

**Determination of fair market values
under Rule 11U, 11UA and 11UAA
of the Income Tax Rules, 1962**

Rule 11UAA

[Determination of Fair Market Value for share other than quoted share.]

11UAA. For the purposes of **section 50CA**, the fair market value of the share of a company other than a **quoted share**, shall be determined in the manner provided in **sub-clause (b) or sub-clause (c)**, as the case may be, of **clause (c) of sub-rule (1) of rule 11UA** and for this purpose the reference to **valuation date** in the **rule 11U and rule 11UA** shall mean the **date** on which the capital asset, being share of a company other than a quoted share, referred to in **section 50CA**, is **transferred.**]

1. Rule 11UAA inserted by the Income-tax (Twentieth Amendment) Rules, 2017, w.e.f. **1-4-2018.**

Rule 11UA

Determination of fair market value.

11UA. [(1)] For the purposes of **section 56** of the Act, the **fair market value** of a property, **other than immovable property**, shall be **determined** in the following manner, namely,—

(a) valuation of jewellery,—

- (i)** the **fair market value** of jewellery shall be estimated to be the price which such jewellery would **fetch if sold in the open market** on the valuation date;
- (ii)** in case the jewellery is received by the way of **purchase** on the valuation date, from a registered dealer, the **invoice value** of the jewellery shall be the fair market value;
- (iii)** in case the jewellery is received by **any other mode and** the value of the jewellery exceeds rupees fifty thousand, then assessee **may** obtain the **report of registered valuer** in respect of the price it would fetch if sold in the open market on the valuation date;

(b) valuation of archaeological collections, drawings, paintings, sculptures or any work of art,—

- (i)** the fair market value of archaeological collections, drawings, paintings, sculptures or any work of art (hereinafter referred as artistic work) shall be estimated to be price which it would **fetch if sold in the open market** on the valuation date;

- (ii) in case the artistic work is received by the way of **purchase** on the valuation date, from a registered dealer, the invoice value of the artistic work shall be the fair market value;
- (iii) in case the artistic work is received by any other mode **and** the value of the artistic work exceeds rupees fifty thousand, then assessee **may** obtain the report of registered valuer in respect of the price it would fetch if sold in the open market on the valuation date;

(c) **valuation of shares and securities,—**

- (a) the **fair market value** of **quoted shares and securities** shall be determined in the following manner, namely,—
 - (i) if the quoted shares and securities are received by way of transaction carried out through any recognized stock exchange, the fair market value of such shares and securities shall be the transaction value as recorded in such stock exchange;
 - (ii) if such quoted shares and securities are received by way of transaction carried out other than through any recognized stock exchange, the fair market value of such shares and securities shall be,—
 - (a) the **lowest price** of such shares and securities quoted on any recognized stock exchange on the valuation date, **and**
 - (b) the **lowest price** of such shares and securities on any recognized stock exchange on a date immediately preceding the valuation date when such shares and securities were traded on such stock exchange, in cases where on the valuation date there is no trading in such shares and securities on any recognized stock exchange;

¹[(b) *the fair market value of **unquoted equity shares** shall be the value, on the valuation date, of such **unquoted equity shares** as determined in the following manner, namely:—*

the fair market value of unquoted equity shares = (A+B+C+D - L) × (PV)/(PE), where,

A = book value of all the assets (**other than** jewellery, artistic work, shares, securities **and** immovable property) in the balance-sheet as reduced by,—

- (i) *any amount of income-tax paid, if any, less the amount of income-tax refund claimed, if any; and*
- (ii) *any amount shown as asset including the unamortised amount of deferred expenditure which does not represent the value of any asset;*

B= the price which **the jewellery and artistic work** would fetch if sold in the open market on the basis of the valuation report obtained from a registered valuer;

C= **fair market value** of **shares and securities** as determined in the manner provided in this rule;

D= the value adopted or assessed or assessable by any authority of the Government for the purpose of payment of **stamp duty** in respect of the **immovable property**;

L= **book value** of **liabilities** shown in the balance sheet, **but not including** the following amounts, namely:—

- (i) the paid-up capital in respect of equity shares;
- (ii) the amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general body meeting of the company;
- (iii) reserves and surplus, by whatever name called, even if the resulting figure is negative, other than those set apart towards depreciation;
- (iv) any amount representing provision for taxation, other than amount of income-tax paid, if any, less the amount of income-tax claimed as refund, if any, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto;
- (v) any amount representing provisions made for meeting liabilities, other than ascertained liabilities;
- (vi) any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares;

PV= the paid up value of such equity shares;

PE = total amount of paid up equity share capital as shown in the balance-sheet;]

- (c) the fair market value of **unquoted shares and securities other than equity shares** in a company which are **not listed** in any recognized stock exchange shall be **estimated** to be price it would fetch if sold in the open market on the valuation date **and** the assessee **may** obtain a report from a **merchant banker or an accountant** in respect of which such valuation.

[(2) Notwithstanding anything contained in sub-clause (b) of clause (c) of sub-rule (1), the fair market value of **unquoted equity shares** for the purposes of **sub-clause (i) of clause (a) of Explanation to clause (viib) of sub-section (2) of section 56** shall be the value, on the valuation date, of such unquoted equity shares as determined in the following manner under clause (a) or clause (b), **at the option** of the assessee, namely:—

$$(a) \frac{\text{the fair market value of unquoted equity shares}}{(A-L)} \times (PV),$$

=

where,

A = book value of the assets in the balance-sheet as reduced by any amount of tax paid as deduction or collection at source or as advance tax payment as reduced by the amount of tax claimed as refund under the Income-tax Act and any amount shown in the balance-sheet as asset including the unamortised amount of deferred expenditure which does not represent the value of any asset;

L = book value of liabilities shown in the balance-sheet, but not including the following amounts, namely:—

- (i) the paid-up capital in respect of equity shares;
- (ii) the amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general body meeting of the company;
- (iii) reserves and surplus, by whatever name called, even if the resulting figure is negative, other than those set apart towards depreciation;
- (iv) any amount representing provision for taxation, other than amount of tax paid as deduction or collection at source or as advance tax payment as reduced by the amount of tax claimed as refund under the Income-tax Act, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto;
- (v) any amount representing provisions made for meeting liabilities, other than ascertained liabilities;
- (vi) any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares;

PE = total amount of paid up equity share capital as shown in the balance-sheet;

PV = the paid up value of such equity shares; **or**

(b) the fair market value of the unquoted equity shares determined by a **merchant banker**²[***] as per the Discounted Free Cash Flow method.]

