

# Share buybacks losing lustre as 20% tax bites

56% y-o-y drop in FY20; firms await relief

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The 20 per cent tax on share buybacks, introduced in the last Budget, has altered the way companies reward their shareholders. Buybacks, which had emerged as a popular tool to pay back investors following an increase in dividend tax, have once again lost their appeal. So far this financial year, companies have repurchased shares worth ₹16,647 crore, less than half compared to the same period of the last financial year.

The bulk of the buybacks done in FY20 were announced before the Union Budget in July 2019, when Finance Minister Nirmala Sitharaman had introduced the buyback tax with the intention of removing the tax arbitrage between dividends and buybacks. During the second half of this financial year, buybacks worth less than ₹2,000 crore have taken place. Typically, the second half is when the bulk of buybacks have taken place in the past. Experts blame the change in tax dynamics for the sharp drop in buybacks.

"Earlier, since dividends were taxed at a higher rate, buybacks were a more effective way to return money to shareholders. But with the buyback tax, there is a level playing field between buybacks and dividends," said Girish Nadkarni, managing director, Motilal Oswal Investment Advisors.

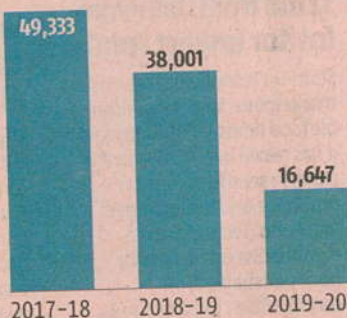
"The ultimate goal is to pay shareholders. If the same purpose is getting achieved through dividends, why should companies go for a buyback, where they have to take the regulator's approval and appoint lawyers and investment bankers," asked Yogesh Chande, partner, Shardul Amarchand Mangaldas.

In the past few years, cash-rich



## TAX IMPACT

Buyback amount for Apr-Jan period (₹cr)



Source: Prime Database

companies in the information technology (IT) space carried out mega share buybacks to escape the advent of higher taxes on dividends.

Analysts say besides the tax advantage, buybacks came with other benefits such as improvement in financial ratios and support to stock prices. Buybacks were also supposed to act as a floor for the stock price, but here they have not been successful in most cases.

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## Share buybacks...

"Buybacks have ensured stock prices remained high in sectors such as IT, chemicals, consumer goods and multinational companies (MNCs) as the return ratios got a boost after the buyback. Buybacks also provided a floor price to stock prices in many cases," said Deepak Jasani, head of retail research, HDFC Securities. Market players say some companies are holding back their buyback plans, hoping that the FM would announce some tax relief in the upcoming Budget. "With just weeks to go for the Budget, many companies want to wait and

watch. Already, there is a strong buzz that there could be a roll-back of the buyback tax. If that translates into reality, we could see a flurry of buybacks in the remaining two months of the financial year," said a legal expert, asking not to be named.