

**JOINT /SELECT
COMMITTEE REPORTS OF
LEGISLATIVE ASSEMBLY -
1949**

**The Public Companies
(Limitation of Dividends)
Bill, 1949**

List of Reports of Select Committees presented
to the Constituent Assembly of India
(Legislative) in 1949.

S. No.	Short title of the Bill.	Date of presen- tation.	Date of publica- tion.
1.	The Banking Companies Bill, 1948.	1.2.49.	26.2.49.
2.	The Payment of Taxes (Transfer of Property) Bill, 1948.	10.2.49.	26.2.49.
3.	The Public Companies (Limita- tion of Dividends) Bill, 1949.	21.2.49.	16.4.49.
4.	The Chartered Accountants Bill, 1948.	1.3.49.	12.3.49.
5.	The Central Tea Board Bill, 1949.	1.3.49.	12.3.49.
6.	The Indian Penal Code and the Code of Criminal Procedure (Amendment) Bill, 1947.	21.3.49.	16.4.49.
7.	The Ajmer-Merwara Tenancy and Land Records Bill, 1948.	21.3.49.	16.4.49.
8.	The Indian Finance Bill, 1949.	25.3.49.	2.4.49.
9.	The Hindu Marriages Validity Bill, 1948.	25.3.49.	2.4.49.
10.	The Child Marriage Restraint (Amendment) Bill, 1947.	25.3.49.	2.4.49.
11.	The Estate Duty Bill, 1948. (FINAL REPORT)	31.3.49.	16.4.49.
12.	The Indian Railways (Amendment) Bill, 1949.	28.11.49.	3.12.49.
13.	<i>The Indian Judicial Procedure Bill, 1948</i>	<i>28.11.49</i>	<i>3.12.49</i>
14.	The Delhi Road Transport Authority Bill, 1949.	12.12.49.	24.12.49.
15.	The Taxation Laws (Extension to Merged States and Amendment) Bill, 1949.	16.12.49.	24.12.49.

CONSTITUENT ASSEMBLY OF INDIA (LEGISLATIVE).

REPORT OF THE SELECT COMMITTEE ON THE PUBLIC COMPANIES (LIMITATION OF DIVIDENDS) BILL, 1949.

We, the undersigned, members of the Select Committee to which the Bill to limit the dividends which may be paid by public companies was referred, having considered the Bill, and having also heard orally the views of the representatives of Stock Exchanges have now the honour to submit this our Report, with the Bill as amended by us annexed thereto.

2. We have made only one change of substance in the Bill. We have provided that the Bill should remain in force only up to the 31st March 1950, instead of upto the 31st December 1950. By limiting the life of the Bill as proposed, we have ensured that the necessity for it is reviewed towards the end of the year 1949-50 in the light of the conditions which may then prevail.

3. In view of the above change, it is not in our opinion, necessary to modify the Bill in any other respect. We have however made one small alteration. There are certain public companies to which section 23A(1) of the Income-tax Act applies. These companies are under a legal obligation to distribute not less than sixty per cent of their incomes as dividend, and in complying with this mandatory requirement, the limits imposed by this Bill may have to be exceeded. These companies are essentially private companies which are outside the scope of the Bill. We have therefore excluded them from the purview of this Bill.

4. We have anxiously considered whether the amount which, but for this Bill would have been distributed to share-holders of companies as dividend should not be segregated in a special fund, both as a safeguard against its being frittered away and also for the purpose of preserving it for ultimate disbursement to the shareholders. It seems to us however that it is not practicable to provide for this by statutory regulation. We therefore content ourselves with a strong expression of hope that those incharge of the direction of the affairs of companies would realize their responsibility in this matter and give effect to the suggestion we have made above in the fullest possible measure.

5. The Bill was published in Part V of the *Gazette of India*, dated the 15th January 1949.

6. We think that the Bill has not been so altered as to require circulation under Rule 49(5) of Rules of Procedure and Conduct of Business and we recommend that it be passed as now amended.