1. Sub-clause (b) substituted by the Income-tax (Twentieth Amendment) Rules, 2017, w.e.f. **1-4-2018**. Prior to its substitution, said clause, as amended by the Income-tax (Fifteenth Amendment) Rules, 2012, w.e.f. 29-11-2012, read as under :

"(b) the fair market value of unquoted equity shares shall be the value, on the valuation date, of such unquoted equity shares as determined in the following manner, namely:—

$$\text{the fair market value of unquoted equity shares} = \frac{(A-L)}{(PE)} \times (PV),$$

where,

A = book value of the assets in the balance-sheet as reduced by any amount of tax paid as deduction or collection at source or as advance tax payment as reduced by the amount of tax claimed as refund under the Income-tax Act

and any amount shown in the balance-sheet as asset including the unamortised amount of deferred expenditure which does not represent the value of any asset;

L = book value of liabilities shown in the balance-sheet, but not including the following amounts, namely:—

- (i) the paid-up capital in respect of equity shares;
- (ii) the amount set apart for payment of dividends on preference shares and equity shares where such dividends have not been declared before the date of transfer at a general body meeting of the company;
- (iii) reserves and surplus, by whatever name called, even if the resulting figure is negative, other than those set apart towards depreciation;
- (iv) any amount representing provision for taxation, other than amount of tax paid as deduction or collection at source or as advance tax payment as reduced by the amount of tax claimed as refund under the Income-tax Act, to the extent of the excess over the tax payable with reference to the book profits in accordance with the law applicable thereto;
- (v) any amount representing provisions made for meeting liabilities, other than ascertained liabilities;
- (vi) any amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares;

PE = total amount of paid up equity share capital as shown in the balance-sheet;

PV = the paid up value of such equity shares;"

2. Words "or an accountant" omitted by the Income-tax (Sixth Amendment) Rules, 2018, w.e.f. 24-5-2018

Rule 11U

Meaning of expressions used in determination of fair market value.

11U. For the purposes of this rule and rule 11UA,—

(a) ¹ [***]

(b) "balance-sheet", in relation to any company, means,—

- (i) *for the purposes of sub-rule (2) of rule 11UA, the balance-sheet of such company (including the notes annexed thereto and forming part of the accounts) as drawn up on the valuation date which has been audited by the auditor of the company appointed under section 224 of*

the Companies Act, 1956 (1 of 1956) and where the balance-sheet on the valuation date is not drawn up, the balance-sheet (including the notes annexed thereto and forming part of the accounts) drawn up as on a date immediately preceding the valuation date which has been approved and adopted in the annual general meeting of the shareholders of the company; and

^{14aa}[(ii) *in any other case,—*

(A) *in relation to an Indian company, the balance-sheet of such company (including the notes annexed thereto and forming part of the accounts) as drawn up on the valuation date which has been audited by the auditor of the company appointed under the laws relating to companies in force; and*

(B) *in relation to a company, not being an Indian company, the balance-sheet of the company (including the notes annexed thereto and forming part of the accounts) as drawn up on the valuation date which has been audited by the auditor of the company, if any, appointed under the laws in force of the country in which the company is registered or incorporated;]*

- (c) "merchant banker" means category I merchant banker registered with Securities and Exchange Board of India established under section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- (d) "quoted shares or securities" in relation to share or securities means a share or security quoted on any recognized stock exchange with regularity from time to time, where the quotations of such shares or securities are based on current transaction made in the ordinary course of business;
- (e) "recognized stock exchange" shall have the same meaning as assigned to it in clause (f) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);
- (f) "registered dealer" means a dealer who is registered under Central Sales Tax Act, 1956 or General Sales Tax Law for the time being in force in any State including value added tax laws;
- (g) "registered valuer" shall have the same meaning as assigned to it in section 34AB of the Wealth-tax Act, 1957 (27 of 1957) read with rule 8A of Wealth-tax Rules, 1957;
- (h) "securities" shall have the same meaning as assigned to it in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);
- (i) "unquoted shares and securities", in relation to shares or securities, means shares and securities which is not a quoted shares or securities;
- [(j) "*valuation date*" means the date on which the property or consideration, as the case may be, is received by the assessee.]

1. Clause (a) omitted by the Income-tax (Sixth Amendment) Rules, 2018, w.e.f. **24-5-2018**. Prior to its omission, said clause, as substituted by the Income-tax (Fifteenth Amendment) Rules, 2012, w.e.f. 29-11-2012, read as under :

"(a) "accountant" ,—

- (i) for the purposes of sub-rule (2) of rule 11UA, means a fellow of the Institute of Chartered Accountants of India within the meaning of the Chartered Accountants Act, 1949 (38 of 1949) who is **not** appointed by the company as an auditor under section 44AB of the Act or under section 224 of the Companies Act, 1956 (1 of 1956); and
- (ii) in any other case, shall have the same meaning as assigned to it in the *Explanation* below sub-section (2) of section 288 of the Act;"

**Compiled by Rajiv
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