India

General insurance – overview

Definition	Accounting	Taxation
Definition of property and casualty insurance company	Under the Insurance Act, 1938, "Indian insurance company" means any insurer being a company: (a). which is formed and registered under the Companies Act, 1956 (1 of 1956); (b). in which the aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed 26% paid up equity capital of such Indian insurance company; (c). whose sole purpose is to carry on life insurance business or general insurance business or re-insurance business. General insurance business means fire, marine or miscellaneous insurance business, whether carried out singly or in combination with one or more of them. [Note: Third proviso to Section 2C(1) of the Insurance Act, 1938 {inserted by the Insurance Regulatory and Development Authority (IRDA) Act, 1999} prohibits persons other than an Indian Insurance Company to begin to conduct insurance business. The said proviso is as follows: 'Provided also that no insurer other than an Indian Insurance Company shall begin to carry on any class of insurance business in India under this Act on or after the commencement of the IRDA Act, 1999']	No separate definition provided in the tax laws.
Commercial accounts/ tax and regulatory returns	**Accounting**	**Taxation**
Basis for the company's commercial accounts	The IRDA (Preparation of Financial Statements & Auditor's Report of Insurance Companies) Regulations, 2002 and all mandatory Accounting Standards issued by the Institute of Chartered Accountants of India to be adhered to subject to the following: (a). Accounting Standard 3 (AS 3), Cash Flow Statements – Cash Flow Statement shall be prepared only under the Direct Method. (b). Accounting Standard 13 (AS 13), Accounting for Investment is not applicable. (c). Accounting Standard 17 (AS 17) – Segment Reporting – shall apply even though insurance companies are not currently publicly traded. Relevant/Applicable provisions of the Companies Act, 1956.	Special provisions apply for taxation of profits from general insurance business which require taxable profits to be calculated in prescribed manner. As per these provisions, accounting profits disclosed by annual accounts (prepared in accordance with the Insurance Act, 1938), are subject to the following adjustments: (a). Any expenditure or allowance including provisions for any tax, dividend, reserve or any other prescribed provision which are not allowed in accordance with the normal provisions for computing profits and gains of a business to be added back. (b). Any profit/ loss on sale of investments to be added/ deducted if not credited/ debited to profit and loss (P&L) account. Further provision for diminution in value of investments debited in P&L account to be disallowed. Prescribed amount carry over to unexpired risks reserve fund would be allowed as deduction.

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India: General insurance – overview (continued)

Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Regulatory return	Investment returns, solvency margin returns, actuarial returns and other returns are required to be filed by the insurer either monthly or quarterly or half yearly or annually as prescribed under the relevant regulations.	N/A.
Tax return	N/A.	Annual return of income to be filed by 30 September every year. However, in a case where an accountant's report needs to be furnished in accordance with transfer pricing provisions, the income-tax return needs to be filed by 30 November. The applicable reporting period is the immediately preceding financial year i.e. uniform tax year that begins on 1 April X1 and ends on 31 March X2. Annual return of net wealth to be filed by 30 September wherever the taxable net wealth exceeds INR 3 million. Withholding tax returns are also required to be filed for each quarter. The applicable reporting period in this regard is the financial year. Thus, the time limit for filling the withholding tax returns is: (a). Quarter April to June – July 15 (b). Quarter July to Sept. – Oct. 15 (c). Quarter October to Dec. – Jan. 15 (d). Quarter January to March – May 15 following the financial year
Technical reserves/ equalisation reserves	**Accounting**	**Taxation**
Unearned premiums reserve (UPR)	N/A.	Please refer to the section "Unexpired risks".
Unpaid claims reported	Unpaid claims are disclosed under claims outstanding as required by the IRDA (Preparation of Financial Statements & Auditor's Report of Insurance Companies) Regulations, 2002.	Tax laws do not contain a specific provision for deduction for such reserves. However, unpaid claims debited to the revenue account may be allowable as a deduction subject to comments under earlier section on "Basis for the company's commercial accounts – Taxation".
Claims incurred but not reported (IBNR) & Claims incurred but not enough reported (IBNER)	IBNR represents that amount of all claims that may have been incurred prior to the end of the current accounting period but have not been reported or claimed. The IBNR provision also includes provision, if any, required for IBNER. The said liability is determined based on actuarial principles by the appointed actuary. The methodology and assumptions on the basis of which the liability is determined is also certified by the actuary to be appropriate, in accordance with guidelines and norms issued by the Institute of Actuaries of India & the IRDA. The liability determined for IBNR & IBNER is certified as adequate by the actuary. IBNR & IBNER are disclosed as claims outstanding as required by the IRDA (Preparation of Financial Statements & Auditor's Report of Insurance Companies) Regulations, 2002.	Tax laws do not contain a specific provision for deduction for such reserves. However, IBNR debited to the revenue account may be allowable as a deduction subject to comments under earlier section on "Basis for the company's commercial accounts – Taxation".

