



Analysing Shareholders' Perceptions: A Comparative Study Before and After the Abolishment of Dividend Distribution Tax (DDT)

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ABSTRACT

According to Section 10(34) of the Income Tax Act, before the Assessment Year 2020-21, dividends received by residents from domestic companies were not taxable as the burden was shifted onto companies via Dividend Distribution Tax (DDT) under Section 115-O. Nevertheless, the Finance Act of 2020 wiped out DDT, starting a new taxation architecture where shares will be subject to taxation and the guarantors will be liable to dividend taxation. This study is a comparison between shareholders' perceptions prior to and post-DDT reform. With a non-probability sample technique (convenience sampling), the researcher gathered responses from 1,536 individuals evaluating their attitude on the abolishment of DDT, since responses depend much on the survey topic. Results show that the majority of the shareholders prefer the post-abolition regime with respect to transparency and harmonization with the global tax standards, even though taxes levied on individual investors are higher. While most respondents said they wouldn't change investment strategies, despite the increased tax costs on individual investors versus corporations, the study finds investment returns, tax efficiency, and compliance burden to be the main drivers of shareholders' sentiments. An objective of the paper was to assess the behavioural effect of taxation policy change on investor behaviour through these perceptions. The practical implications of these findings for companies, investors, and governments in the event of replacing DDT with conventional dividend taxes are quite important.

1. INTRODUCTION

Dividends indicate a company's fiscal well-being and future goals, providing shareholders with a portion of its earnings. Although a portion of profits is retained for reinvestment, dividends are a crucial indicator of corporate performance. In a manner analogous to the application of service tax on service providers and income tax on individuals, the DDT was levied on companies that distribute dividends to shareholders. Implemented pursuant to Section 115-O of the Income Tax Act, 1961, DDT transferred the tax obligation from shareholders to corporations. The taxation of dividends has historically ignited discussion—should the responsibility lie with shareholders or the distributing companies?

Historically, two principal frameworks regulated dividend taxation in India:

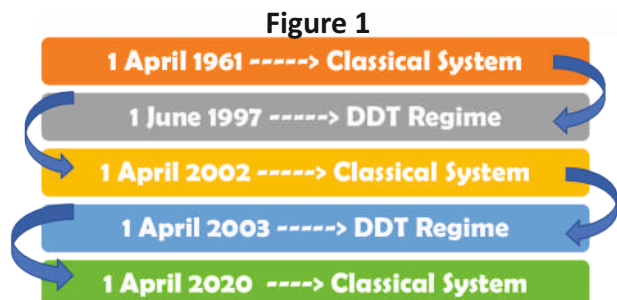
1.1 Classical/Progressive System (Pre-1997):

Under this system, shareholders were taxed directly on dividends received. Companies deducted TDS for dividends exceeding ₹2,500, and shareholders declared this income in their tax returns. However, this process created administrative inefficiencies due to refund claims arising from mismatched TDS rates and personal tax slabs.

1.2 Simplified System (DDT Regime, 1997–2020):

To optimize tax collection, the government implemented DDT, imposing a tax of approximately 20.56% on dividends at the corporate level, whereas

shareholders were excluded under Section 10(34). This system disadvantaged shareholders in lower tax brackets and foreign investors unable to claim credits for DDT within their residence jurisdictions, thereby diminishing their effective returns.



Source: Author's own

The elimination of DDT in the Union Budget 2020–21 represented a significant policy transition towards the classical system of 'direct taxation of shareholders. Shareholders would be taxed directly. Not only did the dividend tax change make dividend income more palatable, but it also affected the investment landscape. If we take the DDT administration as an example, a company with after-tax profits of ₹100, distributed dividends of ₹40 to shareholders, which will attract 15% DDT (₹6), leaving it with ₹54 as retained earnings. In some instances, DDT was able to extract funds from the company's equity, further straining its finances. While this change has important policy implications, the extent to which it affects how shareholders view companies and how they want to allocate investments to companies is less well documented. This study seeks to bridge that gap by providing a detailed analysis of shareholders' attitudes before and after the elimination of DDT, offering insights into how this fiscal change has influenced dividend policies and investor behavior.

2. METHODOLOGY

This study utilizes a quantitative research methodology to examine shareholders' perceptions in India prior to and following the repeal of the DDT. Considering the extensive taxpayer population in India, which can be regarded as virtually infinite for sampling purposes, the research implements a structured sampling technique to guarantee

representativeness across various geographical areas.

