



Australian Government  
Australian Taxation Office

*Market value for tax purposes* consultation paper

August 2021

## Your feedback

This paper invites your feedback on the *Market value for tax purposes* consultation paper.

Closing date for comment: 3 September 2021

### Provide feedback

<mailto:valuationreferrals@ato.gov.au>

### Contact officer

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We encourage you to raise any other relevant issues or specific concerns about matters discussed in this paper. Your responses may be made available to the public on the ATO website unless you indicate that you would like all or part of your response to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Confidential elements should be marked or provided in a separate document.

Please share the attached paper within your organisation and with members for the purpose of providing feedback as part of this process. The attached paper is a consultation draft and not a final or ongoing ATO view document.

## Purpose of paper

To refresh the current [Determining market value for tax purposes](#) *Guide* published at [ato.gov.au](http://ato.gov.au)

## Background

Market value is central to more than 200 tax and superannuation provisions. We are providing additional information on how to manage the risk of providing a market value for tax purposes. We have also removed methodology that is better detailed in valuation industry documents.

## Consultation questions

1. Does the rewritten Guide remove any subject areas that you currently rely on?
2. Does the rewritten Guide present any issues that may create problems for you?
3. Do you have any general comments about the Guide that you would like us to take into account?

## Consultation Draft for your review and comment



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## Purpose of the Guide

The purpose of this Guide is to assist taxpayers and their advisers to understand the general expectations of the Commissioner associated with providing a market valuation for tax purposes. While a valuation is an estimate of a specified valuation subject it is important that it is based on the most relevant and reliable information which is known or could reasonably be foreseen at the valuation date. In this document we provide guidance on what market value means for tax purposes and the processes and evidence generally expected to support a valuation.

This Guide does not purport to provide instructions or details on how to calculate or determine market value for tax purposes. Determining market value requires careful consideration of the subject asset, business or entity, environment, market and any other relevant specific factors. This Guide is not intended to be prescriptive but offers information that may reduce a taxpayer's risk in providing a market value for tax purposes and may affect imposition of interest or penalties in respect of the matters covered. Where a review determines that you have underpaid your tax you will generally be required to pay the correct amount of tax, and conversely you may be entitled to a refund if you have overpaid your tax. For further information see Practice Statement Law Administration [PS LA 2008/3 Provision of Advice and Guidance by the ATO](#).

When providing information for a tax assessment the onus for providing a replicable and defensible valuation that reconciles market value remains with the taxpayer even when a professional is engaged to provide the valuation. The taxpayer is responsible for ensuring that the valuer is suitably knowledgeable and experienced, receives appropriate engagement instructions, remains objective, is not presented with obstacles or limitations that inhibit their work, and provides a reasonable market value that is supported by credible evidence using an appropriate methodology. A replicable and defensible valuation report that reconciles market value is best evidenced in a substantive context by referring to and retaining all relevant records, thoroughly documenting all aspects of the valuation process and choosing the most appropriate inputs and methodology.

Market value is not generally defined by tax legislation, so the ATO defers to the definition provided by case law, International Valuation Standards and Australian professional valuer associations. Recognising and documenting the requirements of the relevant provision/s, any relevant case law and any relevant ATO view, particularly where that case law or ATO view relates to the calculation of market value for a specific tax provision, can save considerable time and effort in the event of a review or dispute.

In most situations tax law does not mandate who undertakes a valuation or how it is performed, however valuations involve complex processes requiring relevant experience, qualifications and knowledge. A calculation of market value that adopts and follows professional standards can be a factor that adds credibility to a valuation that reports market value.

In this Guide the term 'asset' is applied to anything that is being valued including tangible and intangible assets, real property, plant & equipment, businesses, shares, units, liabilities and financial instruments.

### How to use this Guide: I need to provide market value for a tax or superannuation provision

1. [What is the definition of Market Value for tax purposes?](#)
  - [Market value conceptual framework](#)

<ul style="list-style-type: none"><li>• <a href="#">Who can value asset classes?</a></li><li>• <a href="#">Valuation standards</a></li><li>• <a href="#">Taking ATO view into account</a></li><li>• <a href="#">ATO advice and guidance on valuation</a></li><li>• <a href="#">Case law for market value</a></li></ul>
2. <a href="#">Valuation Fundamentals for tax compliance</a> <ul style="list-style-type: none"><li>• <a href="#">Bases of value</a></li><li>• <a href="#">Valuation approach</a></li><li>• <a href="#">Valuation method</a></li><li>• <a href="#">Tips for getting it right</a></li><li>• <a href="#">Supporting documents</a></li></ul>
3. <a href="#">Market value and ATO Processes</a> <ul style="list-style-type: none"><li>• <a href="#">What assistance can we provide?</a></li><li>• <a href="#">My valuation is being reviewed</a></li><li>• <a href="#">Penalties for getting it wrong</a></li><li>• </li></ul>

## Market value definition for tax purposes

Tax law does not actually define market value in any general provision. While the term is contained within the 'Definitions' part of the *Income Tax Assessment Act 1997* (ITAA 1997), the definition does not consistently apply its meaning in all contexts ([section 995-1](#)). As a result, 'market value' usually takes its ordinary meaning unless specially defined or qualified in a particular provision.

The [International Valuation Standards \(IVS\)](#) define Market Value as:

*The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.*

The High Court in [Spencer v. The Commonwealth of Australia](#) (1907) 5 CLR 418, recognised the principles of:

- A willing but not anxious vendor and purchaser
- A hypothetical market
- The parties being fully informed of the advantages and disadvantages associated with the asset being valued
- Both parties being aware of current market conditions

The tax law specifically defines 'market value', in the context of:

- shares and rights for employee share schemes (ESS) – [Former subdivision F of Division 13A](#) of the *Income Tax Assessment Act 1936*
- superannuation – [subsection 10\(1\)](#) of the *Superannuation Industry (Supervision) Act 1993*

Where a statutory definition is provided for a particular context, it must be used.

