

Income Tax Library

The Income Tax Act - 1961

Section 194

Dividends.

¹**194.** ³The principal officer of an Indian company or a company which has made the prescribed arrangements for the declaration and payment of dividends (including dividends on preference shares) within India, shall, before making any payment ⁴[by any mode] in respect of any dividend or before making any distribution or payment to a shareholder, ⁵[who is resident in India,] of any dividend within the meaning of sub-clause (a) or sub-clause (b) or sub-clause (c) or sub-clause (d) or sub-clause (e) of clause (22) of section 2, deduct from the amount of such dividend, income-tax ⁶[***] ⁷[at the rate of ten per cent] :

⁸**[Provided]** that no such deduction shall be made in the case of a shareholder, being an individual, if—

- (a) the dividend is paid by the company by ⁹[any mode other than cash]; and
- (b) the amount of such dividend or, as the case may be, the aggregate of the amounts of such dividend distributed or paid or likely to be distributed or paid during the financial year by the company to the shareholder, does not exceed ¹⁰[five thousand] rupees:

Provided further that the provisions of this section shall not apply to such income credited or paid to—

- (a) the Life Insurance Corporation of India established under the Life Insurance Corporation Act, 1956 (31 of 1956), in respect of any shares owned by it or in which it has full beneficial interest;
- (b) the General Insurance Corporation of India (hereafter in this proviso referred to as the Corporation) or to any of the four companies (hereafter in this proviso referred to as such company), formed by virtue of the schemes framed under sub-section (1) of section 16 of the General Insurance Business (Nationalisation) Act, 1972 (57 of 1972), in respect of any shares owned by the Corporation or such company or in which the Corporation or such company has full beneficial interest;
- (c) any other insurer in respect of any shares owned by it or in which it has full beneficial interest;]

- ^{10a}[(d) a "business trust", as defined in clause (13A) of section 2, by a special purpose vehicle referred to in the Explanation to clause (23FC) of section 10;
- (e) any other person as may be notified by the Central Government in the Official Gazette in this behalf.]

¹¹[***]

NOTES –

1. See also Circular No. P(XXI-16) of 1965, dated 8-1-1965 (Deduction by liquidator) and Circular No. 3P(XXI-19), dated 1-5-1966 (Shares registered in name of banking company). For details,
3. See rules 27, 28, 28AB, 29, 29C, 30, 31, 31A and 37BA and Form Nos. 13, 15G, 15H, 16A, 24G, 26B, 26Q and 27A.
4. Substituted for "in cash or before issuing any cheque or warrant" by the Finance Act, 2020, w.e.f. 1-4-2020.
5. Inserted by the Finance (No. 2) Act, 1991, w.e.f. 1-10-1991.
6. "and super-tax" omitted by the Finance Act, 1965, w.e.f. 1-4-1965.
7. Substituted for "at the rates in force" by the Finance Act, 2020, w.e.f. 1-4-2020.
8. Substituted for the first and second provisos by the Finance Act, 2002, w.e.f. 1-6-2002. Prior to their substitution, the first proviso, as inserted by the Finance (No. 2) Act, 1977, w.e.f. 1-10-1977, later on substituted by the Finance Act, 1984, w.e.f. 1-6-1984 and amended by the Finance Act, 1987, w.e.f. 1-6-1987 and Finance (No. 2) Act, 1991, w.e.f. 1-10-1991 and the second proviso, as inserted by the Finance Act, 1997, w.e.f. 1-6-1997, read as under :

"Provided that no such deduction shall be made in the case of a shareholder, being an individual, of a company in which the public are substantially interested, if—

- (a) the dividend is paid by such company by an account payee cheque; and
- (b) the amount of such dividend or, as the case may be, the aggregate of the amounts of such dividend distributed or paid or likely to be distributed or paid during the financial year by the company to the shareholder, does not exceed two thousand five hundred rupees :

Provided further that no such deduction shall be made in respect of any dividends referred to in section 115-O."

Prior to its omission by the Finance Act, 1993, w.e.f. 1-6-1993, second proviso was amended by the Finance Act, 1965, w.e.f. 1-4-1965, the Finance (No. 2) Act, 1977, w.e.f. 1-10-1977 and the Direct Tax Laws (Amendment) Act, 1987, w.e.f. 1-4-1988.

9. Substituted for "an account payee cheque" by the Finance Act, 2020, w.e.f. 1-4-2020.
10. Substituted for "two thousand five hundred" by the Finance Act, 2020, w.e.f. 1-4-2020. Earlier "two thousand five hundred" was substituted for "one thousand" by the Finance Act, 2003, w.r.e.f. 1-8-2002.
- 10a. Clauses (d) and (e) inserted by the Finance Act, 2021, w.r.e.f. **1-4-2020**.

11. Omitted by the Finance Act, 2020, w.e.f. 1-4-2020. Prior to its omission, the third proviso, as inserted by the Finance Act, 2003, w.r.e.f. 1-4-2003, read as under :

"Provided also that no such deduction shall be made in respect of any dividends referred to in section 115-O."