INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

IJRCM

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,
Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],
The American Economic Association's electronic bibliography, EconLit, U.S.A.,
Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.

Circulated all over the world & Google has verified that scholars of more than 4255 Cities in 176 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

http://ijrcm.org.in/

CONTENTS

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** ***anytime*** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (***FOR ONLINE SUBMISSION, CLICK HERE***).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____________

THE EDITOR

IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF _______________________.**

(e.g. Finance/Mkt./HRM/General Mgt./Engineering/Economics/Computer/IT/ Education/Psychology/Law/Math/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in one of your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the co-authors of this manuscript have seen the submitted version of the manuscript and have agreed to their inclusion of names as co-authors.

Also, if my/our manuscript is accepted, I agree to comply with the formalities as given on the website of the journal. The Journal has discretion to publish our contribution in any of its journals.

NAME OF CORRESPONDING AUTHOR	:
Designation	:
Institution/College/University with full address & Pin Code	:
Residential address with Pin Code	:
Mobile Number (s) with country ISD code	:
Is WhatsApp or Viber active on your above noted Mobile Number (Yes/No)	:
Landline Number (s) with country ISD code	:
E-mail Address	:
Alternate E-mail Address	:
Nationality	:

NOTES:

a) The whole manuscript has to be in ***ONE MS WORD FILE*** only, which will start from the covering letter, inside the manuscript. ***pdf. version is liable to be rejected without any consideration***.

b) The sender is required to mention the following in the **SUBJECT COLUMN of the mail**:

New Manuscript for Review in the area of (e.g. Finance/Marketing/HRM/General Mgt./Engineering/Economics/Computer/IT/ Education/Psychology/Law/Math/other, please specify)

c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any **specific message** w.r.t. to the manuscript.

d) The total size of the file containing the manuscript is expected to be below **1000 KB**.

e) **Abstract alone will not be considered for review** and the author is required to submit the **complete manuscript** in the first instance.

f) ***The journal gives acknowledgement w.r.t. the receipt of every email within twenty four hours*** and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending a separate mail to the journal.

g) The author (s) name or details should not appear anywhere on the body of the manuscript, except the covering letter and the cover page of the manuscript, in the manner as mentioned in the guidelines.

2. **MANUSCRIPT TITLE**: The title of the paper should be **bold typed**, **centered** and **fully capitalised**.

3. **AUTHOR NAME (S) & AFFILIATIONS**: Author (s) **name**, **designation**, **affiliation** (s), **address**, **mobile/landline number** (s), and **email/alternate email address** should be given underneath the title.

4. **ACKNOWLEDGMENTS**: Acknowledgements can be given to reviewers, guides, funding institutions, etc., if any.

5. **ABSTRACT**: Abstract should be in **fully italicized text**, ranging between **150** to **300 words**. The abstract must be informative and explain the background, aims, methods, results & conclusion in a **SINGLE PARA**. ***Abbreviations must be mentioned in full***.

6. **KEYWORDS**: Abstract must be followed by a list of keywords, subject to the maximum of **five**. These should be arranged in alphabetic order separated by commas and full stop at the end. All words of the keywords, including the first one should be in small letters, except special words e.g. name of the Countries, abbreviations.

7. **JEL CODE**: Provide the appropriate Journal of Economic Literature Classification System code (s). JEL codes are available at www.aeaweb.org/econlit/jelCodes.php, however, mentioning JEL Code is not mandatory.

8. **MANUSCRIPT**: Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. *It should be free from any errors i.e.* ***grammatical, spelling*** *or* ***punctuation.*** *It must be thoroughly edited at your end*.

9. **HEADINGS**: All the headings must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

10. **SUB-HEADINGS**: All the sub-headings must be bold-faced, aligned left and fully capitalised.

11. **MAIN TEXT**:

THE MAIN TEXT SHOULD FOLLOW THE FOLLOWING SEQUENCE:

INTRODUCTION
REVIEW OF LITERATURE
NEED/IMPORTANCE OF THE STUDY
STATEMENT OF THE PROBLEM
OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
RESULTS & DISCUSSION
FINDINGS
RECOMMENDATIONS/SUGGESTIONS
CONCLUSIONS
LIMITATIONS
SCOPE FOR FURTHER RESEARCH
REFERENCES
APPENDIX/ANNEXURE

The manuscript should preferably range from ***2000 to 5000 WORDS***.

12. **FIGURES & TABLES**: These should be simple, crystal **CLEAR**, **centered**, **separately numbered** & self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. *It should be ensured that the tables/figures are referred to from the main text*.