In most cases the Commissioner will accept the working definition provided by the Courts, the International Valuation Standards Council (IVSC), or a professional association for valuers.

## Fair value is not the same as market value for tax purposes

*Fair value* and *market value* are at times used interchangeably and are often assumed to be of equivalent value; however, for tax purposes, they are not identical. *Fair value* is an accounting concept that requires determining the right price between two specific parties considering the respective strategic advantages, disadvantages, analysis of future margins, future growth, and risk factors relevant to each party from the particular transaction.

## Market value conceptual framework

The following concepts flow from the [definition](#) of market value and are derived from [IVSC valuation concepts](#) and accepted practice:

1. **The estimated amount** is a price or consideration amount expressed as money payable or equivalent for an asset, liability or equity item in an arm's length market transaction. Market Value is the most probable price reasonably obtainable in the market on the valuation date, in keeping with the market value definition. It is a meeting of the highest price reasonably obtainable by the seller and the lowest price reasonably obtainable by the buyer.

This estimate excludes a price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

2. **An asset, liability or equity item should exchange** refers to the fact that the value of an asset, liability or equity item is an estimated amount where no actual market transaction can be relied on to determine a market price.
3. **On the valuation date** requires that the value is time-specific for a given date. Markets and market conditions change, and the estimated value may be incorrect or inappropriate for another time.
4. **Between a willing buyer** refers to one who is reasonably informed and motivated, but not compelled to buy. This buyer is neither overeager nor determined to buy at any price. This buyer is one who purchases according to the current market with current market expectations, rather than an imaginary or hypothetical market that cannot be demonstrated or anticipated to exist. The assumed buyer would not pay a higher price than the market requires. The present owner is included among those who constitute "the market."
5. **And a willing seller** is informed and is neither an overeager nor a forced seller prepared to sell at any price, nor one prepared to hold out for a price not considered reasonable in the current market. The willing seller is motivated to sell the asset at market terms for the best price attainable in the open market after proper marketing, whatever that price may be. The factual circumstances of the actual owner are not a part of this consideration because the willing seller is a hypothetical owner.
6. **In an arm's length transaction** means parties do not have a particular or pre-existing special relationship which could result in the transaction price differing from a market price, e.g., parent and subsidiary companies or landlord and tenant, that may make the price level uncharacteristic of the market or inflated because of an element of special value.
7. **After proper marketing** means that the asset, liability or equity item would be exposed to the market in the most appropriate manner to effect its disposal at the best price reasonably obtainable, in accordance with the market value definition.
8. **Where the parties had each acted knowledgeably, prudently** presumes that both the willing buyer and the willing seller are reasonably informed about the nature and characteristics of the asset, its actual and potential uses, and the state of the market as at the valuation date. Each is further presumed to use that

knowledge prudently to seek the price that is most favourable for their respective positions in the transaction. Prudence is assessed by referring to the state of the market at the valuation date, not with the benefit of hindsight at some later date.

9. **And without compulsion** establishes that each party is motivated to undertake the transaction, but neither is forced or unduly coerced to complete it.
10. **The Market Value of an asset will reflect its highest and best use.** The highest and best use is the use of an asset that maximises its potential and that is possible, legally permissible and financially feasible. The highest and best use may be for the continuation of an asset's existing use or for some alternative use. This is determined by the use that a market participant would have in mind for the asset when formulating the price that it would be willing to bid.
11. **Market Value does not reflect attributes of an asset that are of value to a specific owner or purchaser that are not available to other buyers in the market.** Such advantages may relate to the physical, geographic, economic or legal characteristics of an asset. Market Value requires the disregard of any such element of value because at any given date it is only assumed that there is a willing buyer, not a particular willing buyer.

Further:

12. Market value is conceptually distinct from historical cost (the original price that is paid for goods or a service, or the amount paid to produce the goods or services by the relevant entity).
13. The nature and source of the valuation inputs must be consistent with the [bases of value](#) (relevant facts and assumptions) and the valuation purpose (tax or superannuation provision).
14. The valuer should adopt the most relevant and appropriate valuation methodology based on industry standards and practice. This may be influenced by the data available, the circumstances relating to the market, and industry practice and standards for the asset being valued. International valuation standards recommend that valuers consider using more than one approach. For tax purposes we recommend that where possible, a secondary or cross check methodology should be applied to provide additional support for an estimated value from the primary methodology.
15. The process of valuation requires the valuer to make impartial judgements as to the reliability of inputs and assumptions. For a valuation to be credible, it is important that those judgements are made in a way that promotes transparency and minimises the influence of any subjective factors on the process.
16. Evidence should be assembled and recorded by means such as inspection (as required), inquiry, computation and analysis to ensure that the valuation is properly supported.
17. A valuation should be specific to the tax provision that it is being applied to and consider any requirements of the provision/s, ATO view documents and relevant case law and tax rulings.
18. An estimate provided for a future date (prospective value) is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use. Market value for tax purposes requires valuation for a date specified by the legislation, and a prospective assessment will not be considered reasonable or acceptable.
19. If you are required to provide arm's length value for transfer pricing purposes this may differ from market value. See Taxation Ruling [TR 97/20: Income tax: arm's length transfer pricing methodologies for international dealings for further information](#) to ensure you are providing a correct valuation.

## Who can value asset classes?

An asset class is a group of assets with similar characteristics. There is no official, universally accepted list of asset classes but for the purpose of providing details of where to access appropriately qualified professional valuers and standards we have divided assets into property, plant and equipment, and business assets.

## Who can determine market value?

A reasonable estimate of market value requires skill, knowledge and experience. A valuation report carried out by a suitably qualified/educated professional following commonly accepted industry standards and professional codes of conduct generally contain sufficient evidence and reasoning to allow for testing/replication and thus will likely be considered more reliable by the Commissioner.

