



EQUITY MARKET

Bonus, split and buyback

Three company actions that change the number of shares, and what each one does to a holding

Rules as on 12 October 2026

For training and education only. Not investment advice.

A bonus or a split changes how many shares there are. It does not change what the company is worth.

A buyback is different. Cash leaves the company and the shares it buys are cancelled, so each remaining share is a slightly larger slice of a slightly smaller company.

Three actions, three mechanisms



Bonus issue

Extra fully paid shares given to existing holders at no charge. The company turns part of its reserves into share capital. Face value stays the same.



Stock split

Each share is divided into shares of a smaller face value, for example one ₹10 share into two ₹5 shares. Share capital and reserves stay as they were.



Buyback

The company buys its own shares from shareholders and cancels them. It pays out of free reserves, the securities premium account or a fresh issue.

Source: Companies Act, 2013, sections 61 (sub-division), 63 (bonus shares) and 68 (buy-back).

Are you richer after a bonus or a split?

ONE HOLDING, TWO WAYS

You hold 100 shares of ₹10 face value. The market price is ₹600.

Your holding is worth ₹60,000.

The company has 1,00,000 shares, so you own 0.1% of it.

- 1 1:1 bonus: you get 100 more shares. You hold 200 shares of ₹10 face value; the company now has 2,00,000 shares.
- 2 Split of ₹10 into two ₹5 shares: you hold 200 shares of ₹5 face value; the company now has 2,00,000 shares.
- 3 Either way the company is unchanged, so the price adjusts to about ₹300. $200 \times ₹300 = ₹60,000$.
- 4 Your slice is the same: $200 \div 2,00,000 = 0.1\%$.

Twice the shares at half the price. The holding is worth the same on the day of the adjustment.

Illustration with an invented company and assumed figures. Actual prices also move for other reasons.

Same result for you, different books

What changes in the company's accounts after a 1:1 bonus and after a split of ₹10 into two ₹5 shares.

Item	After a 1:1 bonus	After the split
Face value of a share	Unchanged at ₹10	Halved to ₹5
Number of shares	Doubles	Doubles
Share capital	Doubles	Unchanged
Reserves	Fall by the same amount	Unchanged
Net worth and profit	Unchanged, so profit per share halves	Unchanged, so profit per share halves

Source: Companies Act, 2013, sections 61 and 63. A bonus may not be paid out of reserves created by revaluing assets, and may not replace a dividend.

What a buyback does to the numbers

ONE COMPANY

A company has 10,00,000 shares and a yearly profit of ₹1 crore.

It buys back 1,00,000 shares at ₹250 each and cancels them.

You hold 9,000 shares and do not sell.

- 1 Cash paid out: $1,00,000 \times ₹250 = ₹2.5$ crore. The company's cash and net worth fall by that amount.
- 2 Shares left: $10,00,000 - 1,00,000 = 9,00,000$.
- 3 Profit per share, if profit stays at ₹1 crore: before ₹10.00, after ₹1 crore $\div 9,00,000 = ₹11.11$.
- 4 Your slice: before $9,000 \div 10,00,000 = 0.9\%$. After $9,000 \div 9,00,000 = 1.0\%$.

Fewer shares, less cash. Those who stay own a larger slice of a company that now holds less.

Illustration with an invented company and assumed figures. Profit is assumed unchanged; it may not be.

How a listed company's buyback works

1

The ceiling

Up to 25% of paid-up capital and free reserves, and 25% of equity shares in a year.
Debt after it: at most twice that base.

2

Tender offer

The company offers to buy from holders in proportion. 15% of the shares sought are reserved for holders of up to ₹2 lakh by market value.

3

Through the stock exchange

Allowed again from 1 August 2026, for less than 15% of capital and free reserves.
The company may not buy from its promoters this way.

4

Exchange-route timeline

The offer opens within four working days of the public announcement and closes within 66 working days of opening.

5

Afterwards

The shares bought are extinguished. For six months the company may not issue the same kind of shares, with exceptions such as bonus issues.