2.1. Sampling Design

The research focuses on shareholders throughout India, categorized into four primary regional divisions: East, West, North, and South. A sample of 1,536 respondents was selected, comprising 384 shareholders from each region. This distribution guarantees fair geographic representation while complying with statistical standards, as an infinite population necessitates a minimum sample size of 384 for a 95% confidence level with a 5% margin of error. The sample is displayed in the table below.

The convenience sampling technique was used for selecting respondents (people who are readily available and agree to participate). Although this technique was non-probabilistic, it was found to be practical as Indian shareholders are quite scattered and plural in nature.

2.2. Data Collection

A structured questionnaire was deployed electronically via Google Form to collect the primary data. The questionnaire was designed to measure shareholders' satisfaction with the effect of DDT abolition on their perspective. The responses were thoroughly edited and validated to meet the research objectives of minimizing errors and enhancing data quality.

2.3. Data Analysis

Descriptive statistical methods are employed within the research to provide a concise representation of the data. The comparative mean, frequency distribution, and percentage comparisons of shareholder perceptions before and after the DDT policy shift were the primary indicators. This method allows a thorough quantitative description of the trends and patterns in the dataset.

Table 1: Sample from Each Region State

S. N.	Regions States	Sample from each region states
1.	East	384
2.	West	384
3.	North	384
4.	South	384
Total		1536

3. RESULTS & DISCUSSION

The abolition of DDT in any economy is an important arena for potential effects on financial markets. Recently, there has been a wider push in several legal jurisdictions to overhaul their tax structures and improve the Recently, numerous legal jurisdictions have initiated efforts to reform their tax systems and enhance the investment environment for capital inflows. The ramifications of these policies extend well beyond financial alterations, significantly impacting investor communities and company value generation.

The consequences of contemporary changes in policy can be glimpsed through the eyes of different stakeholder actors — suppliers and middlemen, individual shareholders, the various constitutionally legal filers associated with institutional investors or corporate enterprises, and market observers. Traditionally, the DDT was implemented by governments as a device for enabling them to redirect company payment of a dividend to owners into more direct revenue streams. However, its abolition changes the shareholder return dynamic, corporate capital allocation strategies, and market competitiveness in general. Hence, it is vital to gauge the views and reactions of shareholders to such changes.

The views of shareholders on the end of the DDT are influenced by many different factors, including immediate impacts on dividend income and wider ramifications on investment strategies and functions/volume of the market. It should at least partly explain these kinds of perceptions from shareholders, changing risk evaluations and expectations, to cultural, behavioral factors. The interaction between DDT and other interconnected economic frameworks, regulatory components, and global market trends necessitates comprehensive research. This study endeavours to detail the divergent perceptions and attitudes on the repeal of DDT through data gathered from a sample of 1,536 shareholders.

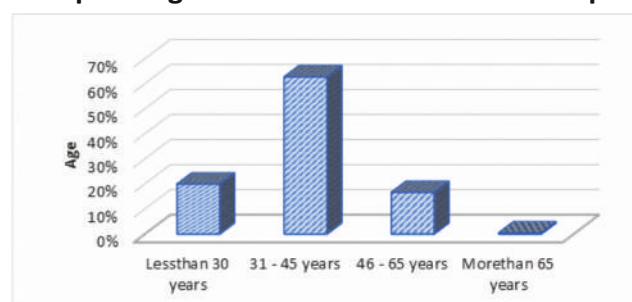
3.1 Age (In Years)

A disparity between the perspectives of younger and older generations will be evident.

The youth aspire for speed and efficiency, while the elderly want a gradual and steady progression in the race. Age serves as a significant motivational factor. Youthful replies can evaluate all facets of a particular issue more logically and regard each situation as a challenge. They are highly flexible to innovation and change.

Nonetheless, elderly individuals, while less adaptable, possess considerable experience. They can provide counsel and propose new strategies for an organization's enhancement. All participants are categorised into four age brackets: under 30 years, 31–45 years, 46–65 years, and over 65 years.

