# Tax proposal in Budget may put the brakes on buyback offers

**LOSING APPEAL.** Experts say move will make buybacks unattractive, hurt return ratios

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The Budget may put the brakes on buybacks by India Inc as income received on buyback of shares will now be taxed in the hands of the recipient.

The new tax treatment is expected to diminish their attractiveness, affect payouts and even hurt return ratios and valuations of some high cash generators, said experts.

### In vogue

| | No. of issues | Offer amount (₹ crore) | Acquired amount (₹ crore) |
|---|---|---|---|
| 2014 | 16 | 6,891 | 2,019 |
| 2015 | 13 | 1,282 | 1,263 |
| 2016 | 37 | 28,235 | 27,887 |
| 2017 | 50 | 55,743 | 55,274 |
| 2018 | 63 | 32,718 | 32,385 |
| 2019 | 69 | 43,904 | 43,528 |
| 2020 | 55 | 39,564 | 36,517 |
| 2021 | 42 | 14,341 | 13,658 |
| 2022 | 58 | 38,735 | 38,305 |
| 2023 | 48 | 48,452 | 48,079 |
| 2024 | 21 | 7,557 | 7,538 |

Source : primedatabase.com (Till July 24, 2024)

**OFFERS GALORE**

Buybacks had picked up pace in CY22 and CY23, with 106 companies acquiring shares worth ₹86,000 crore, data from Prime Database showed.

Top companies that did buybacks in CY23 include L&T (₹10,000 crore), Wipro (₹12,000 crore), and TCS (₹17,000 crore).

Cash-rich companies often resort to buybacks when there are not enough investment opportunities. Buybacks had emerged as a tax-efficient way for shareholders in the highest tax bracket.

Until now, a company had to pay 23.3 per cent tax on the distributed income through a buyback. Shareholders receiving dividends, on the other hand, face a 37 per cent tax rate, excluding surcharges.

**TREATING AS DIVIDEND**

The entire buyback consideration will now be taxable as dividend. The tax will be levied at slab rates as applicable to respective shareholders, with a flat surcharge at 15 per cent.

"The tax change not only shifts the tax burden from companies to shareholders, but brings to tax the entire amount paid on buyback, irrespective of the excess realised by the shareholder. It leaves the cost of shares to be claimed as capital loss and set off against potential capital gains if such gains arise within the prescribed timelines for carry forward and set off," said Vinod Kothari, Founder, Vinod Kothari Consultants.

The entire cost of acquisition in respect of shares bought back will be booked as "capital loss". Such capital loss may be set off against capital gains subsequently.

Per Section 74 of the IT Act, the set-off is available for a period of eight assessment years immediately after the AY in which loss arises.