VALUATION OF SHARES

THE THESIS
SUBMITTED TO THE
M.S. UNIVERSITY OF BARODA
FOR THE AWARD OF THE DEGREE OF
DOCTOR OF PHILOSOPHY
IN
ACCOUNTS

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UNDER THE SUPERVISION OF

PROF. A.G. PATEL
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M.S. UNIVERSITY OF BARODA

BARODA

1990

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01 RATIONALE OF THE STUDY

01.01 The subject of Valuation of Shares has always been controversial in the profession of Accountancy. The subject has ramifications in the areas of Accounting, Financial Management as well as the Tax Management. As to the result of the appraisal done by the professional accountants, no two accountants have ever agreed in past or will ever agree in the future on the subject of the appraisal of the value of shares in a company, as it inevitably involves; apart from the application of their professional skills, the use of personal judgement on which professional man will necessarily differ. Owing to these professional differences of opinion in the accounting profession as to the valuation of shares in a company, many outsiders have erroneously come to the conclusion that there are no scientific methods of valuation of shares in existence.

01.02 While basic principles have remained intact over, the years, the practice of valuation of shares in a company is a dynamic discipline, constantly
changing with economic and industrial conditions, evolution of new concepts of finance both at national and international levels, new business environments, new political orders, new laws, rules and regulations, new controls, latest court decisions and changing business practices.

01.03 The emergence of appreciation of competent valuation of shares in a company is a natural outgrowth of the general trend towards increased sophistication amongst the financial managers, investors and tax authorities. The increased perception of the complexities of the valuation of shares in a company by all concerned parties is rendering obsolete the old seat-of-the-pants approaches to the valuation of shares in a company.

01.04 The study of valuation of shares is embarked upon bearing in mind the necessity of dis-spelling the illusion that there are no scientific methods of valuation of shares in a company in existence and simultaneously to bring out the inadequacies of the old methods of valuation of shares in a company, in order to develop a system of compilation, co-relation and assessment that would enable the appraisers of share value for fiscal purpose to fulfill their
assignments in a scientific and well documented manner so as to reduce, to the extent possible, the requirement of using personal judgements.

02 SUMMARISED MAIN OBJECTIVES

02.01 The main objectives of the study were:

a) to identify the factors effecting the development of the concept of value, market, market value and to define the same in the context of the requirement of the valuation of shares in a company in order to help the appraisers in the appraisal process;

b) to set forth an approach that the appraisers should take while undertaking the assignments in appraisal of value of shares in a company;

c) to identify the nature of shares including the identification of different types of shares and bring out the various interests associated with the various types of shares;
d) to identify the nature and study of appraisal of share of a company for fiscal purposes;

e) to enumerate the occasion for the valuation of shares in a company for fiscal purposes and to bring out the salient features including the provisions of laws applicable and court pronouncements interpreting the laws as they are applicable;

f) to study the principles of valuation of shares both in theories and practice applicable to various fiscal valuation such as —

i) Appraisal of shares for Stamp Duty, Probate and Court Fees.

ii) Appraisal of un-quoted shares for Income Tax including Capital Gains;

iii) Appraisal of shares for Wealth Tax purpose;

iv) Appraisal of shares for Gift Tax purpose;
v) Appraisal of shares for Wealth Inheritance Duty purpose, and
vi) Appraisal of shares for Estate Duty purpose.

g) The study involved the study of various provisions of Statutes as amended from time to time, upto 31.12.1989 and interpretation of conceptual legal provisions by Court in India and abroad upto 31.12.89.

03 THE COVERAGE AND METHODOLOGY

03.01 The coverage and methodology used in order to achieve above objectives was to guide the study to the area of the theory of valuation starting from the historical background of concept of value in economics. Theoretical background needs to be modified to suit the practical requirement of the modern appraiser in the context of the appraisal process. For the purpose the study was made of the theory of value in economics starting from the "Wealth of Nation" of Adam Smith published in the year 1776. The evolution of concept of value was studied from the various economists like Malthus, Ricardo, Karl Marx, Johnes Stauart Mills, Austrian and neo-classical school of
thoughts. The study of definition of value, market and market value is to be based on the definitions issued by the American Institute of Real Estate appraisers. In order to make it practical, the study has identified the quality and qualification that an appraiser should have and set out the stages for commencing and completion of his assignments. In order to achieve this, the study was guided through the literatures available on the subject of valuation specially in respect of the real estate appraisers from where theory of valuation to be used in both commercial and tax world is well established compared to other areas and is more complicated in nature.

