Bonus Shares: What impact on tax?

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There are also steps that can be taken to ensure that there is minimum or no tax burden that is imposed on them when they go to sell these shares. A little bit of effort at the initial stage would be enough to ensure that there are few complications at a later stage. Here are the details to keep in mind for bonus shares.

Bonus shares:

Bonus shares represent a situation where the individual shareholder gets free shares in addition to the ones that they actually hold. Thus a company would declare that they are issuing bonus shares for their shareholders and there would be a ratio that would be declared. For example if there is a 1:1 ratio that is declared then the existing shareholders would get a share free for every share held. A person holding 200 shares would then get an additional 200 shares bringing the total to 400 shares. The value of the shares would however correct for the bonus ratio with the end result that the total value would remain the same. The next questions are about the cost of the shares and how they would actually be treated for tax purposes.

Cost of shares:

The cost of bonus shares will be exactly the amount that is paid for it. This means that the cost for the shares would be zero because there is no amount that is paid for the bonus shares. These are shares which are issued free of cost and hence there is no amount that would be allocated for this purpose. This has a bigger implication in the sense that when it comes to calculation of the gains on the shares then the entire amount of sales proceeds on the shares would be the gains. For example if there are 100 bonus shares that are sold for Rs 20,000 then since the cost of the shares are zero the entire amount of Rs 20,000 would be the capital gains. The next issue is to determine the nature of the capital gains and the tax element that would arise due to the transaction.

Nature of gains:

To determine the exact nature of the capital gains it is important to look at holding period of the shares. The holding period of the bonus shares starts from the time that they were allotted. This has nothing to do with the holding period of the original shares based on which the new shares have been issued. This is the reason why the focus has to be entirely on how long the shares have been held after they have been issued. If these are held for a period of more than a year then the gains would be long term capital gains and if they are sold on the stock exchange then there would not be any tax to be paid. If the shares are sold before a period of one year then the gains would be short term capital gains and there would be a 15 per cent tax that would arise. The individual thus has to be clear about the manner in which they deal with the shares as these are accounted on the First In First Out basis so this will help them to plan whether they are selling the original shares from their demat account or whether they are selling the bonus shares. The original shares could actually witness a loss because the price would adjust for the bonus ratio and this might slip into a loss which might not be available for a set off if this is long term in nature as there is no tax on long term capital gains.

(Source: www.moneycontrol.com)