

Section 80M: Deduction for Inter-Corporate Dividends, Conditions and Example

Description

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Quick summary

- Section 80M removes the cascading tax on dividends passed from company to company.
- A domestic company gets a deduction for dividends it receives, up to the dividend it distributes at least one month before the return due date.
- Dividends from domestic companies, foreign companies and business trusts all qualify.
- From Tax Year 2026-27 it is section 148 of the Income-tax Act, 2025, and it stays available to companies taxed at 22% or 15%.

When one company pays dividend to another and the second company then passes it on to its own shareholders, the same profit could be taxed at every step. Section 80M removes that cascading effect. From Tax Year 2026-27 the provision is section 148 of the Income-tax Act, 2025. For FY 2025-26 (assessment year 2026-27) it is still section 80M of the 1961 Act.

Background

Until 31 March 2020 the company declaring a dividend paid dividend distribution tax (DDT) and the dividend was exempt in the shareholder's hands. DDT was abolished from 1 April 2020, so dividends are now taxed in the hands of the recipient at its normal rates. Section 80M was brought in alongside, so that a company that merely passes dividends through is not taxed on them twice.

What does section 80M allow?

A domestic company whose gross total income includes dividends from any of the following gets a deduction:

- another domestic company,
- a foreign company, or
- a business trust.

The deduction is the amount of that dividend income, limited to the amount of dividend the company itself

distributes **at least one month before the due date** for filing its return of income. In short, it is the lower of the two figures.

Conditions

- Only a domestic company can claim it.
- The distribution must be made at least one month before the due date for filing the return (section 139(1) of the 1961 Act, section 263(1) of the 2025 Act).
- A distribution that has been used to claim the deduction in one year cannot be used again in any other year.

Example

A domestic company receives ?10,00,000 as dividend from another domestic company and ?2,00,000 from a foreign company, so ?12,00,000 in all. In the same year it distributes ?9,00,000 as dividend to its own shareholders, more than a month before the return due date.

Item	Amount in ?
Dividends received	12,00,000
Dividend distributed in time	9,00,000
Deduction (the lower)	9,00,000
Dividend income left in taxable income	3,00,000

If it had distributed ?15,00,000, the deduction would be capped at the ?12,00,000 received.

Concessional tax regimes

A company that has opted for the 22% rate (section 115BAA of the 1961 Act, section 200 of the 2025 Act) or the 15% rate for new manufacturing companies (section 115BAB, now section 201) cannot claim most deductions in Chapter VIII. The 2025 Act expressly keeps two for them: section 146 (additional employee cost) and section 148 (inter-corporate dividends). Under the 1961 Act the same exceptions applied to 80JJAA and 80M.

Dividends from foreign companies

Earlier guidance described a special 15% rate for dividends from foreign companies in which a company held 26% or more. The 2025 Act has no such rate. Dividends from foreign companies are part of total income at normal rates, and section 148 gives relief to the extent they are passed on to shareholders in time.

Frequently asked questions

Who can claim the section 80M deduction?

A domestic company whose gross total income includes dividends from another domestic company, a foreign company or a business trust.

How much is the deduction?

The lower of the dividend received and the dividend the company itself distributes at least one month before the due date for filing its return.

Can the same distribution be used twice?

No. If a distribution has been used to claim the deduction in one year, it cannot be used again in another year.

Is it available if the company pays tax at 22% or 15%?

Yes. The concessional regimes in sections 200 and 201 of the 2025 Act block most Chapter VIII deductions but expressly keep section 148 (and section 146).

What is the section number from Tax Year 2026-27?

Section 148 of the Income-tax Act, 2025.

Official sources

- Income Tax Department: Income-tax Act 2025 as amended by Finance Act 2026 (section 148)
- Income Tax Department: Section 80M, Income-tax Act 1961

Related reading

- Decoding the Direct Tax Landscape: Budget 2025 Insights

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