## Who is a professional valuer?

Institutes that provide certification and standards for valuers include the Australian Valuers Institute (AVI), Australian Property Institute (API), Royal Institute of Chartered Surveyors (RICS) and the American Society of Appraisers (ASA Australia). Members of Chartered Accountants Australia and New Zealand, CPA Australia and the Institute of Public Accountants follow Accounting Professional and Ethical Standards Board (APESB) standards which include instruction on the provision of valuation services. Institutes such as the Australian Institute of Quantity Surveyors (AIQS) also provide certification and standards for quantity surveyors. Company directors may provide valuations for balance sheet purposes.

For tax purposes, the acceptability of a valuation usually depends on the valuation process undertaken rather than who conducted it. However, there are some exceptions. For example, only a professional 'approved' valuer may undertake a market valuation for GST margin scheme purposes, the cultural gifts program or for determining non-monetary consideration for GST purposes.

Professionals who can provide a valuation for particular asset classes, including special requirements are listed below. This list is not exhaustive.

Asset class	Description	Relevant Professional
Property, Plant and Equipment	<p>Tangible items that are:</p> <ul style="list-style-type: none"> <li>Held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and</li> <li>Expected to be used during more than one period</li> </ul>	<p><b>Property Valuer</b></p> <p>A person who is registered/licenced to carry out property valuations (real property) under the relevant State, Territory or Commonwealth legislation.</p> <p>Within Queensland valuers must be registered by Valuers Registration Board of Queensland.</p> <p><a href="https://vrpq.qld.gov.au/">https://vrpq.qld.gov.au/</a></p> <p>In Western Australia land valuations must be undertaken by a licenced land valuer</p> <p><a href="https://www.wa.gov.au/service/business-support/business-registration-and-licensing/find-licensed-land-valuer">https://www.wa.gov.au/service/business-support/business-registration-and-licensing/find-licensed-land-valuer</a></p>

		<p>Other states require valuers to hold the qualification of either Australian Property Institute Certified Practising Valuer or Australian Valuers Institute Certified Professional Valuer.</p> <p>In Australia, Institutes that provide appropriate industry standards and certification include:</p> <p><a href="#">Australian Valuers Institute</a> <b>AVI</b>  <a href="#">Australian Property Institute</a> <b>API</b>  <a href="#">RICS: Royal Institution of Chartered Surveyors</a> <b>RICS</b></p> <p><a href="#">Margin Scheme requirements</a></p> <p>Three possible approaches are available (valuation by an approved valuer, valuation based on payment seller receives under contract of sale, or a valuation prepared by a state or territory department for rating or taxing purposes). If using approved an <i>approved valuation</i> must be undertaken by a <i>professional valuer</i> who is any of the following:</p> <ul style="list-style-type: none"> <li>• person registered or licensed to carry out real property valuations under a Commonwealth, state or territory law</li> <li>• a person who runs a business as a valuer in a state or territory where they aren't required to be licensed or registered</li> <li>• a person who is a member of the             <ul style="list-style-type: none"> <li>- AVI (Certified Practising Valuer)</li> <li>- RICS (Chartered Valuation Surveyor)</li> <li>- API (Certified Practising Valuer)</li> </ul> </li> </ul> <p><b>Plant and Machinery Valuer</b>                  A person who is sufficiently qualified and experienced to carry out plant and machinery valuations. Although not mandated by State, Territory or Commonwealth legislation, the qualification of Australian Property Institute Certified Practising Plant and Machinery Valuer is highly regarded within Australia. See also the <a href="#">American Society of Appraisers</a> ASA Australia.</p> <p><b>Plant and Equipment Valuer</b>                  A person who is sufficiently qualified and experienced to carry out plant and equipment valuations. Although not mandated by State, Territory or Commonwealth legislation the qualification of Australian Property Institute Certified Practising Plant and Machinery Valuer is highly regarded within Australia.</p> <p><b>Cultural Gifts Program</b>                  Must be an <i>approved valuer</i> on the following list:  <a href="https://www.arts.gov.au/documents/list-approved-valuers-cultural-gifts-program">https://www.arts.gov.au/documents/list-approved-valuers-cultural-gifts-program</a>)</p>
Business	Business, securities and intangible assets	<b>There is no formal admissions board in Australia for business valuers.</b>

	<p><b>Business</b> includes any profession, trade, employment, vocation or calling, but does not include an occupation as an employee.</p> <p><b>Intangible Assets</b> are non-monetary assets that manifest by their economic properties. They do not have physical substance but grant rights and economic benefits to their owners. They include intellectual property and goodwill.</p> <p><b>Securities</b> include stocks, bonds, debentures, promissory notes, bank deposits, loans and contracts.</p>	<p>Business valuers traditionally have significant experience in areas such as financial markets, investment banking, corporate finance or corporate management, and academic qualifications in areas such as accounting, finance or economics.</p> <p>The following professional institutes provide standards and certification for business valuers</p> <ul style="list-style-type: none"> <li>• <a href="#">Australian Valuers Institute</a> AVI – Certified Business Valuer</li> <li>• <a href="#">RICS: Royal Institution of Chartered Surveyors</a> RICS</li> <li>• <a href="#">Chartered Accountants Australia &amp; New Zealand   CA ANZ (charteredaccountantsanz.com)</a></li> <li>• <a href="#">CPA Australia</a></li> <li>• <a href="#">Institute of Public Accountants Accounting Professional and Ethical Standards Board (APESB)</a> sets standards such as <i>APES 225 Valuation Services</i> for members of the CPA Australia, the Chartered Accountants Australia &amp; New Zealand (CA ANZ) and the Institute of Public Accountants performing valuations.</li> </ul> <p>See Accounting Standard <a href="#">AASB 138 Intangible assets</a></p>
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## Valuation Standards

[The International Valuations Standards Council](#) (IVSC) is the independent global standard setter for the valuation profession. It sets **International Valuation Standards** (IVS) which promote consistency and professionalism in the public interest. In Australia members of the CPA Australia, the Chartered Accountants Australia & New Zealand, and the Institute of Public Accountants performing valuations will also need to comply with APES 225 Valuation Services.