13. **EQUATIONS/FORMULAE**: These should be consecutively numbered in parenthesis, horizontally centered with equation/formulae number placed at the right. The equation editor provided with standard versions of Microsoft Word should be utilised. If any other equation editor is utilised, author must confirm that these equations may be viewed and edited in versions of Microsoft Office that does not have the editor.

14. **ACRONYMS**: These should not be used in the abstract. The use of acronyms is elsewhere is acceptable. Acronyms should be defined on its first use in each section: Reserve Bank of India (RBI). Acronyms should be redefined on first use in subsequent sections.

15. **REFERENCES**: The list of all references should be alphabetically arranged. ***The author (s) should mention only the actually utilised references in the preparation of manuscript*** and they are supposed to follow Harvard Style of Referencing. **Also check to make sure that everything that you are including in the reference section is duly cited in the paper**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parenthesis.
- ***Headers, footers, endnotes*** *and* ***footnotes*** *should* ***not be used*** *in the document.* However, **you can mention short notes to elucidate some specific point**, which may be placed in number orders after the references.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–23

UNPUBLISHED DISSERTATIONS

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

LEGAL AND TAX IMPLICATIONS OF BUY BACK OF SHARES

RUCHI
ASST. PROFESSOR
MOTILAL NEHRU COLLEGE
UNIVERSITY OF DELHI
DELHI

MAHESH KUMAR SAINI
ASST. PROFESSOR
MOTILAL NEHRU COLLEGE
UNIVERSITY OF DELHI
DELHI

ABSTRACT
Introduction of companies act 2013, amendment to securities and exchange board of india (buy back of securities) regulations 1998, as also insertion of section 115QA of the income tax act, 1961 have impacted the buy back scenario. Change in definition of free reserve, listed companies coming out with buy back have to ensure that at least 50% of the amount earmarked for buy back is utilised for buy back. Buy back also affects the fundamentals of the company resorting to buy – back. The buy – back provisions under companies act, 2013 allowed buy back of shares to limited extent and with the conditions like it can only be done if authorised by articles of associations. If buy back is 10% or less of paid up capital and free reserve then the board resolution will be sufficient. After completion of buy back the company cannot make any further issue of same kind of shares within a period of six months.

KEYWORDS
buy back of shares, SEBI.

INTRODUCTION
Buy back of shares means the repurchase of its own shares by the company. When a company has sufficient cash resources, it may like to buy its own shares from the market, when the prevailing rate of its equity shares in the market is much lower than the face value . The shares thus bought back have to be cancelled. Companies will buy back shares either to increase the value of shares still available (reducing supply), or to eliminate any threats by shareholders who may be looking for a controlling stake.

Prior to the amendment of the Companies Act, 1956, buyback of shares in India was prohibited.Section 77 of the Act, imposed a blanket ban on companies from buying their own shares. Section77A, 77AA and 77B have been introduced in 1999 in the Companies Act , 1956 to enable companies to purchase their own shares or other specified specified securities. However, Section 77A of the Companies Act , 1956 which was inserted in the Companies Act,1956 by the Companies (Amendment) Act, 1999 with retrospective effect from 31.10.1998 is an exception to the prohibition under Section 77 and Section 100. Section 77A allows companies to buy-back their own shares as well as 'other specified securities'.

OBJECTIVES OF BUY BACK OF SHARES
The decision to buy-back is also influenced by various other factors relating to the company, such as growth opportunities, capital structure, sourcing of funds, and cost of capital and optimum allocation of funds generated.

The reasons for buy-back may be one or more of the following:
- To improve earnings per share;
- To improve return on capital, return on net worth and to enhance the long-term shareholder value
- To provide an additional exit route to shareholders when shares are under valued or are thinly traded;
- To enhance consolidation of stake in the company;
- To prevent unwelcome takeover bids;
- To return surplus cash to shareholders;
- To achieve optimum capital structure;
- To support share price during periods of sluggish market conditions;
- To service the equity more efficiently.

OTHER LEGAL PROVISIONS FOR BUY-BACK OF SHARES
If the buyback is more than 10% of paid up capital and free reserves of the company, then special resolution should be passed. The special resolution and the explanatory statement annexed to the notice of general meeting must disclose certain specific information as mentioned below:-
- A special resolution can be passed either at annual general meeting or at the extra ordinary general meeting of the company.
- In the special resolution, power can be granted to the board of directors either to buy back shares by using methods of tender offer or open offer at their discretion at appropriate time.
- The company shall send to its shareholders along with the notice of the meeting at which a special resolution is proposed an explanatory statement which shall contain the following:-

o Full and complete disclosures of all material facts.
o The class of security proposed to be bought back.
o The total amount to be invested under the buy- back.
o The time limit for completion of buy- back.

