

# Buybacks to be Taxed as Capital Gains; Retail Investors Benefit

Move corrects a distortion, say experts; foreign promoters to pay more

Team ET

The budget has proposed a major reset in the taxation of share buybacks, shifting them from being treated as 'deemed dividends' back to capital gains. Under the proposal, buyback proceeds for individual shareholders will be taxed at 12.5%, significantly lower than the current slab-based rate of up to 30%. Tax treatment for promoters has also been rationalised: foreign promoters will face a 30% levy, while Indian promoters will continue to be taxed at 22%.

Tax experts said the change corrects a distortion in equity taxation and restores buybacks as a more efficient capital-return mechanism.

"With effect from October 2024, buyback proceeds were treated as dividends, taxed at regular rates, while the cost of acquisition was recognised separately as a capital loss. Less than 18 months later, the old system has been restored, but with added complexity—distinguishing between

## On Balance

Tax implications of buybacks

	Current (%)	Proposed (%)
<b>Non-promoter</b>		
Retail	Slab rates (max 30)	12.5
<b>Promoter</b>		
a) Indian	22	22
b) Individual	Slab rates (max 30)	30
c) Foreign	20*	30

\*Subject to lower tax treaty rates

Source: Katalyst Advisors

promoters, who do not get concessional rates, and non-promoter shareholders, who benefit from the lower capital gains rate," said Ketan Dalal, managing director, Katalyst Advisors

Independent directors said buybacks would now be used primarily to address capital-structure inefficiencies rather than for tax arbitrage.

"Promoters must recognise that buybacks are no longer a tax-efficient substitute for dividends," said Shailesh Haribhakti Associates chairman Shailesh Haribhakti.

Last year, 14 companies bought back shares worth ₹19,711 crore. India had earlier seen a record ₹55,273-crore buyback by 50 companies in 2017, according to Prime Database.

Under the proposed framework, the cost of acquisition will now be adjusted within the capital gains computation, removing the split-character treatment that had created distortions under the current law.

Dalal said the revised structure materially alters the economics of buybacks, particularly for promoters.

"The framework places promoters in a significantly higher tax bracket, with buyback gains effectively taxed at rates closer to normal income rather than preferential capital gains. This creates a strong disincentive for buybacks in companies with high promoter shareholding," he said.