Most professional valuation bodies adopt the IVS as part of their code. Professional institutes, registration and licensing bodies may adopt a variation of the IVS, and we would accept those codes, for example the RICS Red Book.

Depending on the purpose and subject of valuation, a calculation of market value that adopts and follows professional standards can be a factor that adds credibility to an estimate of market value.

## Taking ATO view into account

Market value is central to more than 200 provisions of the tax and superannuation law. When a market value is required for tax purposes, it is generally prepared for the purposes of a specific provision. That provision will frame the parameters of the valuation exercise by providing guidance on the valuation subject matter and the valuation assessment date. The provision may also contain stipulations on the appropriate valuation method and assumptions required.

Tax provisions have been interpreted by the courts, and the ATO has published its interpretations in guidance, rulings, determinations and other ATO products. In determining a market value, the report should consider

and document the specific provision and any relevant case law and ATO view. This can help justify the determined market value and assist in the event of a review.

Different ATO products provide [different levels of protection](#) as stated in the advice. If a taxpayer seeks advice tailored to a particular set of facts, they may apply for a [private binding ruling](#) to provide additional certainty.

The [Legal Database on ato.gov.au](#) contains ATO view documents and information. We also recommend that you research the [specific provision](#) to obtain additional information about any market value requirements for that provision, as well as referring to this Guide.

## Non-exhaustive selection of information and resources on ato.gov.au relevant to market value

For further information relevant to market value, see the following resources:

### [Capital Gains Tax](#)

[Market value substitution rule](#)

[Small business concessions](#)

[TD 10W](#): *Capital Gains: What are acceptable valuations for CGT purposes?*

[TD 97/1](#): *Income tax: property development: if land, originally acquired as a capital asset, is later ventured into a business of development, subdivision and sale, how is the market value of the land calculated at the time it is ventured into the business?*

[Transferring real estate to family or friends](#)

[TD 2004/22](#): *Income tax: for Off-Market Share Buy-Backs of listed shares, whether the buy-back price is set by tender process or not, what is the market value of the share for the purposes of subsection 159GZZZQ(2) of the Income Tax Assessment Act 1936?*

[PS LA 2007/9](#): *Share buy-backs*

[Declaration of the value of unlisted shares](#)

[TR 2004/13](#): *Meaning of an asset for the purposes of Part 3-90 of the Income Tax Assessment Act 1997*

[TD 92/132](#): *Income tax: property development: if land is trading stock, do related interest costs, council rates and land taxes, form part of the cost price for trading stock valuation purposes?*

[TD 9](#): *Capital gains: How do you apportion consideration received on the disposal of a composite asset?*

### [Charity tax concessions](#)

- [Property we value at more than \\$5000](#)
- [Non-commercial supplies](#)

Consolidation valuation shortcuts (link dependant on separate document/QC code):

[TR 2005/17](#): *Income tax: goodwill: identification and tax cost setting for the purposes of Part 3-90 of the Income Tax Assessment Act 1997*

[TD 2007/1](#): *Income tax: consolidation: in working out the market value of the goodwill of each business of an entity that becomes a subsidiary member of a consolidated group, should the value of related party transactions of each business of the entity be recognised on an arm's length basis?*

[TD 2007/27](#): *Income tax: consolidation: is the cost base of the goodwill referred to in subsection 711-25(2) of the Income Tax Assessment Act 1997 limited to the cost base of goodwill under subsection 705-35(3) of that Act?*

### [Cryptocurrency](#)

### [Cultural gift program](#)

### [Demergers TD 2006/73](#)

[Employee share schemes and market value](#)

[Fringe benefits guide for employers](#)

[GST and property](#)

[GST and margin scheme](#)

[GSTR 2000/21](#): Goods and services tax: the margin scheme for supplies of real property held prior to 1 July 2000

[GSTR 2006/7](#): Goods and services tax: how the margin scheme applies to a supply of real property made on or after 1 December 2005 that was acquired or held before 1 July 2000

[GSTR 2006/8](#): Goods and services tax: the margin scheme for supplies of real property acquired on or after 1 July 2000

[MSV 2020/1](#) Margin Scheme Valuation Requirements Determination

[Intangible Assets](#)

[TR 2005/17](#): Income tax: goodwill: identification and tax cost setting for the purposes of Part 3-90 of the Income Tax Assessment Act 1997

[TD 2007/1](#): Income tax: consolidation: in working out the market value of the goodwill of each business of an entity that becomes a subsidiary member of a consolidated group, should the value of related party transactions of each business of the entity be recognised on an arm's length basis?

[TD 2007/27](#): Income tax: consolidation: is the cost base of the goodwill referred to in subsection 711-25(2) of the Income Tax Assessment Act 1997 limited to the cost base of goodwill previously identified under subsection 705-35(3) of that Act?

[TR 1999/16](#): Income tax: capital gains: goodwill of a business

[Non arms-length income \(NALI\)](#)

[Off Market Buybacks](#)

[TD 2004/22](#)

[PS LA 2007/9](#)

[Off Market Takeovers TD 2002/4](#)

[Real Property](#)

[TD 97/1](#): Income tax: property development: if land, originally acquired as a capital asset, is later ventured into a business of development, subdivision and sale, how is the market value of the land calculated at the time it is ventured into the business?

[TR 97/25](#): Income tax: property development: deduction for capital expenditure on construction of income producing capital works, including buildings and structural improvements

[TD 92/132](#): Income tax: property development: if land is trading stock, do related interest costs, council rates and land taxes, form part of the cost price for trading stock valuation purposes?