03.02 After establishing the concept of the value, market, market value, valuation, the nature of share, is established through the study of the literatures on concept of share based on the Companies Act and other applicable statutes in India and abroad like the Constitution of India, Transfer of Property Act, General Clauses Act, MRTP Act, Code of Civil Procedure, Industries Development and Regulation Act, Foreign Exchange Regulation Act, Estate Duty Act, Income Tax Act, Insolvency Acts. The Securities Contracts Act and various Courts judgement as to bring
out the exact and/or conceptual nature of share in a company. This is to enable the appraiser to identify the interest in the appraisal aspect of shares in a company.

03.03 Once the nature and conceptual framework of shares was established, the study was directed towards identifying the nature of problems faced in the appraisal of shares for fiscal purposes and towards the various occasions where the fiscal valuation of shares in a company may arise from time to time. The occasions were identified by studying the various statutes applicable in India and in force in India. For the purpose the study of various Statutes, Court Cases, Trade Journals, etc., was made.

03.04 After identifying the occasions for the appraisal of value of shares in a company for fiscal purposes, the detailed study of the provisions of the various applicable/allied statutes under which fiscal valuation is to be undertaken was made along with all the legal aspects and various court cases effecting the issues was studied and applied to the practical method of appraisal of the value of shares in a company and the conclusions are drawn as to what could be applicable method and what would be
the conceptual background.

03.05 Based on the above study, the final conclusions are expressed on the various legal position that has to be looked into and the approach to be taken to arrive at the value of shares in a company by an appraiser.

04 FINDINGS

04.01 It has been noticed that the theory of value originated in economic literature. The said theory is of recent origin first formalisation starting with publication of Adam Smith's "Wealth of Nation" in 1776. The various schools of thoughts subsequently evolved various doctrines on what comprised the value. Considering various dogmas attached to various theories it could be stated that the fundamental concept of value as understood in the economic sense is different from concept of value as understood by accountants in their day to day working and more so when value of shares in a company is concerned. The concept of value as applicable to shares is no different from the concept of value of any other property.

04.02 After understanding the concept of value
as understood by economists is different from concept of value as understood by accountants, it is ascertained that value of Market and Market Value have different meanings to different persons. Different viewpoints on valuations are available and each different concept and meaning of value, or market value, has different usage, that may be appropriate for a limited purpose for which the meaning is given. The concept of Market value is not of universal applicability which gives a scope of difference of opinions and give rise to different concepts. It is also ascertained that the prime reason of the shift from concept of market value to statutory value is due to this various interpretation of concept of market value. As that the legislatures are now interested in avoiding litigations concerning the various meanings that are assigned to value and market value, the concept of market value is being given a go by so far as valuation of shares for fiscal purpose is concerned. The old concept is now applicable to a limited extent.

04.03 The comments of Lord Russal of Killoween:
1 RC Crossman IRC V Maun (1936) (1937) AC 26, (1936)
1 Aller 762 52 TLR 415, 80 Sal Jo 485, sub nom Re Crossman Re Paulin 105 LKJB 450; 154 LTT 970 said "It is not a question of actual value or their true or their intrinsic value or their value in some particular person's ownership. The value to be ascertained is their statutory value." said while referring fiscal value of property is equally appropriate when the fiscal valuation of shares in a company is under consideration.

04.04 This clearly indicated that far back in 1936, it has been clearly established that the fiscal valuation of shares means appraisal of the value, not as understood by a commercial word but as ascertained based on the statutes applicable and hence could be termed as "statutory value."

04.05 The process through which value of a thing is assessed or determined is described as valuation. However, it has been noticed that the correct terminology should be appraisal and hence during the further discussions, instead of term 'Valuation of Shares', the term 'Appraisal of Shares in a company' is used. Further, it has been identified that the process of appraisal would primarily mean identifi-
The study has also identified the manner in which interest in property could be identified. This would include identification of interest of shares in a company and approach that an appraiser may take in arriving at the conclusions. The study has also identified the key factors and the ideal aspects of the appraisal report.