Graph 1: Age-Wise Distribution of the sample



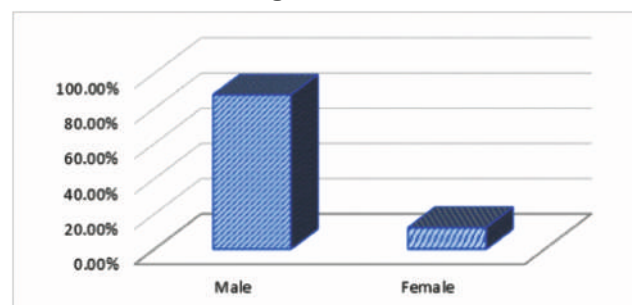
Source: (From field study, 2024)

Graph 1 indicates that 62.8 percent age range of 31-45, whereas 20 percent are below this age category, and 16.7 percent are aged 46-65. The data clearly indicates that 62.8 percent of respondents are aged between 31 and 45 years, suggesting the inclusion of individuals who are relatively youthful and fairly experienced.

3.2 Gender

Respondents' gender is a significant demographic feature. Gender is included as a variable because it affects awareness, comprehension, and access to available

Graph 2: Distribution of Respondents According to their Gender



Source: (From field study, 2024)

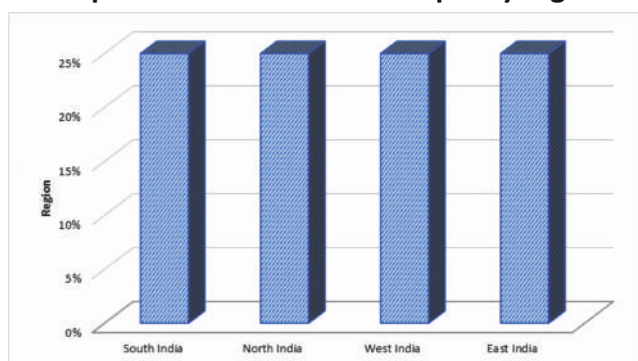
investment benefits. Generally, male respondents exhibit greater exposure and engagement in investment practices compared to female respondents.

12.3% of respondents are female, while 87.7% are male. The graph clearly indicates that men constitute the majority of the respondents in the sample. This indicates that in emerging nations, male involvement in investments is more common than female participation. Al-Ajmi (2008) found that males and females exhibit markedly distinct levels of risk tolerance in financial decision-making. In his 2008 study, Al-Ajmi found that men exhibit lower risk aversion compared to women.

3.3 Region

The researcher categorised the entire sample into four regions: South India, North India, West India, and East India. The entire sample is partitioned into four equal segments. Twenty-five percent of the sample is chosen from southern India, an extra twenty-five percent from northern India, twenty-five percent from western India, and twenty-five percent from eastern India. Authors have thoroughly examined each region of India to assess respondents' perspectives on the country's dividend program.

Graph 3: Classification of sample by region

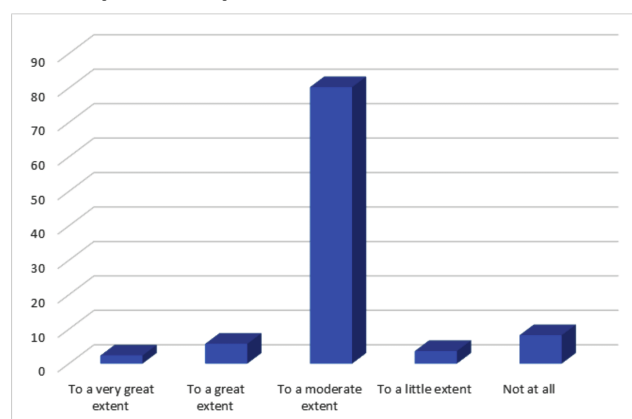


Source: (From field study, 2024)

3.4 Level of awareness on the DDT

DDT is essential for both shareholders and corporations. DDT is a levy imposed by the government on corporations that distribute dividends to their shareholders. This tax is withheld at the corporate level prior to the distribution of dividends to shareholders. Comprehending DDT enables shareholders to

Graph 4: Respondents' Awareness of DDT



Source: (From field study, 2024)

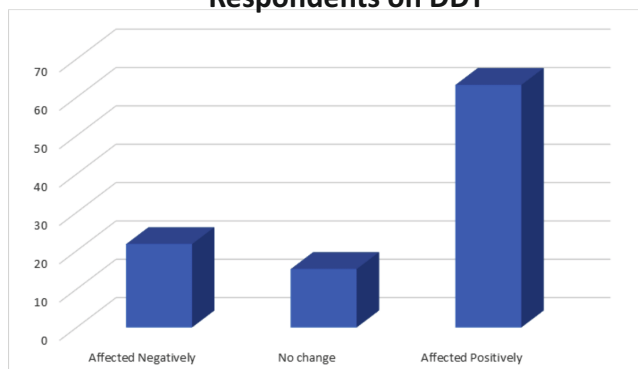
grasp the tax ramifications of their dividend income, while corporations must incorporate it into their financial planning and dividend allocation methods. Understanding DDT facilitates educated decision-making in investment strategies and company financial management, enhancing overall financial literacy and adherence to tax legislation.

