Indian Individual Equity Holders' divIdends from Domestic Companies

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Abstract - This research compares business group-affiliated enterprises with independent firms on the National Stock Exchange (NSE) in India from 1995 to 2022 and analyses the factors that influence two key dividend policy decisions. Linked businesses are bigger, more lucrative, and better leveraged than the non-associated businesses. Based on the data, it seems that related businesses make different dividend policy choices than non-associated businesses. Dividend income is subject to taxation in India under the umbrella of "other sources" since the passage of the Income Tax Act, 1961. There has been a lot of upheaval in how dividend income is taxed because of all the changes that have been made over the years. Dividends are now taxed differently. U.S.-based firms that paid dividends to their shareholders, either recently or in the prior year, were also subject to a dividend distribution tax. However, after the distribution, the recipient's shares are once again taxable. Dividend recipients and the companies that pay them would have been severely impacted by this action. This study analyses the tax consequences for owners of domestic equity shares of firms paying dividends from 1997 through 2022. Stock or mutual fund shares are used to provide dividends to shareholders. There are dividends paid out on a large portion of their stock and mutual fund holdings. That's why many of you are anxious about having to pay taxes on your investment gains. Therefore, we need to learn more about how dividends are taxed. When a corporation pays out a significant portion of its profits to its shareholders on a consistent basis, its stock is considered a dividend stock. Huge, profitable corporations sometimes attempt declaring large dividends when they anticipate their stock prices remaining flat. This satisfies existing shareholders and draws new ones, driving up the stock price. There are two types of dividend payments that some firms make: annual dividends and quarterly dividends. Consequently, if a company has a history of announcing large dividends, you should buy its stock upon hearing of an impending dividend announcement because you will not only receive the dividend ("by simply paying the share price during the purchase"), but you will also likely benefit from capital appreciation in the near future. Last but not least, dividends are an indication of financial health and growth for a corporation.

Keywords - Dividend, Dividend Distribution Tax, Dividend Tax, Individual, Equity Shareholders

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INTRODUCTION

Profits from a company's equity and/or preference shareholders are often considered dividends in common terminology. It's also known as "passive income" or "unearned money," since it doesn't need any labour on the part of the recipient. In order to receive a strong dividend yield from a firm, one must put in a lot of work, or at least seek the assistance of an expert, to comprehend the company's financials. Taxing dividends has always been a priority for legislators due to the ease with which it may be earned as well as their worry about how the earnings dispersed ultimately end up being used. In India, dividends have been taxed in a variety of ways throughout the years.Solitary dividends on equity shares received by individual shareholders from domestic firms, starting in 1997, are examined in this research, since this was the time when India's corporate taxes underwent considerable reforms, and dividend taxation was also influenced greatly as a result of these reforms.To file a tax return, you may be unclear of how to account for dividend income. Is dividend income subject to taxation?The taxability of dividend income was transferred from the hands of the firm that declared the dividend to the individual investors under the Finance Act 2020.We'll look at the new and old tax provisions on 'dividend income,' as well as the ramifications for taxpayers, in this post.A dividend from a company in IndiaNow that the dividend distribution tax has been abolished, investors have more control over whether their dividend income is taxable or not.Dividend taxation under the old and new provisions.

REVIEW OF LITERATURE

There is not a huge body of research available on how various corporate structures affect a company's dividend policy choices.. When compared to managers of US corporations and independent Japanese enterprises, keiretsu company managers are more likely to commence and omit dividends, as well as make changes to payouts, more often. In their research, Faccio, Lang, and Young (2001) discover that Western European companies with business-group ties pay much bigger dividends than their East Asian counterparts. Companies with control linkages comprising at least 20% of the control rights pay considerably larger dividends since they are considered to be "tightly associated" with a corporate group. In addition, dividend responsiveness is better in nations with weak legal frameworks. According to research by Dr Naveen Prasadula, (2022), when sales fall the next year, a company linked with a business group is less likely to provide dividends if its insider ownership is high. This suggests that the insiders are engaging in opportunistic behaviour by keeping funds in the company even if future performance is not expected to improve whereas the business group-affiliated firms tend to smooth their dividend payments more than those of the standalone firms. When we look at the literature on this topic, we discover at least three holes in our understanding of how various company structures affect dividend policy choices. The choice to pay dividends is influenced positively by group equity and negatively by group debt in all businesses, but the most in poorly aligned enterprises. Strongly linked enterprises are more likely to pay dividends when group sales rise, whereas the dividend payment choice is solely influenced by the strength of group shareholdings for the least aligned firms.

