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The Preference Shares (Regulation of Dividends) Act, 1960

(ACT NO. 63 OF 1960)

[*As on the* 15*th July,* 2026)

LIST OF AMENDING ACTS

1. The Finance Act, 1965 (10 of 1965).
2. The Finance Act, 1966 (13 of 1966).
3. The Pondicherry (Extension of Laws) Act, 1968 (26 of 1968).

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LIST OF ABBREVIATIONS USED

Cl., cls.	*for*	Clause, clauses.
Ins.	,,	Inserted.
Notifn.	,,	Notification.
S., ss.	,,	Section, sections.
Sch.	,,	Schedule.
Subs.	,,	Substituted.
w.e.f.	,,	with effect from.

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THE PREFERENCE SHARES (REGULATION OF DIVIDENDS) ACT, 1960

ARRANGEMENT OF SECTIONS

SECTIONS

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THE SCHEDULE

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THE PREFERENCE SHARES (REGULATION OF DIVIDENDS) ACT, 1960

ACT NO. 63 OF 1960

[28*th December*, 1960.]

An Act to regulate dividends on preference shares of certain companies.

BE it enacted by Parliament in the Eleventh Year of the Republic of India as follows:—

1. Short title and commencement.—This Act may be called the Preference Shares (Regulation of Dividends) Act, 1960.

(*2*) It extends to the whole of India:

Provided that it shall not apply to the State of Jammu and Kashmir* except to the extend to which the provision of this Act relate to the regulation of dividends on preference shares of banking and insurance companies and financial corporations.

[1][(*3*) Notwithstanding anything contained in sub-section (*2*) the provision of this Act shall, in their application to the Union territory of Pondicherry, have effect subject to the modifications specified in the Schedule.]

2. Definitions.—In this Act, unless the context otherwise requires,—

(*a*) "Companies Act," means the Companies Act, 1956 (1 of 1956);

(*b*) "company" means an Indian company as defined in [2][clause (*26*) of section 2 of the Income-tax Act, 1961 (43 of 1961) and includes a company referred to in sub-clause (*ii*) of clause (*17*)] of the said section which has made arrangements for the declaration and payment of dividends within Indian in accordance with the rules made under the said Act;

(*c*) "preference share" means a share which [3]*** carries, as respects dividends, a preferential right to be paid a fixed amount or an amount calculated at a fixed rate;

(*d*) "previous year" has the same meaning as in the [4][Income-tax Act, 1961 (43 of 1961)];

(*e*) "stipulated dividend", in relation to a preference share, means the fixed amount or the amount calculated at fixed rate which the holder of such share has a preferential right to be paid as dividend;

(*f*) all other word and expressions used but not defined in this Act and defined in the Companies Act shall have the meanings respectively assigned to them in that Act.

3. Regulation of dividends on preference shares in certain cases.—(*1*) Where the stipulated dividend in respect of a preference share of a company [5][issued and subscribed for before the 1st April, 1960],—

(*a*) is specified to be free of income-tax and no deduction is made therefrom on account of the income-tax payable by the company, or

(*b*) was being paid before the 1st April, 1960, without any deduction therefrom on account of the income-tax payable by the company, notwithstanding the absence of any specification that the dividend would be free of income-tax,

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1. Ins. by Act 26 of 1968, s. 3 and Sch. (w.e.f. 24-5-1968).
2. Subs. by Act 10 of 1965, s. 72, for "clause (*7A*) of section 2 of the Indian Income-tax Act, 1922 and includes a company referred to in sub-clause (*ii*) of clause (*5A*)" (w.e.f. 1-4-1965).
3. The words, figures and letters "having been issued and subscribed for before the 1st day of April, 1960" omitted by s. 72, *ibid*. (w.e.f. 1-4-1965).
4. Subs. by s. 72, *ibid*., for "Indian Income-tax Act, 1922 (11 of 1922)" (w.e.f. 1-4-1965).
5. Ins. by s. 72, *ibid*. (w.e.f. 1-4-1965).

*. *Vide* notifin. No. S.O. 3912(E), dated 30th October, 2019, this Act is made applicable to the Union territory of Jammu and Kashmir and the Union territory of Ladakh.

every such share shall, as respects dividends declared after the commencement of this Act, carry a preferential right to be paid without any deduction aforesaid such amount as would exceed the stipulated dividend by thirty per cent. thereof.

(*2*) Where the stipulated dividend in respect of preference share of a company issued and subscribed for after the 31st March, 1959 [1][and before the 1st April, 1960] is free of income-tax, and the company, besides paying the stipulated dividend to the holder such share, pays to Government on his behalf any sum on account of income-tax payable thereon, then, every such share shall, as respects dividends declared after the commencement of this Act, carry a preferential right to be paid free of income-tax such amount as together with the sum aforesaid would exceed the stipulated dividend by thirty per cent. thereof.