[Transferring real estate to family or friends](#)

[Research and Development](#)

[IT 2451](#): Income tax: Investor funding of research and development activities – paragraphs 12-14 Securities

[TD 2004/22](#): Income tax: for off-market share buy-backs of listed shares, whether the buy-back price is set by tender process or not, what is the market value of the share for the purposes of subsection 159GZZZQ(2) of the Income Tax Assessment Act 1936?

[PS LA 2007/9](#): Share buy-backs

[SMSF valuation guidelines](#)

[Thin capitalisation and Division 820](#)

[Transfer pricing](#)

## Valuation Fundamentals for tax compliance

### Bases of valuation

The 'bases of valuation' are the facts and assumptions adopted by the valuer in estimating the market value of an asset.

Important facts and assumptions include the relevant transaction, the date used for valuation and the relevant parties and party characteristics. Further assumptions may include the circumstances of exchange.

The bases of valuation must be reasonable under the circumstances, supported by evidence, suitable for tax purposes, well documented and not include buyer or seller transaction costs.

Where a valuer does not have all the required information to prepare a valuation, the outstanding information should be identified in the valuation report.

### Common issues that affect the validity of a valuation

It is common to see insufficient or incorrect documentation of the elements included in a valuation.

Assumptions may also be unreasonable or incorrect given the circumstances, or not included in the valuation report. We expect all critical and pertinent attributes of an asset to be documented. Bases of a valuation must align with the relevant tax provision (valuation date, subject matter, requirements and purpose).

Assumptions should not replace appropriate evidence or inspection of assets.

### Valuation Approach

A valuation approach is the methodology used to determine the value of the property, asset, business or business interest. The three internationally defined valuation approaches are the market approach, the income approach and the cost approach. These valuation approaches are easily identified from their basic principles:

- **The market approach** - relies on applying market transactions for comparable valuation subjects at the valuation date. This approach estimates market value by reference to market prices in actual transactions and asking prices of assets currently available for sale. The valuation process is essentially that of comparison and correlation between the subject asset and other similar assets.
- **The income approach** - refers to estimating the risk and return parameters of the valuation subject(s) at the valuation date. This approach estimates the market value of an asset based on the income or cashflows that the asset can be expected to generate in the future.
- **The cost approach** - refers to estimating the market cost of replicating the valuation subject(s) in similar condition as at the valuation date as a suitable indicator of market value. If the cost approach is used the result will be Fair Value. It is often used as a method when the plant & equipment is a component part of a larger transaction to allocate value to the plant & equipment as a proportion of the Enterprise Value.

The primary valuation methodology selected should be the most suitable for the valuation subject, with reference to the reliability and relevance of information available at the valuation date. Explanation should be included in the report outlining why the chosen methodology is the most suitable. For tax purposes it is highly recommended that a secondary or cross-check methodology is provided where possible to support the primary methodology estimate.

The valuation approach must be:

- Reasonable given the valuation subject and information available
- Supported by evidence
- Suitable for tax purposes. Depending on the circumstances and facts, a calculation of market value that adopts and follows professional standards can be a factor that adds credibility to an estimate.
- Replicable
- Well documented

## Valuation method

The valuer must choose the most appropriate method for the valuation subject. A range of methodologies are stipulated by Australian and International Valuation Standards.

### Common issues we see with valuation approaches and methods

We commonly see the following issues when conducting reviews of market value estimates:

1. Inappropriate choice of methodology given the circumstances and information available.
2. Incorrect application of methodology according to industry and professional standards.
3. The valuation approach does not align with the relevant tax provision, case law or ATO view documents.
4. Inconsistent assumptions and inputs and the use of proxies based on historical performance.
5. Omitting relevant information available on the valuation date.
6. Inconsistencies with evidence (e.g. legal documentation).
7. Reliance on post valuation date information and future events which cannot be reasonably foreseeable at the valuation date.
8. Apportionment of value between assets (basis, evidence, calculation).
9. Choice of comparable assets on which to base valuation (chosen entity, assets).
10. Lack of support for size, risk and other adjustments to the chosen discount rate or capitalisation multiple.
11. Lack of appropriate analysis and scrutiny of base information.
12. Inappropriate use of averaging.
13. Failure to provide evidence for inputs and assumptions (market evidence).
14. Failure to verify inputs (subjective and unqualified).

## Guidelines and factors that add credibility to a valuation report

We may review your tax processes, returns or claims as a normal part of administering the tax system. The following tips will assist us in any review and reduce risks in your valuation reports.

1. A report that contains the details listed in the 'Valuation Reports' section of this Guide.
2. The use and demonstration of a robust quality assurance framework.
3. Compliance with applicable professional/industry standards (Redbook, IVS, API, Accounting Professional & Ethical Standard 225 'Valuation Services' (APES 225)).
4. Identification of the asset, liability or equity item to be valued - you must classify the property and its use. For example; 'Retail shop held as an investment', or 'Dwelling house for owner occupation'.

5. It is also vital to specify the interest (and associated rights) being valued as well as detailing the interest in the estimate of market value. This can be an interest in real property or a business. For example, different business interests have different rights and therefore may have different values. Interests can include an individual shareholder's interest or class of shareholders' interests where there are multiple classes of shares, a debt obligation owed by the company, convertible debt, and other variations.

## Supporting documents

### Engagement reports

If we review a market value estimate while administering the tax law, we may ask for and review the instructions provided to the valuer.

We expect that a person commissioning a valuation for tax purposes will be able to demonstrate that they provided the valuer with instructions that clearly:

- ensured the valuer's independence in preparing the report and in drawing conclusions
- recognised the valuer's right to refuse to provide an opinion or report if not provided with the information and explanations they needed
- granted the valuer access to the taxpayer's premises and necessary records
- ensured the valuer would be provided with all necessary help needed to complete the report
- established that any fee, where levied, did not depend on the outcome of the report.

