



### **Withholding tax under section 194-K to apply only on dividend payouts by Mutual Funds**

The Finance Bill, 2020, besides scrapping Dividend Distribution Tax, inserted a new section 194-K in the Income-tax Act, 1961 to provide that withholding tax @ 10% would apply on payments made by any person to a resident against income in respect of units of a Mutual Fund specified under Clause (23D) of Section 10 or units from the administrator of the specified undertaking or units from the specified company shall at the time of credit of such income to the account of the payee or at the time of payment thereof by any mode, whichever is earlier. The section also proposed the threshold limit of INR 5,000 so that income below this amount did not suffer tax deduction.

Amidst queries received as to whether to the effect that whether under the proposed section 194K, the Mutual Fund would be required to withholding tax on income in nature of the capital gains, CBDT clarified that withholding tax provisions would only apply on the dividend payouts and not on capital gains arising on redemption of units.

Relevant excerpt from the clarification is as under:

*It is hereby clarified that under the proposed section (194-K), the Mutual Fund shall be required to deduct TDS @ 10% only on dividend payment and no tax shall be required to be deducted by the Mutual Fund on the income which is in the nature of capital gains. Necessary clarification, if required, shall be proposed in the relevant provision of the law.*

**Source:**

***CBDT Press Release dt. February 4, 2020***

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### **CBDT notifies new Forms 10-IC & 10-ID for companies to avail reduced corporate tax rates**

Recently, the CBDT has introduced new sections – 115BAA and 115BAB with regard to the taxation for domestic companies under the new optional scheme for reduced corporate tax rates. For existing companies filing tax as per section 115BAA of the Income Tax Act, 1961, tax rate shall be 22% and Form 10-IC is required to be filed.

For newly set up manufacturing companies filing tax per section 115BAB of the Income Tax Act, 1961, tax

rate shall be 15% and Form 10-ID is required to be filed.

The option will be exercised by a domestic company for any previous year relevant to the assessment year beginning on or after 1st day of April, 2020. However, with opting to lower rate of taxation, companies have to forego certain deductions and exemptions such as deduction under Chapter VI-A of the Income Tax Act, 1961 except deduction under section 80JJA and section 80M (incorporated by Finance Bill 2020).

The procedures for claiming tax benefit u/s 115BAA & 115BAB of the Income Tax Act, 1961 in Form 10-IC and Form 10-ID have now been prescribed by the Board. The notification is reproduced hereunder for ready reference:

*These rules may be called the Income Tax (4th Amendment) Rules, 2020. They shall come into force on the 1st day of April, 2020.*

*In the Income Tax Rules, 1962 (hereinafter referred to as the Principal Rules), after Rule 21AD, the following rules shall be inserted namely:*

• **21AE - Exercise of option under sub-section (5) of section 115BAA – Form 10-IC**

- i. *The option to be exercised in accordance with the provisions of sub-section (5) of section 115BAA by a person, being a domestic company, for any previous year relevant to the assessment year beginning on or after the 1st day of April, 2020, shall be in Form No. 10-IC.*

- ii. *The option in Form No. 10-IC shall be furnished electronically either under digital signature or electronic verification code.*
- iii. *The Principal Director General of Income-tax (Systems) or the Director General of Income-tax as the case may be, shall-*
  - a. *specify the procedure for filing of Form No. 10-IC;*
  - b. *specify the data structure, standards and manner of generation of electronic verification code, referred to in sub-rule (2), for verification of the person furnishing the said Form; and*
  - c. *be responsible for formulating and implementing appropriate security, archival and retrieval policies in relation to the Form so furnished.*

**21AF - Exercise of option under sub-section (7) of section 115BAB – Form 10-ID**

- 1) *The option to be exercised in accordance with the provisions of sub-section (7) of section 115BAB by a person, being a domestic company, for any previous year relevant to the assessment year beginning on or after the 1st day of April, 2020, shall be in Form No. 10-ID.*
- 2) *The option in Form No. 10-ID shall be furnished electronically either under digital signature or electronic verification code.*
- 3) *The Principal Director General of Income-tax (Systems) or the Director General of Income-tax as the case may be, shall-*
  - a. *specify the procedure for filing of Form No. 10-ID;*
  - b. *specify the data structure, standards and manner of generation of electronic verification code, referred to in sub-rule*

- (2), for verification of the person furnishing the said Form; and
- c. be responsible for formulating and implementing appropriate security, archival and retrieval policies in relation to the Form so furnished.

**Source:**

**Notification No. 10/2020 dt. February 12, 2020**

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