DISCUSSION AND ANALYSIS

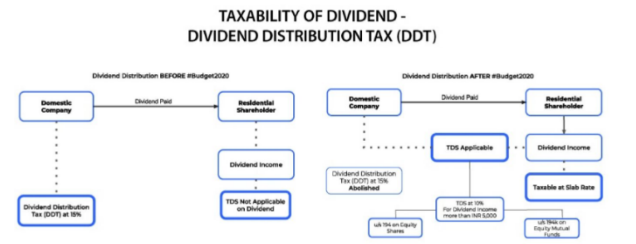
Until March 31, 2022, dividends received from an Indian corporation were tax-free (FY 2019-20). Payout tax had already been paid before payment was made by the corporation reporting such a dividend.A new system of dividend taxation was introduced in 2022 by the Finance Act of that year. All dividends received after April 1, 2020, will be taxed in the investor's/account. Shareholder's Companies and mutual funds are no longer held liable for DDT. Additionally, the 10% dividend tax on dividends received by residents of India, HUFs, and enterprises above Rs 10 lakh (Section 115BBDA) has been abolished. Dr Naveen Prasadula. MSC (I.T), MBA, PHD (2021) Department of Business Management Osmania University Explained his study analysis on Dividends are paid out to investors.Amendments to Section 115-O (income tax) were made on June 1, 2000 under Finance Act 2000, which increased the DDT rate from 10 percent to 20 percent. He suggested to boost DDT rates in his budget statement on February 29, 2000, in an effort to reduce the disparity in tax rates between interest and dividends and to counter the criticism that had been levelled against it.On June 1, 2001, The Finance Act, 2001 reduced the DDT rate from 15% to 10% by amending Division 115 - O. Yashwant Sinha, the Honourable Finance Minister at the time, indicated in his budget address on February 28, 2001 that this measure was done to give our country's stock market a boost.The "rapport of Section 115-O of the Income Tax Act, 1961" were once again altered by the Finance Act, 2002, effective April 1, 2003, and this section was no longer applicable for the fiscal year beginning on April 1, 2002. That year, then-Finance Minister Yashwant Sinha made a statement in his budget address declaring that the issue of dividend taxes had been worrying him during his term as Finance Minister and that he was ultimately persuaded that the current system of dividend taxation ought to be eliminated. As a result, he repealed the Income Tax Act of 1961's Section 115-O, removing the dividend income exemption and imposing tax on it directly on the recipient shareholders. Since the current dividend taxation system allows taxpayers in higher tax bands to deduct their dividend income and only tax such dividend income at a 10% rate under "the terms of Section 115-O of the Income Tax Act, 1961", he believed that it created unfairness. On February 28, 2003, Shri Jaswant Singh, India's then-honourable finance minister, proposed amending "Section 10 (34) of the Income Tax Act, 1961 to exempt dividends paid to shareholders" and to restore investor confidence in the equity and debt markets to encourage investment in India's industrial sector, improve equity and debt markets, and bring back retail investors to the market. As a result, domestic corporations were compelled to pay DDT @ 12.50 percent on the amount of dividends declared, distributed, or paid out of their accumulated or current earnings under the Finance Act, 2003, which took effect on April 1, 2003. As of April 1, 2004, the Finance Act 2003 changed Section 80L of the 1961 Income Tax Act, effectively eliminating the deduction for dividend income received by individual shareholders from the tax bill. As of April 1, 2004, the Finance Act 2003 changed Section 80L of the 1961 Income Tax Act, effectively eliminating the deduction for dividend income received by individual shareholders from the tax bill.There was a recommendation in the 2007 budget statement by Shri P. Chidambaram, the then Honourable Finance Minister, to raise DDT rates according to individual ability to pay while also encouraging vertical equity. To address this issue, then Finance Minister Shri Arun Jaitley suggested that dividends should be taxed on the total amount received by shareholders, while domestic corporations should be taxed only on the amount of dividends received after taxes, in his budget speech on July 10, 2014. That discrepancy might be eliminated by following this advice.

