

Paying dividends to owner of multiple companies (3/3/19)

The State Revenue Service has published a tax ruling¹ explaining the tax treatment of dividends paid by a subsidiary to its parent and on to their owner, an individual. This consecutive payment of dividends covers profits for 2017 and 2018. The ruling was requested to find out whether paying a dividend out of the profit for 2017 will make the individual liable to personal income tax (PIT).

Background

In 2018, subsidiary X paid its profit for 2017 as a dividend to parent Y. In 2019, the parent plans to pay that dividend on to the owner, individual Z. The ruling explains the corporate income tax (CIT) and PIT treatment of both steps.

CIT treatment

Subsidiary X will not charge the new CIT on the dividend paid to parent Y because it is paid out of X's profit for 2017, which has been charged to the old CIT. This approach is prescribed by paragraph 8 of the transitional rules of the CIT Act.

Parent Y can pay the dividend on to individual Z without charging the new CIT. This approach is based on section 6(1) of the CIT Act because dividends received from another CIT payer are exempt. Being a CIT payer, subsidiary X meets this condition.

PIT treatment

The key question affects individual Z receiving the dividend from parent Y. Is PIT due?

The PIT Act exempts only dividends on which CIT has been paid under the new CIT Act.

The Cabinet of Ministers' Regulation No. 899 of 21 September 2010, *Applying provisions of the PIT Act*, paragraph 35.1 extends the exemption to dividends and deemed dividends paid by a CIT payer who has been allowed to deduct them from dividends included in the CIT base under the CIT Act.²

So the dividend will be exempt from PIT in the hands of individual Z. When exceeding EUR 4,000, however, such income should be reported on the annual income tax return like any other non-taxable income.

¹ Tax ruling No. 30.1-8.7/317762 of 18 December 2018

² The only exclusion where a PIT exemption is not available is dividends deducted from the CIT base under the conditions of the CIT Act for excluding from the CIT base any income arising on the sale of shares.