



**Corporate
Professionals**
WHERE EXCELLENCE IS LAW



NEW BUYBACK TAX IMPLICATIONS

–Announced in Union Budget 2024–



Amendments: Budget 2024



Key Provisions of the Amendments



Income Tax Treatment:

Buy-back sum treated as dividend income, taxed at applicable rates without expense deduction.



Capital Loss Recognition:

- Shareholders recognize capital loss on buy-back.
- Loss computed by deeming value of consideration as nil.



Carry Forward and Set-Off of Capital Loss:

Capital loss can be carried forward and set off against future capital gains.

Calculation Methodology

The calculation after amendments takes place will involve several steps:

- 1. Deeming the Value of Consideration for Buy-Back as Nil**

Buy- back consideration considered nil for capital loss computation

- 2. Computing Capital Loss**

Loss= Consideration (nil) – Cost of acquisition

- 3. Carry Forward of Capital Loss**

Loss can be carried forwarded to offset future capital gains.

Illustrative Example

- **Initial Purchase:** 100 shares bought in 2020 @ Rs. 40 per share. Total cost of acquisition = Rs. 4,000.
- **Buy-Back:** 20 shares bought back in 2024 @ Rs. 60 per share.
- **Income taxable as deemed dividend:** Rs. 1,200 (20 shares * Rs. 60).
- **Capital loss on buy-back:** Rs. 800 (20 shares * Rs. 40 cost of acquisition).
- **Subsequent Sale:** 50 shares sold in 2025 at Rs. 70 per share.
- **Capital Gain:** Rs. 1,500 [(50 shares * Rs. 70) – (50 shares * Rs. 40)].
- **Chargeable Capital Gain after set off:** Rs. 700 (Capital Gain Rs. 1,500 – Capital Loss Rs. 800).



TAX IMPLICATIONS IN A BUYBACK



NEW CAPITAL GAINS TAX AFTER BUDGET 2024

**LONG TERM
CAPITAL GAIN**

**Reduced
20% TO 12.5%
(No indexation)**

**SHORT TERM
CAPITAL GAIN**

**Increased
15% TO 20%**



Comparative Table: Tax Implications of Buyback vs. Selling in Secondary Market

Details	Buyback of Shares	Selling Buyback Shares in Secondary Market
Tax Imposed	10	10
Buyback/Sale Price per Share (₹)	2,000	2,000
Total Consideration (₹)	20,000	20,000
Purchase Cost of Buyback Shares (₹)	5,000	5,000
Taxable Amount (₹)	20,000	15,000 (20,000 – 5,000)
Capital Loss Adjustment	5,000 (Set off against capital gain)	Not applicable



Comparative Table: Tax Implications of Buyback vs. Selling in Secondary Market

Details	Buyback of Shares	Selling Buyback Shares in Secondary Market
Taxable Amount (₹)	20,000	15,000
Tax Imposed (₹)	Depend on Tax Slab:	LTCG: 1,875 (12.5%)
	Within the Tax Slab: NIL	STCG: 3,000 (20%)
	Tax Slab 5%: 1,000	
	Tax Slab 10%: 2,000	
	Tax Slab 15%: 3,000	
	Tax Slab 20%: 4,000	
	Tax Slab 30%: 6,000	



IMPACT OF NEW TAX IMPLICATIONS



Impact of new Tax Implications

1. **Increased Tax Burden** on Shareholders.
2. Corporates might **not follow the strategy of Buy-backs** frequently.