India: General insurance – overview (continued)

Technical reserves/ equalisation reserves	Accounting	Taxation
Unexpired Risk Reserve (URR)	A reserve for unearned premium is created as the amount representing that part of the premium written, which is attributable to and to be allocated to the succeeding accounting periods and shall not be less than as required under the provisions of the Insurance Act, 1938.	Deduction for amounts carried over to reserve for unexpired risk and to any such additional reserves is allowed but cannot exceed the following limits: • Fire or engineering insurance and providing insurance for terrorism risks – 100% of the net premium income of such business. • Fire or misc. Insurance (other than above) – 50% of net premium income of such business • Marine insurance (including export credit insurance) – 100% of net premium income of such business.
The Indian Motor Third Party Insurance Pool (IMTPIP)	In accordance with the directions of the IRDA, general insurance companies participated in the IMTPIP with effect from 1 April 2007. The IMTPIP covers reinsurance of the entire third party risks of specified commercial motor vehicles (specified risks). Amounts collected as premium in respect of specified risks are ceded at 100% of such premium to the IMTPIP. After mandatory cession of 10% of motor premium to General Insurance Council (GIC), the business remaining after such cession is shared among all general insurers writing motor insurance business, in the proportion to the gross written premium collected. The company's share of premiums, claims, reinsurance commissions and expenses of the pool are recorded as inward reinsurance business, based on the returns submitted by GIC, under the respective heads of income or expense as the case may be and included within the MTP sub-segment of the miscellaneous revenue account. In 2010/11 the IRDA has instructed all general insurance companies to provide an ultimate loss ratio of not less than 153% for all the years with effect from 2007/08.	Tax laws do not contain a specific provision for deduction for such premiums ceded. However, the same debited to the revenue account may be allowable as a deduction subject to comments under earlier section on "Basis for the company's commercial accounts – Taxation".
General contingency/ solvency reserves	N/A.	Tax laws do not contain a specific provision for deducing such reserves. However, the same debited to the revenue account may be allowable as a deduction subject to comments under earlier section on "Basis for the company's commercial accounts - Taxation".
Equalisation reserves	Not existing.	Not existing.
Catastrophe reserves	Catastrophe reserve is made in accordance with norms prescribed by the IRDA. Investment of funds out of catastrophe reserve is also made in accordance with prescription of the IRDA. Appropriations for catastrophe reserves are made from the Revenue Account (Form B-RA).	Tax laws do not contain a specific provision for deduction for such reserves. However, the same debited to the revenue account may be allowable as a deduction subject to comments under earlier section on "Basis for the company's commercial accounts – Taxation".
Expenses/ refunds	**Accounting**	**Taxation**
Acquisition expenses	Acquisition costs are costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. Such costs are expensed in the year in which they are incurred.	Tax laws do not contain a specific provision for deduction of such expenses. However, tax treatment should generally follow accounting treatment and accordingly, acquisition costs debited to the revenue accounts should be allowable as deduction.

India: General insurance – overview (continued)

