

# New tax structure may hit buyback success rate

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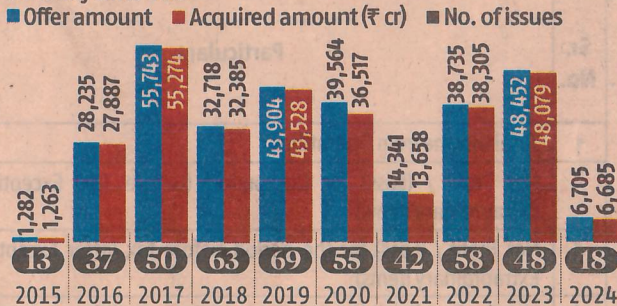
The success rate of buybacks could drop under the new tax structure as the higher taxes may deter shareholders from tendering their shares during the repurchase programmes.

According to PRIME Database, the success rate – difference between the proposed buyback amount and actual repurchase made – for buybacks has been an average 98 per cent for the ₹3.1 trillion worth of shares bought back by India Inc since 2015. Typically, the buyback price announced by the company is at a premium of between 5 per cent and 30 per cent to the prevailing market price. This premium is paid to entice the shareholders to tender the shares in the buyback as opposed to selling them in the open market.

However, with the government moving the buyback tax burden from companies to individual shareholders – the effec-

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On average, ₹31,000 crore worth buybacks undertaken annually since 2015



Source: PRIME Database

tive tax rate on the gross proceeds via buyback could be in excess of 30 per cent for those in the top tax bracket.

“It wouldn’t be surprising to see an uptick in companies choosing buybacks as a method to distribute surplus funds. However, from the perspective of the shareholders, they might deliberate whether to participate in the buyback, especially when

they know there is an immediate tax cost involved. Instead, they may consider selling their shares in the open market,” said Vaibhav Luthra, Tax Partner, EY India.

From October 1, the gross proceeds received on buyback of shares will be taxed in the hands of the shareholder as ‘deemed dividend’.

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