be signed by shareholder/authorised signatory stating the document to be "certified true copy of the original"). In case of ambiguous, incomplete or conflicting information, or the valid information/documents not being provided, tax at the maximum applicable rate will be deducted.
- In case of any discrepancy in documents submitted by the shareholder, the company reserves the right to deduct tax at higher rate as applicable, without any further communication in this regard.
- Shareholders who are required to link Aadhar number with PAN as required under section 139AA(2) read with Rule 114AAA, should compulsorily link the same by **30 September 2021** (due date extended from 30 June 2021 to 30 September 2021 vide Notification No. 74 of 2021). In case, remittance of dividend by the Company would be made post 30 September 2021 and any PAN is found to have not been linked with Aadhar by 30 September 2021, then such PAN will be deemed invalid and TDS would be deducted at higher rates under section 206AA of the Act.

In this regard, the Company will use the online utility provided by Central Board of Direct Taxes ('CBDT') "Compliance Check for Sections 206AB and 206CCA" to check linking of Aadhar number with PAN. Refer FAQs issued by Directorate of Income Tax (Systems) for "Compliance Check for Sections 206AB and 206CCA" in this regard.

- Determination of withholding tax rate is subject to necessary verification by the Company of the shareholder details as available with the Depository Participant in case shares are held in dematerialized form; or RTA in case shares are held in physical form, as on the Record Date and other documents available with the Company/ RTA. Shareholders holding shares under multiple accounts under different residential status/ category and single PAN, may note that, higher of the tax rate as applicable to different residential status/ category will be considered for their entire shareholding under different accounts.
- Further, if the PAN is not as per the database of the Income-tax Portal, it would be considered an invalid PAN.
- In the event of a mismatch in the category of shareholder (individual, company, trust, partnership, local authority, Government, Association of Persons etc.) as per the register of members and as per fourth letter of PAN (10 digit alpha-numeric number), the Company would consider fourth letter of PAN for determining the category of shareholders and the applicable tax rate/ surcharge/ education cess.
- Shareholders may note that in case the tax on said dividend is deducted at a higher rate in absence of receipt, or insufficiency of the aforementioned details/documents from you, an option is available to you to file the return of income as per Income Tax Act, 1961 and claim an appropriate refund, if eligible.
- In the event of any income tax demand (including interest, penalty, etc.) arising from any misrepresentation, inaccuracy or omission of information provided by the shareholder, the shareholder will be responsible to indemnify the Company and also, provide the Company with all information / documents and co-operation in any tax proceedings.

14. Your queries:

Please send your queries if any to cs@indiamart.com.