Expenses/ refunds	Accounting	Taxation
Loss adjustment expenses on unsettled claims (claims handling expenses)	Loss adjustment expenses (claims handling expenses) are incidental to processing of claims and are accounted under claims incurred in revenue account.	Tax laws do not contain a specific provision for deduction of such expenses. However, tax treatment should generally follow accounting treatment and accordingly, such expenses debited to the revenue accounts should be allowable as deduction.
Experience-rated refunds	N/A.	N/A.
Investments	**Accounting**	**Taxation**
Gains and losses on investments	In respect to government securities and other held to maturity securities, long-term gain/loss on transfer/sale of securities is the difference between the sale price and the net amortised cost/book value and is accounted for in either revenue account or profit and loss account on the basis of the ratio of shareholders funds and policyholders' funds.	Any gain or loss on realisation of investments shall be added or deducted, as the case may be, if such gain or loss is not credited or debited to the P&L account. Any provision for diminution in the value of investment debited to the P&L account shall be added back.
Investment reserves	An impairment loss shall be recognised as an expense in revenue/P&L account to the extent of the difference between the re-measured fair value of the security/ investment and its acquisition cost as reduced by any previous impairment loss recognised as expense in revenue/P&L account. Any reversal of impairment loss earlier recognised in revenue/P&L account shall be recognised in revenue/P&L account.	Any provision for diminution in the value of investment debited to the P&L account shall be added back.
Investment income	Investment income is recognised on accrual basis. Dividend income is recognised when the right to receive is established. Investment income is allocated to revenue account (Form B–RA) and to P&L account (Form B–PL) on the basis of funds available from insurance operations and shareholders funds and are further allocated to the lines of business in proportion of their respective gross written premium.	Included in taxable income. However, dividends from an Indian company which have been subject to a dividend distribution tax are not double taxed in the hands of shareholders (insurance company) and are exempt under Section 10(34) of the tax laws. However, any expenditure incurred for earning exempt income is subject to disallowance in the hands of the insurance company. In certain cases, tax tribunal have been taking a view that disallowance is not attracted in the case of insurance companies.
Reinsurance	**Accounting**	**Taxation**
Reinsurance premiums and claims	Reinsurance premium is recognised over the period of risk. Reinsurance premiums whether on business ceded or accepted are to be brought into account, before deducting commission, under the head of reinsurance premiums. Reinsurance benefit to insurers for claims is accounted for when intimated and is accounted for in the same period as the related claims and shown under Schedule 2 Claims Incurred (Net) in the financial statement.	There exist no separate rules in the tax laws for tax treatment in the case of reinsurance. Tax treatment of premiums ceded or claims received, generally, follows the accounting treatment in the books of the insurer.
Mutual companies	**Accounting**	**Taxation**
Mutual companies (all profits returned to members)	No mutual companies exist.	Currently, there are no pure mutual insurance companies in India as most private general insurance companies are equity joint ventures between Indian and foreign promoters.

India: General insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Permitted up to a maximum of eight years, subject to continuity of substantial ownership (>51%) test
Foreign branch income	Included in taxable income, as all resident insurance companies are taxed on worldwide income. However, a credit for foreign taxes may be available in India, subject to tax treaty provisions.
Domestic branch income	Calculated under ordinary rules based on branch accounts.
Corporate tax rate	The tax rate for domestic companies is 32.45% (including surcharge of 5%, education and higher education cess of 3%. (A "cess" is an additional surcharge calculated on the basic rate of income tax and surcharge.)
Other tax features	**Taxation**
Premium taxes	No specific income tax on premiums. However, premiums collected are subject to a Service Tax of 10.30% (incl. education cess of 2% and secondary & higher education cess of 1%) on the entire amount subject to exemptions for specific schemes as may be notified. The schemes, which are exempted are mostly those of social importance such as cattle, tribal and crop insurance, etc.
Capital taxes and taxes on securities	Wealth tax is levied at the rate of 1% on certain specified assets (motor vehicles, jewellery, specified immovable property) owned by a company and valued in excess of INR 3 million at the last day of the financial year net of any associated liabilities.
Captive insurance companies	N/A.
Value added tax (VAT)	All goods sold in the course of interstate trade are subject to Central Sales Tax (CST) and sales within any State are chargeable to Value Added Tax (VAT) under the VAT laws of the relevant State. Applicability of VAT on insurance companies, depend upon the VAT laws of the respective State. If insurance companies are covered, then sale of moveable assets by insurance companies will attract the levy of state VAT. The rate of tax would vary as per the VAT laws of the respective states.