Instructions to valuers will usually be in the form of a written request or could be documented in the engagement letter.

Most professional valuation bodies stipulate the documentation of terms of any valuation engagement. Templates are provided to members on their websites.

We have also created a template document that is available to taxpayers: [Instructing your valuation consultant](#).

### Valuation Reports

Valuation reports should contain all the information necessary to ensure a clear understanding of the valuation analyses and demonstrate how the conclusions were reached. The primary objective of a valuation report is to provide convincing and compelling support for the conclusions reached.

Members of the Chartered Accountants Institute of Australia are required to prepare valuation reports that comply with [APES 225](#).

Most professional organisations provide templates to members which are freely available on their websites.

The minimum information that we would expect in documenting a valuation are as follows:

1. Purpose of the valuation including the tax provision for which the valuation has been provided, with any relevant legislation, case law and ATO view incorporated.
2. Scope of the valuation, including instructions and any limitations on scope.
3. Details of the subject being valued.
4. Details of facts and assumptions relied upon.

5. Standards governing the valuation engagement (i.e. IVS, APES 225, RICS).
6. Valuation assessment date, for example, a retrospective valuation assessment as at 1 July 2000.
7. Date the valuer inspected the subject being valued (if applicable).
8. Definition of value.
9. Sources of information relied upon.
10. Valuation approaches and methodologies chosen, including reasons for selection and any available cross-checks.
11. Inputs and assumptions underpinning the valuation and extent of investigation, including subject matter particulars and industry data.
12. Adequate records to explain the basis of the market value. These records should not only confirm that a valuation was undertaken, but also contain sufficient detail to enable the valuation process to be replicated. Failure to maintain detailed reports and working papers may affect the credibility of the valuation. In addition, if the valuation report does not give sufficient information to allow another valuer to replicate the valuation, it may not meet the statutory record-keeping requirements. Where a valuation is straightforward, or the asset's value is relatively low or can be determined objectively, the report and associated records may be relatively brief.
13. Expert reports and the use of experts. When relying on an expert in the valuation process, you should include sufficient detail to confirm the expert's:
  - competency in the field
  - reasonable use of assumptions, methods and sources of data
  - independence (or, if not independent, disclose the dependency and justification for it).We also expect that any expert's report would contain details similar to those required generally in valuation reports.
14. Use of previous valuations. If you seek to rely on a previous valuation for current purposes, difficulties are likely to arise if the previous valuation was compiled for a different purpose. The current valuation should:
  - explain how the earlier valuation is relevant to the current valuation, with a particular focus on the purpose of the original valuation compared to the purpose of the current one
  - confirm that the information and assumptions used in the original valuation are still relevant
  - declare how any adjustments and changes have been made to comply with any statutory requirements associated with the valuation.
15. Explanation of material differences. You should quantify and explain any material differences from previous relevant valuations or values. This includes known historical costs, earlier revaluations, and valuations with a similar or proximate valuation date.
16. Valuation conclusion. Tax legislation requires the specific market value to be ascertained. Where your method leads to a range of possible values, you need to explain why you have adopted the specific market value that you finally nominated.
17. Any risks, disclaimers and indemnities. If you identify material risks underpinning the valuation, for instance, where a business valuation is dependent on the success of a commercial initiative by that business, you should describe these risks in sufficient detail to show that they have been given due consideration and weight.
18. Terms of engagement. As part of your report we would expect you to specify the terms on which you have been engaged by your client. We also would expect you to include any special instructions relating to the valuation, and whether they were written or oral. In particular, the report should disclose any instructions that have affected, or are likely to affect, the valuation process.
19. Identification, status and qualifications of the valuer.
20. Declaration of independence and any conflicts of interest. You should outline any relationship you have with the client, or any conflict of interest, in sufficient detail for us to assess your independence.
21. Date report is issued.
22. Appendices (valuation instructions, market data, details of valuation calculations).

## Market value and ATO processes – what assistance can we provide?

### Early engagement on a complex transaction

Taxpayers can request a discussion with an ATO officer where they are seeking advice for a proposed or finalised complex transaction. We would not provide advice on a valuation estimate as part of an early engagement discussion, however, we may provide guidance on potential appropriate approaches for the circumstances. Early engagement can be requested here:

- [Small business and individuals](#)
- [Public business, not-for-profit, international and privately owned and wealthy groups](#)

### Template Form for instructing Valuers

The reliability of valuations is dependent on the quality of information and level of detail provided to valuers. The ATO has developed an instruction template that taxpayers can use to instruct a valuer to promote more targeted valuations for tax purposes.

[Form for instructing your valuation consultant](#)

### Private rulings for valuations

You can apply for a private binding ruling about the market value of something, such as an item of plant. There are two choices:

- Ask us to provide a valuation of the asset; or
- Provide us with a valuation of the asset and ask us to confirm it.

We may use a professional valuer to conduct the valuation or review the provided valuation. The valuer charges us a fee, which the law allows us to pass on to you. Consequently, you are required to pay any valuation fees incurred by the ATO in providing a valuation ruling.

We cannot provide a private ruling to determine or confirm:

- The appropriateness of a valuation methodology, or
- The market value applicable for a future event.

[Private rulings and valuations](#)

### Joint Valuations

A joint valuation involves the taxpayer and the ATO working together to appoint and instruct an independent and impartial professional valuer to value an asset. The valuation costs are shared between the parties.

[Joint valuations](#)

### When the Commissioner reviews a valuation

As part of normal ATO assurance or review processes you may be asked to provide additional information and documentation to support a market value estimate.

When we initially engages with you, we will outline our concerns and discuss our information requirements. The information required may vary from cases to case.