Consequently, the corporations had to do new DDT calculations, as seen in the diagram below:

Pre Amendment: -	Post Amendment: -
Dividend Declared = Rs. 500	Dividend Declared = Rs. 500
DDT Computation: - DDT @ 15% of Rs. 500 = Rs. 75 + Surchargeand Cess, as applicable	DDT Computation: - Now Rs. 500 is considered as the amount of dividend net of taxes, meaningthereby, amount of dividend after deducting DDT @ 15%. Hence, Rs. 500 is the amount at 85%. DDT of 15% has to be applicable on the gross amountof dividend declared i.e., 100% and not the net amount i.e., 85%. Hence, the first step is to convert the amount of dividend net of taxes to gross amount: Rs. 500 / (100-15%) = Rs. 588 approximately Now, the second step is to compute DDT on this gross amount of dividend: DDT @ 15% of Rs. 588 = Rs. 88 approximately + Surcharge and Cess, as applicable

In his budget address on February 29, 2016, then-Honourable Finance Minister Shri Arun Jaitley said that the current system of taxes on dividends applied consistently to all investors, regardless of their income and the tax rates applicable to them. This resulted in a distortion of the tax system's fairness and progressivity. He went on to say that those with substantially higher incomes might shoulder a greater portion of the tax burden.Those shareholders who received dividends totaling more than Rs. 10 lakhs in a financial year from domestic enterprises were now compelled to pay a 10% income tax on the excess payouts.

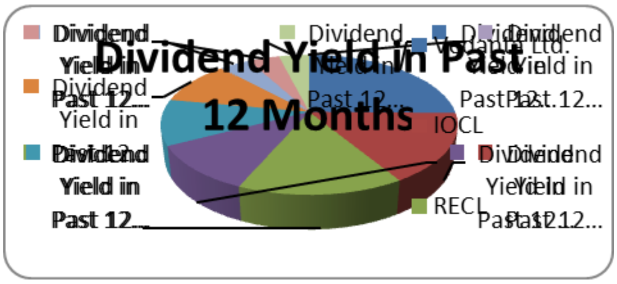
Honourable Finance Minister, Shrimati Nirmala Sitharaman's budget address on February 1, 2020, said that DDT raised the tax burden on those in lower tax bands. She also claimed that international investors' returns on equities in India were lowered since they couldn't claim credit for DDT in their home countries. As a result, she suggested deleting this provision and implementing taxation of dividends as a percentage of shareholders' tax rates, which would boost the attractiveness of the stock market in India and give some relief to a large majority of investors. However, if dividends are given in any form other than cash and the total amount of dividends to be paid to the shareholder does not exceed Rs. 5,000, no tax is needed to be deducted. From 1997 through 2020, the following flowchart depicts how dividends paid by domestic corporations to their individual equity owners would be taxed:



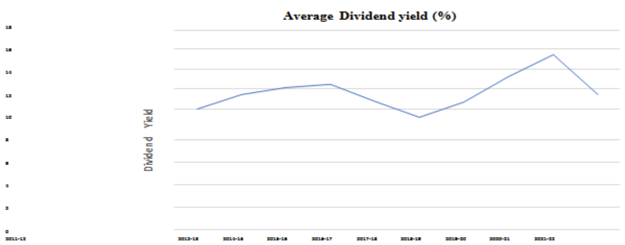
Dividends paid out by corporations and mutual funds on or after April 1, 2020 will be subject to a TDS under the Finance Act, 2020.TDS is imposed at a rate of 10% on dividends received from a corporation or mutual fund that are more than Rs 5,000. Government cut TDS rate to 7.5% for distribution from May 14, 2020 to March 31, 2021, however, in response to the COVID-19 crisis.When the person files their ITR, the tax savings will be used as a credit against their overall tax obligation.On June 15, 2020, and for example, Mr. Ravi got a dividend of Rs 6,000 from an Indian firm. A TDS @7.5 percent would be deducted from his dividend income of Rs 450 since his dividend income is more than Rs 5,000. Mr. Ravi will get Rs 5,550 in the form of a check. In addition, Mr Ravi must pay tax on the dividend income at the slab rates in effect for FY 2019-20. (AY 2019-20).Only those who are not residents of the United States are obligated to deduct 20 percent TDS (tax deducted at source) from their taxable income. The non-resident must provide documentation such as Form 10F, a declaration of beneficial ownership, a certificate of tax residency, etc. in order to take advantage of the reduced deduction owing to a favourable treaty rate with the nation of residence. In the absence of certain papers, a larger TDS would be deducted, which may be claimed when submitting an ITR.