It assesses individuals' knowledge of DDT, classifying their awareness into five distinct tiers: to a little extent, to a moderate extent, to a great extent, to a very great extent, and not at all.

The comprising 80.2%, demonstrated a moderate awareness of DDT. Subsequently, 8.2% of respondents indicated a lack of awareness, constituting the next notable category. In contrast, merely 2.3% demonstrated a significantly elevated awareness of dividend distribution tax. Consequently, most respondents displayed a moderate awareness, while the smallest percentage showed a very high comprehension of the dividend distribution of tax.

3.5 Consequences of the elimination of DDT

Shareholders, particularly those in elevated tax levels, may gain from the eradication of DDT. Historically, DDT was subtracted at the corporate level prior to the distribution of dividends to shareholders. The cessation of DDT may allow stockholders to obtain increased dividends, as corporations can allocate profits without the encumbrance of this tax. The prohibition of DDT may yield considerable

Graph 5: Perceptions of the Respondents on DDT

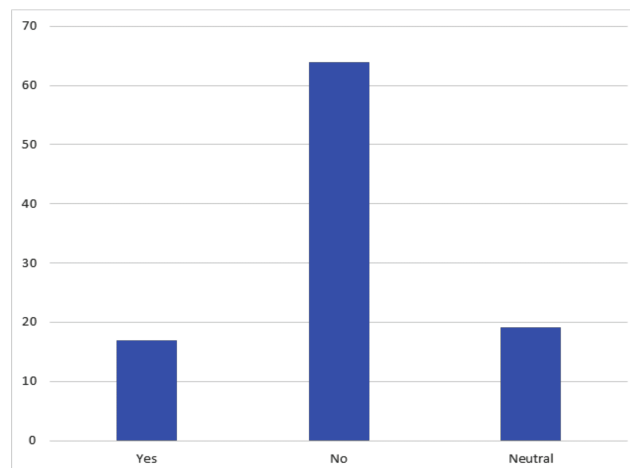
Source: (From field study, 2024)

ramifications for shareholders, corporations, governmental revenue, and market dynamics in India. This signifies a substantial policy alteration that could transform the investment environment and necessitate stakeholder adaptation to the revised tax framework. Graph 5 below demonstrates the ramifications of eliminating DDT on shareholders, indicating whether the effect is advantageous, detrimental, or neutral.

The eradication of DDT produced diverse effects on owners. A significant majority, amounting to 63.2%, reported favourable results from the policy adjustment, indicating enhancements in their financial situations. In contrast, around 21.7% reported adverse effects, signifying a significant minority encountering disadvantages owing to the cessation of DDT. A minority, including 15.2% of shareholders, noted no significant change in their circumstances following the removal of the DDT. Consequently, although most of the shareholders saw advantages, a notable minority encountered difficulties, while a lesser group remained untouched by the policy alteration.

3.6 Perception of dividend receipt under the former tax regime

Prior to the eradication of DDT on 1st April 2020. The previous tax system-imposed tax implications on the receipt of rewards from a firm. Prior to this reform, dividends were subjected to DDT, imposed at the corporate level. Consequently, shareholders received post-tax dividends, indicating that dividend income was subject to taxation at the corporate level, leading

Graph 6: Respondents' Interest in Receiving Dividends Before the Abolition of DDT

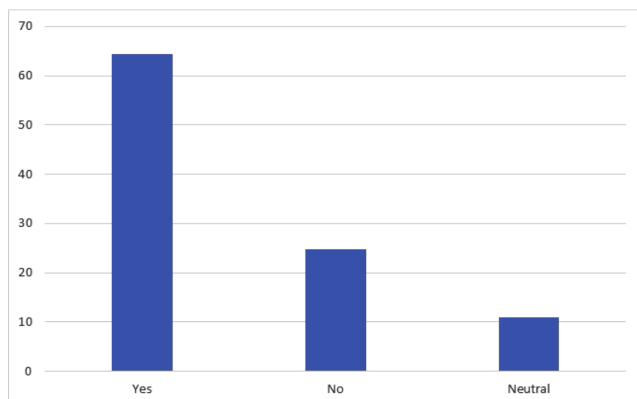
Source: (From field study, 2024)

to a diminished net dividend payout to shareholders. This approach seeks to optimise the tax collection process and avert Double taxation on dividend earnings. Nonetheless, the elimination of DDT ended in a substantial alteration of the tax framework for receiving dividends, prompting updated tax consequences for shareholders and a transformation in the taxation of dividends.

