Companies (Transfer of Profits to Reserves) Rules, 1975

In exercise of the powers conferred by sub-section (2-A) of section 205 read with clause (a) of sub-section (1) of section 642, of the Companies Act, 1956 (1 of 1956), the Central Government hereby makes the following rules, namely :-

1. Short title.-

These rules may be called the Companies (Transfers of Profits to Reserves) Rules, 1975.

The expression 'profits' in Rule 2 denotes only 'net profits after tax' according to a clarification issued by the Department of Company Affairs (Letter No. F. 1194, dated 9.2.1976 addressed to the Indian Chamber of Commerce, Calcutta).

2. Percentage of profits to be transferred to reserves.-

No dividend shall be declared or paid by a company for any financial year out of the profits of the company for that year arrived at after providing for depreciation in accordance with the provisions of sub-section (2) of section 205 of the Act, except after the transfer to the reserves of the company of a percentage of its profits for that year as specified below : -

(i) Where the dividend proposed exceeds 10 per cent but not 12.5 per cent of the paid-up capital, the amount to be transferred to the reserves shall not be less than 2.5 per cent of the current profits ;

(ii) Where the dividend proposed exceeds 12.5 per cent but does not exceed 15 per cent of the paid-up capital, the amount to be transferred to the reserves shall not be less than 5 per cent of the current profits ;

(iii) Where the dividend proposed exceeds 15 per cent, but does not exceed 20 per cent of the paid-up capital, the amount to be transferred to the reserves shall not be less than 7.5 per cent of the current profits ; and

(iv) Where the dividend proposed exceeds 20 per cent of the paid-up capital, the amount to be transferred to reserves shall not be less than 10 per cent of the current profits.

3. Conditions governing voluntary transfer of a higher percentage.-

Nothing in Rule 2 shall be deemed to prohibit the voluntary transfer by a company of a percentage higher than 10 per cent of its profits to its reserves for any financial year, so however that :-

"(i) Where a dividend is declared,-

(a) a minimum distribution sufficient for the maintenance of dividends to shareholders at a rate equal to the average of the rates at which dividends declared by it over the three years immediately preceding the financial year ; or

(b) in a case where bonus shares have been issued in the financial year in which the dividend is declared or in the three years immediately preceding the financial year, a minimum distribution sufficient for the maintenance of dividends to shareholders at an amount equal to the average amount (quantum) of dividend declared over the three years immediately preceding the financial year, is ensured :

Provided that in a case where the net profits after tax are lower by 20 per cent or more than the average net profits after tax of the two financial years immediately preceding, it shall not be necessary to ensure such minimum distribution."

(ii) Where no dividend is declared, the amount proposed to be transferred to its reserves from the current profits shall be lower than the average amount of the dividends to the shareholders declared by it over the three years immediately preceding the financial year.

"4. Penalty.-

If a company fails to comply with any of the provisions contained in these rules, the company and every officer of the company in default shall be punishable with fine which may extend to five hundred rupees, and, where the contravention is a continuing one, with a further fine which may extend to fifty rupees for every day, after the first, during which such contravention continues".</BODY< font>