


**DIFFERENT PURPOSES  
OF  
VALUATION**

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## **PURPOSE OF VALUATION**

Purchasing for Investment  
Purchasing for self Occupation  
Revision of Capitals  
Interim Reports of Execution of Buildings or other structures.  
Compensation for land Acquisition  
Present Value of Old Properties  
Arbitration  
Assessing property Tax  
Income Tax, Wealth Tax  
Gift Tax, Capital Gains  
Selling  
Mortgaging  
Collateral Security  
Auctioning  
Insurance  
Court fee stamp  
Partitions  
Stamp Duty  
Rent Fixation. etc., etc.

All the above purpose of valuation has been divided into six major categories, each category is discussed in detail.

1. Taxation
2. Finance
3. Industrialist
4. Statute
5. Personal planning
6. Social Responsibilities.

### **1. TAXATION**

#### **a) Income Tax**

There is no Income Tax and Capital Gains Tax liability on business enterprise consequent to revaluation of assets.

#### **b) Wealth Tax**

Now, wealth Tax is payable by all the assessee except Co-op. Societies, social club, political parties, specified mutual fund and non profit objective institution.

From Assessment year 1993-94 there is no Wealth Tax Liability on unlimited value of Wealth in the form of shares in the company as these assets are outside the purview of Wealth Tax.

For the very first time from assessment year 1993-94 agricultural land and farm houses are going to be taxed. Similarly surplus land/unbuilt areas of factory would also be taxed.

To avoid excess payment of wealth tax and/or recovery it is desirable to get valuation done of agricultural land and farm houses as well as vacant land and surplus land with specific regulations governing those properties.

**c) Gift Tax**

To avoid wrong computation of gifts made it is desirable to have a valuers report. It would help to avoid payment of excess tax, penalties and prosecution. This is very important whenever movable/immovable properties are transferred to relatives and it is likely to attract provision of deemed gift.

As part of tax planning. Whenever a will is made life interest are created in it, it is desirable to take advantage of valuers report more particularly so whenever assets are inherited.

**d) Capital Gain**

The New Section 48 of Finance Act 1992 has given a different set of rules to work out Capital gain after ascertaining market value as on 1<sup>st</sup> April 1981 which is referred as Indexed Cost of Acquisition similarly indexed Cost of Improvement in property is to be considered, thus capital gain shall be on a different principal and as such a valuers report as on 1<sup>st</sup> April 1981 has become absolutely essential for properties purchased or inherited prior to 1981 for properties sold on or before 31<sup>st</sup> March 2017 as on 1<sup>st</sup> April 2001 has become absolutely essential for properties purchased or inherited prior to 1981 for properties sold after 01<sup>st</sup> April 2017

**e) Partnership dissolution.**

As such any dissolving partnership firm should go in for a valuers report on the day of dissolution and valuation should be done preferably by a registered valuer empanelled with Income Tax Department.

**f) Rent vis-à-vis depreciation**

Depreciation is not available on the cost of land and as such as a part of tax planning normally land is purchased by one assessee and is given on rent to another assessee. There is always a difference of opinion as to how much rent is to be paid and as such it is desirable to have an expert valuers report on rent to be paid to substantiate your claim.

**g) Seizure of Jewellery**

To avoid seizure of jewellery at the time of income tax raids, it is desirable to have separate valuation for separate jewellery for each family member. It is mandatory to have valuation done from a government approved valuer, if market value of jewellery exceeds Rupees five lacs.

**h) Reassessment unjustified**

Under the provision of "Reassessment in Income Tax Law". A residential house was purchased and along with the return of income tax a valuers report was enclosed. After some time during investigation in other case it was felt that reassessment is necessary because probable agreement value was not the fair market value, however, in the above referred case reassessment was unjustified.

### **i) Transfer of Property**

If you are buying or selling immovable property, exceeding Rs. 10 lacs together with plant, machinery, furniture, fixtures or other things including rights therein like membership of Co-op Society etc. etc. in any of the cities viz. Delhi, Mumbai, Calcutta, Chennai, Bangalore, Lucknow, Amhedabad. Then it is obligatory to the transferor and transferee to obtain permission under section 269 of Income Tax Department.

Under Chapter XXC i.e., Income Tax Acquisition, Supreme Court has given a decision with special reference to “encumbrances and lessors rights etc.” However, has given a directive that Transferor and Transferee should be served a show cause notice to give natural justice to avoid violation of article 14 of the constitution.

