

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:7010
ANSWERED ON:07.05.2010
TRANSFER OF SHARES BELOW MARKET VALUE
Bhoi Shri Sanjay

Will the Minister of FINANCE be pleased to state:

(a) whether the Government propose to tighten the anti-abuse provisions in the Income Tax Act in respect of transfer of shares below the market value and also the cross border transfer of shares below market value among unlisted companies; and

(b) the reasons for this line of action alongwith the details thereof?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE:(SHRI S.S. PALANIMANICKAM)

(a) Yes Sir, the government proposes to tighten the anti-abuse provisions in the Income Tax Act.

(b) In the Finance Bill, 2010 it is proposed to amend the provisions of section 56(2) which in its present form applies to receipt of undervalued property by an Individual and HUF only. This allows scope to escape the rigours of section 56(2) through easily controlled entities. In order to prevent the practice of transferring unlisted shares at prices much below their fair market value, it is proposed to include transactions undertaken in shares of a company (not being a company in which public are substantially interested) either for inadequate consideration or without consideration where the recipient is a firm or a company (not being a company in which public are substantially interested) within the ambit of section 56(2). The necessary safeguards have been provided by excluding the genuine transactions undertaken for business reorganization, amalgamation and demerger from the scope of proposed amendment.