04.06 The art of appraising requires the development of three special skills. These skills are:

1) CLAIRVOYANCE (art of visualising the future and thus to anticipate potential benefits of interest in property as the basis of value),

2) PERSPICACITY (the art and capacity to reach to the core or essential of the problem of valuation), and

3) GREGARIOUSNESS (the art of understanding the users' (appointers) concept of value and simultaneous ability to communicate to him in his own language).
The identification of the task that is before and the manner in which the appraisal process is to be undertaken would lead us to a question as to how interest in share could be identified. This could be done by studying background and the nature of the shares, understanding the nature of a company prevailing in India and abroad, legal difference between various types of companies, legal and financial definitions of shares; nature of shares; rights and duties attached to shares along with general and specific rights; nature of shares whether it is movable or immovable. The constitutional provisions as to the nature and rights attached to the shares is to be established; legal position as to nature to the shares is to be brought out. The study is also to be made as to various types of shares available covering the study of equity shares; preference shares; deferred shares; founders' shares, employees' shares, etc. In the final study various transfer restrictions that are attached to the shares of various types of companies is also to be ascertained. It has also been established that in no case, transfer restrictions of shares can be of absolute nature irrespective of what is provided in the Memorandum or Article of Association.
of the company. This is being established in detail to dispel an erroneous belief in the minds of various appraisers that shares in a private limited company which are tied with the restrictive covenants of Articles of Association could not be transferred unless what is provided in covenant is fulfilled. Further, it has been established that there can be legal restrictions of transferability of shares in a public limited company. The transfer restrictions should be given only its due importance in appraisal process. Not more not less.

04.08 The basic aspects of fiscal valuation is identified as under in the following heads:

   a) Character as problem;
   b) Sale as a Criteria;
   c) Forecast as Criteria; and
   d) Fair market value.

04.09 It has been established that considering all the above criteria establishing the value of shares in a company is better undertaken by a practically trained appraiser and the words of Lord Johnston "I would definitely rather trust his trained and practical institution though it

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would appear on paper to produce somewhat on all
rule of thumb result than any of more apparently
scientific value classification."

04.10 The occasions for appraisal of shares in a company for fiscal purpose, would arise due to application of the following statutes:

1) Stamp Duty - Stamp Duty Act 1899.
2) Court Fee Act - 1870
3) Probates
8) Estate Duty - Estate Duty Act - 1953

04.11 The ratio of two judgements give fundamental which principles/give out the basic approach to the value of shares in a company. They are -

04.12 The Supreme Court in the case of CWT vs Mahadeo Jalan & others (1972) 86 ITR 621 (SC) September (1972)\textsuperscript{1} considered the valuation of the share in private limited companies on yield basis in relation to assessment years 1957-58 and 1958-59 and evolved the following principles as normally applicable:

1) Where the shares are of a public company which are not quoted on a Stock Exchange, or of a private company, their value is determined by reference to the dividends, if any, reflecting the profit-earning capacity on a reasonable commercial basis. But if the profits are not reflected in the dividends which are declared and a low earning yield is shown by the Company, which is unrealistic on a consideration of the financial affairs disclosed for the relevant year, the Wealth Tax Officer can, on an examination of the Balance Sheet, ascertain the profit-earning capacity of the concern and, on the basis of the potential yield fix the valuation. In other words, the profits which the

\begin{footnotesize}
\textsuperscript{1} CWT V Mahadeo Jalan & others (1972) 86 ITR 621 (SC) Sept. (1972).
\end{footnotesize}
company has been making and should be making will ordinarily determine the value. The dividend and earning method or yield method are not mutually exclusive; both should help in ascertaining the profit-earning capacity. If the results of the two methods differ, an intermediate figure may have to be computed by adjustment of unreasonable expenses and adopting a reasonable proportion of the profits.

2) In the case of a private company also where the expenses are incurred out of all proportions to the commercial venture, they will be added to the profits of the company in computing the yield.

3) Where the dividend yield and earning method break down by reason of the company's inability to earn profits and declare dividends, if the set-back is temporary then it is perhaps possible to take the estimate of the value of the shares before set-back and discount it
by a percentage corresponding to the proportionate fall in the price of quoted shares of companies which have suffered similar reverses.

