Application of Section 56 (2) (viib)

Company in which public are not substantial interested i.e. not a public listed company

YES

Shares are issued at premium i.e. above the face value of share

Issued price is more than FMV of Share

<u>When both the aforesaid conditions are satisfied :</u>

The Amount received in excess of FMV is taxable under the head of other source of income under sec. 56 (2) (viib)

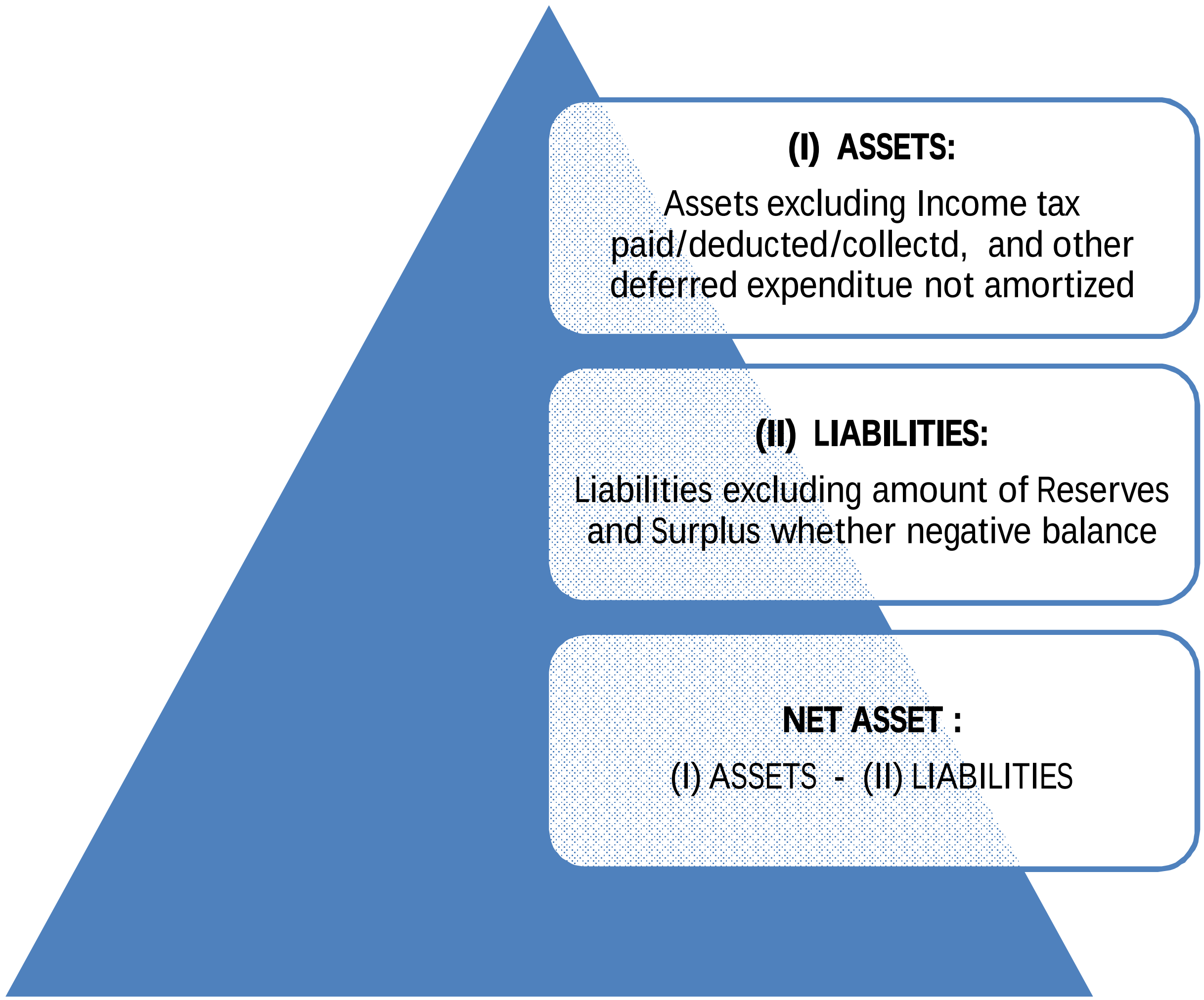
Example

	Different situation			
	1	2	3	4
Face Value of Share	100	100	100	100
Issue Price of Share	400	120	90	100
FMV of Share	320	150	50	90

Solutions

	Different situation			
	1	2	3	4
Condition 1				
Issued at premium	Yes	Yes	No	No
Condition 2				
Issued at above FMV	Yes	No	Yes	Yes
Amount taxable	80	-	-	-

VALUATION AS PER BOOK VALUE AS PER BALANCE SHEET



Valuation Date

- The valuation date is date of issue of shares, but the date of receipt of consideration
- Rule 11U applicable.

Balance Sheet

- the Balance sheet as of the valuation date, audited by statutory auditor.
- However, the company can use the Balance sheet drawn on date preceding the valuation date provided it is adopted and approved by shareholders in annual general meeting.

Valuer

- as per the Rule 11UA, the valuation for the purpose of sec. 56(2)(viib) has to be certified by :
  - Fellow member of Institute of chartered accountants of india: or
  - Merchant Banker