

# Taxation of Various Corporate Actions

## Heads of Income

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- Salary
- House Property
- Business / Profession
- **Capital Gains**
- **Other Income**

## Definition of Transfer [Sec. 2(47)]

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- Sale, exchange or relinquishment of capital asset, or
- Extinguishment of rights therein, or
- Compulsory acquisition under any law, or
- Conversion of capital asset into stock-in-trade, or
- Redemption of zero coupon bond, etc.

## Transaction not regarded as transfer [Sec.47]

- Transfer under gift, will or irrevocable trust
- Holding ➡ 100% Subsidiary Indian Co.
- Subsidiary ➡ 100% Holding Indian Co.
- Amalgamating Co. ➡ Indian Amalgamated Co.
- Demerging Co. ➡ Indian Resultant Co.
- Transfer/Issue of shares to shareholders in scheme of demerger
- Transfer/Issue of shares to shareholders in scheme of amalgamation

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- Bonds or Debentures ➡ Shares or Debentures
  - Preference Shares ➡ Equity Shares
  - Firm ➡ Company ( Provided Co. carries on business of firm)
  - Company ➡ LLP
  - Sole Proprietary Concern ➡ Company

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BOOK  
VALUE

**Fair  
Market  
Value**

CIRCLE  
RATE





## Determination of fair market value



- FMV = Price to be received if sold in open market on valuation date
- If purchase = Invoice from a registered dealer
- Other than purchase = report of registered valuer showing FMV (if > 50000)



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Valuation  
Date [Rule  
11U(1)] :  
Date on  
which  
transaction  
is entered

## Shares and Securities

### Rule 11UA(1)(c)(a) :

FMV of Quoted Shares:

1. On Market – Recorded Value
2. Off Market – Lowest value traded on valuation / if no transaction than that of preceding date.

(Quoted Shares = Quoted on recognized stock exchange + regularly traded + current transaction in ordinary course)

Rule  
11UA(1)(c)(b) :  
FMV of  
Equity Share  
(other than  
quoted shares)

=

Assets  
—  
Liabilities

×

Paid up value  
of Eq. Shares  
÷  
Paid up Eq.  
Share as per  
Balance Sheet

Rule 11UA(1)(c)(c) :

FMV of Securities other than Eq. Shares (other than Quoted Shares)

- Valuation to be recorded if sold in open market

(Valuation report may be obtained from Accountant / Merchant Banker)

Rule 11UA(2)(a) :

*Relevant for sec. 56(2)(viib) Explanation (a)(i)*

BV of Eq. Shares = (Assets - liabilities)\*(PV)/(PE)

- PV and PE as per previous slide

1. Merchant Banker = Merchant Banker registered with SEBI
2. Recognized Stock Exchange = sec. 2(f) of Securities Contract (Regulation) Act, 1956
3. Registered Dealer = Registered under Central Sales Tax Act, 1956 or any other State Sales Tax Law
4. Registered Valuer = sec. 34AB of Wealth-Tax Act, 1957
5. Securities = sec. 2(h) of Securities Contract (Regulation) Act, 1956

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## Taxation on Issue / Transfer of Shares

56(2)(viib)

- Public is not substantially interested

Tax on Company

Issue Price > FV

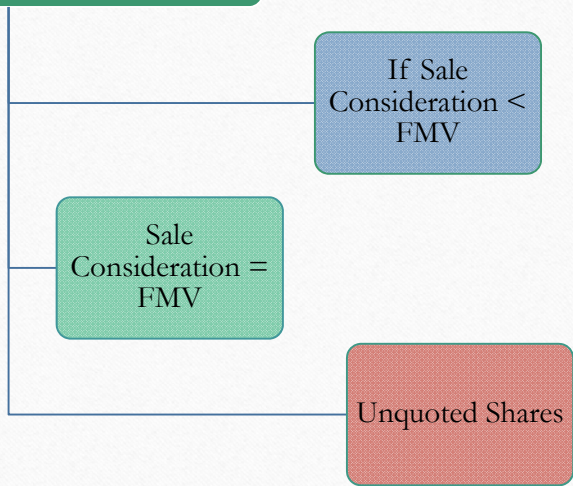
- Taxable Amount = Issue Price - FMV

- NRI
- Venture Cap. Funds

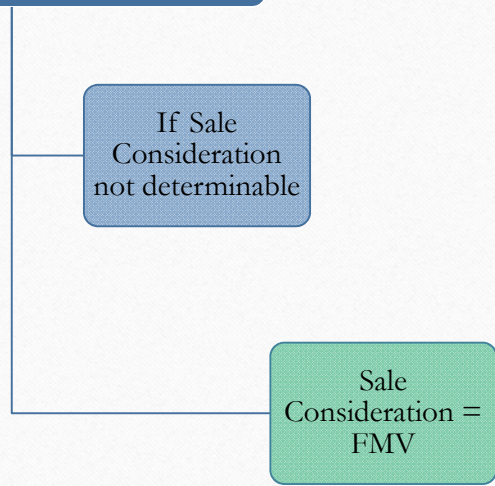
Exception



# 50CA



# 50D





Received from  
any person /  
persons –  
whole P.Y.

