



BIR rules on fair market value of unlisted shares

REVENUE REGULATIONS 20-2020

Key Highlights:

1. Removal of the requirement to appraise real properties using Adjusted Net Asset Method pursuant to RR 06-2013.

2. Determination of FMV under RR 20-2020

For common shares of stock

The book value based on the latest available financial statements duly certified by an independent public accountant prior to the date of **sale**, but not earlier than the immediately preceding taxable year shall be considered as the prima facie fair market value.

For preferred shares of stock

The liquidation value, which is equal to the redemption price of the preferred shares as of balance sheet date nearest to the transaction date, including any premium and cumulative preferred dividends in arrears, shall be considered as fair market value.

In case there are both common and preferred shares

The book value per common share is computed by deducting the liquidation value of the preferred shares from the total equity of the corporation and dividing the result by the number of outstanding common shares as of balance sheet date nearest to the transaction date.

Illustration 1:

Assume that Mr. A sold his 10,000 shares in ABC Corporation to Mr. B on June 30, 2020. The corporation's accounting period is on a calendar basis. In this case, the book value as the fair market value of the shares of stock in ABC Corporation shall be determined based on its audited financial statements for year ending December 31, 2019, since the audited financial statements for year 2020 is not yet existent as of the date of the sale of shares.

Illustration 2:

Assume further that based on the audited financial statements as of December 31, 2019, the total assets of ABC Corporation are Php 50,000,000 while its total liabilities are Php 20,000,000. Its outstanding common shares are 200,000 with 100 par value.

Compute for the net book value as the as the fair market value:

To compute for the net assets = Total assets less Total liabilities

Net assets = 30,000,000 (50,000,000 – 20,000,000)

Cont...

To compute for the book value per share = Net asset divided by No. of outstanding common shares.

Book value per share = Php 150 per share (30,000,000 / 200,000)

Book value of Mr. A's shares = Php 1,500,000 (10,000 x 150)

Acquisition cost of Mr. A's shares = Php 1,000,000 (10,000 x 100)

In this case, the book value of the shares of stock in ABC Corporation shall be **Php 150 per share**. As such, the fair market value of the shares of stocks in ABC Corporation shall be Php 150.

Computation of CGT and DST:

$$\begin{aligned}\text{CGT} &= 15\% \text{ of net capital gains} \\ &= 15\% (1,500,000 - 1,000,000)\end{aligned}$$

$$\text{CGT} = \text{Php } 75,000$$

$$\begin{aligned}\text{DST} &= .75\% \text{ of par value of the shares of stock sold} \\ &= .75\% \times 1,000,000\end{aligned}$$

$$\text{DST} = \text{Php } 7,500$$