Graph 6 depicts the respondents' interest in obtaining dividends from corporations before the elimination of DDT on 1st April 2020. The graph analysis indicates that a majority of respondents (63.9%) demonstrated no interest in earning dividends before the eradication of DDT. A considerable segment of respondents maintained a neutral stance on this subject. A lesser proportion (16.9%) of respondents expressed interest in dividend income before the eradication of DDT.

3.7 Perception of receiving a dividend as per the latest tax reforms

The removal of DDT on the first of April 2020, as a component of the latest income tax reforms, significantly altered the taxation of received dividends. The elimination of DDT has rendered dividends received by shareholders taxable at their respective income tax rates. This transition indicates that shareholders now get dividends in full, without any tax withholding at the company level. Thus, the tax obligation on

Graph 7: Respondents' Interest in Receiving Dividends After the Removal of DDT

Source: (From field study, 2024)

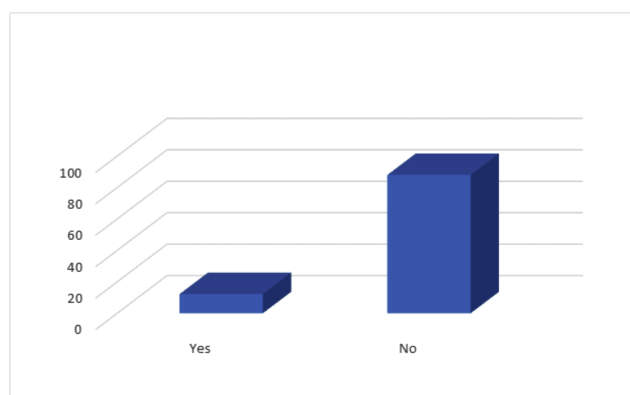
dividend income is ascertained according to the individual's relevant income tax bracket rates. This reform seeks to streamline the tax framework, eradicate double taxation, and guarantee that dividend income is taxed directly to the beneficiary, adhering to principles of equity and transparency in taxation.

Graph 7 analysis reveals that most respondents (64.3%) are expected to earn dividends post-repeal of DDT. A Small fraction (10.9%) of the respondents was neutral regarding dividend income after DDT repeal.

3.8 Change of Investment plan as seen owing to the removal of DDT

The eradication of DDT has called for a rethink on how to invest, moving away from equities to a range of alternative investment options. Shareholders looking for returns and wanting to reduce their tax obligation aim to find ways to escape DDT. In the absence of DDT, this realignment signals a change in strategy from tax-efficient, growth-focused vehicles to ones where growth is king, and tax is secondary. Debt Fund and fixed income instruments have started to attract the attention of the diversifying portfolios of shareholders to take advantage of the updated tax structure. The Investment environment is evolving, and shareholders are ready to adjust to it so that they can swing with value improvement.

Graph 8 illustrates the alterations in respondents' investment tactics following the repeal of DDT from stock to other investment options.

Graph 8: The Shift in Investment Plan Because of the removal of DDT

Source: (From field study, 2024)

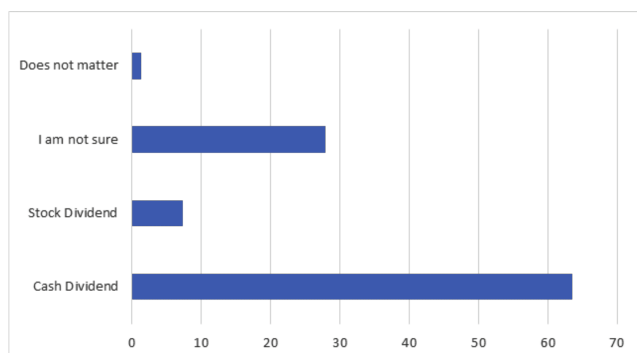
When the analysis was done, all respondents (87.9%) were found not interested in changing their equity asset allocation as DDT was nullified. Only a small share of 12.1% respondents intend to change their investment strategy after the eradication of DDT.

