



Whenever there is a large change in shareholding of any company, small investors are given an opportunity to exit their stocks. This could be due to promoters wanting to delist their shares or non-promoters increasing their stake beyond 15%. The exit route provided to small investors is known as **open offer**. Generally open offer is for 20% of the equity of the company. The price for open offer should not be below the average price for the last 26 weeks.

There are many investors who get confused whether to tender their shares in open offer or not. This question needs to be answered from case to case basis. Though, we would like to point out one finer fact that would make this decision very easy to take!

Now, If you tender shares in open offer, you will have to pay income tax according to your tax slab if shares sold in within a year of buying. If you tender shares, which are more than a year old that will attract 20% tax with indexation benefit and 10% tax without indexation.

We all know that if shares sold in market after holding it for more than year does not attract any tax. If it is sold before a year it attracts just 15% of the tax.

Wallah...there lies the crux to the answer to our question.

So, whenever the price surges on announcement of the open offer, investors needs to calculate what is the most tax efficient thing to do. The net price investor's realize in selling their long term holding in the market, is much more tax efficient than tendering the share in the open offer.

More often than not, price of the stock falls after the open offer is over and that will give an opportunity to buyback the same shares at a lower rate!