4) Where the company is ripe for winding up then the break-up value determines which would be realised by that process.

5) Valuation by reference to the assets would be justified where the fluctuations of profits and uncertainty of conditions on the date of the valuation prevent any reasonable estimation of prospective profits and dividends.

04.13 While laying down the above principles, the Supreme Court had cautioned that what had been laid down by them were not hard and fast rules because ultimately the facts and circumstances of each case, the nature of the business, the prospects of profitability and such other considerations will have to be taken into account as will be applicable to the facts of each case. The Central Board of Direct Taxes instructions of October, 1967 regarding valuation of shares had not, however, been referred to
and commented upon in the decision by the Supreme Court.

04.14 In the case of CGT Vs Smt. Kusumbern D. Mahadevia (1980) 122 ITR 38 (SC)\(^1\), the Supreme Court again considered exhaustively the question of valuation of ordinary shares in an investment (private) company for the purposes of gift-tax and wealth tax. The Tribunal canvassed the profit-earning method whereas the department of revenue relied on the mean of profit-earning method and the break-up method. While holding that a combination of the two methods cannot be accepted as a valid principle of valuation of shares, the Supreme Court, approved the profit-earning method as the only method that could be applied in the case. The Supreme Court, following its earlier decision in the case of Mahadeo Jalan (1972) 86 ITR 621 (SC)\(^2\) developed the following principles:

a) Where the shares in a public limited company are not quoted on the stock exchange or the shares are in a private limited company, the proper method of

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valuation to be adopted would be the profit earning method. This method may be applied by taking the dividends as reflecting the profit-earning capacity of the company on reasonable commercial basis, but if it is found that the dividends do not correctly reflect the profit-earning capacity because only a small proportion of the profits is distributed by way of dividends and a large amount of profits is systematically accumulated in the form of reserves, the dividend method of valuation may be rejected and the valuation may be made by reference to the profits. The profit-earning method takes into account the profits which the company has been making and should be capable of making the valuation according to this method as it is based on the average maintainable profits. Of course, for the purpose of such valuation, the taxing authority is not bound by the figure of profits shown in the Profit and Loss Account because it is possible that the
amount of profits may have suffered diminution on account of unreasonable expenditure or the directors having chosen to take away a part of the profits in the form of remuneration rather than dividends. The figure of profits in such a case have to be adjusted in order to arrive at the real profit-earning capacity of the company.

b) In the case of a company which is a going concern and whose shares are not quoted on the Stock Exchange, the profits which the company has been making and should be capable of making, or in other words, the profit-earning capacity of the company would ordinarily determine the value of its shares. The break-up value would not be appropriate for valuation of shares of such a company because among the factors which govern the consideration of the buyer and the seller where the one desires to purchase and the other wishes to sell, the factor of break-up-value as on liquidation hardly enters into consideration where the shares are of
c) It is only where a company is ripe for winding up or the situation is such that the fluctuations of profits and uncertainty of conditions at the date of valuation prevent any reasonable estimation of the profit-earning capacity of the company, that the valuation by the break-up method would be justified.

d) What the Supreme Court meant when it said in the case of Mahadeo Jalan (1972) 86 ITR 621 (SC) \(^1\) that, in the case of an investment company, the asset-backing is a relevant factor in determining the value of its shares, that in order to determine the capacity of the company to maintain its profits the asset-backing could be a relevant consideration. The profit-earning capacity of the company would naturally take into account not only the profits which the company is actually making but also the profits

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1. CWT v Mahadeo Jalan (1972) 86 ITR 621 (SC)
which the company should be capable of making. In order to arrive at a proper estimate of the latter, the asset-backing would be a relevant factor in the case of an investment company. It is not correct to read the observation as suggesting that valuation of the assets would be a relevant factor in determining the valuation of the shares.

e) In this case also, the validity or otherwise of the Board's instructions of October, 1967 did not come up for consideration.

04.05 Methods of calculation of value of shares are explained in detail in Annexure IV. One of the variation of the two methods is averaging or finding out mean of values arrived at by yield method of valuation and break-up value of shares in a company. These are adequately explained in above paras. Annexure - IV also brings out appraisal problems of Preference shares and appraisal problems under certain special occasion. The basic method of valuation are -
a) Break up value method.
b) Yield method; and
c) combination of (a) & (b) above.

