

Buyback tax breather a timely shot in the arm

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The decision to not impose the new buyback distribution tax on companies that had already announced their repurchase programme prior to the Budget has come as a big relief for India Inc.

While the 20 per cent tax was announced in the Union Budget, it was applicable retrospectively from April 1.

Buybacks worth nearly ₹15,000 crore by about 20 companies, including Wipro and Adani Ports & SEZ, were hit by the unexpected move.

On Friday, Finance Minister Nirmala Sitharaman said listed companies that had announced buybacks before July 5 — the day of the Budget — will be exempt.

Experts said the move provides the much-needed clarity on the fate of buybacks that were hanging in the balance since introduction of the tax.

"No buyback tax, on offers announced before July 5, is welcome. It provides clarity to firms on applicability of the tax on their buyback offers that had been announced

WHERE THEY STAND

Companies that had set the ball rolling on buybacks before the change in tax rates

	Board approval date	Proposed amt (₹ cr)
Wipro	April 16, 2019	10,500
Adani Ports	April 6, 2019	1,960
BSE	July 5, 2019	459
Welspun Corp	May 14, 2019	390
KPR Mills*	April 29, 2019	263

*Was withdrawn

Source: PRIME Database

before the Budget proposal," said Niranjan Govindekar, partner (tax & regulatory services), BDO India.

Frank D'Souza, partner and leader of corporate and international tax, PwC, said the relief on buyback tax will help address past concerns.

The near three-month period between the Budget and relief, however, had put many companies in a spot. Some smaller companies, including KPR Mill, had withdrawn their buyback plans even as legal experts questioned the validity of the move.

Others such as Greaves Cotton and SKP Securities wrote to the markets regulator Securities and Exchange Board of India (Sebi), seeking

clarity on whether they can cancel or revise the terms of their buybacks.

Sources said Sebi raised various issues created by the retrospective applicability of the buyback tax with the finance ministry.

"Many firms had raised valid issues with Sebi over the new buyback tax, for which there was no easy solution. Sebi forwarded all queries to the government. On the one hand, companies were fair to seek cancellations. On the other, it would have impacted public shareholders, who possibly bought shares after the announcement was made," said a legal expert. He added that the latest move provides relief to all stakeholders.