



Income Tax Department

Ministry of Finance, Government of India

Fair market value

Fair Market Value

Introduction

Fair Market Value (FMV) is required to compute deemed income under various provisions of the Income-tax Act. The Income-tax Rules provide the valuation methods to determine FMV for different assets, including immovable property, jewellery, unquoted shares, quoted shares, and business undertakings.

Applicability of FMV

FMV determination is necessary in the following cases:

- **Gifts of specified assets** [Section 56(2)(x)]
- **Conversion of inventory into capital assets** [Section 28(via)]
- **Transfer of unquoted shares below FMV** [Section 50CA]
- **Employee Stock Option Plans (ESOPs)** [Section 17(2)]
- **Accreted income of trusts or institutions** [Section 115TD]
- **Indirect transfer of Indian assets** [Section 9]
- **Slump sale valuation** [Section 50B]

Methods for Determining FMV

FMV computation is prescribed under the following rules:

- **Rule 3:** Valuation of shares for ESOPs
- **Rule 11UA:** Valuation of shares (quoted and unquoted), securities, jewellery, and artwork
- **Rule 11UAA:** Valuation of unquoted shares for Section 50CA
- **Rule 11UAB:** Valuation of assets converted from inventory
- **Rule 11UAE:** Slump sale valuation
- **Rule 11UB & 11UC:** Valuation of Indian and foreign assets for indirect transfer
- **Rule 17CB:** Valuation for trusts under Section 115TD

Determining deemed income

Fair Market Value (FMV) for Determining Deemed Income under Section 56(2)(x)

Introduction

When a person receives specified movable property without consideration or for an inadequate consideration, and the aggregate FMV of property received during the year exceeds Rs. 50,000. In such cases, the difference between the FMV and the consideration paid (if any) is chargeable to tax as income from other sources under Section 56(2)(x). FMV of the property is determined as per Rule 11UA of the Income-tax Rules, 1962.

Applicability of Section 56(2)(x)

Section 56(2)(x) applies when a person receives money or property from another person during a financial year without paying anything or by paying less than its fair market value. It doesn't matter who the giver or receiver is. It can be any person.

It covers the following cases:

- Monetary benefits received without consideration
- Immovable property received without or for inadequate consideration
- Specified movable property received without or for inadequate consideration

The fair market value of an immovable property is determined based on its stamp duty value. The FMV of the specified movable property shall be determined as per Rule 11UA.

FMV Determination under Rule 11UA

1. Quoted Shares

- **If acquired through a stock exchange:** FMV is the transaction value recorded in the exchange.
- **If acquired through other modes:** FMV is the lowest quoted price on any recognised stock exchange on the valuation date. If no trading occurred on that date, FMV is the lowest price on the nearest preceding trading date.

2. Unquoted Equity Shares

FMV is determined using the **Net Asset Value (NAV) Method**:



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Book Value of (less) Assets	Book Value of Liabilities	X	$\frac{\text{Paid-up value of such equity shares}}{\text{Total amount of paid-up equity share capital as shown in the balance sheet}}$
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- **Assets Valued at FMV:** Jewellery, artwork, immovable property (stamp duty value), and securities.
- **Excluded Assets:** Prepaid taxes (reduced by income-tax refund amount), deferred tax assets, and unamortized expenses.
- **Excluded Liabilities:** Paid-up equity share capital, amount set aside for dividend payment (if dividend is not declared), Reserves & Surplus (other than reserve for depreciation), provision for unascertained liabilities, contingent liabilities, and excess tax provisions (including deferred tax liability).

3. Other Unquoted Shares & Securities

FMV is the price the asset would fetch in an open market sale, supported by a valuation report from a Merchant Banker or Accountant.

4. Jewellery & Artistic Works

- Purchased from a registered dealer: FMV is the invoice value.
- Received by gift or other modes: FMV is the estimated market price, and if it exceeds Rs. 50,000, a valuation report from a registered valuer may be obtained

Inventory converted into capital asset

Fair Market Value (FMV) of Inventory Converted into Capital Asset under Section 28(via)

Introduction

When the inventory of a business is converted into a capital asset, its FMV on the date of conversion is taxable as business income under Section 28(via). The valuation is determined in accordance with Rule 11UAB, read in conjunction with Rule 11UA.