It is desirable to substantiate your claim, of correct price with the help of valuers report who is an expert in doing necessary valuation.

## **2) FINANCE**

### **a) Purchase, sale, take over, merger**

Whenever you are purchasing or selling or going in for amalgamation or taking over of a company you may need financial assistance from the bank or otherwise also to avoid addition of unexplained investment it is desirable to justify the transaction by obtaining an exhaustive, detailed valuers report.

### **b) Term loan or Cash Credit facility**

Books of account are reflecting invariably historic depreciated value of machinery and plant, however, which are free from encumbrances, similarly book value of landed properties also appear to be historic because of inflationary

trends which are also free from mortgage can be better utilised to avail either term loan and/or cash credit facilities to make company financially healthy.

**c) Bank Guarantee**

Industrialist, business man, contractor, individual are required on many occasion to offer bank guarantee for different purpose and as such it is desirable to revalue the assets and incorporate them in the books of account to reflect high net worth of the company person soliciting bank guarantee. Revalued assets can be offered as co-lateral security to financial institution for offering bank guarantee.

**d) Window dressing**

International accounting standard expects to reflect true value of assets in the books of account as a fair business practise which would help share holders of company, vendors of company, bankers of company to know soundness of company and as such revaluation of assets at a regular interval of three to five years is strongly recommended.

**e) Devaluation of rupee**

Now that we are approaching free economy and rupee is partially convertible till the time market are settled and our finance position improves effect of devaluation of rupee cannot be ignored more particularly so wherever imported machines were procured prior to devaluation and are installed and where technology has not become obsolete it is desirable to get these machines revalued and bring it to the books of account.

**f) New issues**

An existing company when intending to go in for expansion and is desirous to go in for public to raise capital, it would be in fitness of the thing to revalue assets prior to launching new issue, thereby increasing intrinsic value of shares. In fact this would help in fixation of higher premium amount charged by promoters attempting to bring public issue.

**g) Advance against works contract**

In some tenders floated by government departments, public undertaking, advance is given to contractor as he is expected to deploy some machinery for execution of said works. For claiming such advance a valuer report is solicited. In fact machinery deployed need not be new, advance is also given against deployment of old machinery, however, quantum of advance may be different for procurement of new machinery and deployment of old machines.

**h) Incentives**

While shifting an industry to backward area or no industry zone certain percentage of old machinery is allowed to be shifted without loss of incentives, however, agency who are offering these incentives have incorporated a condition that value of such machines should not exceed permissible percentage of total capital employed in the industry. In order to substantiate our incentive claim, it is desirable to support it by valuers report.

### **i) Security deposit for Electric Company**

Due to inflation, cost of input for generation of electricity and the increase in government duty and cost of overhead, ultimately increases electricity charges. All electric supply companies are taking security deposit approximately equivalent to three months consumption.

Impact of this deposit is very much felt by heavy power consumers like foundaries, heavy engineering industry, continuous process industry etc., etc.

In one typical case an industry has succeeded in offering mortgage of fixed assets by creating a second charge on it, as an alternative to security deposit. In fact second charge was created as assets were already mortgaged to the bank and liability of the bank was less than actual market value of assets.

## **INDUSTRIALIST**

### **a) Foreign Collaboration**

If one is making an attempt to have foreign collaboration. As part of pre-planning/ preparation it is desirable that assets are revalued and incorporated in the books of account to give better impression of the company.

### **b) Custom Duty**

If a second hand machine is imported the invoice value is disputed by custom authority as they are interested in getting proper revenue for Government. To claim the correctness of invoice value it would be beneficial to have a valuer report.



**c) Octroi**

Local self governments are levying octroi on goods brought into their area. Percentage of octroi to be levied is incorporated in the rules, however, this levy is based on invoice value and this invoice value is always disputed with a view to increase revenue for local self government. Assessing Officers of octroi are not technical persons and have hardly any expertise, however, valuers empanelled with local self government reports should be obtained in order to make correct payment of octroi.

**d) Auction**

In advance countries share holders are very vigilant and as such limited companies going in for disposal of capital good and its scrap or residual commodities are auctioned only after soliciting valuer written opinion. With the advent of free economy in our country it is high time that all the public limited companies also fall in line with it.

**e) Vacating Premises**

Some time it is necessary to delay vacation of premises and such occasion means squaring account of vendor and retrenchment of employee and in all probability closure and winding of unit. Valuers have come to rescue to delay the eviction.

