



Mark Cuban, a billionaire, gives a surprise take on a controversial new tax

By Thomas Cox

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Taxes are the most hotly debated subject in economic circles right now. Tensions become even more severe when the subject is a new tax targeted at firms.

Simply put, the business community hates taxes.

No surprise that the Senate approved a 1% tax on sharebuybacks as a way to partially finance President Joe Biden's climate and health-care measure last week. Opinions on the benefits and disadvantages of buybacks are split.

The House of Representatives is scheduled to vote on the measure this week.

Mark Cuban, one of the most listened-to and admired entrepreneurs, is the answer.

The star of "Shark Tank" has never revealed his dislike for share buybacks. He claims that buybacks "are not beneficial for most employees of the companies that do" them.

In a lengthy exchange, which included many tweets on Twitter, Cuban reiterated his displeasure of stock buybacks, led by Norbert J. Michel, the vice president and director of the Cato Institute's Center for Monetary and Financial Alternatives.

BUYBACKS REWARD OWNERS WHO WANT TO SELL.

Michel said on Aug. 10 that most repurchased shares either go to employees, who later sell to investors, or are acquired in order to reduce equity dilution after employees have sold stock.

"Why not just buy back shares from those employees and eliminate their pricing danger when they sell?" Cuban responded.

"They could do both (compare with shares and buy shares from them later?)" Michel replied.

"But they rarely buy them directly from employees," Cuban added. "And employees can't schedule their sales prior to the announcement." So emps who can least afford the risk and may be the least financially prepared, own all pricing risk when they can or need to sell."

Share buybacks, also referred to as stock repurchases, are one of the methods by which a company communicates its financial successes to shareholders.

A company buys its own shares in the market, as the name suggests, reducing the company's stock outstanding and increasing the shareholders' proportionate share. They are also seen as a way for the company to invest in itself.

Cuban believes share buybacks reward those who want to sell all or part of their holdings. He describes buybacks as the "episte of financial engineering."

'T'D' HAVE PAID THE TAX 2%,' SAYS THE AUTHOR.

"Buybacks, IMHO, are everything wrong with what companies do. It's a reaction to big investors, to CSuite who want to engineer earnings per share, to try to goose the stock, to slap bonuses," the billionaire said.

"When Congress sees financial engineering, and it's to the exclusion of a significant number of stakeholders, taxing buybacks rises to the top of the list," he says.

He continued:

"If it were my decision, I would have created a tax exemption for all employees that said if all employees receive shares at an equal ratio to their W2 + Kx pay, then there will be no tax," Cuban said.

"But we know that few CEOs would accept it," he said.

He thinks Congress should have doubled the amount of share buyback taxes.

"So I would have made the tax 2%," the billionaire said.

"I think a buyback tax is a good idea, actually," Cuban said in a phone interview with CNBC on August 11. "I don't have a problem with that at all. In fact, I think it's a good idea."

The proposed stock-buyback tax would take effect in 2023. That, according to experts, might spark a buyback frenzy for the remainder of 2022, which might help the markets.

According to various estimates, S&P 500 share repurchases will reach \$883 billion in 2021, 73 percent higher than dividends. Share buybacks increase earnings per share by reducing share counts. They also allow investors to delay or avoid paying taxes.