I. Taxation Of Dividend Income W.E.F. 1st April, 2020 - For Individual And HUF Taxpayers

Income Tax provisions on Taxability of Dividend Income

Background: Up to A.Y 2020-21, dividend from an Indian company, was not be liable to tax u/s 10(34) of the Income Tax Act, 1961. Consequently the domestic company was liable to pay a Dividend Distribution Tax (DDT) under section 115-O.

Tax implications in the hands of Individual/HUF w.e.f 1.4.2020:
Dividend income earned by resident shareholders being individuals and HUFs will now be taxable at the slab rates applicable to them.

For a shareholder being an individual or HUF whose total income exceeds INR 1 crores, dividend income will be taxable at a maximum effective rate of 35.88% (inclusive of surcharge and cess).

The maximum surcharge on tax on dividends would be restricted to 15%.

Tax deducted at source on Dividend Income
Domestic companies will have to deduct tax under section 194 before payment of dividends. This results in **10%** (no surcharge and cess) TDS from dividend distributed/declared/paid to the resident shareholders during the financial year if it **exceeds Rs. 5,000.**

In respect of resident shareholders who have not given their **Permanent Account Number**, the company will deduct tax at **20%** (no surcharge and cess).

In respect of Non resident shareholders, tax will be deducted at the rate of **20%+ surcharge and cess as applicable (Maximum surcharge restricted to 15%)** (Subject to provision of DTAA).

Summary of TDS rate applicable on payments of Dividend on Non-Resident Individuals/HUF

Category of Dividend Recipient	Dividend less than ₹ 50 lakhs	Dividend more than ₹ 50 lakhs but less than ₹ 1 crore	Dividend more than ₹ 1 crore but less than ₹ 10 crores	Dividend more than ₹ 10 crores
Non Resident Indian	20.80%	22.88%	23.92%**	23.92%**

** TDS rate is the same since the maximum surcharge on tax on dividends would be restricted to 15%.

Dividend received by shareholders on or after 1st April 2020, on which DDT is already paid, will not be included in the income of the shareholder.

Summary:

FY in which dividend declared, distributed or payment	Receipt of Dividend in the hands of the shareholder	Taxability in the hands of the shareholder
FY 2019-2020 or earlier	Before 31.03.2020	Exempt u/s 10(34)
FY 2019-2020 or earlier	After 31.03.2020 (1.4.2020 onwards)	Taxable in the hands of the shareholder unless proved by the shareholder by way of dividend warrant that dividend is for FY 2019-2020.
FY 2020-2021	Before 31.03.2021	Taxable in the hands of shareholder in FY 2020-21. Claim TDS if deducted.
2020-2021	After 31.03.2021 i.e. in FY 2021-2022	Taxable in the hands of shareholder in FY 20-21 if received. Claim TDS if deducted. **OR** Taxable in the hands of shareholder in FY 21-22 if not received in FY 20-21. Carry forward TDS deducted in FY 20-21 to ITR of FY 21-22. *This will also depend on the method of accounting followed by the assessee.

Advance Tax Liability on Dividend

While computing advance tax from 1.4.2020, the taxpayer will need to consider dividend income in the total taxable in income.

Section 234C which is interest on late/short payment of quarterly advance tax shall not be applicable to any shortfalls in the instalments of advance tax where such shortfall is on account of under-estimate or failure of estimation dividend.

II. New Tax Regime Vs Old Tax Regime For Computation Of Tax Slab Rates W.E.F 1st April, 2020

Following are the Income Tax Rates under both the regimes:

Income tax rate slabs (INR)	**Old Regime**	**New Regime**
Up to 2.5 lakh	Nil	Nil
2.5-5 lakh	5%	5%
5-7.5 lakh	20%	10%
7.5-10 lakh	20%	15%
12-12.5 lakh	30%	20%
12.5-15 lakh	30%	25%
Above 15 lakh	30%	30%

(Note: The above rates are subject to surcharge and cess, as applicable)

- The assessee can choose between the New Tax Regime and the Old Tax Regime depending on the taxable income and computed taxes along with filing of return of income.
- The taxpayer who is not earning Income from Business and Profession (PGBP) is free to opt for any tax regime year on year basis.
- For the taxpayer earning Income from PGBP can exercise the option to OPT IN for new tax regime.
- BUT such a taxpayer can only OPT OUT of the new tax regime once in lifetime and go back to the old tax regime until he ceases to have any Income from PGBP.
- There is NO separate higher threshold for senior and very senior citizens in the new tax regime. Surcharge and cess have remained unchanged.
- If the taxpayer does not opt for the new scheme, he will continue to be governed by the old tax regime.
- Rebate under section 87A is available upto net taxable income of INR 5 lakhs.