**f) Rent of machine**

Whenever an imported machine is installed and is used as a hired one, Compensation/rent to be paid is to be justified at any given point of time and can have fluctuations also this is more particularly so when effect of devaluation of rupee is noticed and under these circumstances it is desirable, that

a valuer is working out the rent that is just and fair as a compensation for hired machine.

**g) S.S.I. registration**

Small scale industries are granted necessary registration based on capital employed in fixed assets. S.S.I. registered units have certain advantages from various authorities and as such it is very important to have S.S.I. registration to S.S.I. unit. Valuers opinion is attached as a document to justify that capital employed does not exceed permissible limit.

**h) Where there is no bill**

Sometime machine are fabricated/tailor made to suit to the requirement of an industry. In fact only direct labour cost of fabrication and material is incorporated. Cost of technical know how and probable profit if it is purchased from outside with various duties is not included in capital assets, it is desirable to do valuation of such machine to incorporate them in the books of account.

**i) Adequate and timely insurance**

General Insurance business Nationalisation Act 1972 was incorporated making all insurance company as government undertaking with effect from 13<sup>th</sup> May 1971. Prior to nationalisation underwriting of insurance was done only after assessing insurable interest, commonly referred as sum insured i.e., insures liability, however, after nationalisation sum insured responsibility is vested with the insurer.

Insured comes to know of this said fact only when claim is made and it is determined as sub standard, either for over valued or under valued and as such it is absolutely must

that exhaustive detailed report is forwarded along with proposal form to insurance company to protect desired insurance interest of the insured. Advanced countries are following the system stated above.

#### **4) STATUTE**

##### **a) Stamp duty**

Under TamilNadu Stamp Duty Act document becomes valid only if necessary stamp is affixed to document prior to its signature and as per Transfer of Property Act, document so executed it to be registered with sub-registrar.

Government of TamilNadu and other state governments has given directive and has fixed price of land by adopting Book of Rates as to how much should be the value for stamp purpose which invariably is the highest amount and not real transaction value and as such to substantiate one's claim one is expected to submit valuers report to avoid excess payment of stamp duty.

##### **b) Land Acquisition Act 1984**

Government acquire land for public utility and pay compensation as per Land Acquisition Act 1984.

Even after incorporation of necessary amendments compensation paid to an unwilling seller is very very low and invariably litigation takes places.

Provisions of said Act are so absurd that it does not discriminate large scale acquisition of land and a small property acquired.

Now valuation, is a complex field and has an impact of economy, legal and technical, etc. etc. and as such role of a valuer has become inevitable.

### **c) Official Liquidator**

Official Liquidator solicits values report with a view to understand that if company is in liquidation willingly or unwillingly, if thrown open to market for auction what price it would fetch.

### **5) PERSONAL PLANNING**

#### **a) Charity Commissioner and Registrar of Co-op.**

**Societies** Whenever a charity trust or Co-op Society is buying or selling any capital goods, equipment, factory and/or property one is required to solicit permission in advance and for that purpose valuation report is also solicited.

#### **b) Personal Planning through will**

If property is to be transferred to a particular person, interest of life is created through will to avoid legal problems at a later date which is invariably supported with valuers report.

#### **c) Visas**

To establish the fact that you have sufficient stake in the country, it is desirable to substantiate your claim by providing an evidence of fair market value of you assets instead of book value.

#### **d) Perks**

Senior manager or directors of the company are provided with furnished flat including various gadgets with a view to give him an indirect benefit, however, these items cannot be given as it is to the retiring person and as such a proper valuation reports is obtained for debiting net value of these facilities from the amount payable to the retiring person.

#### **e) Housing Loan**

While procuring loans for housing, valuation report is necessary.

**f) Family partition**

Property of joint family when subject to partition valuers opinion is obtain to facilitate smoother division. His views are of importance if multi storeyed building is to be offered at a realistic value to members of family.

**g) Divorce Settlement**

In typical case of divorce if a property is good and sufficient it is invariably valued before divorce settlement is made.

**6) SOCIAL RESPONSIBILITIES**

a) It is time now, when a member of parliament may take services of expert valuers team to know actual investment incurred on Road Works. Tube wells/ Irrigation / Housing / Public Sector undertaking etc. etc. within a very short period and raise question in parliament budget session to the concerning minister and play important role in future development of the country.