



What Are Stock Buybacks?

Companies may repurchase their own stock after meeting key business needs such as research and development (R&D) and capital expenditures. Buybacks allow companies to return surplus capital to shareholders and can help ensure excess cash is allocated efficiently. Prior to SEC rules facilitating buybacks, concerns existed that surplus cash was sometimes used for projects or acquisitions that did not maximize shareholder value.

Benefits of Stock Buybacks

A [U.S. Chamber of Commerce study](#) examining buyback activity across roughly 10,000 companies over 17 years found several benefits for investors and markets:

- **Reduced volatility:** Buybacks can help stabilize stock prices and reduce market volatility.
- **Greater liquidity:** Buybacks support orderly trading and can lower transaction costs.
- **Benefits for retail investors:** Since 2004, buybacks have saved retail investors an estimated **\$2.1 billion** in transaction and price-impact costs.
- **Support during uncertainty:** Companies often increase buybacks during periods of economic uncertainty, helping provide market stability.

Buybacks and Corporate Investment

Critics often argue that companies use buybacks instead of investing in their businesses. However, supporters contend that this presents a false choice:



Companies typically conduct buybacks using **surplus capital after funding R&D, capital investments, and other business priorities.**



Research has found little evidence that buybacks systematically come at the expense of productive investment.

Concerns About Targeted Buyback Taxes

In response to proposals to impose a higher tax on energy company buybacks, [the Tax Foundation argued](#) that such policies:

- **Lack neutrality:** Taxing buybacks in one industry at a substantially higher rate than others treats similar activities differently without a clear policy rationale.
- **May discourage investment:** If companies expect higher taxes during periods of strong profitability, potential returns on future investments could decline.
- **Reduce predictability:** Temporary or industry-specific tax increases can create uncertainty for investors and businesses.
- **Could distort risk-taking incentives:** Industries such as oil and gas experience significant price swings, and periods of high returns often offset years of lower returns or losses. Higher taxes during profitable periods may reduce incentives for long-term investment.