

CLEARING THE AIR ON TAXATION OF ESOP OF FBT

Government on Tuesday notified the rules to determine the fair market value of shares given by companies to their employees for calculating the Fringe Benefit Tax (FBT) to be paid by the employers.

Clearing the air on taxation of Employees Stock Option Scheme (ESOP), the government said FBT will have to be paid by employers on the difference between Fair Market Value (FMV) of shares and the price at which they are given to employees.

According to the notification, FMV of the ESOP for listed companies would be the average of opening and closing prices of shares on the stock exchange on the date when the employee becomes eligible for the option.

If shares are traded on more than one stock exchange, FMV will be the average of the opening and closing prices of the shares on the exchange which reports highest trading volume, the notification said.

However, in case shares are not traded on the specified day, the share price on the day closest to the vesting of option would be considered for the calculation of FMV.

In case of unlisted companies, FMV will be determined by merchant bankers on the date of vesting of option, that is the date on which the employee is given the right to apply for the shares under ESOP, the notification said.

The incidence of FBT on ESOPs will be around 34 per cent of the taxable value for domestic companies and 42 per cent for foreign companies.