Annexure – 2

Rule 56 - Meaning of expressions used in determination of fair market value

56. Meaning of expressions used in determination of fair market value.– For the purposes of this rule and rule 57, —

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

(i) 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

(ii) 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;

(b) "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);

(c) "quoted shares or securities" in relation to shares or securities means a share or security quoted on any recognised 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;

(d) "recognised stock exchange" shall have the same meaning as assigned to it in section 2(f) of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);

(e) "registered dealer" means a dealer who is registered under Central Sales Tax Act, 1956 (74 of 1956) or general sales tax law for the time being in force in any State including value added tax laws;

(f) "registered valuer" shall have the same meaning as assigned to it in section 513;

(g) "securities" shall have the same meaning as assigned to it in section 2(h) of the Securities Contracts (Regulation) Act, 1956 (42 of 1956);

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(h) "unquoted shares and securities", in relation to shares or securities, means shares and securities which are not quoted shares or securities; and

(i) "valuation date" means the date provided in the Table below:

Table

Sl. No.	Section	Valuation date
A	B	C
1.	Section 92	Date on which property or consideration, as the case may be, referred to in section 92 is received by the assessee.
2.	Section 79	Date on which the capital asset, being share of a company other than a quoted share, referred to in section 79, is transferred.
3.	Section 26(2)(j)	Date on which the inventory is converted, or treated, as a capital asset.

Rule 57 - Determination of fair market value

57. Determination of fair market value. – For the purpose of following sections referred to in column B of the Table below, the fair market value of the property of the nature referred to column C shall be determined in the manner provided in column D thereof:

Table

Sl. No.	Section	Nature of Property	Manner of determination of Fair Market Value
A	B	C	D
1	Sections 26(2)(j) and 92.	Jewellery	(a) The price which such jewellery would fetch, if sold in the open market on the valuation date; or (b) if the jewellery is received by way of purchase from a registered dealer on the valuation date, the invoice value of such jewellery; or

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			(c) if the jewellery is received by any other mode and its value exceeds ₹ 50,000, the assessee may obtain a report from a registered valuer regarding the price it would fetch, if sold in the open market on the valuation date.
2	Sections 26(2)(j) and 92.	Archaeological collections, drawings, paintings, sculptures or any work of art (herein referred as artistic work)	(a) The price which such artistic work would fetch, if sold in the open market on the valuation date; or (b) if the artistic work is received by way of purchase from a registered dealer on the valuation date, the invoice value of such artistic work; or (c) if the artistic work is received through any other means and its value exceeds ₹ 50,000, the assessee may obtain a report from a registered valuer regarding the price it would fetch, if sold in the open market on the valuation date.
3	Sections 26(2)(j) and 92.	Quoted shares and securities	(a) If the quoted shares and securities are received by way of transaction carried out through any recognised stock exchange, the fair market value of such shares and securities shall be the transaction value as recorded in such stock exchange; or (b) if such quoted shares and securities are received by way of transaction carried out other than through any recognised stock exchange, their fair market shall be– (A) the lowest price of such shares and securities

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			quoted on any recognised stock exchange on the valuation date; and (B) in cases, where on the valuation date, there is no trading in shares and securities on any recognised stock exchange, the lowest price of such shares and securities on any recognised stock exchange on a date immediately preceding the valuation date when such shares and securities were traded on such stock exchange.
4	Sections 26(2)(j), 72 and 92.	Unquoted equity shares	Fair market value of unquoted equity shares = (A + B + C + D - L) × (PV)/(PE) Where,– A = book value of all the assets as appearing in the books of the company (other than jewellery, artistic work, shares, securities and immovable property) in the balance sheet as reduced by– (a) any amount of income-tax paid, if any, less the amount of income-tax refund claimed, if any; and (b) 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

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			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; and L = book value of liabilities shown in the balance sheet, but not including the following amounts:– (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

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			liabilities, other than ascertained liabilities; and (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; and PE = total amount of paid-up equity share capital as shown in the balance sheet.
5	Sections 26(2)(j), 72 and 92.	Unquoted shares and securities (other than equity shares in a company) which are not listed in any recognised stock exchange	The 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 such valuation.
6	Section 26(2)(j)	Immovable property being land or building or both	The value adopted or assessed or assessable by any authority of the Central Government or a State Government for the purpose of payment of stamp duty in the respect of such immovable property on the valuation date.
7	Section 26(2)(j)	Any other property other than referred to at Sl. Nos. 1 to 6 above.	The price that such property would ordinarily fetch on sale in the open market on the valuation date.

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