



ASSOCIATION OF MUTUAL FUNDS IN INDIA

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A. P. KURIAN

CHAIRMAN

135/BP/06/03-04

July 21, 2004

To all Members,

Dear «Title» «LastName»,



AMFI Best Practices Guidelines Circular no. 06/2004-05

Recommendations for uniform implementation procedure of differential Dividend Distribution Tax (DDT)

Consequent to the introduction of differential rates of Distribution Tax @ 12.5% plus surcharge and cess for "Individuals/HUF" and 20% plus surcharge and cess for "Others" in the Budget proposals 2004, effective from July 9, 2004, AMFI has constituted a working group with Shri Ramamoorthy Rajagopal of DSP Merrill Lynch as convener and with S/Shri Vishwanarayan of Birla Sun Life, Suresh Babu of HDFC, Mrugank Paranjape of Prudential ICICI, R Srinivasan of Principal, Vivek Pai of Templeton and Ms. Nita Mehta of Standard Chartered as members.

The recommendations of the Working Group are as under:

Pre Budget

Tax provisions:

The schemes were paying a DDT @ 12.5% plus surcharge of 2.5% (i.e., total DDT of 12.8125%) on the dividend declared to the investors of debt oriented schemes.

Method followed:

Investors were paid based on the dividend declared by the scheme. Simultaneously, the DDT plus surcharge (12.8125%) on the dividend declared was remitted to the Government. Consequently, the ex-dividend NAV of the scheme would fall to the extent of the dividend declared in absolute terms plus DDT @ 12.8125%.

**Recommendations for uniform implementation procedure
of differential Dividend Distribution Tax (DDT)**

Post Budget

Tax provisions:

The schemes to pay a DDT @ the following rates:

- (i) 12.5% plus surcharge (2.5%) plus cess (2.0%) (i.e. a total distribution tax of 13.06875%) on the actual dividend distributed to "Individuals/HUF" of debt oriented schemes. "Individuals/HUF" category will comprise of the following classes of investors - Individuals, NRIs, Minors, HUF and Sole Proprietorships.
- (ii) 20% plus surcharge (2.5%) plus cess (2.0%) (i.e. a total distribution tax of 20.91%) on the actual dividend distributed to "Others" in debt oriented schemes. "Others" category would include all other classes of investors other than (i) above.

The DDT to be borne by the scheme

Recommended procedural Method to implement the above budget proposal:

Step I:

The scheme to arrive at a Distributable Amount (inclusive of dividend distribution tax) based on distributable surplus, which will be the same for "Individual/HUF" and "Others".

Step II:

Based on the above, the scheme to declare a dividend (after adjusting for the DDT payable) for each of the above two categories i.e. "Individual/HUF" and "Others". This will be computed as follows:

Dividend = Distributable Amount Divided by (1 + DDT rate applicable to the respective category)

E.g. (Illustration in Appendix A)

Dividend-Individual/HUF = Distributable Amount Divided by (1 + 0.1306875)
Dividend-Others = Distributable Amount Divided by (1 + 0.2091)

Due to the above computation methodology the dividend payable will be different for the two categories of investors. However, the ex-dividend NAV of the scheme will fall to the extent of Distributable Amount. Therefore, ex-dividend NAV for both categories of investors will remain the same.

**Recommendations for uniform implementation procedure
of differential Dividend Distribution Tax (DDT)**

Rationale for the methodology:

To avoid cross subsidization and consequent loss to the "Individual/HUF" category of investors, on account of higher DDT applicable to dividends distributed to "Others" category of investors.

The Working Group has obtained opinions from a Legal Counsel and a Tax Consultant. The opinions concur with the above recommendations.

AMCs may consider appropriate additional disclosure to investors relating to dividend distribution based on their existing disclosure standards.

These guidelines are effective from July 22, 2004 and shall be thankful if these are followed.

Thank you and with regards,

Yours sincerely,


A.P. Kurian

«Title» «FirstName» «LastName»

«JobTitle»

«Company»

«Address1»

«Address2»

«City» «PostalCode»

Appendix A - Methodology for computation of Dividend and Dividend Distribution tax (DDT)

Distributable Amount - Rs per unit	1.0000																						
Total Units on record date	1,525,536																						
	<table><tr><th>Individual/ HUF</th><th>Others</th></tr><tr><td>Dividend - Rs per unit</td><td>0.8844</td><td>0.8271</td></tr><tr><td>DDT - Rs per unit</td><td>0.1156</td><td>0.1729</td></tr><tr><td>Total - Rs per unit</td><td>1.0000</td><td>1.0000</td></tr></table>	Individual/ HUF	Others	Dividend - Rs per unit	0.8844	0.8271	DDT - Rs per unit	0.1156	0.1729	Total - Rs per unit	1.0000	1.0000											
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Total - Rs per unit	1.0000	1.0000																					
Total Outflow in respect of Dividend @ Re 1 per unit			1,525,536	(A)																			
Dividend Computation	<table><tr><th>Individual/ HUF</th><th>Others</th><th>Total</th></tr><tr><td>Units on Record date</td><td>568,856</td><td>956,680</td><td>1,525,536</td></tr><tr><td>Dividend - Rs.</td><td>503,096</td><td>791,270</td><td>1,294,366</td></tr><tr><td>DDT - Rs.</td><td>65,748</td><td>165,455</td><td>231,203</td></tr><tr><td>Total Outflow - Rs.</td><td>568,844</td><td>956,725</td><td>1,525,569</td></tr></table>	Individual/ HUF	Others	Total	Units on Record date	568,856	956,680	1,525,536	Dividend - Rs.	503,096	791,270	1,294,366	DDT - Rs.	65,748	165,455	231,203	Total Outflow - Rs.	568,844	956,725	1,525,569			(B)
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Rounding-off Difference - Difference between A and B - Rs. (will not have any NAV impact)			33																				
Note: Decimal rounding-off to be decided by the AMCs as per their current practice.																							