India: Life insurance – overview

Definition	Accounting	Taxation
Definition of life insurance companies	**Life insurance business means** the business of effecting contracts of insurance upon human life, including any contract whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent on human life and any contract which is subject to payment of premium for a term dependent on human life and includes: (a). granting of disability, double- or triple indemnity accident benefits; (b). granting of annuities; (c). granting of superannuation allowance. Life insurance businesses may be linked businesses or non-linked businesses. Under linked businesses, the benefits payable depend upon the value of assets available with the insurer and under non-linked business, the benefits are payable, irrespective of the value of assets. Similarly, there may be participating businesses or non participating businesses, meaning thereby, the policyholders may or may not have the right to participate in the profits of the business. It may be mentioned that for each kind of business mentioned above, separate revenue accounts need to be prepared by the life insurer. For information on the Insurance Act please refer to the "Definition of property and casualty insurance company" in the section "General Insurance – Overview".	No separate definition provided in the tax legislation. However, "Life Insurance Business" is defined/reference is made to the definition provided under the Insurance Act, 1938. The definition is stated under the head "Accounting".
Commercial accounts/ tax and regulatory returns	**Accounting**	**Taxation**
Basis for the company's commercial accounts	The IRDA (Preparation of Financial Statements & Auditor's Report of Insurance Companies) Regulations 2002 and all mandatory accounting standards issued by Institute of Chartered Accountants of India to be adhered to subject to the following: • Accounting Standard 3 (AS 3) – Cash Flow Statements, Cash Flow Statement shall be prepared only under the Direct Method; • Accounting Standard 13 (AS 13), Accounting for Investment is not applicable; • Accounting Standard 17 (AS 17) – Segment Reporting – shall apply even though insurance companies are not currently publicly traded.	Special provisions apply for taxation of profits from life insurance business which require taxable profits to be calculated in a prescribed manner (discussed later). The tax law pertaining to life insurance business has not kept pace with the regulatory developments and is still in the evolving stage.
Regulatory return	Investment returns, solvency margin returns, actuarial returns and other returns are required to be filed by the insurer either monthly or quarterly or half yearly or annually as prescribed under the relevant regulations.	N/A.

India: Life insurance – overview (continued)

Commercial accounts/ tax and regulatory returns	Accounting	Taxation
Tax return	N/A.	Annual income tax return to be filed by 30 September every year. However, in a case where an accountant's report needs to be furnished in accordance with transfer pricing provisions, the income-tax return needs to be filed by 30 November. The applicable reporting period is the immediate preceding financial year i.e. uniform tax year, which begins on 1 April, XI and ends on 31 March, X2. Annual net wealth tax return to be filed by the 30 September wherever the taxable net wealth exceeds INR 3 million. Withholding tax returns are also required to be filed for each quarter. The applicable reporting period in this regard is the financial year. Thus, the time limit for filling the withholding tax returns is: (a). Quarter April to June - July 15 (b). Quarter July to Sept. – Oct. 15 (c). Quarter Oct. to Dec. – Jan. 15 (d). Quarter Jan. to March - May 15 following the financial year
General approach to calculation of income	**Accounting**	**Taxation**
Allocation of income between shareholders and policyholders	Premium, income on investments made out of policyholders funds, and all expenses directly related to insurance business should be classified under the policyholders revenue account. Income on investments made from shareholders funds and all expenses not directly related to insurance business is accounted for the under shareholders P&L account.	Profits of life insurance business are taxable at the concessional tax rate of 13.52% (i.e. basic tax rate of 12.5% plus surcharge of 5% equal to 13.13%, and education and secondary & higher education cess of 3% on the previously calculated value resulting at 13.52%). As per the special computational provisions, profits from life insurance business means that the surplus/ deficit as is determined, based on the actuarial valuation, is made in accordance with the Insurance Act, 1938. As such the tax law ought not to tax the net credits (i.e. income less expense) arising in the shareholders' account. However, in certain cases it is a debatable issue.
Calculation of investment return	**Accounting**	**Taxation**
Calculation of investment income and capital gains	A substantial portion of funds are invested in government securities and treasury bonds. Investments are also made in bonds and equities. (The IRDA specifies the minimum percentage of an amount to be invested in government securities. The remaining amount can be invested in approved and other than approved investments, i.e. corporate bonds and equities.) Interest income is recognised on accrual basis and is accounted under revenue accounts (technical account) or profit and loss accounts as applicable.	Generally taxed as ordinary income from the business of life insurance. In the case of certain tax payers, such interest income is challenged by the tax authorities as capital gains.

