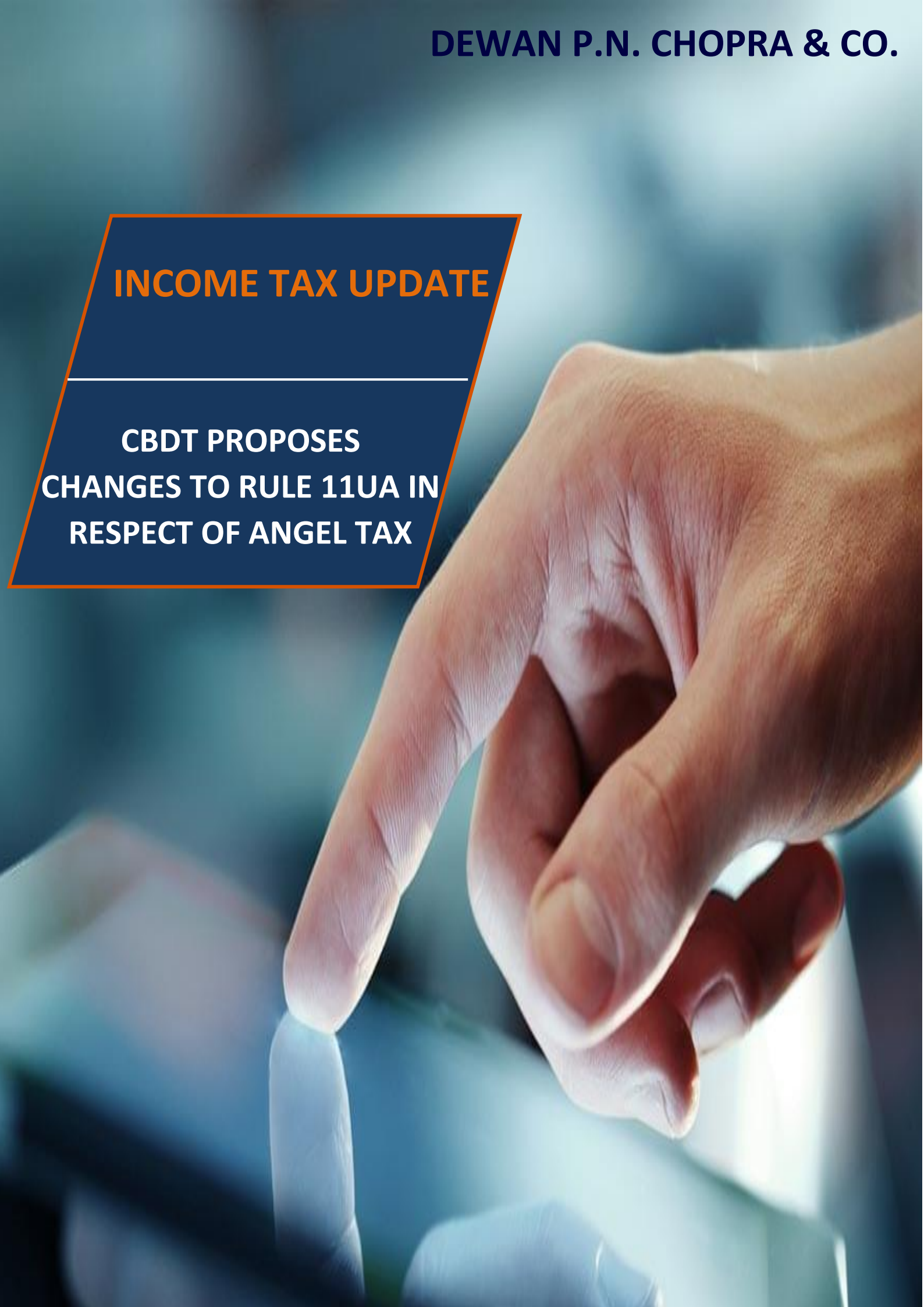


INCOME TAX UPDATE

**CBDT PROPOSES
CHANGES TO RULE 11UA IN
RESPECT OF ANGEL TAX**



CBDT's Proposed Changes to Rule 11UA

Central Board of Direct Taxes (CBDT), in a press release dated 19 May 2023, proposed changes to Rule 11UA for the purpose of the valuation of shares.

It is proposed to include 5 more valuation methods available for non-resident investors in addition to DCF and NAV methods of valuation. These additional valuation methods will be notified in due course.

Further, in case of receipt of consideration from notified non-resident entity, the price of the equity shares may be taken as the FMV of the equity shares for resident and non-resident investors subject to the following:

- a) To the extent, the consideration from such FMV does not exceed the aggregate consideration that is received from the notified entity and
- b) The consideration has been received within a period of ninety days of the date of issue of shares which are the subject matter of valuation.

Other proposals include:-

- On similar lines, price matching for resident and non-resident investors would be available with reference to investment by Venture Capital Funds or Specified Funds
- Valuation report by the Merchant Banker would be acceptable, if it has been released at a date not more than 90 days prior to the date of issue of shares.
- A safe harbor of 10% variation in value will be allowed to account for forex fluctuations, bidding processes and variations in other economic indicators, etc.
- Draft Rules on the above lines will be shared for public comments for 10 days, before they are notified.

Entities excluded from Section 56(2)(viib):

- a) Government and Government related investors such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled by the Government or where direct or indirect ownership of the Government is 75% or more,
- b) Banks or Entities involved in Insurance Business where such entity is subject to applicable regulations in the

country where it is established or incorporated or is a resident,

c) Any of the following entities, which is a resident of certain countries or specified territories having robust regulatory framework:

- Entities registered with SEBI as Category-I FPIs,
- Endowment Funds associated with a university, hospitals or charities,
- Pension Funds created or established under the law of the foreign country or specified territory,
- Broad Based Pooled Investment Vehicle or Fund where the number of investors in such vehicle or fund is more than 50 and such fund is not a hedge fund or a fund which employs diverse or complex trading strategies.

For Startups, section 56(2)(viib) shall not apply to consideration received from any person by start-ups covered in para 4 & 5 of Notification dated 19.2.2019 issued by the Ministry of Commerce and Industry in the DPIIT.

For details, please refer Press Release dated 19.05.2023:

<https://pib.gov.in/PressReleasePage.aspx?PRID=1925651>

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