When we review a market value, the following is considered

- value of the asset or assets
- type of asset or assets involved (intangible assets are more likely to increase risk)
- materiality of any potential tax adjustment
- complexity of the valuation process
- documentary evidence supporting the valuation.

We generally use valuers to confirm whether the market value is acceptable and to assess whether the valuation process complies with accepted valuation industry practice. Broadly, the review involves examining:

- how adequately the process was documented
- the market value definition used
- the appropriateness of the chosen method
- the underlying assumptions and information.

At the conclusion of the review, the valuers provide us with a report on the valuation, which may include an estimate of the market value (or likely range) of the asset or assets, based on data available to them at that time. When we receive the report, we use our standard risk assessment procedures to decide whether to take further action, such as an audit.

Depending on the circumstances we may engage independent professional valuers to verify the estimate.

We will advise the outcome of the review in writing.

#### [What you can expect in an audit or review](#)

### Interest and penalties

Australia's revenue system relies on taxpayers providing correct information to establish their tax liability and paying the correct amount of tax on time.

To ensure the system is fair for everyone:

- [general interest charge](#) is applied to an unpaid tax liability from the date it was due to be paid until it and the accrued interest charges are paid
- [shortfall interest charge](#) is applied where an additional amount of tax is payable because of an amended assessment
- [penalties](#) are imposed for conduct such as not taking reasonable care in claiming a deduction to which you are not entitled or making a false or misleading statement.

Taxpayers may be liable for penalties for making false or misleading statements or taking a tax position that is not reasonably arguable. The penalty will not be applied if:

- The taxpayer took reasonable care in making the statement
- The taxpayer's statement accords with our advice, published statements or general administrative practices in relation to a tax law.

When a valuation is conducted by a valuer or qualified professional, administrative penalties could apply for making a false or misleading statement, or treating the income tax law in a manner that is not reasonably arguable, where:

- The taxpayer has not given correct information to the valuer to allow them to correctly assess the value of the item
- The taxpayer or their agent should reasonably have known that the value was incorrect
- The methodology or valuation hypothesis used by a qualified valuer is based on an unsettled interpretation of a tax law provision or unclear facts.

For example, a real property valuation prepared by a qualified valuer or an estimate of historical building cost made by a quantity surveyor are matters that are likely to be outside the expertise of a tax agent or taxpayer. Relying in good faith on advice of this nature is consistent with taking reasonable care, even if the advice later proves to be deficient.

The following examples show how penalties may apply in cases where a false and misleading statement arises from a valuation issue:

### Example: Margin scheme

Ahmed, a builder, engaged a professional valuer to determine the market value of land held before 1 July 2000. The valuation was used to calculate the GST payable on the sale of the developed land.

The valuation was invalid because it did not comply with the requirements of the GST Act. After commissioning a new valuation, the ATO assessed Ahmed on additional GST.

Although the valuation was invalid, Ahmed had taken reasonable care. He engaged a professional valuer and was unaware of the flaws in the valuation.

If correcting a valuation or using a different valuation results in more GST being payable, administrative penalties and/or the general interest charge may apply. However, where a genuine mistake is made, no administrative penalties will apply.

### Example: Maximum net asset value test

Company A disposed of a property it owned and claimed small business relief from capital gains tax on the basis that it satisfied the maximum net asset value test. Company A had valued its assets itself before lodging its return.

The ATO contacted Company A about the valuation of three properties held by Company A immediately before the CGT event. The ATO engaged a professional valuer and determined that the market value of the three properties was understated by 25%, and that Company A did not satisfy the maximum net asset value test.

Company A valued its properties based on comparison with other properties that had few characteristics in common with the properties owned and was unable to explain satisfactorily how some of the valuation assumptions were made.

A reasonable person would have recognised the real risk that the maximum net asset value test was not satisfied and that the tax return lodged was incorrect. A penalty for recklessness was applicable.

### Example: Market value substitution – non-arm's length

Helen Bloggs obtained a valuation from Tony Bloggs & Associates (Real Estate Agents) for her property. Tony Bloggs is Helen's husband. Tony Bloggs & Associates valued Helen's property at \$1,800,000.

Helen sold the property for \$1,800,000 to a related party, Company B. Tony was the director and major shareholder.

On transfer, the State Revenue Office determined the market value of the property to be \$2,300,000 and assessed stamp duty payable accordingly. Company B did not seek review of the assessment for the additional stamp duty.

Helen's tax agent, when told about the additional stamp duty, pointed out to her that income tax is levied based on the market value of assets transferred to related parties, not necessarily the contract price. Helen instructed her tax agent to complete her income tax return based on the \$1,800,000 valuation.

Helen knew that the property was undervalued, and that the gain on disposal was understated by \$500,000. A penalty for making a false or misleading statement and intentionally disregarding is applicable.

For full details of the application of penalty and interest see [General interest and penalties](#).

### Taxpayer objections process

You can lodge an objection in writing within 60 days of the amendment or two to four years from the relevant assessment depending on your circumstances.

Your objection must:

- Include full details of why you think our decision is wrong
- Contain a declaration that the information provided in the objection and supporting documentation is true and correct
- Be signed and dated

### [Objecting a decision](#)

## Document 2: Propose separate QC (will link in Document 1)

### Consolidation valuation shortcuts (taken from current guide with revised shortcut 4)

Valuation shortcuts are for consolidation purposes only. Businesses can use the shortcuts to obtain a reasonable approximation of the true market value of certain assets and membership interests, instead of needing to obtain new valuations.

The valuation shortcuts are provided under the ATO's general administrative powers. Using the shortcuts lowers the risk of the ATO undertaking a market valuation review of the relevant assets.

Use of the shortcuts is also subject to constraints – for example, they are not available for calculating a joining entity's market value for the purpose of determining the maximum use of transferred losses.

