



SLUMP SALE

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FOR PRIVATE CIRCULATION ONLY

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SUMMARY - COMPUTATION OF FMV OF UNDERTAKING FOR THE PURPOSE OF SEC. 50B OF THE ITA.

- ✓ In terms of the requirement of sec. 50B(2) of the Income Tax Act, 1961 (the “Act”), the Central Board of Direct Taxes (CBDT) vide Notification No. 68/2021 dated May 24, 2021 inserted Rule 11UAE in the Income Tax Rules, 1962 (the “Rules”).
- ✓ The aforesaid rule prescribes the manner of computation of fair market value of (FMV) of the undertaking transferred under slump sale, which is deemed to be the sales consideration for the purpose of computing capital gains under section 50B of the Act.
- ✓ Rule 11UAE provides that FMV of the undertaking sold would be higher of FMV1 and FMV2, where
 - FMV1 refers to fair value of the undertaking based on the fair value of its underlying assets and liabilities computed in the manner prescribed; and
 - FMV2 refers to fair value of the monetary and non-monetary received or accruing as a result of transfer by way of slump sale.
- ✓ The FMV under the aforesaid rule is determined as on the date of slump sale, i.e., the Valuation Date will be the date of Slump Sale.

COMPUTATION OF FMV1

➤ **Formula:**

$$\text{FMV1} = \text{A} + \text{B} + \text{C} + \text{D} - \text{L}$$

➤ **Constituents:**

- **A** = Book Value of all the assets of the undertaking (other than jewellery, artistic work, shares, securities and immovable property), as appearing in the books of account of undertaking transferred, as reduced by the following amount which relate to such undertaking:
 - i. Any amount of income tax paid, as reduced by the amount of tax refund claimed under the Income Tax Liability, if any;
 - ii. Any amount shown as an asset including the unamortized amount of deferred expenditure which does not represent the value of any asset.
- **B** = Price to be fetched by jewellery and artistic work (book value of which is excluded from A) if sold in open market determined on the basis of valuation report obtained from a registered valuer.
- **C** = FMV of shares and securities (book value of which is excluded from A) determined as per Rule 11UA.
- **D** = Stamp Duty value of the immovable property (book value of which is excluded from A).

COMPUTATION OF FMV1 (CONTD.)

- L = Book Value of all the liabilities of the undertaking, as appearing in the books of account of undertaking transferred, as reduced by the following amount which relate to such undertaking:
 - i. Paid - up equity share capital;
 - ii. Amount set apart for payment of dividends where they've 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 toward depreciation;
 - iv. Amount representing provision for taxation other than the amount of income tax paid, if any, less the amount of income tax claimed as refund, if any, to the extent of excess over tax payable with reference to the book profits, in accordance with the tax law applicable thereto;
 - v. Amount representing provisions made for liabilities other than ascertained liabilities;
 - vi. Amount representing contingent liabilities other than arrears of dividends payable in respect of cumulative preference shares.

COMPUTATION OF FMV2

➤ **Formula:**

$$\text{FMV2} = \text{E} + \text{F} + \text{G} + \text{H}$$

➤ **Constituents:**

- E = Monetary consideration received or accruing as a result of transfer;
- F = FMV determined as per Rule 11UA of consideration received in the form of jewellery, artistic work, shares or securities.
- G = Price that any property (other than those referred to in F and H) would fetch if sold in open market, determined based on report of a registered valuer.
- H = Stamp Duty value of the immovable property received as a consideration.

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