Buyback Tax

The Finance Ministry has said that it will look into the applicability of 20% tax proposed in the 2019-20 Budget 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.