Applicability of Section 28(via)

This provision applies when a business converts its inventory into a capital asset. It provides that the fair market value of the inventory on the date of its conversion shall be taxable as business income. The fair market value of the following inventory is computed as per Rule 11UA and Rule 11UAB:

- Quoted Shares
- Unquoted Equity Shares & Securities
- Jewellery
- Movable Assets (e.g., artwork, sculptures)
- Immovable Property (land/buildings)
- Other Assets

FMV Determination under Rule 11UA & Rule 11UAB

1. Quoted Shares

- **If acquired through a stock exchange:** FMV is the transaction value recorded in the exchange.
- **If acquired through other modes:** FMV is the lowest quoted price on any recognised stock exchange on the valuation date. If no trading occurred on that date, FMV is the lowest price on the nearest preceding trading date.

2. Unquoted Equity Shares

FMV is determined using the **Net Asset Value (NAV) Method:**

Book Value of (less) Assets	Book Value of Liabilities	X	$\frac{\text{Paid-up value of such equity shares}}{\text{Total amount of paid-up equity share capital as shown in the balance sheet}}$
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- **Assets Valued at FMV:** Jewellery, artwork, immovable property (stamp duty value), and securities.
- **Excluded Assets:** Prepaid taxes (reduced by income-tax refund amount), deferred tax assets, and unamortized expenses.
- **Excluded Liabilities:** Paid-up equity share capital, amount set aside for dividend payment (if not declared yet), Reserve & Surplus (other than reserve for depreciation), provision for unascertained liabilities, contingent liabilities, and excess tax provisions (including deferred tax liability).

3. Other Unquoted Shares & Securities

FMV is the price the asset would fetch in an open market sale, supported by a valuation report from a Merchant Banker or Accountant.

4. Jewellery & Movable Assets

- **Purchased from a registered dealer:** FMV is the invoice value.
- **Received by gift or other modes:** FMV is the estimated market price, and if it exceeds Rs. 50,000, a valuation report from a registered valuer may be obtained.



5. Immovable Property (Land/Buildings)

FMV is the stamp duty value as assessed by the government on the date of conversion.

6. Other Assets

FMV is the price it would ordinarily fetch in an open market sale on the conversion date.

Unquoted Shares

Fair Market Value (FMV) of Unquoted Shares under Section 50CA

Introduction

Section 50CA applies when unquoted shares of a company are transferred at a price lower than their Fair Market Value (FMV). In such cases, the FMV, as determined under Rule 11UAA, is deemed to be the full value of consideration for calculating capital gains.

Applicability of Section 50CA

This provision applies when:

- Unquoted equity shares or other unquoted securities are transferred.
- The declared consideration is less than the FMV as per Rule 11UAA.

FMV Determination under Rule 11UAA

1. Unquoted Equity Shares

FMV is determined using the **Net Asset Value (NAV) Method**:

<i>Book Value of Assets</i>	<i>of (less)</i>	<i>Book Value of Liabilities</i>	<i>of X</i>	<i>Paid-up value of such equity shares</i> <hr/> <i>Total amount of paid-up equity share capital as shown in the balance sheet</i>
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- **Assets Valued at FMV:**
 - **Jewellery & Artwork** – FMV based on a registered valuer's report.
 - **Shares & Securities** – FMV determined as per Rule 11UA.
 - **Immovable Property** – FMV is the stamp duty value.
- **Excluded Assets:** Prepaid taxes (reduced by income-tax refund amount), deferred tax assets, and unamortized expenses.
- **Excluded Liabilities:** Paid-up equity share capital, amount set aside for dividend payment (if not declared yet), Reserve & Surplus (other than reserve for depreciation), provision for unascertained liabilities, contingent liabilities, and excess tax provisions (including deferred tax liability).

2. Other Unquoted Shares & Securities

FMV is the price the asset would fetch in an open market sale, supported by a valuation report from a Merchant Banker or Accountant.

Securities allotted under ESOPs

Fair Market Value (FMV) of Securities Allotted under ESOPs

Introduction

When an employer allots securities to an employee under an Employee Stock Option Plan (ESOP) at no cost or at a concessional rate, the difference between the Fair Market Value (FMV) of the securities on the date of exercising of ESOP and the price paid by the employee is taxed as a perquisite under Section 17(2)(vi) in the year of allotment of securities. FMV is determined as per Rule 3 of the Income-tax Rules.

