

Tax on Distributable Profits (Deemed Dividend Tax)

Liability to pay (Section 61 (1)(b)(ii))

If a company has not distributed at least 10% of the distributable profits for the preceding year, within a period of 18 months immediately succeeding the commencement of such preceding year, it is liable to a tax at the rate of 15% of the excess of 33 1/3% of the distributable profits immediately preceding year of assessment, over the aggregate of the gross dividends distributed out of such distributable profits.

However, where the Commissioner-General is satisfied, that any company has been restrained from distributing or has set apart, the whole or any part of its distributable profits for any year of assessment in order to comply with any requirement imposed by any other written law, the whole or such part so restrained from being distributed or so set apart, shall be deemed to have been distributed, for the purposes of determining whether such company has distributed.

Computation of Distributable Profit

“Distributable profits” in relation to any year of assessment and to any company means, the book profits of that company for that year of assessment,

reduced by the aggregate of—

- (a) the income tax payable for that year of assessment
- (b) the cost incurred in that year of assessment in the acquisition of any land or any capital asset
- (c) any notional profit computed on the basis of a revaluation of any capital asset and included in such book profits

increased by the aggregate of—

- (a) the allowance for depreciation deducted in respect of capital assets acquired during that year of assessment in calculating such book profits
- (b) any notional loss computed on the basis of a revaluation of any capital asset and included in such book profits

The calculation of distributable profit is as follows:

Profit Before Tax for the previous year of assessment (e.g.2015/ 2016)		xxxxxxx
Less:		
Income tax payable for the previous year of assessment (computed in accordance with section 61 (1) (a))	xxxxx	
Profit on revaluation of capital assets included in book profit	xxxx	
Capital Assets acquired during the previous year of assessment	xxxxx	(xxxxxxx)
		xxxxxxx
Add:		
Depreciation charged in respect of capital assets during the previous year of assessment	xxxxx	
Loss on revaluation of capital assets included in book profit	xxxxx	xxxxxxx
Distributable Profits for the year of assessment 2015/ 2016		xxxxx

Example 01

The following information was extracted from ABC Company (Pvt) Ltd for the year of assessment 2015/16. (All amounts are in rupees)

Profit before tax	45,765,000
Income tax payable for Y/A 2015/16	4,670,000

During the year, the company has acquired capital assets amounting to Rs. 12,000,000/- and depreciation on such assets was Rs. 1,250,000/-.

Calculate Distributable profit for the Year of Assessment 2015/16

Suggested Answer

Profit Before Tax for the Y/A 2015/ 2016		45,765,000
Less:		
Income tax payable for year of assessment 2015/16	4,670,000	
Profit on revaluation of capital assets	-	
Capital Assets acquired during the Y/A 2015/16	12,000,000	(16,670,000)
		<u>29,095,000</u>
Add:		
Depreciation charged in respect of capital assets acquired	1,250,000	
Loss on revaluation of capital assets	-	1,250,000
Distributable Profits for the year of assessment 2015/ 2016		<u><u>30,345,000</u></u>

Minimum Dividend to be made to avoid tax on distributable Profits

10% of distributable profit should be distributed as dividends within 18 months from the commencement of the year of assessment.

Accordingly, dividends declared from 01st April of that year of assessment to 30th September of the following year of assessment are considered.

(E.g. distributable profit of Y/A 2015/16 could be distributed from 01.04.2015 to 30.09.2016)

Computation of Tax on Distributable profits

$$\text{Tax on distributable profit} = [(\text{Distributable profit} \times 33 \frac{1}{3} \%) - \text{Dividend distributed}] \times 15\%$$

33 1/3% of distributable profit of Y/A 2015/ 2016	xxxxx
Less:	
Dividend distributed within 18 months from the commencement of the Y/A 2015/ 2016 (i.e. From 01.04.2015 to 30.09.2016)	(xxx)
Taxable distributable profit	xxxxx
Tax on Distributable Profit for the Y/A 2016/17 @ 15%	xxx

Example 02

Refer Example 01 above and Calculate minimum dividend to be distributed to avoid Tax on Distributable profit for the Year of assessment 2016/17.

Suggested Answer

Distributable profit for Y/A 2015/16	30,345,000
Minimum dividend to be distributed to avoid Tax on Distributable profit for the <u>Y/A 2016/17</u> }	30,345,000 x 10% 3,034,500

Example 03

Refer Example 01 above and assume that ABC Company (Pvt) Ltd has not declared any dividend from the profits of year of assessment 2015/16.

Calculate Tax on Distributable profit for the Year of Assessment 2016/17.

Suggested Answer

Distributable Profit for Y/A 2015/16	30,345,000
33 1/3% of distributable profit of Y/A 2015/ 2016	10,115,000
Less:	Nil
Dividend distributed within 18 months from the commencement of the Y/A 2015/ 16	
Taxable distributable profit	10,115,000
Tax on Distributable Profit for the Y/A 2016/17 @ 15%	1,517,250

Due date for Payment of Tax on Distributable Profits

On or before the thirtieth day of October of that year of assessment for which such tax is payable.

E.g. Tax on distributable profit for Y/A 2016/17 should be paid on or before 30th October 2016.

Example 04

The following information is relevant to a resident company for the year of assessment 2015/2016.

