Tax Implications for Shareholders in Infosys Buyback

Infosys is back in the news with its biggest-ever buyback.

The Company has announced a ₹18,000 crore plan to repurchase up to 10 crore shares at ₹1,800 each.

Considering Infosys was trading around ₹1,509 on 15th Sept 2025 when the buyback was approved, that’s nearly a 19% premium.

Deemed Dividend under Section 2(22)(iv)

- Under the new buyback tax regime for listed companies, effective from July 5, 2019, the old system where the company paid tax on buyback (Section 115QA) is no longer applicable for listed shares.

- Now, the buyback amount received by the shareholder is treated as a “deemed dividend” under Section 2(22)(iv) of the Income Tax Act.

- This income is taxed in the hands of the shareholder, as part of “Income from Other Sources”.

Marginal Taxation

- The entire buyback proceeds (not just the gain) are added to the shareholder's income.
- Taxed at the investor's applicable slab rate.
    - For high-income individuals this could be 30% + surcharge + cess (~up to 43% effective rate).
    - This is significantly higher than capital gains tax rates (10%/15%).

TDS (Tax Deducted at Source)

- Infosys will deduct 10% TDS on the gross amount paid to resident shareholders.
- For NRI shareholders, the applicable DTAA treaty rate may apply.
- Even though TDS is deducted, you may need to pay more tax depending on your slab when filing returns.

Capital Loss Allowed

- Since the full amount is taxed as dividend income, the cost of acquisition of the shares is not adjusted against the buyback proceeds.

- Instead, the cost becomes a capital loss, which:

    - Can be set off against capital gains (short-term or long-term) in the same financial year.

    - Or carried forward for up to 8 assessment years.

Open Market Sale — More Tax Efficient?:

- **If you sell shares on the open market:**
  - Gains are taxed as Capital Gains:
    - Short-Term Capital Gains (STCG): 15% if held < 1 Yr.
    - Long-Term Capital Gains (LTCG): 10% (exceeding ₹1 lakh) if held > 1 year.
  - You can deduct the cost of acquisition, thereby only paying tax on net gains.

For most retail investors, especially those in 30% tax bracket, Selling on the open market is typically more tax-efficient than participating in a buyback.

Thank you...