WHAT IS BUYBACK OF SHARES?

Buyback of Shares refers to the process by which a company re-purchases its shares and other specified securities from its existing shareholders at a fair price decided by the Company

Buy Back of equity shares is a mode of capital restructuring with the objective of distribution of surplus funds to the shareholders, increasing Earnings per Share, and reorganising the capital and shareholding structure.

Many times, a company having surplus funds wants to distribute it amongst its shareholders. Buyback is one of the modes by which it can achieve its objectives.

SOURCES OF BUYBACK

- Free Reserves
- Securities Premium Account
- Proceeds of any Securities

  However, Buyback cannot be made out of proceeds of an earlier issue of the same kind of securities

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RELEVANCE OF BUYBACK

- Buyback assists in improving financial ratios and protection from potential takeovers
- Retaining surplus for business investment vis-à-vis payout to shareholders
- Recent trends reflect an increased use of buy back as means of corporate Restructuring
- Few cash rich companies have already made the move

CLASS OF COMPANIES	REGULATION
Buy-Back of Unlisted Public Company & Private Limited Company	Section 68,69,70 of Companies Act, 2013 Rule 17 of Companies (Share Capital & Debentures) Rules, 2014
Buy-Back for Listed Companies	Section 68,69,70 of Companies Act, 2013 Rule 17 of Companies (Share Capital & Debentures) Rules, 2014 Securities Exchange Board of India (Buy-back of Securities Amendment) Regulations, 2013

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Major Conditions for Buyback

- Buyback should be authorised by Articles of Association
- Post Buyback Debt Equity Ratio should be less than 2:1
- Maximum buyback in an year allowed up to 25% of Capital plus Free Reserves
- Separate Bank account to be opened for disbursement of buyback amount
- Several forms and documents to be filed with the Registrar of Companies and approval to be obtained

Tax Implications

- **Company to pay Income Tax** at the rate of 20% plus 12% Surcharge plus 4% Cess to be paid on the difference between buy back amount paid to shareholders and amount received by Company at the time of allotment of such shares
- Amount received by shareholders is **exempt from income tax in the hands of such shareholders**

Dividend vis-à-vis Buyback

As per the current income tax law, dividend distributed by company is taxable in the hands of shareholders at the applicable rate of tax (maximum rate up to 42.74% approx.)

Tax on buyback is exempt in the hands of shareholders and the effective rate of tax to be paid by companies may be much lower depending on the capital structure and other facts.

	BUYBACK OPTION	DIVIDEND OPTION
Funds Distributed to shareholders	100.00	100.00
Effective Tax paid by Company [1]	20.97	NIL
Effective Tax Paid by Shareholders [2]	NIL	42.74

[1] The amount received on issue of shares has been considered as Face value of Rs.10/- and tax calculated @23.3% on difference between amount paid and received.

[2] Tax payable by shareholder considered at highest applicable tax slab and surcharge at 42.74%

CONCLUSION

Buy Back can be used as a measure to return cash to Shareholders and can be very effective at times in terms of tax implication vis-à-vis dividend distribution.

It also enhances Earning Per Share (EPS) since it reduces company's outstanding shares, and the impact is clearly evident in per-share measures of cash flow and profitability. Share purchases by companies are indeed a positive sign for investors about the confidence of the management in the underlying fundamentals of the business.

For detailed discussion feel free to connect

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This circulation has been compiled based on current provisions of Companies Act and Income Tax and other documents available in the public domain. While every care has been taken in the compilation of this document and every attempt made to present up-to-date and accurate information, it cannot be guaranteed that inaccuracies will not occur. We shall not be held responsible for any claim, loss, damage or inconvenience caused as a result of any information, representation or understanding of this circulation.

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