	Rs.
Accounting profit before taxation	9,300,000
Tax on taxable income	1,116,000
Depreciation charged to profit	1,245,000
Cost of capital assets acquired during the year	3,000,000
Depreciation on capital assets additions during the year	360,000
Interim dividend distributed on 15 th November 2015	300,000

Calculate the minimum amount to be distributed to avoid tax on distributable profit and the amount of tax payable on distributable profit.

Suggested Answer

Accounting profit before taxation		9,300,000
Less:		
Tax on taxable income	1,116,000	
Cost of capital assets acquired during the year	3,000,000	(4,116,000)
		5,184,000
Add:		
Depreciation on capital assets additions during the year		360,000
Distributable profit for Y/A 2015/16		5,544,000

Minimum distribution (10% of distributable profit) 554,400

The minimum distribution required to avoid tax on distributable profit (10% of 5,544,000) is Rs. 554,400. But the amount of dividend paid is Rs. 300,000. Therefore the company is liable to tax on distributable profit as follows:

33 1/3 of distributable profit (5,544,000 x 33 1/3%)	1,848,000
Less: Dividend distributed before 30.09.2016	(300,000)
Taxable distributable profit	1,548,000
Tax payable on distributable profit @ 15%	232,200

Example 05

The following information was extracted from Ranmin PLC:

- Profit before tax for the year ended 31st March 2016 was Rs.14,250,000/-.
- Adjusted profit for tax purposes and tax liability for the year of assessment 2015/16 were Rs. 17,088,750/- and Rs.4,750,000/- respectively.

- Details of Property, Plant and Equipment acquired during the year of assessment 2015/16 were as follows:

Asset	Cost	Depreciation for the year
Land	1,500,000	0
Motor Car	2,200,000	286,000
Office Equipment	342,000	32,200
Furniture	84,000	12,600
	4,126,000	330,800

- The company has made the following dividend distributions for Y/A 2015/16.
 - Interim dividend of Rs. 250,000 on 30th January 2016
 - Final Dividend of Rs. 500,000 on 15th November 2016

Based on the above information, Compute,

- Distributable profit of the company for the year of assessment 2015/16,
- Minimum dividend to be declared to avoid tax on distributable profits
- Tax payable on distributable profits for the year of assessment 2016/17 if any.

Suggested Answer

Accounting profit before taxation		14,250,000
Less:		
Tax on taxable income	4,750,000	
Cost of capital assets acquired during the year (Note)	4,126,000	(8,876,000)
		<u>5,374,000</u>
Add:		
Depreciation on additions during the year		<u>330,800</u>
Distributable profit for Y/A 2015/16		5,704,800

Minimum distribution (10% of distributable profit) 570,480

Note: cost of capital assets can be deducted without a restriction.

The minimum distribution required to avoid tax on distributable profit (10% of 5,704,800) is Rs. 570,480. But the amount of dividend paid before 30th September 2016 was Rs. 250,000. Therefore the company is liable to tax on distributable profit as follows:

33 1/3 of distributable profit (5,704,800 x 3 1/3%)	1,901,600
Less: Dividend distributed before 30.09.2016	<u>(250,000)</u>
Taxable distributable profit	1,651,600

Tax payable on distributable profit @ 15% 247,740

Example 06

The following information is provided in respect of Panda Toys PLC:

- Profit before tax for the year ended 31st March 2016 was Rs. 21,750,000/-.
- Adjusted profit for tax purposes and tax liability for the year of assessment 2015/16 were Rs. 37,600,000/- and Rs. 6,325,000/- respectively.
- Cost of capital assets acquired during the year was Rs. 3,256,000 and depreciation on those assets was Rs, 376,700.
- The company has paid a dividend of Rs. 1,500,000 on 30th May 2016. As per the board resolution passed, it consists of following profits.
 - Rs. 500,000 from profits earned in Y/A 2014/15
 - Rs. 800,000 from profits earned in Y/A 2015/16
 - Rs. 200,000 from profits earned in Y/A 2016/17

Based on the above information, Compute,

- (a) Distributable profit of the company for the year of assessment 2015/16,
- (b) Minimum dividend to be declared to avoid tax on distributable profits
- (c) Tax payable on distributable profits for the year of assessment 2016/17 if any.

Suggested Answer

Accounting profit before taxation		21,750,000
Less:		
Tax on taxable income	6,325,000	
Cost of capital assets acquired during the year	3,256,000	(9,581,000)
		<hr/>
		12,169,000
Add:		
Depreciation on capital assets additions during the year		376,700
Distributable profit for Y/A 2015/16		<hr/> 12,545,700

Minimum distribution (10% of distributable profit)

1,254,570

The minimum distribution required to avoid tax on distributable profit (10% of 12,545,700) is Rs. 1,254,570. But the amount of dividend paid from profits of Y/A 2015/16 before 30th September 2016 is only Rs. 800,000. Therefore the company is liable to tax on distributable profit as follows:

33 1/3 of distributable profit (12,545,700 x 33 1/3%)	4,181,900
Less: Dividend distributed before 30.09.2016	<u>(800,000)</u>
Taxable distributable profit	3,381,900

Tax payable on distributable profit @ 15%

507,285