No longer taxing: DDT removal a step in right direction, says Sebi chief

Sundar Sethuraman | Last Updated at February 4, 2020 23:50 IST

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The Securities and Exchange Board of India (Sebi) has welcomed the move by the government to shift the dividend taxation liability from companies to investors.

“Removal of dividend distribution tax (DDT) was something the market has been asking for. DDT was not logical. It was perhaps introduced to facilitate imposing tax at the unit stage. Ideally, it should be paid by the recipient as per their tax slab,” said Ajay Tyagi, chairman of Sebi, on the sidelines of an event organized by the National Stock Exchange (NSE) to launch the request for quote (RFQ) platform for debt securities.

On Saturday, finance minister Nirmala Sitharaman proposed to abolish the DDT levied on companies but said dividends will now be taxed in the hands of receipts.

The move got a mixed response from the market. While removal of DDT will result in tax savings of 20 per cent for companies, promoters and other wealthy shareholders may be taxed as high as 43 per cent on the dividends they receive.

Analysts believe companies would now resort to doing buybacks instead of paying dividends.

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Country	Effective rate of withholding tax (WHT) on dividends paid
US	30%
UK	No withholding tax on dividends
Germany	26.375%
Netherlands	15%
Singapore	No withholding tax on dividends

Note: Rates subject to applicable lower tax treaty rates under the respective tax treaty

Source: KPMG

Meanwhile, Tyagi said Sebi has asked Franklin Templeton Mutual Fund to explain its decision to assign zero value to Vodafone Idea debentures even before any action was initiated by rating agencies.

"If the asset isn't below investment grade, there is no stipulation as such. We have asked the fund house for an explanation," he said when asked about the issue.

Last month, the fund house announced a 100 per cent write-down for Vodafone Idea debt.

This came immediately after the Supreme Court (SC) rejected the review petition by telecom operators over payment of additional gross revenue (AGR).

The action differed from peers UTI MF, Nippon MF, and Birla MF, which went for write-downs as per the valuation metrics provided by rating agencies. Tyagi wasn't specific when asked if Sebi asked other fund houses for an explanation.

On the proposed share sale of LIC, Tyagi said the insurer will have to follow the same process as any other company that intends to list.

He refused to comment further saying "no formulation has come to us yet".

Tyagi also said Sebi is reviewing the classification framework meant for mid-cap and small-cap mutual funds.

On the launch of NSE's new platform, he said, "The RFQ platform would definitely help in pre-trade transparency, bringing in core confidence among participants by providing exit route in the secondary market and bond market in a transparent manner."