04.16 It has been noticed that appraisal problems in case of Stamp Duty, Court Fees and Probates are practically NIL. This is primarily because reliance is placed on what is stated in the instrument by the parties, or by the plaintiff in the plaint or probate application. The occasions would arise only when what has been stated is challenged. In such an event principles enunciated in para 4.12, 4.13, 4.14 and 4.15 hereinabove and methods explained in Annexure IV are to be followed. However, such challenges are rare and so far not heard off. Thus fiscal valuation for this purpose is not much of practical importance.

04.17 Real tough task before an appraiser to value the shares in a company for fiscal purposes arises when direct taxes statute come into operation. The Income-tax Act 1961, the Wealth Tax Act 1957, Gift Tax Act 1958, the Estate Duty Act 1953, Wealth Inheritance Duty Act, 1989, gives numerous occasions and opportunities to test skill of appraising, sharpened with the knowledge of what the legislatures
are intending to do. However, though the principles underlying the appraisal task are same as explained in para 4.12, 4.13, 4.14 and 4.15 herein above, each Act has its own peculiarities.

04.18 Under Income-tax Act, the appraisal assignment for shares in a company arises whenever there is a transfer or acquisition resulting in an increase or decrease, actual or deemed increase in wealth of a person. Basically the problem could be classified as to (a) ascertainment of cost of acquisition of the shares, and (b) value of share as on a particular date.

04.19 It is established that cost is a fact whereas value is an opinion. To ascertain what cost a person has incurred depends entirely upon how well he has maintained his records and how honest he is to bring out the same to the appraiser. Anything else arrived at by the appraiser would be cost which in the opinion of the appraiser that would have been paid and would be nothing but a value. The occasions for ascertaining the cost would arise primarily when Section 69B & 69C come into operation. These sections are sections where concealment of particulars of income is suspected. In absence of proper
information, cost could be arrived at applying the principles and methods explained in para 4.12, 4.13, 4.14 and 4.15 read with Annexure IV. But it is doubtful whether the same would give the exact result. This is more important because looking at the lack of sophistication of Indian market and reluctance of people to go to the experts, it may be more likely that parties did not consider or have all the factors or had more factors (not normally brought into consideration such as black money transactions) than information, that is, with the appraiser who has to arrive at an imaginary bargain. In both the case the resultant figure may be far away from the actual situation. The appraisal of cost thus involves more detailed investigation. Whatever may be the sophistication of/method and process of investigation, till one day, when science becomes so advanced that human mind could read out for what he has actually done and why so; cost arrived in the process of appraisal would be more a value than a cost.

04.20 Regarding the mechanism for the ascertainment of fair market value of shares in a company the Income Tax Act is silent on the matter. Normally reliance could have been placed on the rules embodied in Wealth Tax Act following various court judgements in support of such an approach. However
with the amendment of Wealth Tax Act 1957, by Direct Tax (Amendment) Act 1989 in sec. 7 the concept of market value is replaced by what may be termed as Statutory value but there is no corresponding changes in the Income Tax Act. This being so, reliance on the mechanism for appraisal of shares in a company as given in Wealth Tax Act would not be full proof. However one may say that the mechanism provided by other act could be used for guidance under Income Tax Act.

04.21 One common occasion for appraising value of shares in a company normally arises is to ascertain capital gains when Bonus shares are received and disposed off. There are four possible methods for determining the cost of bonus share:

a) The first method is to take the cost as equivalent to the face value of the bonus shares.

b) The second method is to take the cost as NIL because nothing is paid by shareholder in each.

c) The third method is to take the cost of
the original shares and to spread it over
the original shares and bonus shares taken
collectively, and

d) The fourth method is to find out the fall
in price of the original shares and to
attribute it to bonus shares.

04.22 Courts have found the fourth method more
acceptable being equitable and logical. Thus accept-
ed method of valuation of Bonus shares is to take
the amount spent by the shareholder in acquiring his
original shares and to spread it over old and new
shares treating the new accretion to the old and
treat the cost of the old shares and bonus shares
taken together. In case old and bonus shares rank
pari passu the spread should be even but in case
they are not, it shall be necessary to examine rights
attached to each one and allocate the original amount
spent. Here principle of cost accounting come in
play.