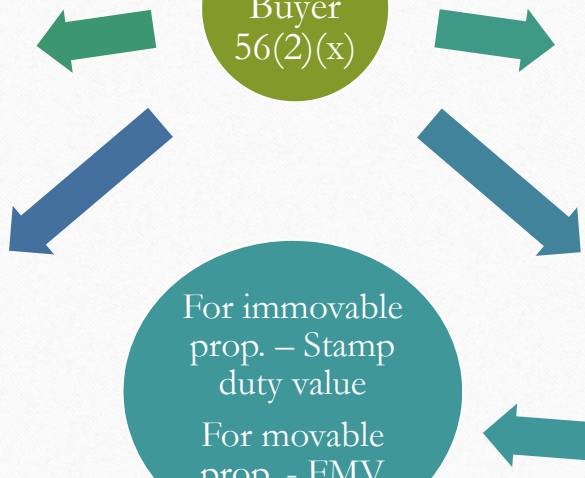
Tax on  
Buyer  
56(2)(x)

Sum of Money  
without  
consideration  
> 50000

Exemption-  
Relative; Will;  
Inheritance;  
etc.

For immovable  
prop. – Stamp  
duty value  
For movable  
prop. - FMV

prop. without  
/ inadequate  
consideration  
(>50000)



# Buy Back of Shares

- Tax to be paid by Company
- Tax on = Buy Back Price – Issue price of that share
- Buy back as per Companies Act and Tax payment within 14 Days



## Issue Price – As per Rule 40BB

- Actual Subscriber= Actual amount recd.
- ESOP – Amt. Cr. to Capital or Premium A/c.
- Amalgamation = As per issue price of original Co.
- Demerger = Prop. To book value of asset demerged
- Bonus=Nil; Demat=FIFO; Other case=FV; etc.
- Conversion of security= issue price of security

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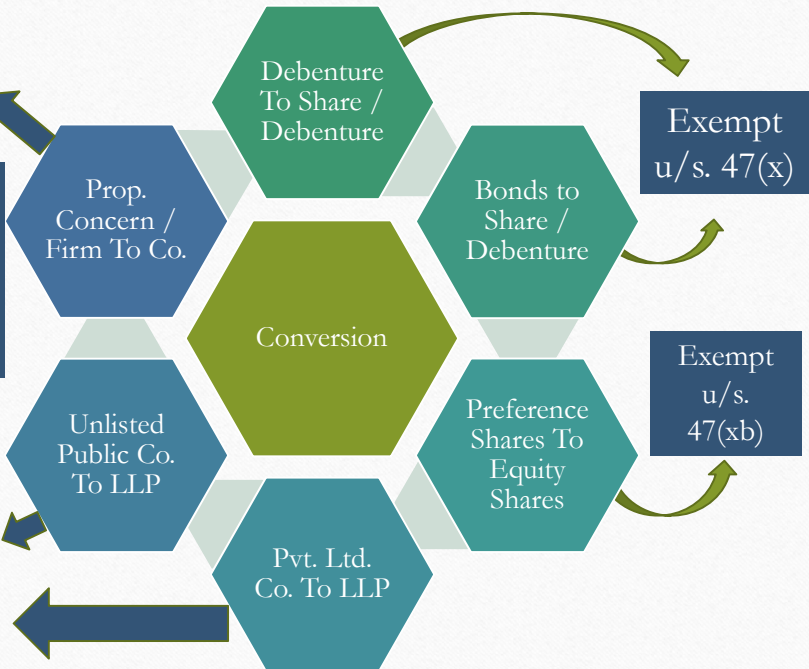
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- Original prop. / partner to retain 51% holding for 5 years.

- All Assets & Liabilities are transferred.
- No other consideration to shareholders / partner.
- All shareholders / partners take holding in same ratio.

- Original shareholder to retain 51% holding for 5 years.
- Turnover < 60 lakh (in 3 P.Y.)
- Total Assets < 500 lakh (in 3 P.Y.)
- No payment to partner for 5 years out of accumulated profits.



## AMALGAMATION

Several  
Companies  
to one  
Company

Conditions to be satisfied:

1. All assets and liabilities to be transferred.
2. 3/4<sup>th</sup> Shareholders become members.
3. Values recorded at BV except for IND AS (in case of Demerger)

## DEMERGER

One  
Company  
into Several  
Companies



# Transfer of Capital Asset

Into Stock

Taxable in the year  
in which asset sold

Consideration = FMV  
on date of conversion

To Firm / AOP /  
BOI

Taxable in the year  
in which transfer

Consideration = Value  
recorded in books



**SELLER**



Agree to Asset



**BUYER**



Pays Advance



After Few Months



Cancels Deal



Seizes Advance



This advance is to be reduced by Seller when he sells asset from his cost and if indexation applicable then it will be done on reduced cost from year of purchase.

But after 01-04-14 it is taxable under head of income from other sources, in the year of seizure.

Thank You

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