Several of the best dividend-paying Indian equities are detailed here.

Name of the Company	Dividend Yield in Past 12 Months	Change in Stock Prices in Past 12 Months
INEOS Styrolution India Ltd	34%	-40.28%
Vedanta Ltd.	26.50%	-0.85%
IOCL	16.80%	-22.13%
RECL	16%	-19.56%
PFCL	11.33%	-24.88%
NMDC	11.10%	-8.25%
SAIL	10.60%	29.47%
BEL	4.25%	54.93%
NTPC	4.19%	10.41%
Union Bank of India	4.13%	1.77%



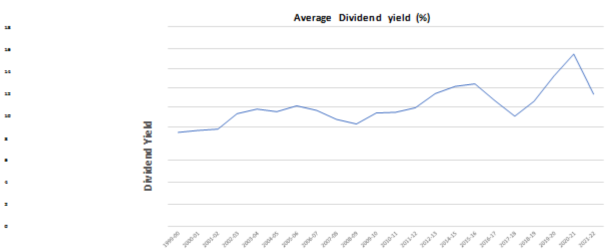
Given this short introduction, the purpose of this research is to use panel data regression analysis to identify the elements that function as drivers of dividend policy for 356 Indian firms. This research looks at the factors that influence dividend payments from corporations over three distinct time spans: 1) from the beginning of the study until the end of the 2009-10 fiscal year; 2) from the beginning of the 2010-11 fiscal year until the end of the 2020-21 fiscal year; and 3) from the beginning of the 2000-01 fiscal year until the end of the 2020-21 fiscal year by combining the first two time spans. As we think banks and financial service providers operate under different business practices and financial parameters than other businesses, they were left out of our analysis.Following is a graph displaying the average dividend yield for all firms studied between 2010–11 and 2020–21.



Data Source: CMIE Prowess IQ

Figure. From 2010-2011 through 2020-21, the average dividend yield of corporations is shown here.

Below, Figure 3 combines the aforementioned two time periods to illustrate the average dividend yield of all 356 firms from the financial year 2000-01 to 2020-2021. There is a fluctuating upward tendency in average dividend yield.



Data Source : CMIE Prowess IQ

From 2000–01 through 2020–21, companies, on average, will generate a dividend

RESEARCH AND METHODOLOGY

Data and Sources of Data:

On the basis of secondary data gathered from the 1961 Income Tax Act, Union Budget Speeches by Honourable Finance Ministers, and annual finance acts from time-to-time, this analysis has been based.

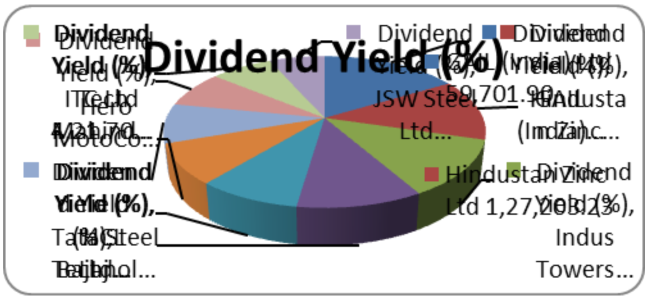
Tools and Techniques:

Qualitative research was employed in this study, which relied only on the reading of relevant legislation and documents for data collection.

