

10% TDS only on dividend payment by mutual funds, clarifies CBDT

Jash Kriplani | Last Updated at February 5, 2020 23:50 IST

CBDT clarification removed uncertainty over treatment of capital gains

Mutual fund (MF) players that were expecting investor outflows over uncertainty on tax deducted at source (TDS) on capital gains were relieved after the Central Board of Direct Taxes (CBDT) on Tuesday clarified that the proposal would only be limited to dividend payouts.

The statement from the CBDT read: "A mutual fund shall be required to deduct TDS at 10 per cent only on dividend payment and no tax shall be required to be deducted on income which is in the nature of capital gains".

The proposed Section 194K of the I-T Act stated: "Any person responsible for paying to a resident any income in respect of units of a mutual fund ... shall at the time of credit of such income to account of payee ... deduct income tax at the rate of 10 per cent."

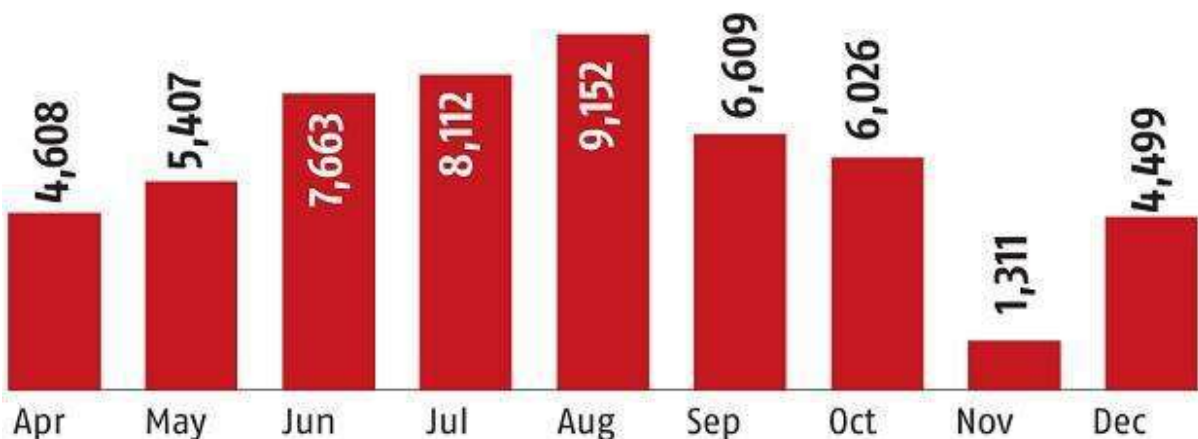
The MF industry had sought clarification from the government on whether the proposal would apply to investor redemptions, as uncertainty could have led to investors exiting before April 1, when the proposal came into effect.

Industry players said lack of clarity on how officials would categorise income from MF units was the primary reason for the uncertainty. Further, experts said calculating capital gains would have been operationally challenging.

ON THIN ICE

Investor sentiment has weakened in recent months

Equity flows (₹ crore)



Source: Amfi

Disclaimer: The content above is taken from the source mentioned

Resource: Business Standard, 05 Feb 2020

Copyright © 2019 Aparajitha Corporate Services Pvt., Ltd. All Rights Reserved.

Making Corporate India Comply

Experts say the correct interpretation was likely to be that TDS applies only to dividends. “This is not the first time that a Section with this language has appeared in the Budget document. Back in 1995, when such a Section was introduced, TDS was kept limited to dividend income and not capital gains or redemption,” said Ashok Shah, founding partner of NA Shah Associates LLP.

Following this, the government issued a set of clarifications stating that Section 194K only pertained to dividend and not repurchase or redemption of units. The latest Budget memorandum also stated that dividend over Rs.5,000 would be subject to 10 per cent TDS.

“It is difficult to calculate principle or original investment in the case of mutual funds, especially if investments have been made through systematic investment plans,” said a senior executive of a fund house.

Amol Joshi, founder of Plan Rupee Investment Services, said: “While we have advised investors not to act hastily as the issue should get clarified soon, direct plan investors could have acted in a knee-jerk manner if uncertainty had continued.”

Sentiment has been weak and there were fears additional tax liabilities could take further a toll on flows.