

Buyback Tax

The Finance Ministry has said that it will look into the applicability of 20% tax proposed in the <u>2019-20</u> <u>Budget</u> on the current share buybacks by listed companies.

- A buyback is a scheme by which a company repurchases a certain amount of its outstanding shares. Once taken back, these shares are extinguished by the company.
- It can be done to improve the earnings per share for continuing shareholders.
- It can also be done if promoters want to hike their stake in the company, sometimes to avoid any takeover threats.
- To escape **dividend distribution tax**, listed companies resort to buybacks.
 - A dividend is a return given by a company to its shareholders out of the profits earned by the company in a particular year. A tax called the Dividend Distribution Tax (DDT) is levied on the company paying the dividend.
 - Presently, the effective rate is 20.3576%.
- To plug the differential tax treatment between buybacks and dividend payouts, the government has proposed that 20 % tax will be levied on the difference between the issue price and the buyback price of the share.

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