

GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
LOK SABHA

UNSTARRED QUESTION NO. 3647

TO BE ANSWERED ON MONDAY 16TH MARCH, 2020 PHALGUNA 26, 1941 (SAKA)

REINTRODUCTION OF CLASSICAL TAX SYSTEM

3647. SHRI T.R. BAALU:

Will the Minister of FINANCE be pleased to state:

- (a) whether it is true that considering the fact that the reduction in corporation taxes partially addresses the issue of high cost of capital, the Government is planning to reintroduce the classical tax system, where income tax is levied separately on company income and on dividends received by shareholders;
- (b) if so, the details thereof and if not, the reasons therefor;
- (c) whether the Government is planning to create an integrated e-portal to capture all pending payments by the Central and State Governments and CPSE/SPSEs to all industries; and
- (d) if so, the details thereof?

ANSWER

THE MINISTER OF STATE IN MINISTRY OF FINANCE
(SHRI ANURAG SINGH THAKUR)

(a) and (b): India has always followed classical system of taxation. However, for ease of collecting taxes and to reduce compliance burden on companies in issuing several tax deduction certificates, it was decided to follow Dividend Distribution Tax (DDT) system of taxation so that the tax is collected at one place at the level of the company.

2. The Finance Bill, 2020, *inter-alia*, has proposed to amend the Income tax Act, 1961 (the Act) so as to provide that, DDT shall not apply on any amount declared, distributed or paid after 31st March, 2020 by way of dividends by domestic companies or income distributed by specified company or mutual funds to the shareholders or unit holders respectively. The dividend income or income from units will now be taxable in the hands of shareholders or unit holders at the applicable rate.

3. In order to achieve the above, it has been proposed to, -

- (i) amend section 115-O and clause (34) of section 10 to provide that DDT will be applicable only on dividend declared, distributed or paid after 1st April, 2003, but on or before 31st March, 2020 and dividend received on or after 1st April, 2020 will be taxed in the hands of the shareholder respectively.

(ii) amend section 115R and clause (35) of section 10 to provide that tax on income distributed by specified companies or mutual funds to its unit holder shall be applicable only on the income distributed on or before 31st March, 2020 and income, in respect of units, received on or after 1st April, 2020 will be taxed in the hands of the unit holders of mutual funds or specified companies respectively.

(iii) insert new section 80M in order to remove the cascading effect of imposition of tax on dividend on same profits by providing that where a domestic company declares dividend, out of dividend received from another domestic company, it shall be eligible to claim a deduction.

4. In addition to the above, consequential amendments to other related provisions of the Act have also been proposed.

(c) and (d): The Department of Public Enterprise (DPE), Ministry of Heavy Industries and Public Enterprises is the nodal department for all Central Public Sector Enterprises (CPSEs) and formulates broad policy guidelines pertaining to CPSEs. In order to ensure that there is no delay in the payment to the Medium and Small Enterprise vendors of the CPSEs, DPE has been issuing instructions to the CPSEs to make the payment as per the Micro, Small and Medium Enterprises Development Act, 2006 through online mode.

II. Further, there is no proposal to create an integrated e-portal to capture all pending payments by the Central and State Government and CPSE/SPSEs to all industries.