If the buyback of securities are to be made by way of tender offer, then the explanatory statement should contain additional disclosures as mentioned in regulation 7 of SEBI.

PROCEEDS OF ISSUE
Buy-back may be made out of the proceeds of an issue of securities other than the same kind of securities as are proposed securities as are proposed to be bought back. The proceeds of an earlier issue of one kind of securities may be used for the purpose of buy-back of any other kind of securities. The proceeds of

an issue of preference shares may be used to buy-back equity shares and the proceeds of an issue of equity shares may be used to buy-back preference shares. However, the proceeds of issue of preferences shares carrying differential rights as to dividend, voting etc. cannot be utilized inter se for the purpose of buy-back. For instance, the proceeds of issue of 10% preferences shares cannot be utilized for buy-back of 8% preference shares, as these are of the same kind, though of different classes of shares.There should be no direct nexus between the proceeds of an issue and buy-back of securities of a company.

PROHIBITION FOR BUY BACK OF SHARES

As per section 70 of the companies act , 2013 a company shall not buy back its shares or other specified securities:

- Through any subsidiary company, including its own subsidiary company;
- Through any investment company or group of investment companies;
- If default subsists in repayment of public deposits accepted or interest payable thereon, redemption of debentures or preference shares or payment of dividend to any shareholders or repayment of term loan or interest payable thereon to any financial institution or bank;
- No company shall directly or indirectly purchase its own shares or other specified securities in case such company has not complied with the provisions of section 92, 123, 127 and section 129 of the companies act, 2013.
- As per section 70 of the companies act, 2013 now a company can make buy back even if it had at any time default in repayment of deposit or interest thereon , redemption of debentures or preference shares or payment of dividend to shareholder the default must have been remedied and a period of three years must have elapsed after such default ceased to subsist. Under the old provisions the prohibition was to cease immediately when default cease to exist.

BUY BACK WHEN FEASIBLE

- High net cash position
- High dividend yield
- Low debt/equity ratio
- Low capital expenditure requirements

SOURCES OF BUY BACK

According to Section 77A(1) of the Companies Act, 1956 a company may
purchase its own shares or other specified securities (hereinafter referred to as "buy-back") out of:

(i) Its free reserves; Or (ii) the securities premium account; or iii) the proceeds of any shares or other specified securities. However, no buy-back of any kind of shares or other specified securities can be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities. Thus, company must have at the time of buy-back, sufficient balance in any one or more of these.

(ii) Accounts to accommodate total value of buy-back

FREE RESERVES AND SECURITIES PREMIUM ACCOUNT

While the surplus in the profit and loss account can be used for buy-back of securities, in case the profit and loss account shows a debit balance, such debit balance should first be deducted from free reserves. Capital redemption reserve, revaluation reserve, investment allowance reserve, profit on reissue of forfeited shares, profits prior to incorporation of the company and any other specific reserve are not available available for distribution as dividend and hence do not form part of free reserves for the purpose of buy back. Even though Section 77A(1) provides that a company may buy-back its securities out of securities premium account, Sub-section(2) of Section 78 does not mention buy back of securities as one of the purposes for which the balance in the securities premium account may be utilised. However, by virtue of the non obstante clause in Section 77A, namely 'Notwithstanding anything contained in this Act…' Section 77A prevails over Section 78. Therefore, the securities premium account can be utilised for buy back of securities.

MODES OF BUY BACK

The company can buy back the shares differently such as a) odd lots, however the dematerialisation of shares, the concept of odd lot has lost its significance b) proportionately from the shareholders, c) from the employees of the company and d) from the secondary market.

BUY BACK: PRACTICAL ASPECTS

TABLE – 1: HYPOTHETICAL BALANCE SHEET OF BUY- BACK LTD. AS ON 31-03-2014 - BEFORE BUY BACK

	Pre buy – back	Post buy - back
Shareholders' fund		
Equity share capital (nominal value Rs. 100 per share)	70,00,000	57,50,000
10% preference share capital	10,00,000	10,00,000
Reserves & surplus		
Free reserve	30,00,000	15,00,000
Securities premium	10,00,000	10,00,000
Revaluation reserve	15,00,000	15,00,000
Capital redemption reserve	-	12,50,000
Non-current liabilities		
Debt	1,85,00,000	1,85,00,000
Current liabilities	14,50,000	14,50,000
Total	**3,34,50,000**	**3,19,50,000**
Assets		
Non – current Assets	2,90,50,000	2,90,50,000
Current Assets		
Stock	14,50,000	14,50,000
Bills receivable	4,00,000	4,00,000
Cash and bank	25,50,000	10,50,000
Total	**3,34,50,000**	**3,19,50,000**

TABLE 2: STATEMENT SHOWING COMPUTATION OF EARNINGS AFTER INTEREST AND TAX OF BUY – BACK LTD.