India: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Actuarial reserves	The actuarial liability on a policy is calculated based on the "gross premium method", which represents the present value of expected future outlay, including benefits and expenses, as reduced by the present value of expected future premium and related income. The reserves for group business are calculated as the risk premium for the unexpired term of the policy with an allowance for expenses and a margin for adverse deviations. For unit-linked business, unit reserves represent the value of the units attached to policies. Non-unit reserves are set up for mortality and morbidity risks associated with unit-linked business and are calculated using the "gross premium methods".	Calculated in accordance with the provisions of the Insurance Act and approved by the appointed actuary. An increase in actuarial reserves is deductible while a decrease in actuarial reserves is taxable as these reserves are taken into account while arriving at the surplus/deficit as per the actuarial valuation.
Acquisition expenses	Acquisition costs are costs that vary with and are primarily related to the acquisition of new and renewal insurance contracts. Such costs are expensed in the year in which they are incurred and are not to be capitalised.	Though the tax laws do not contain a specific provision for deduction of such expenses, these are allowed if they were taken into account when arriving at the surplus/ deficit as per the actuarial valuation.
Gains and losses on investments	In respect to government securities and other held to maturity securities, long-term gain/ loss on transfer/ sale of securities is the difference between the sale price and the net amortised cost/ book value and is accounted as policyholders' income under Form A-RA or shareholders income under Form A-PL as applicable. The profit or loss on the actual sale of a listed security includes the accumulated changes in fair value previously recognised in the "fair value change account". This amount is recycled to the appropriate revenue or P&L amount.	Gains on investments are taxable and losses are allowable if they were taken into account when arriving at the surplus/ deficit as per the actuarial valuation.
Reserves against market losses on investments	An impairment loss shall be recognised as an expense in revenue/ P&L account to the extent of the difference between the re-measured fair value of the security/ investment and its acquisition cost as reduced by any previous impairment loss recognised as expense in revenue/ P&L account. Any reversal of impairment loss earlier recognised in revenue/ P&L account shall be recognised in revenue/ P&L account. Unrealised gains/ losses due to changes in the fair value of listed equity shares flow through the fair value change account and are carried forward to the balance sheet. Unrealised gains and losses in unit-linked business are recognised in the respective scheme's revenue account (Form A–RA).	Impairment losses, unrealized losses are allowed and unrealised gains are taxable if they were taken into account when arriving at the surplus/ deficit as per the actuarial valuation.
Dividend income	Dividend income is recognised when the right to receive is established.	Dividends on which Dividend Distribution Tax is paid by dividend declaring/ distributing/ paying company are exempt in the hands of the shareholders. However, any expenditure incurred for earning exempt income is subject to disallowance in the hands of the insurance company. In certain cases, Tax Tribunal have been taking a view that disallowance is not attracted in the case of insurance companies.

India: Life insurance – overview (continued)

Calculation of investment income and capital gains	Accounting	Taxation
Policyholder bonuses	Included in the revenue account.	No specific provisions are present in the tax laws. Bonus generally is not allowable as deduction.
Other special deductions	None	Net income arising from pension business is exempt from tax.
Reinsurance	**Accounting**	**Taxation**
Reinsurance premiums and claims	Reinsurance premium is recognised in the same year in which policy is issued or renewed. Reinsurance premiums whether on business ceded or accepted are to be brought into account gross (i.e. before deducting commissions) under the head reinsurance premiums. Reinsurance benefits to insurers for death claims are accounted for when intimated and accounted for in the same period as the related claims & shown under Schedule 4 Benefits Paid (Net).	There exist no separate rules in the tax law for tax treatment in the case of reinsurance. Reinsurance premiums/ claims are allowable/ taxable if taken into account in arriving at the surplus/ deficit as per actuarial valuation.
Mutual companies/ stock companies	**Accounting**	**Taxation**
Mutual Companies	No mutual company exists.	Presently, there are no pure mutual insurance companies in India as most private life insurance companies are equity joint ventures between Indian and foreign promoters.