(*3*) Where the stipulated dividend in respect of a preference share of a company [1][issued and subscribed for before the 1st April, 1960]—

(*a*) is specified to be subject to income-tax and a deduction is made therefrom on account of the income-tax payable by the company, or

(*b*) was being paid before the 1st April, 1960, subject to a deduction therefrom on account of the income-tax payable by the company, notwithstanding the absence of any specification that the dividend would be subject to income-tax, then every such share shall, as respects dividends declared after the commencement of this Act, carry a preferential right to be paid subject to the deduction aforesaid such amount as would exceed the stipulated dividend by eleven per cent. thereof.

(*4*) Where a company has in relation to a preference share [1][issued and subscribed for before the 1st April, 1960] declared,—

(*a*) after the 31st March, 1959, and before he 1st July, 1960, a dividend in respect of a previous year relevant to its assessment year 1960-61 or a subsequent assessment year, or

(*b*) after the 30th June, 1960, and before the commencement of this Act, a dividend in respect of any previous year,

it shall declare, in respect of the said previous year, an additional dividend of such amount as, together with the dividend already declared, would exceed the stipulated dividend—

(*i*) by thirty per cent. of the stipulated dividend in the cases referred to in sub-section (*1*), or

(*ii*) by eleven per cent. of the stipulated dividend in the cases referred to in sub-section (*3*).

(*5*) For the purposes of sub-section (*1*), sub-section (*3*) and sub-section (*4*), any reference therein to the stipulated dividend shall, in respect of a preference share issued and subscribed for on or before the 31st March, 1959, be construed as a reference to the stipulated dividend as on that day.

(*6*) For the removal of doubts, it is hereby declared that any reference in this section [1][and section 4A] to deduction made from a dividend "on account of income-tax payable by the company" does not include any amount deducted by the company from the dividend under [2][section 194 of the Income-tax Act, 1961 (43 of 1961)].

4. Special provisions in relation to companies where a portion of their income is not chargeable to income-tax.—[3][Where any preference share of a company has been issued and subscribed for before the 1st April, 1960, and any portion of the profits and gains of the company] in respect of the relevant period is exempt from income-tax under the [4][Income-tax Act, 1961 (43 of 1961)], by reason of such

1. Ins. by Act 10 of 1965, s. 72 (w.e.f. 1-4-1965).
2. Subs. by s. 72, *ibid*., for "sub-section (*3D*) of section 18 of the Indian Income-tax Act, 1922 (11 of 1922)" (w.e.f. 1-4-1965).
3. Subs. by s. 72, *ibid*., for certain words (w.e.f. 1-4-1965).
4. Subs. by s. 72, *ibid*., for "Indian Income-tax Act, 1922 (11 of 1922)" (w.e.f. 1-4-1965).

portion being agricultural income, then, for the purpose of the increase in the dividend in relation to any such preference share under the provisions of section 3, the increase of thirty per cent. or eleven per cent. referred to therein shall be taken to be such proportion of the said thirty per cent. or eleven per cent. as the case may be, as the total amount of the profits and gains of the company excluding the portion of the profits and gains which is so exempt in respect of the relevant period bears to the total amount of the profits and gains thereof in respect of that period.

Explanation.—For the purpose of this section, "relevant period", in relation to the profits and gains of a company, shall mean—

(*a*) the previous years relevant to such of the three assessment years as immediately precede the assessment year ending on the 31st March, 1961, and in each of which the net result of the computation of profits and gains of the company has not been loss or where there are only two such years, such two years, or where there is only one such year, such one year; or

(*b*) in any case where clause (*a*) is not applicable, the previous year relevant to the assessment year ending on the 31st March, 1961 or a subsequent assessment year immediately following thereafter in which the net result of the computation of profits and gains has not been a loss.

[1][**4A. Deduction of income-tax.**—Where the stipulated dividend in respect of a preference share of a company—

(*a*) is specified to be subject to income-tax and a deduction is made therefrom on account of the income-tax payable by the company, or

(*b*) is being paid subject to a deduction therefrom on account of the income-tax payable by the company, notwithstanding the absence of any specification that the dividend would be subject to income-tax,

[2][such deduction made by the company from any dividend declared after the 28th day of February, 1966 shall in no case exceed twenty-seven and a half per cent. of the aggregate of—

(*i*) the stipulated dividend, and

(*ii*) an amount equal to eleven per cent. of the stipulated dividend as specified in sub-section (*3*) of section 3.]]