PARTICULARS	AMOUNT (pre buy back) (Rs. In lakhs)	AMOUNT (post buy back) (Rs. In lakhs)
Sales	900	900
Less: variable cost @60%	(-) 720	(-)720
contribution	180	180
Less : fixed cost	(-)138	(-)138
EBIT	42	42
Less : interest	(-)18.50	(-)18.50
Earnings after interest	23.50	23.50
Less : tax @ 33.99%	(-)7.99	(-)7.99
Earnings after int.& tax	15.51	15.51
Preference dividend including DDT	(-)1.16	(-)1.16
Earnings available for equity shareholders	14.35	14.35
No of shares (in lakhs)	70	57.50
EPS	20.5	24.96
P/E Ratio (assumed)	5	5
Market price per share	102.5	124.8

However , P/E ratio comes down with increase in debt equity ratio due to increase in risk to shareholders. In this example it has been maintained at 5 because it was already not very high , also because 2:1 debt equity is normal.

DETERMINING THE NUMBER OF SHARES TO BE BOUGHT BACK

To determine the maximum number of shares to be bought back, compliance of all the following test is required. The least the number of shares only can be bought back.

STEP 1: PAID UP CAPITAL AND FREE RESERVES TEST

(Capital (Equity + Preference)) + Free Reserves)	X 25%	(80 lakhs + 30 lakhs + ____10 lakhs_)x25% =30,000 shares
Buy-back Price	=	120

STEP 2: PAID UP EQUITY CAPITAL TEST

No. of paid-up equity Shares x 25%	=	70,000 x 25% = **17,500 shares**

Thus, the shares to be bought should be bought down to 17,500 instead of 30,000.

STEP 3: DEBT – EQUITY TEST

After buy back of shares the debt equity ratio should not exceed 2:1, if it exceeds the standard of 2:1, the amount of buy back of shares may be brought down to the level of 2:1 , under step 2, the number of shares to be bought back has been determined as 17,500. Here the ratio comes to 2.08:1; therefore the number of shares to be bought should be brought down to 14,580 shares as computed below:

Debt = Rs. 185 lakhs (given)

Equity required to bring down the debt equity ratio to 2:1, 185/ 2 = 92.5 lakhs

Existing equity and pref. Capital = Rs. 110 lakhs

Required equity = Rs. 92.50 lakhs.

Value wise maximum amount for which shares can be brought = Rs. 110 – 92.50 = Rs. 17.50 lakhs.

Buy back rate Rs. 120 per shares

No. of shares to be bought back = Rs. 17.50 lakhs = 14,583 shares.

STEP 4: LIQUIDITY TEST

There should be adequate funds with the company to buy back 14,580 shares. Company can not avail loans for buy back of shares. Bank balance of the company is rs. 28,50,000.but the whole of it cannot be utilised to finance the buy back. Suppose.

Cash available for buy back / buy back price = 15,00,000/ 120 = 12,500 shares.

After buy back of shares the company will be left with bank balance of Rs. 10,50,000. Which is sufficient for meeting working capital needs of company. After buy back current ratio would be 2:1. And quick ratio will be 1:1. Finally the number of shares to be brought back is 12,500 shares.

ACCOUNTING TREATMENT OF BUY BACK OF SHARES

Company act states that, company purchases its own shares out of free reserves or securities premium, then a sum equal to nominal value of shares so purchased shall be transferred to capital redemption reserve account, sec 77A of co.act 1956 did not include the word securities premium. This is possible to adjust against free reserve. Nominal amount redeemed out of free reserve or securities premium account should be earmarked as capital redemption reserve by transfer from the respective sources.

