

Companies (Declaration of Dividend Out of Reserves) Rules, 1975

1. Short title.- These Rules may be called the Companies (Declaration of Dividend out of Reserves) Rules, 1975.

2. Declaration of dividend out of reserves.- In the event of inadequacy or absence of profits in any year, dividend may be declared by a company for that year out of the accumulated profits earned by it in previous years and transferred by it to the reserves, subject to the conditions that-

(i) the rate of dividend declared shall not exceed the average of the rates at which dividend was declared by it in the five years immediately preceding that year or ten per cent of its paid up capital, whichever is less;

(ii) the total amount to be drawn from the accumulated profits earned in previous years and transferred to the reserves shall not exceed an amount equal to one-tenth of the sum of its paid up capital and free reserves and the amount so drawn shall first be utilized to set off the losses incurred in the financial year before any dividend in respect of preference or equity shares is declared; and

(iii) the balance of reserves after such drawal shall not fall below fifteen per cent of its paid up share capital.

Explanation.-For the purposes of this rule, "profits earned by a company in previous years and transferred by it to the reserves" shall mean the total amount of net profits after tax, transferred to reserves as at the beginning of the year for which the dividend is to be declared; and in computing the said amount, the appropriations out of the amount transferred from the Development Rebate Reserve at the expiry of the period specified under the Income-tax Act, 1961 (43 of 1961) shall be included and all items of capital reserves including reserves created by revaluation of assets shall be excluded.