04.23 As against acceptance of fourth method in
normal case, in case of Bonus Share, in case where
legal fiction created by sec. 64 (1) (iv) of IT Act,
wherein shares originally acquired are deemed to be
held by some one else (spouse) and Bonus shares are
received after the original shares are gifted and
the holder is in defacto and de jure owner of the Bonus shares it is held that the value of such share is to be taken as NIL. This finding is based on principle that once value of acquisition of asset is NIL no capital gains could be calculated.

04.24 In case where due to operation of 55(2) of IT Act; substitute value is to be arrived at, it has been held that when the assessee elects to adopt the market value as on a notional date for the computation of capital gains or loss in transfer of his originally acquired shares he is in effect substituting the original cost of acquisition of such shares. Gain on the transfer has to be calculated on such cost. This is to be arrived at in accordance with method prescribed in Annexure IV.

04.25 In case of right shares, accepting the principle that the right to subscribe to the right share is a right germane to the right to hold the old shares and thus the proceeds of renouncement of the right share is taxable as gains and any reduction allowed in computation of such a gains should go to reduce the cost of old share. The price of right share could not be averaged with the price of original
shares purchased for the purpose of computing capital gain U/S 48. Bonus shares and right shares stand on a different footing so far as arriving at the cost.

04.26 In case of right shares the question is whether the entire amount of deduction allowed from the gain of right shares would go to reduce the cost or amount in proportion to original cost and market price at time of right issue. Following the principles of cost accounting, entire amount should go as reduction from the original cost. However, legal judgements has supported the arguments that issue of right share do not affect the original shares. But this theory is yet to be fully tested in proper perspective.

04.27 The Direct Tax Laws (Second Amendment) Act, 1989 has granted a specific concession to NRI's for computation of Capital Gains while valuing shares in a company acquired by them from convertible foreign exchange. The value of these shares for computing capital gains are now required to be based on foreign currency and not upon Indian currency.

04.28 In case of shares received under Employees Share Option Plans (ESOPs), its appraisal would be required to be done for the purposes of ascertaining...
the value of perquisite for addition to the income of the employee. The concessional value of ESOP if treated as perquisite the cost of ESOP shares following accounting principles would go up (to increase the cost) to the extent such amounts treated as perquisite. In case of subsequent sale gain should be calculated on the basis of such an increased cost. This theory is based on principle of constructive receipt.

04.29 Sec. 46(2) is a deeming provision which would make the market value of assets on the date of distribution eligible to capital gains. The market value is a term which could have many meanings. However, the principles as explained in Mahadeo Jalan¹ and Kusumben Mahadevia's² case would be applicable as to the appraisal if stock market quotations are not available.

04.30 Though principally it is a fundamental error to assume that the stock exchange 'fixes' the price in which it deals. It is also a fact of life that the stock exchange quotations are not

related directly to the value of a company's assets, or to amount of its profits and consequently their quotations, the stock exchange quotations may be chosen for reference, but could not be accepted to be fair and equitable or rational basis for compensation.

04.31 While accepting the above fact as it is, it is now an accepted fact that stock exchange quotations are accepted for the purpose of fiscal value. Under Income Tax, Wealth Tax, Gift Tax and other fiscal Acts, the stock exchange quotations normally form a base of appraisal. Basic challenge to this proposition may come only when it is found out that the stock exchange quotations are not quoted in the ordinary course of the business but otherwise (say manipulated). In such a case the value based on stock exchange quotations may be challenged. However in past, attempts in these directions have failed for various reasons. Prime of them being it is extremely difficult to distinguish between manipulated stock exchange transaction and transaction at arms length.

04.32 The approach to valuation of shares in a
company under the Wealth Tax Act would require the study to be made under the following Heads:

1) Valuation of quoted Equity and Preference shares;

2) Valuation of un-quoted equity shares of companies other than investment companies;

3) Valuation of unquoted equity shares of the investment companies.

4) Valuation of unquoted equity shares in inter-locked companies, and

5) Valuation of unquoted preference shares.