Sources: Companies Act, 2013, section 68; SEBI (Buy-Back of Securities) Regulations, 2018, as amended up to 6 July 2026.

Buyback tax: three sets of rules

The date of the buyback decides which rule applies.

Buyback made	Who paid the tax	How it worked
Up to 30 Sep 2024	The company	An additional income-tax of 20%, plus surcharge and cess, on the income it distributed. The shareholder's receipt was exempt.
1 Oct 2024 to 31 Mar 2026	The shareholder	The whole amount received was taxed as dividend at the shareholder's own rate. The cost of the shares became a capital loss.
From 1 Apr 2026	The shareholder	The amount received minus the cost is a capital gain. Promoters also pay an extra tax, taking their total to 22% (domestic company) or 30% (others).

Sources: Income-tax Act, 1961 (s.115QA; s.2(22)(f) from 1 Oct 2024); Income-tax Act, 2025, s.69, as amended by Finance Act, 2026. Rates before surcharge and cess.

Tax on bonus and split shares

Neither is taxed when the shares arrive. Tax arises when the shares are sold.



Bonus shares: cost

The cost of a bonus share is generally taken as nil. On sale the whole sale price is the gain. The original shares keep their own cost.



Bonus shares: period

The holding period of a bonus share runs from its date of allotment, not from the date the original shares were bought.



Split shares

A split is not a sale. The total cost stays the same and is spread over the larger number of shares.

Sources: *Income-tax Act, 1961, s.55(2)(aa), s.2(42A); Income-tax Act, 2025, s.2(101)(c)(D); tax-filing guides, 24 Jul 2025 and 4 Oct 2026 (secondary).*

If you learnt this from older material

What older decks say

- The promoter buys the shares back.
- The company pays the buyback tax; the investor pays nothing.
- A company can buy back from the market at any time.
- No date is given for when bonus shares can be traded.

What holds now

- The company buys, and cancels what it buys.
- The shareholder pays capital gains tax, from 1 April 2026.
- Exchange route closed on 1 April 2025; reopened 1 August 2026.
- Trading starts two working days after the record date.

The arithmetic of these actions has not changed. The tax and the procedure have, more than once.

Sources: Finance Act, 2026; SEBI Buy-Back Regulations as amended to 6 Jul 2026; SEBI circular of 16 Sep 2024 (bonus shares).

Four things people get wrong



'A bonus is free money.'

Nothing is paid for the shares, but nothing is added to the company either. More shares, each a smaller slice.



'After a split the share is a bargain.'

The price per share is lower because each share is a smaller slice. Price against profit is the same as before.



'A buyback means the price will rise.'

A buyback reduces the share count and the cash. What the price does afterwards depends on the business and the market.



'Bonus shares are tax-free.'

There is no tax on receiving them. On sale their cost is generally nil, so the whole sale price is taxed as gain.

Sources: slides 3, 7 and 9 (Companies Act, 2013; tax-filing guides, secondary).

Check yourself

Q1

You hold 50 shares at a market price of ₹900. The company issues a 2:1 bonus (two new shares for each one held). How many shares do you hold, and at about what price?

Q2

A company with 20,00,000 shares and a profit of ₹3 crore buys back 5,00,000 shares. If profit is unchanged, what is profit per share before and after?

Q3

A client says: 'In a buyback the company pays the tax, so what I receive is tax-free.' What has changed?

Sources and disclaimer

SOURCES FOR THE FIGURES IN THIS DECK

- Companies Act, 2013: sections 61 (sub-division), 63 (bonus shares) and 68 (buy-back).
- SEBI (Buy-Back of Securities) Regulations, 2018, as amended up to 6 July 2026.
- SEBI circular CIR/CFD/PoD/2024/122 of 16 September 2024 on trading of bonus shares on T+2.
- Finance (No. 2) Act, 2024; Finance Act, 2026; Ministry of Finance press release of 1 February 2026 (buyback tax).
- Bonus and split share tax: tax-filing guides (reviewed October 2026) and a July 2025 professional opinion. Secondary.
- All companies, holdings and figures in the examples are invented. They do not refer to any real company.

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