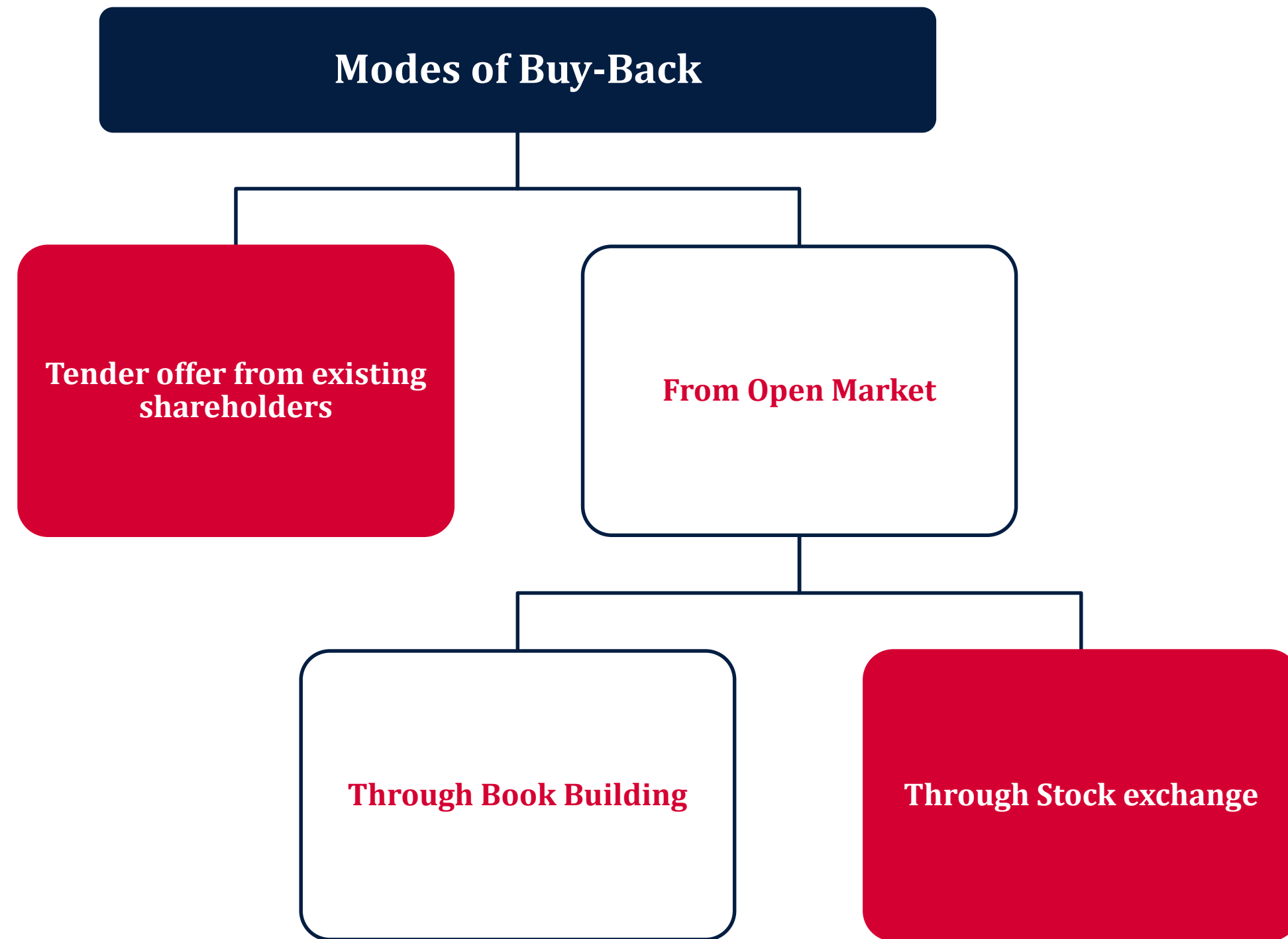
BUYBACK: GENERAL



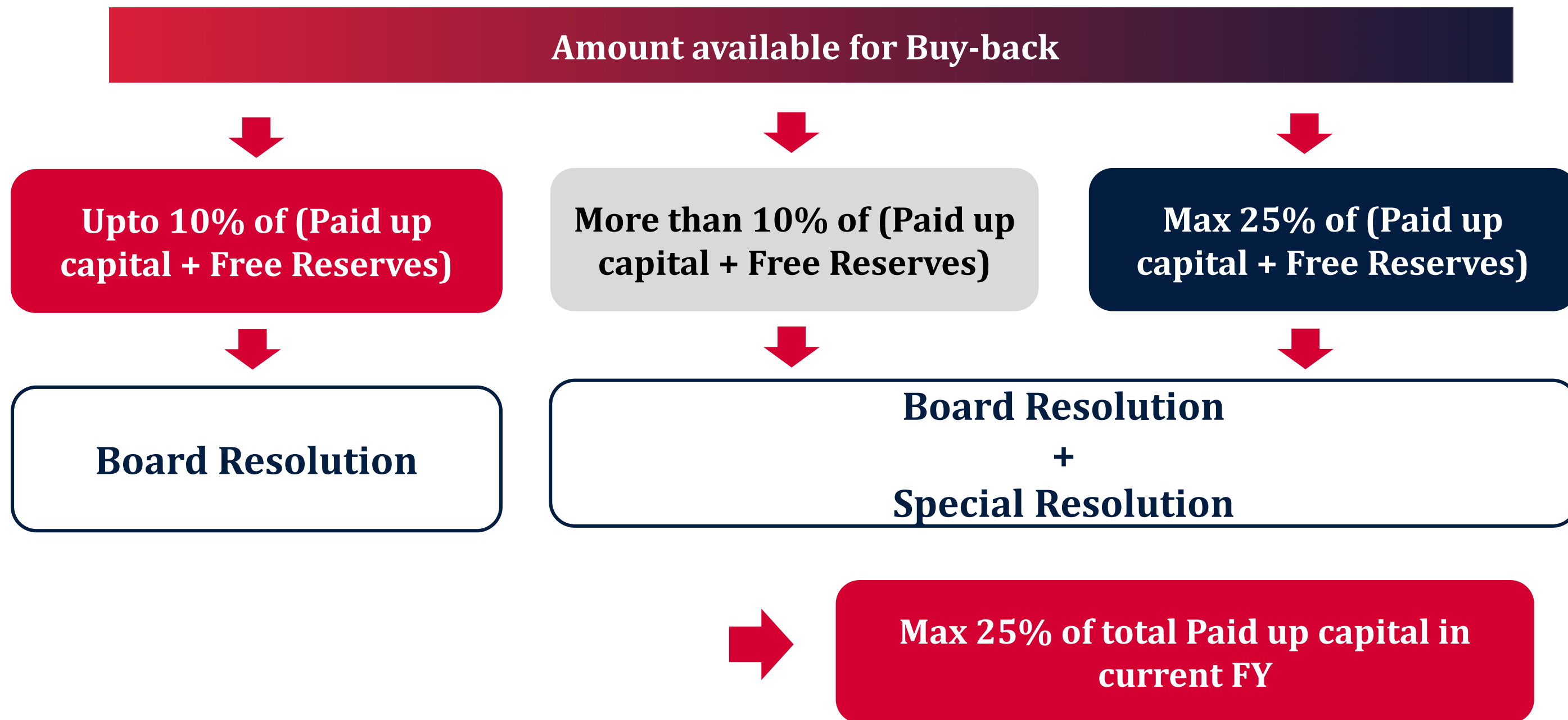
Legal Framework of Buyback



Modes of Buyback



Quantum of Buyback



In case of Buyback through Open Market the maximum limit on amount available for buyback is

✓ 5% of the paid up capital and free reserves of the company till March 31, 2025.





The Tough(er) DECISION



DECISIVE FACTORS OF COMPARISON FOR FUND UTILIZATION

01

Financial Health
Assessment

02

Evaluation of
Investment
Opportunities

03

Analysis of
Market
Conditions

04

Buy back timing:
Before 1st Oct or
post new tax
regime

04

Understanding
Shareholders
Expectations

05

Examination of
Tax Implications

06

Consideration
of Cost of
Capital

07

Risk
Management
Considerations

08

Alignment with
Corporate
Strategy



Clock is Ticking

S. No.	Events	Timeline
1	Advance Intimation to Stock Exchange for proposed board meeting at least two working days before the board meeting.	X-2 Working Days
2	Outcome to SE about the decision of the Board Meeting	X
3	Intimation for Fixation of Record Date in consultation with Stock Exchange	X
4	Publication of Public Announcement in at least one English National Daily, one Hindi National Daily and a Regional language daily, all with wide circulation at the place where the Registered office of the company is situated by the Company and file copy of PA in electronic mode with SEBI and Stock Exchange.	X+2 Working Days
5	Deposit in Escrow Account (<i>Regulation 9(ix) of Buyback Regulations</i>)	X+4 Working Days
6	Record Date	X+7 Working Days
7	Filing and Dispatch of LOO with Required disclosures (Schedule III) along with Declaration of Solvency (Section 68 (6)), the MB's Due Diligence Certificate & certificate issued by MB that buyback is in compliance with the regulation, in electronic mode to SEBI (within 2 working days of from the record date). (<i>Regulation 8(i) & Regulation 25 (vi) of Buyback Regulations</i>)	X+9 Working Days
8	Filing of Letter of Offer with ROC in Form SH-8 and Declaration of Solvency in SH-9.	
9	Opening of Offer	X+11 Working Days
10	Closure of Offer	X+15 Working Days
11	Verification and make payment of consideration and return the share certificates whose shares are rejected within five working days of the closure of the offer.	X+20 Working Days = Y
	Payment of Tax	Y + 14 Days



BUYBACK PRICING

Tender Offer

Under Tender Route the Buyback is freely priceable, which is generally at a premium to the running market price.

Open Market

Here a maximum price is to be given which generally at premium of Running Market Price, though Buyback is done on daily basis at daily market prices.

Book Built

An Upper End and a Lower End of the Price Range is to be provided, considering the Co. is frequently/In-Frequently traded.

And final price shall depend upon the price discovered through the bids received

COMPARISON OF FUND UTILIZATION

(To Retain or Distribute)



WAYS OF RETURNING VALUE TO THE SHAREHOLDERS



BUYBACK



DIVIDEND



BONUS



BONUS | DIVIDEND | BUYBACK

Basis	BONUS	DIVIDEND	BUYBACK
Impact on Reserves	Capitalization of reserves	Giving off reserves	Giving off reserves
Capital	Increase	No Change in Capital	Decrease
Cash outflow	No	Yes	Yes
Taxation	LTCG/ STCG	Slab Rate	Slab Rate
Non traceable shareholders	Abeyance and IEPF	IEPF	No impact
MP adjustment	As per Bonus Ratio	Dividend Value	No adjustment





**BUYBACK IS NOT AN
ALTERNATIVE TO
DIVIDEND**

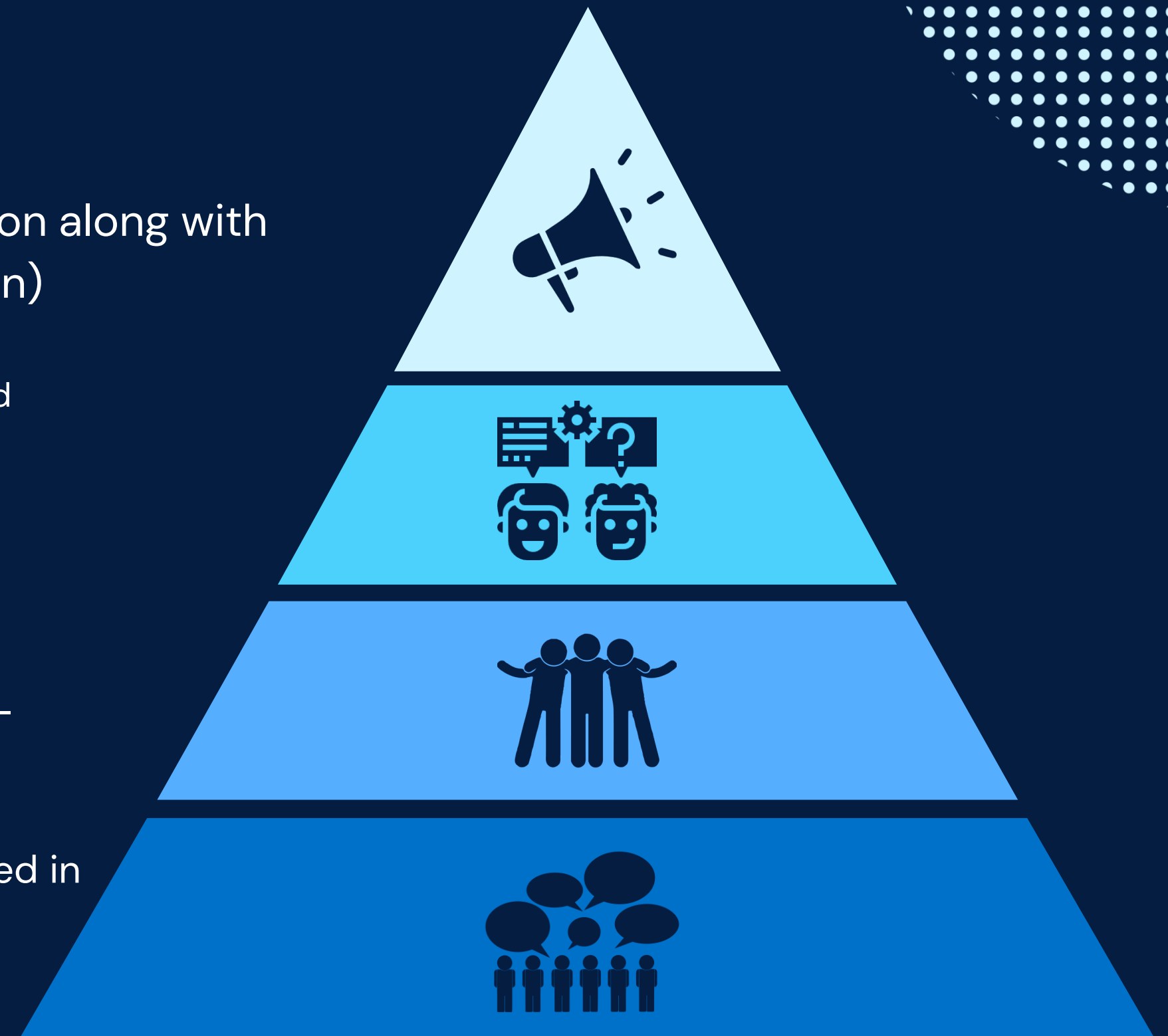


COMPOSITE FUND DISTRIBUTION

-Buy Back and Dividend

Many companies opt for dividend declaration along with Buyback offer. (Composite Fund Distribution)

- 01 Distribution of Tax Impact between company and shareholders.
- 02 Signal of Financial Strength.
- 03 Catering both income-oriented vs. growth-oriented investors.
- 04 Ensuring not all unclaimed funds are blocked in IEPF.



BUYBACK: LISTED COMPANIES

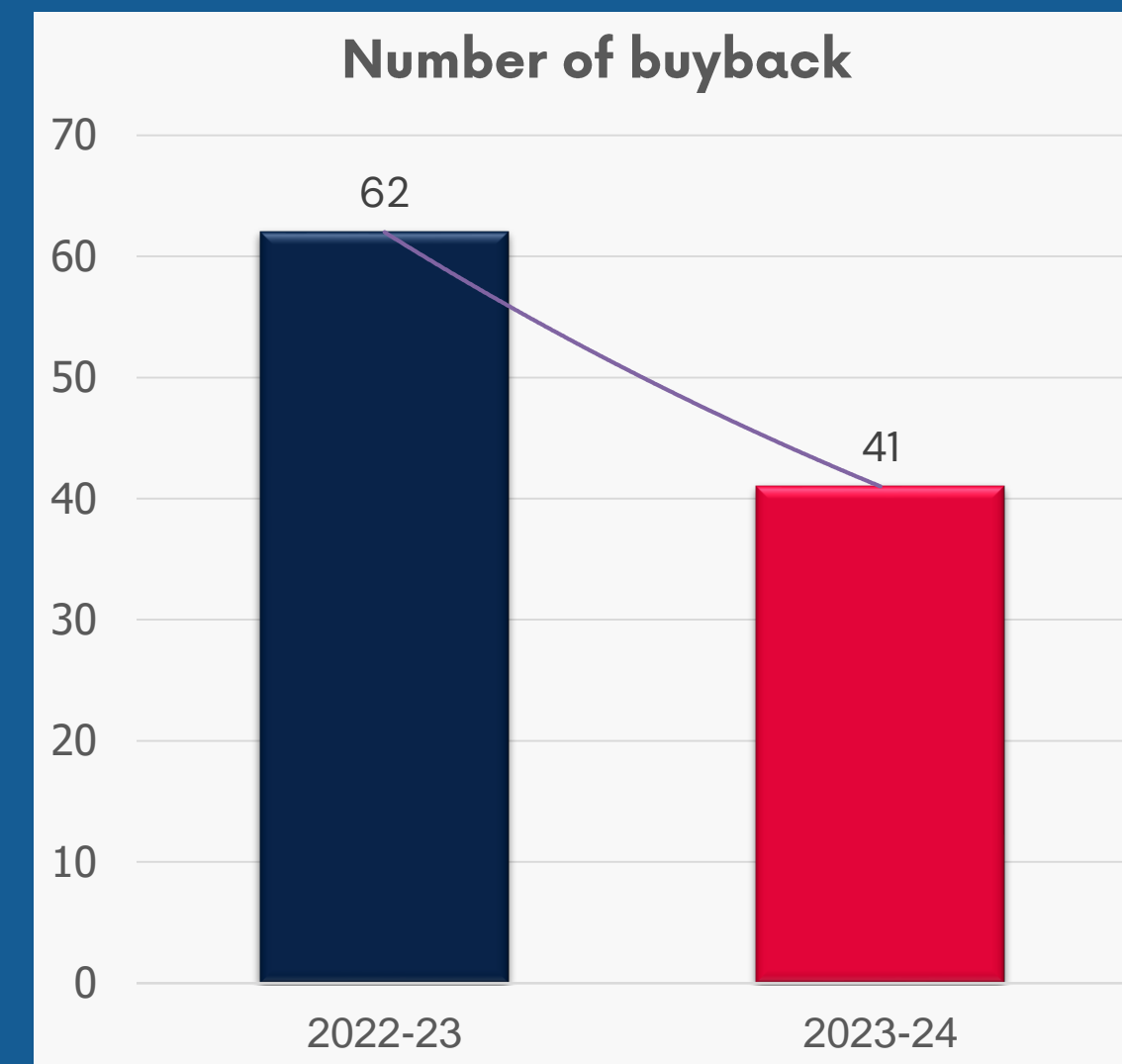
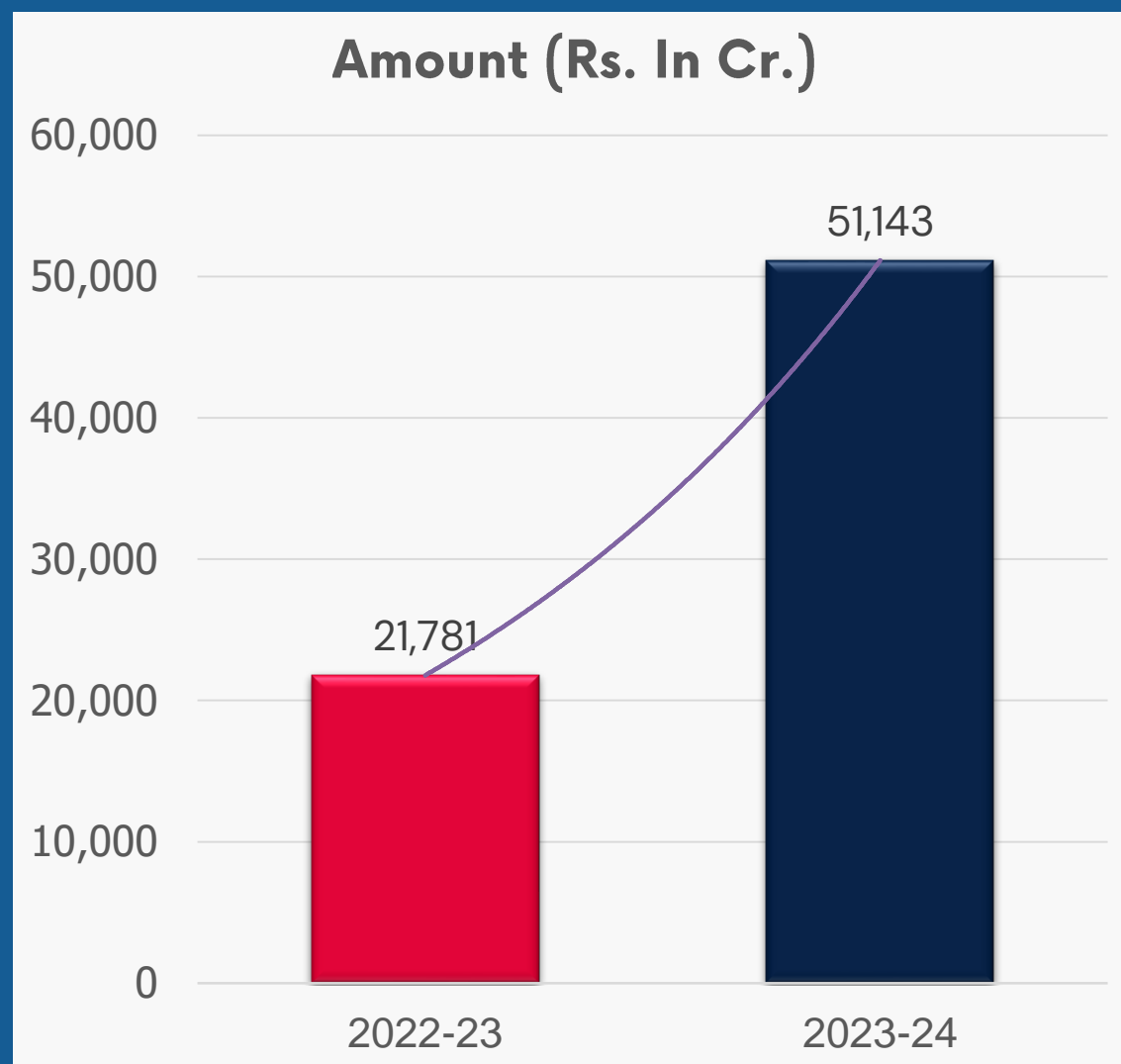


BUYBACK TRENDS

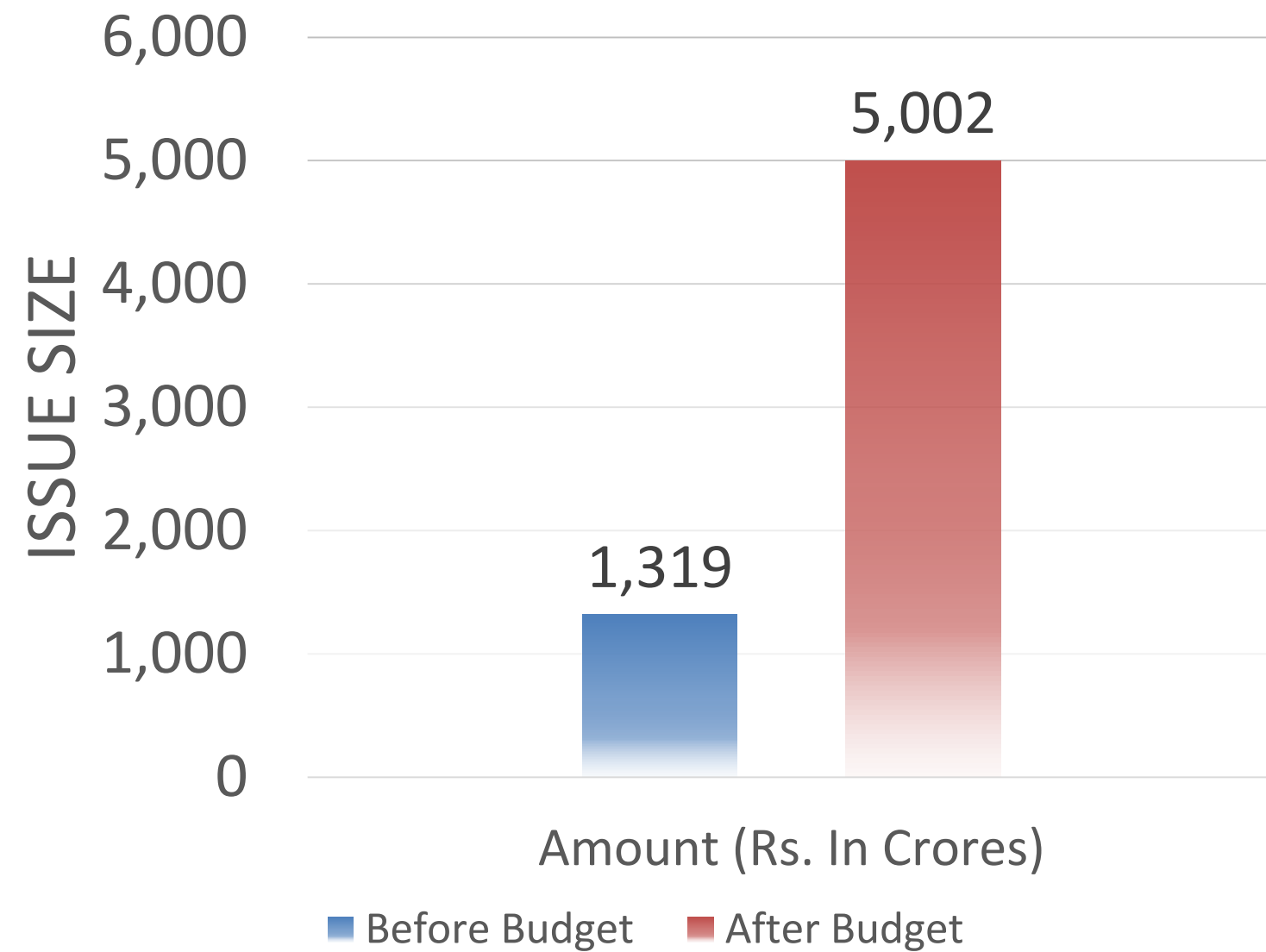


BUYBACK TREND

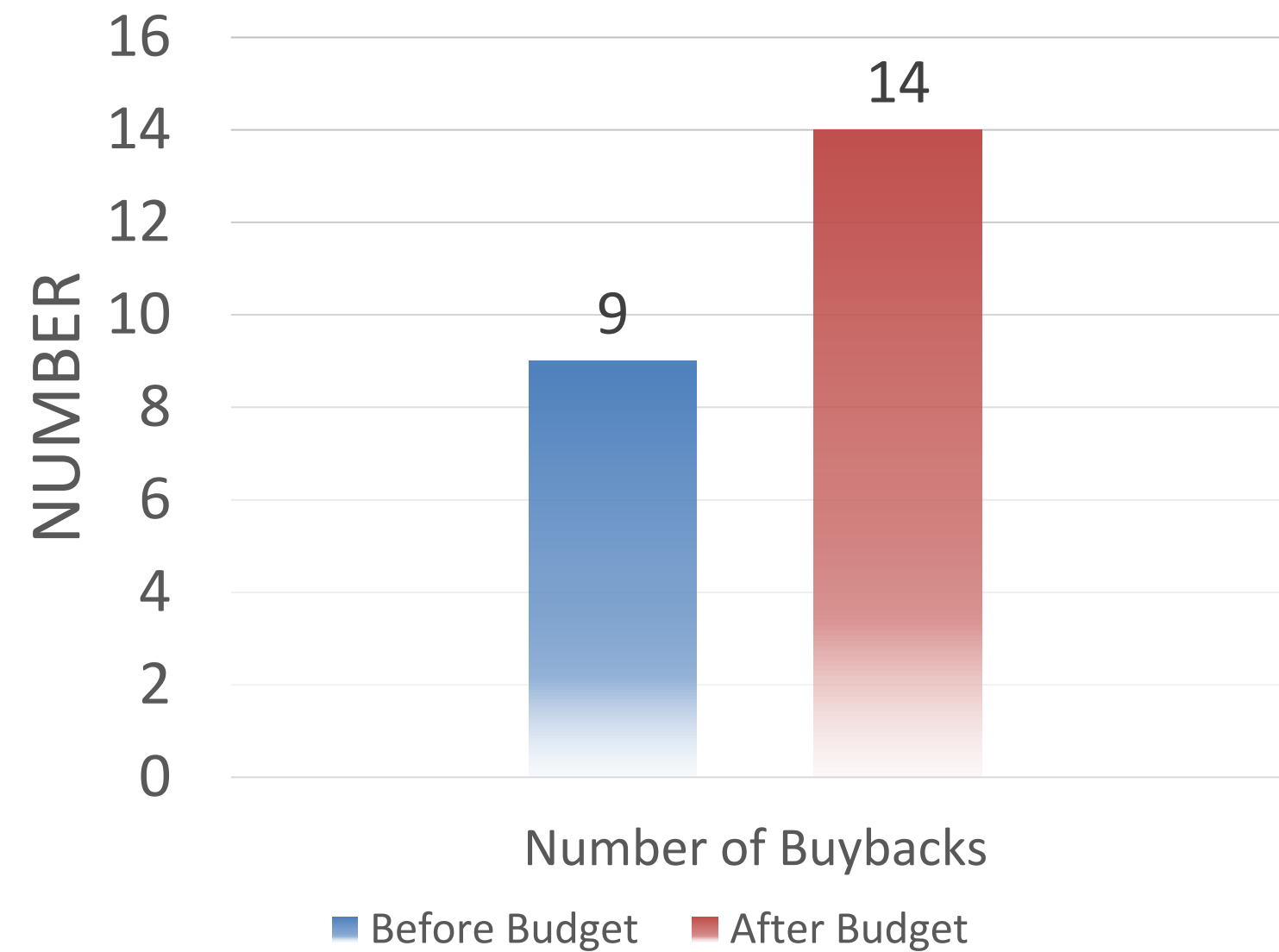
Last 2 Years



BUYBACK 2024-25 ISSUE SIZE



BUYBACK 2024-25 NUMBER OF BUYBACKS



RECENT BUYBACKS

June 2024 to July 2024

S. No.	Name of the Company	Buyback Type	Issue Opening Date	Issue Closing Date	Issue Size (Amount in crores)
1	Aurobindo Pharma Limited	Tender offer	Aug 05, 2024	Aug 09, 2024	750.00
2	Welspun Living Limited	Tender offer	Not disclosed yet	Not disclosed yet	278.43
3	eClerx Services Limited	Tender offer	July 09, 2024	July 15, 2024	385.00
4	Bajaj Consumer Care Limited	Tender offer	Jul 05, 2024	Jul 11, 2024	166.49
5	Godawari Power & Ispat Limited	Tender offer	Jul 04, 2024	Jul 10, 2024	30.10



IMPACT OF BUYBACK



IMPACT ON BALANCE SHEET

Pre-Buyback Balance sheet			
Liability	Amt.	Asset	Amt.
Capital 10,000@10	1,00,000	Cash	40,000
Reserve	50,000	Bank	1,10,000
–	–	–	–
Total	1,50,000	Total	1,50,000