Subtracting the cost of dividends from your income

The Finance Act, 2020 also allows for interest expenses spent on dividends to be deducted from income.Dividends should not be deducted at a rate of more than 20%. A deduction for commission or salary expenses made in order to generate dividend income is not allowed. A maximum of Rs 1,200 of interest paid by Mr Ravi on a loan to invest in equity shares during FY 2019-20 is permissible in this case.The economic double taxation that continues when dividends are taxed must be considered. To put it another way, dividend is nothing more than a firm handing out its earnings to its shareholders. To what end are we levying a tax on the transfer of profits? Even with partnership businesses, the earnings are divided among the partners. As a result, a partner's portion in the partnership firm's earnings is exempt under section 10 (2A) of the Income Tax Act, 1961, since it has already been taxed by the partnership business. Corporate earnings are distributed to shareholders in the same way. In the hands of businesses, these earnings have already been taxed. Why, therefore, is it necessary for firms or dividend recipients to pay tax on their dividends. Currently, the same amount is taxed twice by levying taxes with different names, as the corporation pays corporate tax on its profits and the shareholder pays income tax on its dividend income, since the recipient shareholder is obligated to pay tax on dividend according to his or her income tax slab. Even exacerbated by the presence of Section 115BBDA, the same sum was taxed twice as the corporations paid taxes on their earnings, DDT had to be paid by them, and shareholders with dividend income exceeding Rs. 10 lakhs had to pay income tax on such income.Even if the current government wanted to protect lower-income taxpayers from the increased DDT tax on dividend income, as Finance Minister Shrimati Nirmala Sitharaman stated in her budget speech on February 1, 2020, they should have exempted dividend income in the hands of such shareholders because it leads to economic double taxation in the first place.. A reduction in corporate tax rates should not be compensated for by increasing the burden on individual taxpayers.Buying the highest dividend-paying companies is one approach to improve your stock portfolio. They represent organisations with sound financial standing. You may be able to gain extra money from the dividends you get on your investments. However, how can you tell which stocks pay dividends? The top 10 highest dividend-paying Indian equities as of November 2022 are shown below. The top stocks among the numerous blue chip firms that are accessible that pay the highest dividend in India and have a solid track record of providing high returns over a 5-year term are listed below. We utilised the user-friendly Stock Screener on Tickertape for this purpose, using a few of the more than 200 available criteria.

Name	Market Cap (Rs. in cr.)	Dividend Yield (%)	5YEAR Avg Return on Investment (%)
GAIL (India) Ltd	59,701.90	7.44	13.93
Hindustan Zinc Ltd	1,27,203.23	5.98	22.72
Indus Towers Ltd	54,092.19	5.48	16.77
Tata Steel Ltd	1,28,810.34	4.84	12.04
Bajaj Auto Ltd	1,02,086.77	3.97	20.79
Tech Mahindra Ltd	1,01,638.70	3.89	17.89
HCL Technologies Ltd	2,98,728.46	3.82	20.69
Hero MotoCorp Ltd	53,131.91	3.57	22.68
ITC Ltd	4,21,702.68	3.36	22.42
JSW Steel Ltd	1,73,120.33	3.02	13.26



CONCLUSION

It is apparent that dividend taxation has been like a roller coaster ride based on the numerous regulations that have been applicable. A major factor is the transition in taxes from conventional to indirect, then back again.. What a joke of the taxation system is it that the recipient shareholders had to pay tax on dividends, while enterprises had to pay tax on dividends, at the same time this was a result of a lack of planning by the administration, or an experiment to see which method worked best. The linked businesses are bigger, more lucrative, and more leveraged than the independent ones, according to the characteristics research. Despite more investment possibilities, financial leverage, and company risk, this data implies that enterprises with affiliations to business organisations are more likely to pay dividends, and that the dividends they do pay are larger overall. The firms that are part of a business group are less reliant on outside funding for three possible reasons. In sum, the results imply that business groups may have additional information asymmetry difficulties, despite being able to build ICMs and so protect their member businesses from market flaws. Stocks with high dividend yields often represent stable businesses. Additionally, it demonstrates the company's sustainability and the potential for long-term gains on its shares. When creating your investment or financial strategy, be sure to have a look at the list of the top, highest dividend-paying stocks that was discussed in this article. Buying the top dividend-paying firms is one strategy for growing a stock portfolio. They're a sign of financially secure businesses. Stocks that pay dividends might increase your earnings. The advantages of dividend investment, in my opinion, may be maximised if investors are made aware of their inherent constraints. An Unpredictable High Dividend Yield It is not possible to find high-quality dividend companies only by looking at their dividend yield. It's also not ideal if a stock pays a large dividend one year and then none the next. The dividend yield on a company that is 8% now might drop to 0.5% in the following fiscal year.The dividend is large, but the underlying business is poor. Strides Pharma had a dividend yield of around 33% per year a few years ago. Investors who purchased this stock back then for the dividend yield are likely feeling down now. The moral of the tale is that dividend yield should not be considered in isolation from other factors like as sales, profit, earnings per share, dividend payment percentage, etc.

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