

# Buyback proceeds to be treated as capital gains

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The government has proposed another significant overhaul of the taxation framework for share buybacks, shifting the tax treatment of proceeds from dividend income to capital gains. The change, the government said, is aimed at rationalising the existing structure and plugging arbitrage opportunities.

Under the current provisions, consideration received by shareholders on a company's buyback of shares is treated as dividend income and taxed as per applicable personal income tax slabs. At the same time, the cost of acquisition of the shares extinguished in the transaction is recognised separately as a capital loss.

Industry players have said this dual treatment has led to complexity and uneven tax outcomes.

Under the proposed amendment, buyback consideration will be chargeable entirely under the head "capital gains", instead of being classified as dividend income, with the cost of acquisition factored into the computation of

## GST exemption on brokerage services for FPIs

The government has proposed to waive goods and services tax (GST) on brokerage services used by foreign portfolio investors (FPIs) for gaining access to the Indian markets. "Clause 141 of the Bill seeks to omit clause (b) of sub-section (8) of section 13 of the Integrated Goods and Services Tax Act, 2017 so as to provide that the place of supply for "intermediary services" shall be determined as per the provisions of sub-section (2) of section 13 of the said Act, which is the location of the recipient of such services," the Finance Bill said.

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gains. The effective tax rate on long-term capital gain is about 12.5 per cent. However, the new framework will have a differentiated tax regime with promoters and non-promoters required to pay higher tax. From April 1, the effective tax rate for corporate promoters will be 22 per cent, while non-corporate promoters will face an effective tax rate of 30 per cent.

Revenue Secretary Arvind Shrivastava said the decision on buyback tax is a relief to investors.

Legal experts said the revised structure is intended to ensure that buyback decisions are taken in the interest of all shareholders, rather than primarily benefiting promoter groups.

The existing tax framework was seen as putting large shareholders at a disadvantage. As a result, no major buyback offers have been announced since October 2024, barring Infosys'

₹18,000-crore share repurchase programme, in which promoters did not participate.



Tax experts said the new framework could once again prompt companies—particularly cash-rich IT firms—to prefer buybacks over dividends as a means of rewarding shareholders.

Despite a weak market backdrop, the Nifty IT index rose 0.6 per cent on Sunday, with Wipro and Tata Consultancy Services gaining 2 per cent and 1.7 per cent, respectively.

"Treating buyback taxation as capital gains, as earlier, is positive for retail and non-promoter shareholders. Even for promoter shareholders, it enables the cost to be offset against buyback proceeds, with additional income tax payable on the capital gains," said Vaibhav Gupta, partner at Dhruva Advisors.

Gupta, however, cautioned that the framework introduced in October 2024 could give rise to litigation going forward.

"Offsetting capital losses against buyback proceeds, especially where there are other capital gains in the same year, may not be allowed by tax officers as it could reduce the additional income tax payable by promoters," he said.

## Tax driven

Buyback moderated after tax structure change last yr

	No. of issues	Offer amt	Acquired amt (₹ cr)
2007	9	1,196	1,097
2008	32	3,926	2,167
2009	37	1,983	684
2010	12	1,229	1,103
2011	29	5,763	4,259
2012	25	12,624	4,648
2013	29	5,193	4,144
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	48	13,539	13,423
2025	14	19,716	19,712
2026*	11	34	34

\*(till January end)

Source: Prime Database