India: Life insurance – other tax features

Further corporate tax features	Taxation
Loss carry-overs	Permitted to be carried forward up to a maximum of eight years subject to continuity of substantial ownership (>51%) test
Foreign branch income	Included in taxable income as all insurance companies being Indian firms are tax resident in India and are chargeable to tax on worldwide income. However, an exemption/tax credit for foreign taxes suffered may be available in India, subject to tax treaty provisions.
Domestic branch income	Included in overall taxable income of the insurance company and chargeable to tax in accordance with the special computational provisions.
Corporate tax rate	Effective tax rate is 13.52% (incl. surcharge of 5%, education cess of 2% and secondary & higher education cess of 1%).
Policyholder taxation	**Taxation**
Deductibility of premiums	For financial year 1 April 2011 to 31 March 2012, while computing the total income of an individual, premiums paid by such individual under a qualifying* life insurance policy are allowed as deduction under section 80C. Further, premiums paid by an individual under a pension plan/ policy which is approved by the IRDA, are also allowed as a deduction under section 80CCC. Deduction for premiums paid, as stated above, are subject to an upper cap aggregating to INR 100,000 (per person/ year).The employer may deduct payments of keyman life insurance premiums. ** A policy is said to be a qualifying policy if the premiums paid during the term of the policy do not exceed 20% of the actual capital sum assured under the said policy.*
Interest build-up	Generally not taxable.
Proceeds during lifetime	Proceeds received under a life insurance policy, generally not taxable [Taxable are the receipts under a keyman* insurance policy and/or receipts under a policy (established on or after 1 April 2003) where premiums payable for any of the years during which the term of policy exceeds 20% of the actual capital sum assured]. Proceeds received upon death of the policyholder are exempt from tax. Further, proceeds received by the policyholder on maturity of a qualifying life insurance policy (please see *Deductibility of premiums* above) is also exempt from tax. However, amount received (including interest/ bonus accrued, if any) on surrender/ withdrawal, or as pension from an annuity plan, is taxable in the hands of the policyholder/ nominee in the year of receipt. ** As per Indian income tax law "Keyman Insurance Policy" means a life insurance policy taken by a person on the life of another person who is or was the employee of the first-mentioned person or is or was connected in any manner with the business of the first-mentioned person. The definition of "keyman" is clarified in a circular issued by the Central Board of Direct Taxes as per which "Keyman" is an employee or a director, whose services are perceived to have a significant effect on the profitability of the business.*
Proceeds on death	Not taxable [receipts under a keyman insurance policy are taxable].
Other tax features	**Taxation**
Premium taxes	Life insurance premiums generally attract service tax @ 10.3% (including education cess of 2% and secondary & higher education cess of 1%) on the entire amount charged by the policy holder excluding the portion of investments. Insurers in some cases may be in a position to opt for the composite scheme where service tax is payable at 1.5% (plus education cess of 2% and secondary & higher education cess of 1%) of the gross amount of premium, without a distinction being made between risk and investment portions.
Capital taxes and taxes on securities	Wealth tax is levied at the rate of 1% on certain specified assets (motor vehicles, jewellery, specified immovable property) owned by a company and valued in excess of INR 3 million at the last day of the financial year, net of associated liabilities, if any.
Captive insurance companies	No separate rules for captives.

India: Life insurance – other tax features (continued)

Other tax features	Taxation
Value added tax (VAT)	All goods sold in the course of interstate trade are subject to CST and sales within any State are chargeable to VAT under the VAT laws of the relevant State. Applicability of VAT on insurance companies, depend upon the VAT laws of the respective State. If insurance companies are covered, then sale of moveable assets by insurance companies will attract the levy of state VAT. The rate of tax would vary as per the VAT laws of the respective states.
Minimum Alternative Tax (MAT)	With an object to bring zero tax companies under tax net, MAT at effective rate of 20.01% (including surcharge of 5%, education cess of 2% and secondary & higher education cess of 1%) of book profits is levied on companies whose tax payable under normal income-tax provisions is less than 18.50% of book profits. A credit of such tax paid under MAT provisions by a company with effect from FY 05-06 shall be allowed against the tax liability that arises in subsequent ten years under the normal provisions of the Act.
Dividend Distribution Tax (DDT)	Dividend income, which is subject to DDT, is exempt in the hands of the shareholders. However, a dividend distribution tax of 16.22% (including surcharge of 5%, education cess of 2% and secondary & higher education cess of 1%) is currently levied on companies' declaring/ distributing/ paying dividend. Dividend received by a company from its subsidiary, on which subsidiary company has paid DDT, is to be reduced from the total dividend declared/ distributed/ paid by the company, provided the dividend receiving company is not a subsidiary of any other company. Thus, the DDT is to be levied on the net dividend only. A company is a subsidiary of the other company if such other company holds more than half in nominal value of the equity share capital of the company.

Note: surcharge of 5% is applicable in cases where total income exceeds INR 10 million.

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