3.9 Preference for cash dividend or stock dividend (Before abolishing DDT)

Before DDT went away, shareholders normally liked to vote in their minds whether a cash vs. equity dividend is a better cash dividend for the shareholders for decades. Cash dividends provided shareholders with immediate liquidity (i.e., they could pocket a piece of the company's profits instantly by cash, which they may reinvest or simply spend personally). This one in particular is hilarious for owners looking for a steady cash flow or for people who need the money right away. In contrast, stock dividends gave owners newly issued shares in addition to no cash. Stock dividends, although not immediately liquid, allowed stockholders to increase ownership in an organization without tapping additional capital. In a longer period, this option frequently appealed to shareholders seeking to enhance their investments. The decision hinges on individual financial objectives, risk tolerance, and investment strategy regarding cash versus equity dividends.

In the data analysis, a majority of respondents (63.5%) indicated a preference for cash dividends before the eradication of DDT. A substantial segment of respondents (27.9%)

Graph 9: Preferences for Cash Dividends vs. Share-based dividends by shareholders before the eradication of DDT



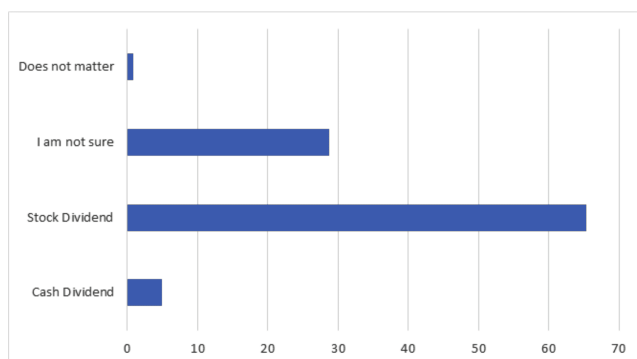
Source: (From field study, 2024)

selected the option "I am not sure," whilst a minor fraction (1.3%) expressed a preference for "does not matter."

3.10 Preference for cash dividend or stock dividend (After the eradication of DDT)

The eradication of DDT may prompt owners to reevaluate their preference for cash distributions versus stock dividends. The abolishment of DDT renders cash dividends liable to individual income tax rates upon receipt, potentially diminishing the net amount received by shareholders. Conversely, stock dividends, which are distributed as extra shares of the company's stock, do not instantaneously generate taxable income for shareholders. Taxation transpires upon the eventual sale of the shares, generally in accordance with capital gains tax regulations. This differentiation may prompt certain owners to prefer stock dividends as a tax-efficient method of obtaining returns on their assets, particularly for individuals in elevated tax

Graph 10: Respondents' Preferences on Dividends After the eradication of DDT



Source: (From field study, 2024)

bands. Nonetheless, personal tastes may differ due to factors including investing objectives, liquidity requirements, and risk appetite.

The data analysis indicates that a majority of respondents (65.4%) favoured stock dividends following the elimination of the DDT. A substantial segment of respondents (28.8%) selected the option "I am not sure," whilst a minor fraction (0.9%) expressed a preference for "does not matter."

4. CONCLUSION

A comparative investigation of the shareholders' perceptions before and after the eradication of DDT reveals critical findings on the practice and mood of shareholders. DDT has adequately compromised shareholder security, resulting in a diminished perception of their value. Removing DDT and its transition from cash to stock dividends is an investor-driven move to code exit from the previous tax domain by milking better return on equity and less taxation today. After the eradication of DDT, there was a sudden preference for stock dividends (providing some tax advantages and moving ownership without immediate tax consequences). The move betokened a change of strategy in voting with shareholders, whose goal is both maximising tax efficiency and maximising the long-term returns. This research work reveals the vital role played by tax policy changes in investment determinants, where financial decision-making follows a flexible response to shifting tax law. The study underlines the value of tax policy in investment choice and calls for financial literacy to enable investors to maneuver easily within a shifting frontier of economics.

5. POLICY IMPLICATIONS

However, the research highlights generational divides in how willing respondents at different stages in life are to adapt to these changes, with the younger group being much more willing and the older group relying on their experience. Regional spread was even in nature, allowing a holistic view of shareholder perception across India. The results show that while the moratorium on DDT abolition is generally well

received, it highlights the relevance of ongoing education and flexible responses from stakeholders, especially in response to changing tax policy and investment climate. It provides crucial guidance for

politicians and advisors on taxation regulations, investment advice that adheres to shareholder expectations, and financial necessity.



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