

Business Standard

I-T dept floats draft rules on taxing income

The Finance Act, 2016 has changed the definition of distributed income on which tax will be imposed

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The income-tax department has sought public comments on its rules for imposing 20 per cent tax on distributed income from buyback of unlisted shares by companies.

The Finance Act, 2016 has changed the definition of distributed income on which tax will be imposed. Distributed

income now means the consideration paid by the company on buyback of shares as reduced by the amount, which was received by the company for issue of such shares. The changed definition is with effect from June 1 this year.

Now the issue is how to calculate the amount received by the company for these shares. The Central Board of Direct Taxes has proposed a set of rules in this regard, depending on the nature of the company concerned and the type of instruments issued.

For instance, it takes a case where the share had been issued by a company to any person on subscription. In this case, the paid-up amount actually received by the company in respect of such share, including through premium, would be reduced from the sum paid by the company on buyback of shares.

If the company had issued shares on conversion of bond or debenture or deposit certificate, then that part of the sum would be taken into account.

One case could be of a company, which has returned a sum out of the amount received in respect of such share. Here, the amount as reduced by the sum so returned would be taken into account.

In case of a scheme of amalgamation, shares are issued by an amalgamated company in lieu of the shares of an amalgamating company. In this case, the amount received by the amalgamating company in respect of such shares would be taken into account.

Similar rules were prescribed in case of demerger as well.

In cases where the share has been issued or allotted, without any consideration, on the basis of existing shareholding in the company, the consideration in respect of such share shall be deemed to be nil.

In any other case, the face value of the share will be deemed to be the amount received by the company for issue of the share.

The tax department will accept comments till July 31.