

Case Study

Subsidiary of a Danish Shipping and Logistics Company

Service(s) offered: **Entity Set-up & Management**

Sector/Industry: **Transportation**



Supported the IT division of a logistics company with the utilization of surplus profits

Our client is a wholly-owned subsidiary of a Danish shipping and logistics company. They provide IT support, software development, and back-office services to its group companies.

The client wanted us to evaluate the most beneficial option for utilizing their surplus profits/free reserves. They wanted us to explore the best solution based on factors such as maximum payout, availability of credit of tax deducted by the Indian entity, and taxability in the hands of the shareholder.

Approach

While addressing the matter, we had to ensure that all rules and regulations applicable to this transaction were thoroughly analyzed and highlighted to the client. The analysis included a detailed study of the Companies Act and FEMA implications, the Income Tax Act, its relevant case laws, as well as the General Anti Avoidance Rules.

In addition, considering the recent amendments introduced by the Finance Bill on Dividend Distribution Tax, it was important that our estimation gave them an overview of:

Case Highlights

- Assisted in decision-making regarding the client's surplus reserves for dividend distribution and buy-back of shares
- Provided visibility on the quantum of profits to be distributed
- Helped reduction in tax outflow for the distribution of profits, dividends, and buy-back of shares

- Dividends paid prior to the amendment in tax laws
- Dividends paid post-amendment to tax laws
- Buy-back of shares

Solution

- Provided a comparative table of Dividend Distribution vis-a-vis buy-back of shares with the following details:
 - Total receipt in the hands of the shareholder
 - Total outflow to the company
 - Credit for Dividend Distribution Tax (DDT) to shareholders
 - Tax payable by way of DDT/buy-back tax for shareholders
 - Permissible limit for buy-back of shares
 - Value price for buy-back of shares and its implication under the Income Tax Act

Along with the comparatives, we provided our recommendation to the client on the factors to be considered in their decision-making process.

Eventually, the client opted for both options - **buy-back of shares** (within permissible limits) and **dividend distribution**.

Nexdigm carried out the valuation of shares alongside coordinating with the bank and filing the relevant forms and returns under the Companies Act, FEMA, and Income Tax Act.

Impact

With our guidance, the client could take a calculated decision on buy-back and dividend distribution.

The comparative table created by the Nexdigm team helped their Corporate team get a quick glance at the available options, thus enabling them to make effortless decisions.

For more information on this case study, please write to us at:

ThinkNext@nexdigm.com

You can also visit our website to know how our services resulted in tangible business benefits:

www.nexdigm.com