

Buyback tax changes: Why selling shares back may hurt your returns

[Gautam Nayak](#) 4 min read 21 Oct 2025, 11:50 am IST



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Summary

Under the new tax rules, any amount received by a shareholder from a share buyback is taxable as dividend income.

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Till 30 September 2024, a company buying back shares was liable to pay a 20% tax while its shareholders were exempt. From 1 October 2024, the tax laws have been amended, making any amount received by a shareholder for selling her shares back to the company taxable as dividend income. The cost of shares that are bought back is allowed as a capital loss to the shareholder.

These provisions are quite harsh. Firstly, the amount received is taxable as a dividend even if the buyback is not out of the company's profits. Secondly, the shareholder pays tax on the amount received at her marginal rate of tax (often 35% or more), whereas the capital loss due to the cost

(assuming it is long-term) is set off only generally against long-term capital gains, where the tax savings are at best 14.95%. These provisions apply even to buybacks by listed companies.

Post-tax returns

Is it worthwhile to offer one's shares in a buyback, even where the buyback price is higher than the current market price?

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To understand, take Infosys' buyback offer. While the current market price of the shares hovers around ₹1,500, the buyback is at a price of ₹1,800. It seems to be a very attractive and perfect arbitrage opportunity! But is it really so after one factors in the [tax liability](#)?

If 100 shares are bought back, the shareholder would receive ₹1,80,000, on which she would pay an income tax of around ₹61,236 (at 34.02%, assuming she falls in the 10% surcharge bracket, with income between ₹50 lakh and ₹1 crore). If he has bought the shares at ₹1,000 each and held them for more than a year, she can claim a long-term capital loss of the cost of the shares of ₹1,00,000, on which she saves capital gains tax of ₹14,950. The net amount left in the hands of the shareholder is ₹1,33,714.

Alternatively, if the shareholder were to sell her 100 shares in the open market, she would receive ₹1,50,000. Her long-term capital gains would be ₹50,000, on which she would pay tax of ₹7,475. The money in her hands after paying the tax would be ₹1,42,525. This is much higher than the amount that she would be left with were she to offer the shares in the buyback at ₹1,800 per share, the difference being ₹8,811!

In fact, even if her cost is as low as ₹100 per share, after factoring in savings of capital gains tax of ₹1,495 on buyback, and the long-term [capital gains](#) payable on the sale in the market of ₹20,930, she would still be better off selling her shares in the open market at ₹1,500 per share, which would give her a post-tax amount of ₹1,35,050, as against the post-tax amount of ₹1,26,239 that she would be left with if she were to opt for a share buyback. The difference in this case would also be ₹8,811.

Therefore, whatever the cost, the shareholder is better off by ₹8,811 selling the shares in the open market, rather than offering them in the buyback offer, though the buyback price is 20% higher than the market price, purely on account of the higher tax incidence. Perhaps, the only situation where a shareholder may not suffer such higher tax in a buyback would be one where she has a business loss or a loss under the head "income from other sources", which she can set off against such dividend income, and therefore not pay tax on such buyback amount.

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Punitive measures

The buyback tax was introduced initially to prevent misuse of tax treaties under which [capital gains tax](#) was exempt, so companies would resort to the buyback of shares held by parent companies located in such jurisdictions instead of declaring a dividend, which would be taxed in India. The treaties with Mauritius and Singapore have since been amended, and there is no scope for such misuse.

The buyback tax was found advantageous by high-income promoters who found it a better alternative at 20% to the declaration of dividend, where they would have been taxed at 35% or more. Therefore, the new tax treatment of the buyback amount as a dividend was introduced. Such misuse of buybacks as an alternative to the dividend has been resorted to largely by unlisted companies.

Could this tax treatment not have been restricted only to unlisted companies, and in case of shareholders of listed companies, the difference between buyback price and cost be taxed as capital gains?

Besides, why should the entire buyback amount be taxed as a dividend? Should it not be only the difference between the buyback price and the cost of shares that should have been so taxed? Unfortunately, in India, taxpayers tend to suffer tax extremes—either the law is so lax that there is widespread misuse, or it is made so harsh that all taxpayers are put to difficulty due to the misuse of certain types of transactions.

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Views are personal.

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