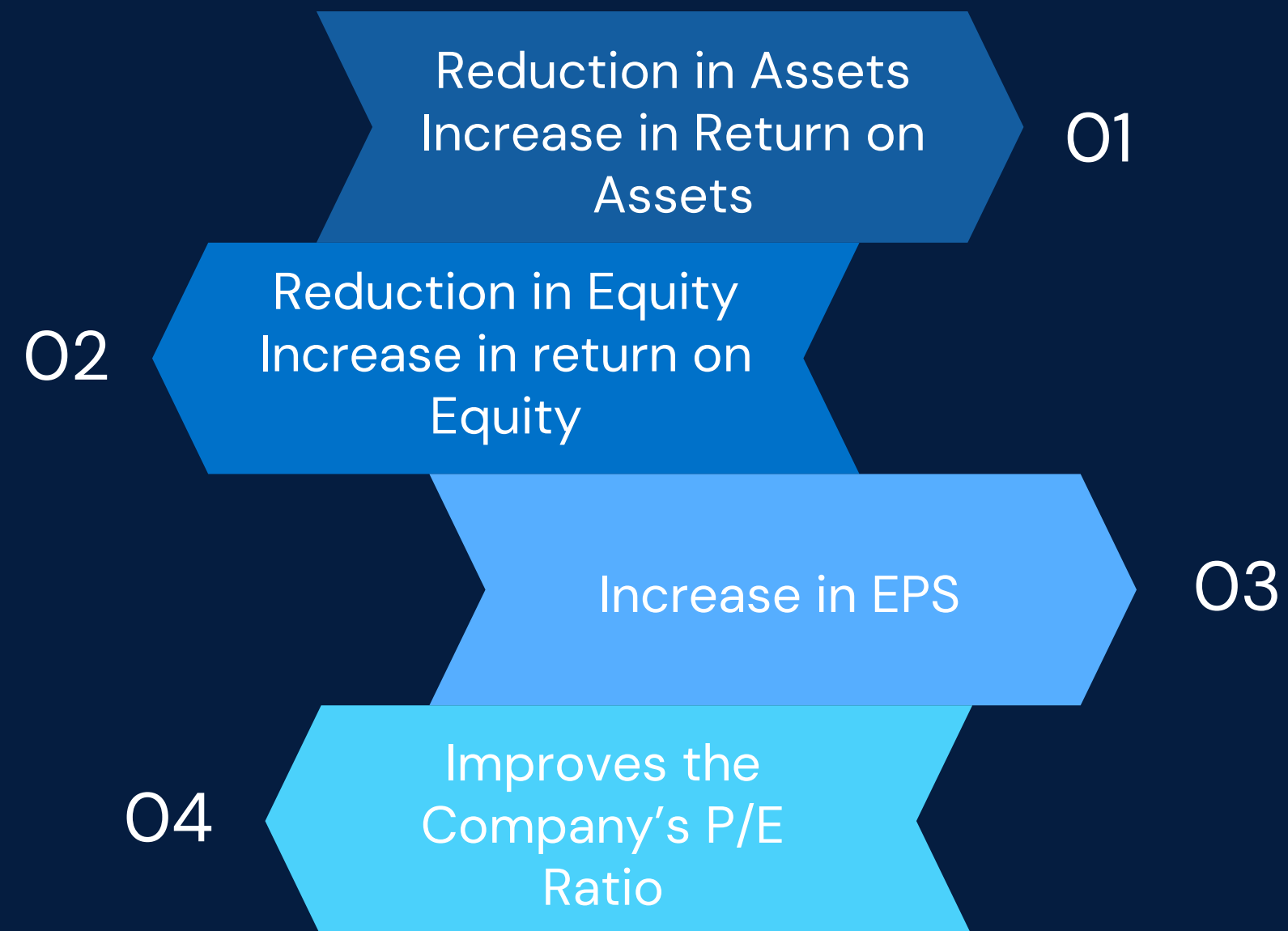
*Buyback of
2,500 shares
of Rs. 10/- at
Rs. 20/- each.
i.e., Buyback
size Rs.
50,000/-*

Post Buyback Balance sheet			
Liability	Amt.	Asset	Amt.
Capital 7500 @10	75,000	Cash	40,000
Reserve	–	Bank	60,000
CRR	25,000	–	–
Total	1,00,000	Total	1,00,000

Size of Balance sheet reduces by the amount of Buyback.



FINANCIAL IMPACT



IMPACT OF BUYBACK ON A COMPANY WITH STOCK MARKET PERSPECTIVE

Positive
Market
Reaction



Stock
Price
Support



BUYBACK: UNLISTED COMPANIES



Key things to be kept in mind:

1. Buyback can be made through:
 - (a) its free reserves;
 - (b) the securities premium account; or
 - (c) the proceeds of the issue of any shares or other specified securities.
2. Authorization in Articles of Association.
3. Gap of at least 12 months from the date of closure of last offer.
4. In case of public companies, the entire holding of securities of its promoters, directors, key managerial personnel shall be in demat.



Key things to be kept in mind:

1. In the case of private companies other than small companies, w.e.f., 1st October 2024, the entire holding of securities of its promoters, directors, and key managerial personnel shall be in demat.
2. No default subsisting in:
 - a) repayment of deposits, interest payment thereon,
 - b) redemption of debentures or payment of interest thereon or
 - c) redemption of preference shares or payment of dividend due to any shareholder, or
 - d) repayment of any term loans or interest payable thereon to any financial institution or banking company

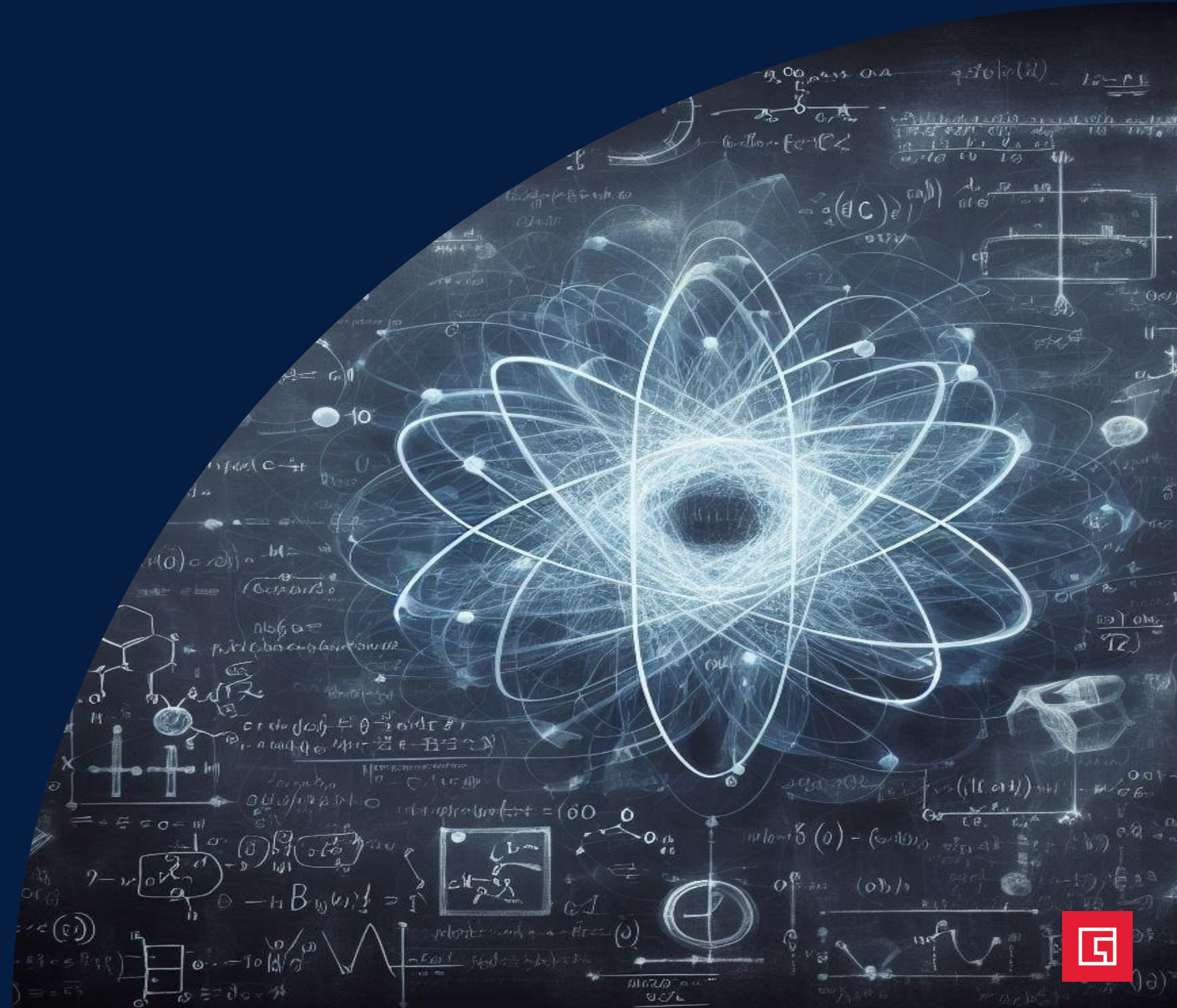
Documents required:

1. Audited financial statements or unaudited financial statements subject to limited review that are not later than 6 months old.
2. Auditors report on Buyback
3. Valuation report, in case buyback is from a non-resident.

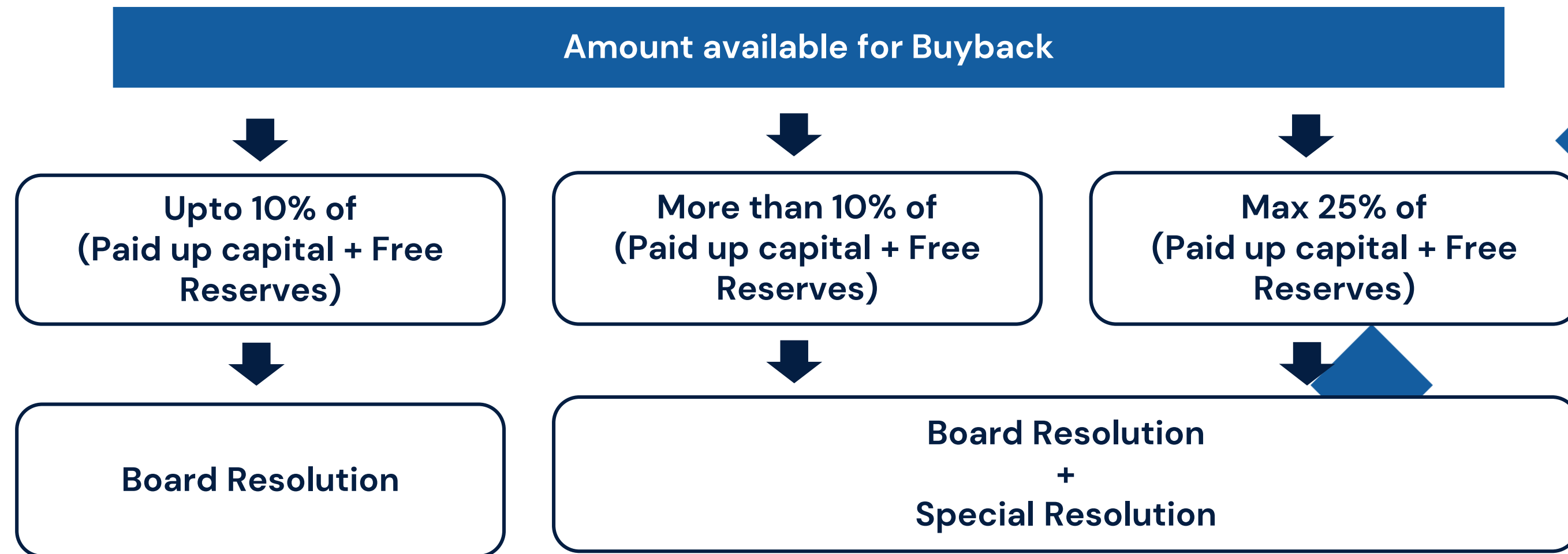
MODES & PROCESS OF BUYBACK



Quantum PERMISSIBLE



QUANTUM OF BUYBACK



In case of Buyback through Open Market the maximum limit on amount available for buyback is 5% of the paid up capital and free reserves of the company till March 31, 2025.





PROCESS & TIMELINE



PROCESS CHART – Unlisted Company

01

Board Resolution/
Shareholders'
Resolution

02

Letter of Offer & Declaration
of Solvency with the Registrar

03

Letter of Offer to
Shareholders
(Within 20 days of filing
LOO with the Registrar)

04

Offer Period
(15 to 30 days)

05

Verify the offers
(Within 15 days from
closure of offer)

06

Communicate about
rejection, if any
(Within 21 days from
closure of offer)

07

Pay consideration
(Within 7 days of
completion of verification)

08

File return of buy-back with
the Registrar
(Within 30 days of
completion of buy-back)



Queries:

Whether a buyback of more than 25% equity shares can be made in any financial year?



Queries :

Whether form SH-8 & SH-9 are required in case of Board buyback?



Queries :

Whether approval of form SH-8 is required before dispatching letter of offer to shareholders?



Queries :

Whether buyback can be done from only one shareholder?



Queries:

Whether reporting in form FCTRS is required in case of buyback?



Queries:

What is buyback of ESOPs?



Queries:

For buyback, standalone or consolidated financial statements are required?



THANK YOU

Connect with us.

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