Free Reserve A/c Dr.	12,50,000	
To Capital Redemption Reserve A/c		12,50,000
(Being transfer of free Reserve to CRR)		
Free Reserve A/c Dr	2,50,000	
Equity share capital Dr.	12,50,000	
To Equity Share holder's A/c		15,00,000
(Being the amount payable to equity holderson buy-back		
Equity Shareholders A/c Dr.	15,00,000	
(being payment of buy-back amount to equity holders)		15,00,000

TAX IMPLICATIONS OF BUY BACK – DIVIDEND DISTRIBUTION TAX

The company has to pay dividend tax on buying shares back. Buy back of shares may prove to be a boon to many companies provided they have adequate funds. The following benefits may accrue to the company resorting to buy back. After buy back reduction in dividend distribution tax liability , which is given below:

Dividend distribution tax – after buy back reduction in tax would be as follow:

Particulars	DDT before Buy-back	DDT afterTax
No. of Equity Shares Outstanding	70,000	58,500
Face value per share (Rs)	100	100
Rate of dividend	10%	10%
Divident distributed	Rs. 7 lakhs	Rs. 5.85 lakhs
Rate of dividend distribution tax	16.222%	16.222%
Divident Distribution tax	1.14 laks	0.95 lakhs
Tax Saving	Rs. 19,000	

POSITIVE EFFECTS OF BUY-BACK OF SHARES

The company can use its surplus cash which is lying unutilised and there are no proper investment opportunities.
It improves the return on capital, net profitability and also earning per share.
Shareholders have a choice of deciding whether or not to receive the payout by selling or holding their shares, unlike dividend payout.
Increase in shareholders wealth.
Decrease in dividend distribution tax amount.
Fractional share holdings and odd lots can be avoided since the company encourages the shareholders to sell odd lot shares.
It brings liquidity in hands of the investors.
It rationalises the capital structure of the company.

NEGATIVE ASPECTS OF BUY BACK OF SHARES

It is feared that the buy-back may be misused by the corporate entities at the cost of innocent investors. The inherent dangers may be listed as :
The repurchase of its own shares may conversely have a negative signalling effect as the market may think that the company has fewer growth opportunities after a share buy – back due to erosion of cash resources. Management may not seek to utilise any existing excess cash effectively by acquiring new investment or developing profitable markets.
A return of funds by way of a share buy- back is less certain than an annual dividend stream.
Buy-back may lead to artificial manipulations of stock prices.
It provides an ample opportunity for inside trading.

CONCLUSION

As per section 70 of companies act, 2013 now a company can make buy – back even if it had at any time default in repayment of deposit or interest thereon, redemption of debentures or preference shares or payment of dividend to any shareholder or interest payable thereon to any financial institution provided the default must have been remedied and a period of three years must have elapsed after such default ceased to subsist . if the company has idle cash resources which is not required in company, the same can be used in buying back the shares provided the internal rate of return on capital employed in business is lesser than the market rate of return , shareholders would be benefited by investing their funds received through buy – back by the company. Income arising to shareholders from such buy back would be exempted, where the company is liable to pay additional income tax on buy back of shares. But benefit in hands of company there is decrease in dividend distribution tax amount.

REFERENCES

1. Dr. K.c goel, “legal , financial and tax implications of buy – back of shares” vol XLIV , chartered secretary . November 2014 issue.
2. I.M.Pandy “financial management” vii edition , vikas publishing house, New Delhi.
3. J.R Monga , shweta bajaj, “Basic Corporate Accounting” , mayor paperbacks, New Delhi, 8th edition ; 2014.
4. Securities and exchange board of india (buy – back of securities) regulations, 1998.
5. Taxmann, S Companies Act, 2013 , Taxmann publications pvt. Ltd. , 2014.
6. The chartered secretary , vol XLII , No 6, pp . 655 – 659
7. V.pattabhi ram , s.d bala , “first lessons in management accounting & financial analysis”, snow white publication, Mumbai, 2nd edition, 2007

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce & Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you tosupply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail**infoijrcm@gmail.com** for further improvements in the interest of research.

If youhave any queries please feel free to contact us on our E-mail **infoijrcm@gmail.com**.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-
Co-ordinator

DISCLAIMER

The information and opinions presented in the Journal reflect the views of the authors and not of the Journal or its Editorial Board or the Publishers/Editors. Publication does not constitute endorsement by the journal. Neither the Journal nor its publishers/Editors/Editorial Board nor anyone else involved in creating, producing or delivering the journal or the materials contained therein, assumes any liability or responsibility for the accuracy, completeness, or usefulness of any information provided in the journal, nor shall they be liable for any direct, indirect, incidental, special, consequential or punitive damages arising out of the use of information/material contained in the journal. The journal, neither its publishers/Editors/ Editorial Board, nor any other party involved in the preparation of material contained in the journal represents or warrants that the information contained herein is in every respect accurate or complete, and they are not responsible for any errors or omissions or for the results obtained from the use of such material. Readers are encouraged to confirm the information contained herein with other sources. The responsibility of the contents and the opinions expressed in this journal are exclusively of the author (s) concerned.

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals