

Government of India  
Ministry of Finance  
Department of Revenue  
Central Board of Direct Taxes

North Block, New Delhi  
dated the 11<sup>th</sup> of February, 2014

**Subject: - Clarification regarding scope of additional income-tax on distributed income under section 115R of the Income-tax Act -regarding.**

Section 115R of the Income-tax Act, 1961 ('Act') provides for levy of additional income-tax on distributed income to unit holders (hereinafter referred to as 'additional income-tax').

2. It has been reported that some field authorities are taking a view that mutual funds/specified companies are required to pay additional income tax under sub-section (2) to section 115R of the Act not only on income distributed by way of dividend but also on payments made at the time of redemption/repurchase of units as well as at the time of allotment of bonus units to existing investors.

3. The matter has been examined by the Board. Section 115R is placed under Chapter XII-E of the Act, which is titled as "*SPECIFIC PROVISIONS RELATING TO TAX ON DISTRIBUTED INCOME*" and prescribes special provisions for taxing '**distributed income**', which is not taxed under any other provisions of the Act.

4. Sub-section (2) of section 115R of the Act provides that any amount of income distributed by (i) a specified company, or (ii) a mutual fund to its unit holders shall be chargeable to tax and such entities shall be liable to pay additional income tax on such distributed income at the rates prescribed therein. The income so distributed by such entities is the dividend paid to the unit holders and is liable to tax under this section. However, redemption of units or repurchase of units would not attract levy of tax under sub-section (2) to section 115R of the Act as such income is not of the nature of income "distributed" to the unit holders and hence lies outside the purview of this section.

5. Further, the income so distributed by the mutual fund or specified company in the hands of the recipient unit holder is specifically exempt from tax under section 10(35) of the Act. Proviso to

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section 10(35) of the Act stipulates that exemption of income under this section is not applicable to those cases where transfer of units takes place. The recipient of such income is liable to pay capital gains tax, if applicable, on transfer of such units as per relevant provisions of the Act and shall not be subject to additional income tax under section 115R of the Act.

6. Similarly, bonus units at the time of issue would not be subjected to additional income tax under section 115R of the Act since issue of bonus units is not akin to distribution of income by way of dividend. This may be inferred from provisions of section 55 of the Act which prescribes that 'cost of acquisition' of bonus units shall be treated as nil for purposes of computation of capital gains tax.

7. In view of above position, Central Board of Direct Taxes, in exercise of its powers under section 119 of the Act hereby clarifies that additional income-tax under sub-section (2) of section 115R of the Act is to be levied on income distributed by way of dividend to unit-holders of mutual funds or specified companies and receipts from redemption/repurchase of units or allotment of additional units by way of bonus units would not be subjected to levy of additional income tax under that section.

8. This may be brought to the notice of all concerned.

9. Hindi version to follow.



**(Rohit Garg)**

**Deputy Secretary to the Government of India  
(F.No. 225/182/2013-ITA.II)**

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**(Rohit Garg)**

**Deputy Secretary to the Government of India**