FMV Determination under Rule 3

1. Quoted Shares

- Listed on one stock exchange: FMV is the average of the opening and closing prices on the date of exercise of ESOP.
- Listed on multiple stock exchanges: FMV is the average of opening and closing prices on the exchange with the highest trading volume.
- No trading on valuation date: FMV is the closing price on the nearest preceding date when trading occurred, on the exchange with the highest trading volume.

2. Unquoted Equity Shares

FMV is determined by a Merchant Banker. The FMV is computed based on:

- The exercise date of the option, or
- A date within 180 days before the exercise date.

Assets for Determination of Accreted Income



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Fair Market Value of Assets for Determination of Accreted Income

Introduction

A trust or institution is liable to pay tax on accreted income. Accreted income is determined based on the fair market value (FMV) of the total assets, reduced by total liabilities, as per Rule 17CB of the Income-tax Rules, 1962.

Tax on Accreted Income (Section 115TD)

A trust or institution is liable to pay tax on accreted income which arises on its conversion into a non-charitable form, failure to apply for renewal of registration, or on the transfer of assets on its dissolution to a non-charitable institution. A trust or institution is subject to additional income tax on accreted income at the maximum marginal rate.

Computation of Fair Market Value (FMV)

The FMV of assets is determined based on the asset type:

o Quoted Shares

- FMV is the average of the opening and closing prices on the stock exchange.
- If no trading occurs on the valuation date, FMV is the last available closing price.

o Unquoted Equity Shares

- FMV is computed as:
 $(\text{Book Value of Assets} + \text{FMV of specified assets} - \text{Book Value of Liabilities}) \times (\text{Paid-up value of equity shares} / \text{Total paid-up equity capital})$
- Prepaid taxes (reduced by income-tax refund amount), deferred tax assets, and unamortised expenses are excluded.
- Liabilities like cumulative preference shares, amount set aside for dividend payment, Reserve & Surplus (other than reserve for depreciation), provision for unascertained liabilities, contingent liabilities (except arrears of dividend payable on paid-up equity shares), and excess tax provisions (including deferred tax liability) are also excluded.
- Assets, such as jewellery, artwork, shares, securities, and immovable property, are valued at FMV.

o Unquoted Shares & Securities (Other than Equity Shares)

- FMV shall be estimated to be the price it would fetch if sold in the open market, based on a valuation report from a merchant banker or Accountant.

o Immovable Property

- FMV is the higher of:
 - Open market price based on a registered valuer's report.
 - Stamp duty value on the valuation date.

o Business Undertakings

- FMV is determined as:
 $(\text{Book Value of Assets} + \text{FMV of specified assets} - \text{Book Value of Liabilities})$

o Other Assets

- FMV is based on the open market price as per a registered valuer's report.
- If no registered valuer exists, valuation may be done by members of recognised valuation institutions such as the Institution of Valuers, Royal Institute of Chartered Surveyors, India Chapter or public sector-appointed valuers, etc.

Case of Indirect Transfer of Assets Located in India

Fair Market Value in Case of Indirect Transfer of Assets Located in India

Introduction

Income arising from the transfer of assets situated in India is deemed to accrue or arise in India under Section 9 of the Income-tax Act, 1961. This includes indirect transfers where a share or interest in a foreign entity derives substantial value from assets in India. The fair market value (FMV) of such assets is determined in accordance with Rules 11UB and 11UC.

Scope of Indirect Transfer

- An asset or capital asset, being a share or interest in a foreign entity, is deemed to be situated in India if it derives substantial value from assets located in India.
- Income from the transfer of shares or interest in the foreign entity is taxable in India as is reasonably attributable to assets located in India.
- The proportionate income taxable in India is determined using the formula:
 $(\text{Income from transfer} \times \text{FMV of Indian assets}) / \text{FMV of all assets of the foreign entity}.$
- The transferor must submit Form 3CT electronically, certified by a Chartered Accountant, to verify the apportionment of income.



