Buyback - Section 68-70 of the Companies Act, 2013

Explanation (i) to sub-section (1) of Section 115QA(1) of Income Tax Act, 1961:

"Buy-back" means purchase by a company of its own shares in accordance with the provisions of any law for the time being in force relating to companies*

*Section 68(1) of Companies Act, 2013:

Buyback means/referred to as purchase of its own shares or other specified securities.

Deemed Dividend - Section 10(34A)

As per section 2(22)(f)[1] of the Income Tax Act, 1961, Dividend includes any payment by a company on purchase of its own shares from a shareholder in accordance with the provisions of section 68 of the Companies Act, 2013.

Therefore the sum paid by a domestic company for purchase of its own shares shall be treated as dividend in the hands of the shareholders, who received payment from such buy-back of shares and shall be charged to income tax at applicable rates.

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[1] As per Finance Act (No.2) 2024 - w.e.f 1st October, 2024

Case Study 1:

Mr. Suresh bought 100 shares of Reliance Industries Ltd in January 2020 (RELIANCE) at Rs. 4,000/- per share. During October 2024, Reliance Industries Ltd bought back 20 shares at Rs. 6,000/- per share.

Compute:

a) **Income taxable as deemed dividend for AY 2025-26.**

b) **Instead of October 2024, if the buy-back happens in September 2024, what is the status?**

c) **Tax Liability under both the above circumstances.**

Solution:-

Year	Case	Particulars		Amount (Rs.)
2020	-	100 shares bought @ 4,000/- per share **Total Cost of Acquisition**		4,00,000
2024	a)	October 2024: 20 shares Buy-back @ 6,000/- per share **Deemed Dividend u/s 2(22)(f)**		1,20,000
2024	b)	September:		
		20 shares bought back @ 6,000/- per share	1,20,000	
		Less: Cost of Acquisition		
		2019-20 - 289 (Rule 40BB) 20 shares @ 4,000	80,000	
		2024-25 - 363 Indexed COA - NA	NA	
		Distributed Income Deemed Capital Gains	40,000	40,000
2024	c)	Tax Liability a) 12.5% on Rs.1,20,000 (Taxable in the hands of Shareholder Mr. Suresh)		15,000
		b) 20% + 12% + 4% = 23.296% on Distributed Income Deemed Capital Gains Rs.40,000		9,318.4