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## Billionaire Mark Cuban Takes Surprise Stance on Controversial New Tax

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No subject is more controversial in economic circles right now than taxes. Tensions heighten even more when the specific subject is a new tax aimed at businesses.

Simply put, the business community hates taxes.

No surprise, then, that last week, when the U.S. Senate agreed to a 1% tax on share buybacks as a way to partly finance President Joe Biden's climate and health-care bill, the proposed measure prompted a lot of debate. Opinion on the benefits and disadvantages of buybacks is sharply split.

The House is expected to vote on the bill this week.

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

The "Shark Tank" star has never made a secret of his aversion to share buybacks. He says buybacks "are not good for most employees of the companies that do" them.

Cuban reiterated his dislike of share buybacks in a lengthy exchange, consisting of multiple tweets on Twitter, with Norbert J. Michel, vice president and director of the Center for Monetary and Financial Alternatives [at the libertarian think tank Cato Institute](#).

### Buybacks Reward Holders Who Want to Sell

"A little-appreciated fact is that most repurchased shares either go to employees, who later sell to investors, or are acquired to reduce equity dilution after employees have sold stock," Michel

tweeted on Aug. 10. Michel commented on a Wall Street Journal column titled "The Virtues of Stock Buybacks."

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

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

"But they rarely buy those shares directly from employees," Cuban argued. "And employees can't time their sales to the announcement. So the emps who can least afford the risk and may be the least financially literate, own all pricing risk when they are able to or need to sell."

Share buybacks, also called stock repurchases, are one of the ways in which a company shares its financial successes with shareholders.

In a buyback, as the name suggests, a company buys its own shares in the market. Such moves reduce the company's shares outstanding and increase the proportionate stakes of the shareholders. They are also seen as a way for the company to invest in itself.

Cuban says share buybacks reward shareholders who want to sell all or part of their holdings. He calls buybacks "the epitome of financial engineering."

'I Would Have Made the Tax 2%'

"Buybacks, IMHO [in my humble opinion], are everything wrong with what companies do. It's a response to pressure from big investors, to CSuite who want to engineer EPS [earnings per share], to try to goose the stock, to hit bonuses," the billionaire blasted out.

He says that "there are no good taxes," but he seems to think that the new tax can be justified and he explains why: "[When] Congress sees financial engineering, and it's to the exclusion of a significant number of stakeholders, of all the bad taxes, taxing buybacks rockets to the top of the list."

He added:

"If it were my call, I would have created an exemption to the tax that said if all employees receive shares at an equal ratio to their W2 + Kx pay, then no tax," Cuban argued.

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

He suggests that Congress should've doubled the announced tax on share buybacks.

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

"I think a tax on buybacks is a good idea, actually," Cuban repeated in a phone interview with CNBC on Aug. 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, some analysts say, could spur a buyback frenzy for the rest of 2022, which could boost the markets.

In 2021, S&P 500 share repurchases totaled \$883 billion, 73% more than the \$511 billion distributed as dividends, according to some estimates. Unlike dividends, share buybacks lift earnings per share by reducing share counts. They also allow investors to defer or avoid paying taxes.