JOHN MATTHAI.

H. P. MODY.

F. T. KRISHNAMACHARI.

KHANDUBHAI K. DESAI.

R. SANKAR.

A. GUHA.

L. KRISHNASWAMI BHARATHI.

G. DURGABAI.

B. L. SONDHI.

BISWANATH DAS.

NAZIRUDDIN AHMAD.

SITA RAM S. JAJOO.

M. ANANTHASAYANAM AYYANGAR.

B. P. JHUNJHUNWALA.

New Delhi,
The 21st February 1949.

[Words underlined indicate the amendments suggested by the Select Committee; asterisks indicate omissions.]

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BILL

to limit the dividends which may be paid by public companies

WHEREAS it is expedient to limit the dividends which may be paid by public companies;

It is hereby enacted as follows:—

Preliminary

1. Short title, extent and duration.—(1) This Act may be called the Public Companies (Limitation of Dividends) Act, 1949.

(2) It extends to all the Provinces of India, and also to every Acceding State to the extent to which the Dominion Legislature has power to make laws for that State as respects the matters dealt with in this Act.

(3) It shall remain in force only up to the 31st day of March * , 1950.

2. Definitions.—In this Act, unless there is anything repugnant in the subject or context,—

(a) "Companies Act" means the Indian Companies Act, 1913 (VII of 1913);

(b) "company" means a public company as defined in clause (13A) of section 2 of the Companies Act, and includes—

(i) the Imperial Bank of India constituted under the Imperial Bank of India Act, 1920 (XLVII of 1920);

(ii) any trading, banking, insurance or finance corporation constituted by or under any other law in force in India, provided that such corporation, if it had been registered as a company under the Companies Act, would not have been a "private company" within the meaning of that Act; and

(iii) any other incorporated body which the Central Government may, by general or special order, declare to be a public company for the purposes of this Act,

but does not include (i) a public company to which the provisions of sub-section (1) of section 23A of the Indian Income-tax Act, 1922 (XI of 1922) apply, or (ii) a co-operative society registered or deemed to be registered under the Co-operative Societies Act, 1912 (II of 1912), or any other law relating to co-operative societies in force for the time being in any part of India;

(c) "financial year" means the year commencing on the 1st day of April.

Limitation of dividends

3. Dividends not to exceed certain limits.—No company shall, after the commencement of this Act, distribute as dividend during any financial year, any sum which exceeds, or which, when taken with any sum already distributed as dividend during the same year whether before or after the commencement of this Act, will exceed—

(a) six per cent. of the paid-up capital of the company as on the last day of the period in respect of which the dividend is distributed, after

deducting from such capital all amounts attributable to the capitalisation, on or after the 1st day of April, 1946, of one or more of the following, namely, reserves, profits and appreciation of assets, or

(b) the average annual dividend of the company, determined in the manner specified in sections 5 to 7,

whichever is higher.

4. Limit of six per cent. to be exclusive of income-tax paid by company.—The limit of six per cent. specified in clause (a) of section 8 shall be applied to the amount of dividend distributed by the company among its shareholders, payments made by the company by way of income-tax being ignored.

5. Dividends and periods to be taken into account for determining average annual dividend.—The average annual dividend referred to in clause (b) of section 8 shall be determined with reference to—

(a) the total of the dividends distributed by such company (otherwise than by way of bonus shares) during the period of two years commencing on the 1st day of April, 1946, and ending with the 31st day of March, 1948, and

(b) the total of the periods in respect of which each such dividend has been distributed, no period however being counted more than once:

Provided that where an interim dividend for any period has been distributed before the 1st day of April, 1946, and a final dividend has been distributed in respect of the same period on or after that date but on or before the 31st day of March, 1948, such interim dividend shall be added to the total of the dividends referred to in clause (a):

Provided further that where an interim dividend for any period has been distributed on or after the 1st day of April, 1946 and on or before the 31st day of March, 1948, and a final dividend has been or is distributed in respect of the same period after the latter date, then—

(i) if the final dividend was distributed before the 5th day of October, 1948, it shall be added to the total of the dividends referred to in clause (a);

(ii) if the final dividend was or is distributed on or after the 5th day of October, 1948, the interim dividend and the period in respect of which it was distributed shall not be taken into account for the purposes of this section; but it shall be open to the company to claim that the interim dividend (but not the final dividend) shall be added to the total of the dividends referred to in clause (a), in which case the period in respect of which such interim dividend was distributed shall be taken into account for the purposes of clause (b).

6. Date of distribution of dividend.—For the purposes of this Act, a dividend shall be deemed to have been distributed by a company on the date on which the shareholders or their legal representatives have a right to receive it from the company, whether or not it has been actually paid.

7. Provision for increase or reduction in paid-up capital.—(1) (a) Where, subsequent to the distribution by a company of any dividend which has to be taken into account for the purposes of clause (b) of section 3, its paid-up capital is increased by any amounts actually paid in cash, or

(b) where, before the distribution of any such dividend, the paid-up capital of a company is increased by any amounts actually paid in cash, but the amounts so paid are not entitled to the benefit of such dividend,

such dividend, and every prior dividend which has to be taken into account for the purposes aforesaid, shall be deemed to have been augmented—

(i) *pro rata*, if the increase took place before the 29th day of October, 1948; and

(ii) by a sum equal to six per cent. per annum of all amounts paid in cash both by way of share capital and by way of premia, if the increase took place after the 29th day of October, 1948.

(2) (a) Where subsequent to the distribution by a company of any dividend which has to be taken into account for the purposes of clause (b) of section 8, its paid-up capital is reduced, or

(b) where, before the distribution of any such dividend, the paid-up capital of a company is reduced, but the whole of the capital as it stood before such reduction is entitled to the benefit of such dividend,

such dividend, and every prior dividend which has to be taken into account for the purposes aforesaid, shall be deemed to have been diminished *pro rata*.

Preference shares

8. Special provision for preference shares.—Nothing contained in this Act shall be deemed to limit in any way the dividend payable on preference shares issued and subscribed for before the 29th day of October, 1948.

9. Prohibition of issue of preference shares at more than six per cent.—No company shall, after the 29th day of October, 1948, issue preference shares carrying a right to a dividend at a rate exceeding six per cent. per annum.

Miscellaneous

10. Power to make rules.—(1) The Central Government may, by notification in the official Gazette, make rules to carry out the purposes of this Act.

(2) In particular and without prejudice to the generality of the foregoing power, such rules may provide for—

(i) the adaptation of the provisions of this Act with a view to their application to all or any of the bodies declared to be public companies under sub-clause (iii) of clause (b) of section 2;

(ii) the prevention of the evasion of the provisions of this Act, and the removal of difficulties in giving effect thereto.

11. Power to make exemptions, etc.—The Central Government may, by order, exempt any company or class of companies from all or any of the provisions of this Act, or make any modification in the application of the said provisions to any company or class of companies.

12. Penalty.—Any director, managing agent, manager or other officer or employee of a company who contravenes or attempts to contravene, or abets the contravention of or attempt to contravene, any of the provisions relating to the distribution of dividends, or the issue of preference shares, contained in this Act or in any rule, notification or order issued thereunder, shall be punishable with imprisonment for a term which may extend to two years, or with fine, or with both.

13. Repeal of Ordinance XXIX of 1948.—(1) The Public Companies (Limitation of Dividends) Ordinance, 1948 (XXIX of 1948), is hereby repealed.

(2) Notwithstanding such repeal, any rules made, action taken or thing done in exercise of any power conferred by or under the said Ordinance shall be deemed to have been made, taken or done in exercise of the powers conferred by or under this Act, as if this Act had come into force on the 29th day of October, 1948.

THE CONSTITUENT ASSEMBLY OF INDIA
(LEGISLATIVE).

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BILL

to limit the dividends which may be paid by public companies.

(As amended by the Select Committee)