INTERIM DIVIDEND

The word "dividend" comes from the Latin word "dividendum" ("thing to be divided"). Dividends are the share of a company's profits that it decides to pay to its shareholders. They are an important part of the return from investing in shares, in addition to any increase in the share price. Companies are under no obligation to pay dividends, but they usually choose to do so because dividends provide an incentive to invest in their shares.

Companies typically keep part of their profits back to expand the business and/or increase their reserves, and will then pay out the rest as a dividend. If companies have good investment opportunities, they will tend to keep more of their profits back for this purpose, reducing the amount available for dividends. So the amount of profit companies make and the alternative uses of its profits will help to determine the dividend.

The level of dividend also depends on the company's dividend policy.

Dividends are usually payable for a Financial Year (FY) after the final accounts are ready and the amount of distributable profits is available. Dividend for a FY of the company (which is called Final Dividend) is payable only if it is declared by the company at its Annual General Meeting (AGM) on the recommendation of the Directors. Sometimes dividend is also declared by directors between two AGMs which is called an Interim Dividend. As the name goes, it is a dividend declared and paid during the intervening period between two AGMs and may also be treated as Final Dividend if the Company does not declare any dividend at the AGM.

Procedure for declaration and payment of interim dividend by a private limited company

Under Companies Act, 1956 – Section 205

1. The Company in accordance with Section 286 of Companies Act must issue notice for holding a meeting of the Board of Directors of the Company to consider the matter. Alternately interim dividend can be declared via a circular resolution also, if the Articles of Association of the Company do not restrict the same. Before declaring an interim dividend, the Directors must satisfy themselves that the financial position of the Company allows the payment of such a dividend out of profits available for distribution. The Company must have adequate profits to pay interim dividend after providing for depreciation for the full year. The Directors of the Company may be held personally liable in the event of wrong declaration dividend.

2. No dividend should be declared by the company unless certain percentage of profit is transferred to reserve account in accordance with The Companies (Transfer of profits to

reserves) Rules, 1975 which provides for transfer of not less than 2.5% to 10% of current profit to reserve account, for proposed dividend ranging from 10% to 20% or more.

Calculation of Interim Dividend

- Total Dividend = $\frac{\%PAT\ declared}{100}$
- Dividend per Share = $\frac{Total\ Dividend}{No.\ of\ Shares}$
- Dividend Percentage = $\frac{Dividend\ per\ Share * 100}{Face\ Value\ of\ share}$

3. Open an Interim Dividend Account with the bank as resolved by the board and deposit the amount of dividend payable in the account within 5days of declaration of dividend.

4. Prepare a statement of dividend in respect of each shareholder containing the details of name and address of the shareholders, number of shares held, amount of dividend payable along with their bank account details (for online transfer).

5. Ensure dividend tax is paid to the tax authorities within prescribed time, as detailed below.

6. Dispatch dividend warrants within 30 days of the declaration of dividend.

7. Arrange for transfer of unpaid or unclaimed dividend to a special account named “Unpaid dividend A/c” within 7 days after expiry of the period of 30 days of declaration of dividend.

8. Any Money transferred to the unpaid dividend account of a Company which remains unpaid or unclaimed for a period of seven years from the date of such transfer shall be transferred to Investor Education And Protection Fund (IEPF)

9. The Company while crediting Fund to Unpaid dividend A/c should separately furnish to ROC a statement of unclaimed and unpaid amounts in e-form 5 INV of IEPF rules duly certified by a practising CA, CS or CWA.

Under Income Tax Act, 1961 – Section 115-O

1. Dividends are exempt from tax in the hands of shareholders but the Company is liable to pay Dividend distribution tax.

2. All dividend received from foreign company are taxed in the hands of Shareholders.

3. Dividend shall be charged to dividend distribution tax (DDT) @ 15% (plus applicable surcharge and cess i.e. 5% & 3% respectively). The effective DDT works out currently to 16.2225% on the dividend declared. The company is required to pay dividend distribution tax even if no income tax is payable.

4. No deduction shall be allowed to the Company or a Shareholder for DDT or any expense on dividend income.

5. DDT shall be paid to the credit of the central government within 14 days from the date of declaration or distribution or payment of dividend, whichever is earlier. Non-payment or delayed payment of DDT attracts simple interest @ 1% per month or part thereof.

6. If a Company fails to pay the whole or any part of the tax as required under section 115-O then such Company shall be liable to penalty of a sum equivalent to the amount of tax that the Company has failed to pay.

Under FEMA – Remittance of dividend to NR Shareholder

Remittance of dividend to a non-resident shareholder is a permitted current account transaction and as such does not require any specific RBI approval. However the procedure must be followed :

1. Indian companies intending to remit dividend to their non-resident (NR) shareholders should make an application to an Authorised Dealer (AD) in Form RCD 1, supported by the particulars of non-resident shareholding in form RCD 2 and other documents prescribed in the form. ADs may allow the remittance of dividend after verifying the documents and satisfying themselves that necessary permission of the Reserve Bank has been obtained by the non-resident shareholders for purchase of the shares, if any.

- ADs will also verify that the certificate given in Part 'B' of the form RCD 1 has been properly completed by the company's auditors before remitting the dividend amount through Form A2.

2. Indian companies can remit dividend to their non-resident shareholders either through the normal banking channels without issuing individual dividend warrants or by issuing individual dividend warrants to the shareholders' bankers in India for credit to their Ordinary Non-resident Rupee (NRO) accounts.

3. As regards the remittance of interim dividend, application may be made by the company in India to the AD by letter (in duplicate) enclosing only the form RCD 2 and a copy of the Board Resolution approving the payment of interim dividend. ADs may allow the remittance of interim dividend subject to what has been stated in paragraph.

Above is a brief procedural note on declaration and payment of interim dividend. The Directors' Report normally carries a reference to dividend payment, if any and also if the Directors are proposing any Final Dividend at the AGM or the interim dividend is itself to be treated as Final Dividend.

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