

Department of applied economics and commerce, PU

Class :- Mcom (Sem 4)

Paper :- (COMEC-1), CTPM

Unit (3) :- Tax planning and financial management decision

**:- TAX DEDUCTION AT SOURCE UNDER SECTION 194 -:**

As per the provision of section 194 of the income tax act, the principle officer of an Indian company or a company making prescribed arrangements for declaration and payment of the dividend within India is required to deduct TDS on dividend, if the following Condition are satisfied.....

- 1) The dividend is paid to the shareholder who is resident in India  
;and
- 2) The dividend covered within the meaning of clause (a) to (e)  
section 2(22).

It is important to note that the dividend referred above covers the dividends on preference shares also i.e, TDS is to be deducted on dividends on preference shares if Provisions of section 194 gets attracted. Further, payment of TDS on dividend to non-resident is not covered within the provision of section 194.

➤ Time of deduction of TDS on dividend :-

As per provision of sec 194 of the Income Tax Act, the deductor is required to deduct the TDS earlier of the following dates....

- Before making payment in cash; or
- Before issuing any cheque or warrant; or
- Before making any distribution or payment.

➤ Rate of TDS on dividend :-

The company liable to deduct TDS as per provisions of section 194 is required to deduct TDS @ 10%. However, in case the shareholder fails to furnish the Permanent Account Number (PAN), then the company would be liable to deduct TDS at the maximum marginal rate.

➤ Exemption from deduction of TDS on dividends :-

Following is a list of dividends on which TDS is not required to be deducted as per sec 194 .....

- 1) Dividend paid to an individual where the aggregate amount of dividend, paid by the company to the individual, during the financial year does not exceed INR 2500 and such dividend is paid by an account payee cheque.
- 2) Dividend paid to the life insurance corporation of India in respect of shares owned by it or have a full beneficial interest.

- 3) Dividend paid to the General Insurance Corporation of India in respect of shares owned by it or have a full beneficial interest.
- 4) Dividend paid to any other insurer in respect of shares owned by it or have a full beneficial interest.
- 5) Dividend covered by provisions of section 115-O.
- 6) Declaration has been filed either in form 15G or form 15H.

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