04.33 The statutory value of quoted equity shares and preference shares for the Wealth Tax, Gift Tax and Wealth Inheritance Duty Act, is to be arrived at according to Rule 9 and Rule 9A of Part C of Schedule III. Rule 9 has been incorporated originally by the Direct Taxes (Amendment) Act 1989 as against incorporation of Rule 9A which was introduced by The Direct Taxes (Second amendment) Act 1989. As per Rule 9, the value of equity share or preference share is to be taken as the value quoted on the valuation date or where there is no such quotation
any date preceding the valuation date which is close. The new Rule 9A gives the assessee an option of adopting the average of FIVE years quotation on a similar date in the relevant earlier years. Inspite of draw back of stock exchange quotation Rule 9 and Rule 9A are positive step towards the removal of ambiguity on appraisal of value of shares in a company.

04.34 The Statutory value of unquoted equity shares of companies for Wealth Tax purpose other than investment companies is to be carried in accordance of Rule 11 of Part C of Schedule III to the Wealth Tax Act. Same rules are applicable to Gift Tax, Wealth Inheritance Duty Tax Act. The said rules are break-up value method of valuation of shares. The value of assets as given in the balance sheet are to be taken. Notes on accounts are to be taken as part of balance sheet. The new rules have removed the difficulty in valuing each of the assets in the balance sheet.

04.35 The statutory value of unquoted equity shares of the investment companies is to be arrived in accordance with Rule 12 in Part C of Schedule III
to the Wealth Tax Act. Same rules are applicable to Gift Tax Act and Wealth Inheritance Duty Act. The said rules are break-up value methods of valuation of shares. The value of assets as given in the balance sheet are to be taken. Notes on accounts are to be taken as part of balance sheet.

04.36 The statutory value of unquoted equity shares in interlocked companies for Wealth Tax, Gift Tax and Wealth Inheritance Duty purpose is to be arrived as per Rule 12 of Part C of Schedule III of Wealth Tax Act. The inter-locked companies are defined as two investment companies holding shares in each other. The method of valuation provided is yield basis.

04.37 The statutory value of unquoted preference shares for Wealth Tax, Gift Tax and Wealth Inheritance Duty purpose is to be ascertained in accordance with rule 10 of Part C of Schedule III of Wealth Tax Act. The method of valuation is yield basis to be scaled down for the non payment of dividend and the nature of preference share (Cumulative or non-cumulative).
Further research in the subject may be directed in the following areas:

(a) Special studies in respect of valuation of shares for specific purpose like:

Planning a programme for family gift; holding the share investment in order to freeze out the share valuation; corporate separations, divorce, going public, going private, private mergers, squeeze out merger and dissenters' rights; selling out; spinning out part of the company, conversion of partnership into public or private limited companies; making acquisition, compensatory damages, breach of contracts, obtaining financing; re-organisation, allocation of total value, value in members or portfolio holdings, valuation of shares options, conversion options; oppression and mismanagement, purchase of shares, consideration of alternatives.
(b) Matters to be considered while valuing shares in a company:

Basic approach, inquiries to be made, restrictions in the articles of association, other clause of articles of association, management, history of industry, prospect of industry, history of the company, prospects of business, profit earning capacity of the company, yield on share in the industry, risk involved, return on products investment, capital position of the company, the basis of valuation of assets of the company, the liability of the company, the effect of inflation, conclusion.

(c) The data and written information that need be collected:

Financial statement, annual statement, income tax return, interim statement, other financial schedules, debtors, age wise, shareholders list, schedule of dividends paid, real estate and equipment list and deputation list, inventory
list, officers and directors remuneration schedule, list of loans to and from other officers, directors and their holdings, list of major shareholders, miscellaneous financial informations, list of past transactions in shares or offers to buy budget or projections, capital requirement, order booked position, customer basis, suppliers list, evidence of real and personal property value, real and personal property tax assessment, insurance appraisal, independent appraisal reports, contractual obligations, secret reserves, window dressings, company documentations, company history, catalogue of the company's product and price list, list of important members of the management team, patents and copyright and trade mark, trade association and industry sources.

(c) The Modern Methods of appraisal:

Discounted future earning approach, forecasting future earnings, treatment of
elements of risk, setting the discount rate, sample application of DFE analysis, the myth of illusion, conclusion.

Taking into consideration limitation of time, energy and capabilities, it is humble desire of self to join researchers on above subject one day.