5. Over-riding effect of Act.—(*1*) The provisions of this Act shall have effect notwithstanding anything to the contrary contained in any law for the time being in force or in the memorandum or articles of a company or in any agreement between the company and its shareholders or in any resolution passed by the company in a general meeting or by its Board of directors.

(*2*) Notwithstanding anything contained in this Act, a company may, in the manner provided in section 106 of the Companies Act, increase the amount of dividend in respect of a preference shall beyond the limit specified in section 3 or section 4 of this Act.

6. Act not to apply to participating preference dividends.—Nothing contained in [3][section 3 or section 4] shall apply to such part of any dividend on preference shares as is referred to in clause (*i*) of the *Explanation* to sub-section (*1*) of section 85 of the Companies Act.

7. Power to make rules.—(*1*) The Central Government may, by notification in the Official Gazette, make rules for carrying out the purposes of this Act.

(*2*) Every rule made under this section shall be laid as soon as may be after it is made before each House of Parliament while it is in session for a total period of thirty days which may be comprised in one

1. Ins. by Act 10 of 1965, s. 72 (w.e.f. 1-4-1965).
2. Subs. by Act 13 of 1966, s. 52, for certain words, figures, letters and brackets (w.e.f. 1-4-1966).
3. Subs. by Act 10 of 1965, s. 72, for "this Act" (w.e.f. 1-4-1965).

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session or in two successive sessions, and if, before the expiry of the session in which it is so laid or the session immediately following, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be, so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

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[1][THE SCHEDULE

[*See* section 1(*3*)]

Modifications of the Act in its application to the Union territory of Pondicherry

1. Sections 3 and 4 shall be omitted.

2. In section 4A, for the words, brackets, letters and figures "twenty-seven and a half per cent. of the aggregate of (*i*) the stipulated dividend, and (*ii*) an amount equal to eleven per cent. of the stipulated dividend as specified in sub-section (*3*) of section 3", the following shall be substituted, namely:—

"Twenty-seven and a half per cent. of the stipulated dividend:

Provided that in a case where the preference shares in respect of which the dividend is declared or paid form part of the preference share capital of a company which, in respect of the greater part of its total income, is entitled to a deduction from tax chargeable form it under the Income-tax Act, 1961 (43 of 1961), under a notification issued by the Central Government under section 294A of that Act, the reference to twenty-seven and a half per cent. of the stipulated dividend shall be construed as a reference to—

(*i*) where the stipulated dividend in respect of such preference share is declared or paid in respect of the previous year relevant to the assessment year commencing on the 1st day of April, 1965, the said twenty-seven and a half per cent. as reduced by forty-five per cent. thereof;

(*ii*) where such dividend is declared or paid in respect of the previous year relevant to the assessment year commencing on the 1st day of April, 1966, the said twenty-seven and a half per cent. as reduced by twenty-five per cent. thereof;

(*iii*) where such dividend is declared or paid in respect of the previous year relevant to the assessment year commencing on the 1st day of April, 1967, or the 1st day of April, 1968, or the 1st day of April, 1969, the said twenty-seven and a half per cent. as reduced by ten per cent. thereof.

Explanation.—For the removal of doubts it is hereby declared that any reference in this section to deduction made from a dividend on account of the income-tax payable by the company does not include any amount deducted by the company from that dividend under section 194 of the Income-tax, 1961 (43 of 1961).".

3. In section 5, sub-section (*2*) shall be omitted.

4. Section 6 shall be omitted.]

1. Added by Act 26 of 1968, s. 3 and Sch. (w.e.f. 24-5-1968).

STATEMENT OF OBJECTS AND REASONS

With the introduction of the new scheme of taxation in relation to profits of companies and dividends there from by the Finance Acts, 1959 and 1960, the effective rate of income-tax and super-tax has been reduced in the case of Indian companies and such foreign companies as have made the prescribed arrangements for the declaration and payment of dividends in India. Simultaneously, the tax based on excess dividends and the wealth-tax on companies have also been abolished. It was expected that as a result of the saving in the tax payable by companies, they would declare higher dividends to all the shareholders, whether holding preference or ordinary shares. This expectation did not materialise in the case. of preference shareholders. It has been brought to the notice of Government that many companies have not made suitable increases in the dividends payable to preference shareholders. In some cases, the companies have indicated that while in principle they agree that preference shareholders should get a larger dividend, there are practical difficulties in their declaring larger dividends to them. In these circumstances, it is considered necessary to undertake legislation for the purpose of regulating dividends on preference shares issued and subscribed for before the 1st April, 1960.

2. The present Bill seeks to achieve the above object and the notes on clauses explain the various provisions thereof.

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NEW DELHI;
The 29th August, 1960.

MORARJI DESAI.