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Determination of FMV of Indian Assets

- **Listed Shares:** FMV is the observable price on the stock exchange with the highest trading volume.
- **Unlisted Shares:** Determined by a merchant banker or accountant using internationally accepted valuation methods.
- **Interest in Partnership firm/AOP:** The FMV of a partner's or member's interest in a firm or AOP is the total of their share in capital and remaining value, based on the valuation of the Firm/AOP done by a merchant banker or accountant using a globally accepted method.
- **Other Assets:** FMV is the price in the open market, determined by a merchant banker or accountant.

Determination of FMV of All Assets of the Foreign Entity

- **Listed or Unlisted Shares (If transfer between Unrelated Parties):** FMV is based on market capitalisation (computed on the basis of consideration for transfer of foreign entity share or interest) plus liabilities book value as certified by a merchant banker or an accountant.
- **Listed Shares (If transfer between Related Parties):** FMV is based on market capitalisation (computed on the basis of the observable stock price of the foreign entity's share on the foreign stock exchange) plus the book value of liabilities.
- **Unlisted Shares (If transfer between Related Parties):** FMV is determined by a merchant banker or accountant as per internationally accepted valuation methods, plus the book value of liabilities.

Specified Date for Valuation

- FMV is determined based on the balance sheet date preceding the transfer.
- If the asset value changes by 15% or more between the balance sheet date and transfer date, the transfer date is used.

Balance Sheet Consideration for FMV

- For an Indian Company, FMV is based on the final audited balance sheet as drawn up on the specified date. If unavailable, an interim balance sheet approved by the Board is used.
- For a Foreign company, FMV is based on the balance sheet as drawn on the specified date and submitted to the relevant foreign authorities. If unavailable, an interim balance sheet approved by the Board is used.

Who Can Perform Valuation?

- **Indian Assets:** Merchant banker or Chartered Accountant.
- **Foreign Assets:** Merchant banker, Chartered Accountant, recognised valuer, or experienced professionals meeting prescribed criteria.

Determination of the observable price

The observable price in respect of a share quoted on a stock exchange shall be the higher of the following:

- (a) the average of the weekly high and low of the closing prices of the shares quoted on the said stock exchange during the 6-month period preceding the specified date; or
- (b) The average of the weekly high and low of the closing price of the shares quoted on the said stock exchange during the 2 weeks preceding the specified date.

Determination of the book value of liabilities

'Book value of liabilities' means the value of liabilities as shown in the balance sheet of the company or the entity, as the case may be, excluding the paid-up capital in respect of equity shares or members' interest and the general reserves and surplus and security premium related to the paid-up capital.

Undertaking or Division for Slump Sale

Fair Market Value of Undertaking or Division for Slump Sale

Introduction

Under Section 50B of the Income-tax Act, the fair market value (FMV) of an undertaking or division transferred via a slump sale is deemed to be the full value of consideration. Rule 11UAE prescribes the method for determining FMV in such cases.

Definition of Slump Sale

A slump sale refers to the transfer of one or more undertakings for a lump sum consideration, without assigning individual values to assets and liabilities.

Valuation as per Rule 11UAE

Rule 11UAE provides that the higher of the following on the date of slump sale shall be deemed to be its FMV: (a) FMV of the capital assets transferred by way of slump sale; or (b) FMV of the consideration received or accruing due to transfer by way of slump sale.

Computation of FMV

- **FMV of Capital Assets Transferred** - $FMV = A + B + C + D - L$, where:
 - o **A** = Book value of all assets (excluding jewellery, artistic work, shares, securities, and immovable property), reduced by prepaid income-tax (reduced by income-tax refund amount) and unamortized deferred expenditure.
 - o **B** = Open market value of jewellery and artistic work as per a registered valuer's report.



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- o C = FMV of shares and securities as per Rule 11UA.
 - o D = Stamp duty value of immovable property.
 - o L = Book value of liabilities, excluding paid-up equity share capital, amount set aside for dividend payment (if not declared yet), Reserve & Surplus (other than reserve for depreciation), provision for unascertained liabilities, contingent liabilities (except arrears of dividends payable for cumulative preference shares), and excess tax provisions (including deferred tax liability).
- **FMV of Consideration Received or Accrued** - $FMV = A + B + C + D$, where:
- o A = Monetary consideration received or accruing.
 - o B = FMV of property (other than immovable property) covered and determined under Rule 11UA(1).
 - o C = Open market value of other properties (not covered in point B) based on a registered valuer's report.
 - o D = Stamp duty value of immovable property.