### Consolidation: Valuation shortcut options

Type of asset	Valuation option
<a href="#">1. Depreciating assets (not including intangible assets) that have not been depreciated on an accelerated basis</a> , whose individual adjustable values are 1% or less of the joining subsidiary's allocable cost amount	Adjustable value (which can be revised to ignore any balancing adjustment amount that reduced the adjustable value) can be used as market value
<a href="#">2. Depreciating assets (not including intangible assets) that have been depreciated on an accelerated basis</a> , whose individual adjustable values are 1% or less of the joining subsidiary's allocable cost amount	Adjustable value, revised to ignore the effect of accelerated depreciation (and which can be revised to ignore any balancing adjustment amount that reduced the adjustable value), can be used as market value
<a href="#">3. Trading stock</a> (other than livestock and growing crops) that is not a retained cost base asset	Terminating value at the joining time may be used as market value except in certain circumstances
<a href="#">4. Employee share schemes</a>	Existing market valuation updated if appropriate
<a href="#">5. Unlisted shares</a>	Existing market valuation updated if appropriate

### Constraints on use of valuation shortcuts

Use of the valuation shortcuts is subject to constraints:

[Supporting documentation required](#)

[One in, all in - with an exception](#)

[Not available where there is an intention to sell](#)

[Not available for calculating the available fraction](#)

[Use in determining goodwill](#)

## Supporting documentation required

When choosing to use a valuation shortcut for a particular asset, the taxpayer must ensure they have appropriate supporting documentation that demonstrates the asset satisfies the eligibility requirements of the particular shortcut.

## One in, all in - with an exception

While use of the valuation shortcuts is optional, the decision to use a particular shortcut must generally apply to all of an entity's assets that are eligible for that particular shortcut.

For valuation shortcuts 1 and 2, there is an exception to this rule. A taxpayer can generally opt to use shortcuts 1 and 2 for a joining entity's eligible depreciating assets, while obtaining new market values for the assets (including those eligible for the shortcut) that make up a single large functioning unit of integrated plant. Such a unit includes integrated plant within an oil refinery, or a communications cable, and integrated plant within a factory production line.

The single large functioning unit of integrated plant must have a total adjustable value greater than 1% of the joining subsidiary's allocable cost amount (ACA) to qualify for this exception. Without this exception, the 'one in, all in' rule precludes the taxpayer from obtaining new market values for those constituent assets that were otherwise eligible for the shortcut.

The exception works as follows:

A taxpayer opts to use the shortcut to value their eligible depreciating assets. Among these are a number of assets that constitute one or more items of integrated plant. A market value is determined for the integrated plant and the value is then allocated on a reasonable basis among the integrated plant's constituent assets. These values may then be adopted as the market values of the constituent assets instead of the values that would be adopted for these assets under the valuation shortcuts applying to depreciating assets.

In valuing an integrated functioning unit of plant, the market value must reflect the physical value of the plant and not comprise any embedded goodwill or other intangible value. That is, care should be taken to ensure none of the value attributed to the asset is actually goodwill attached to the use of that asset or any other intangible assets held by the entity.

## Not available where there is an intention to sell

Valuation shortcuts, with the exception of valuation shortcut 3 (trading stock), are not available for assets if there is an intention, at the joining time, to sell any of the following after consolidation:

the joining entity in which the asset is held

the underlying business of the joining entity in which the asset is held

part of the underlying business of the joining entity in which the asset is held

the asset.

This provision only applies where:

at the joining time, an asset has been the subject of a fully determined specific intention to sell, and

the expectation is that the asset will be sold within two years of the joining time.

For example, the provision would apply where either of the following applies:

a decision had been taken to market an asset with the intention to sell if a suitable buyer could be found

a decision had been taken to accept an offer to buy an asset but the decision to sell had not yet been communicated to the buyer.

However, the provision would not apply where either of the following applies:

an entity had a history of disposing of its assets on a strategic basis but had not taken a decision to sell in relation to any particular asset at the joining time

an entity had merely fielded offers in respect of a specific asset or assets but had made no decision to sell at the joining time.

Where this provision applies to a particular asset, it will no longer be treated as an asset of that particular type for purposes of applying the 'one in, all in' rule. The intention to sell the asset prevents the use of the valuation shortcut in relation to that asset. However, it will not prevent the valuation shortcut from applying to other assets that qualify for that particular shortcut.

## Not available for calculating the available fraction

The valuation shortcuts cannot be used to calculate the available fraction for the use of a joining entity's losses by the head company. For this purpose, market valuations of the loss entity and the consolidated group at the joining time will be required.

## Use in determining goodwill

Where valuation shortcuts have been adopted for certain assets, the shortcut values for those assets should be used in determining the market value of the entity's goodwill. Goodwill is determined as the excess of the market value of the entity over the market value of its net identifiable assets at the joining time.

The net identifiable assets may have a mixture of market values and shortcut values. If a taxpayer market values all or any of the entity's net identifiable assets that qualify for one of the shortcut options in order to work out the value of goodwill, they should not adopt that valuation shortcut for qualifying assets that have been market valued.

## Shortcut 1: Depreciating assets that have not been depreciated on an accelerated basis

The adjustable value at the joining time, which may be revised to disregard any balancing adjustment amount, can be taken as the market value for all depreciating assets where all of the following apply:

they have not been depreciated on an accelerated basis

their individual adjustable values amount to 1% or less of the joining entity's ACA

they are eligible for a deduction under Division 40 of the ITAA 1997, except for the following intangible assets

mining, quarrying or prospecting rights

mining, quarrying or prospecting information

items of intellectual property

in-house software

Indefeasible rights of use (IRUs) (indefeasible rights to use an international telecommunications submarine cable)

spectrum licences

datacasting transmitter licences.

The market value ascertained by applying valuation shortcut 1 may be affected by a balancing adjustment event occurring under tax law. A taxpayer that has an assessable balancing adjustment amount because of balancing adjustment relief has the option of revising the adjustable value. The revision ignores any balancing adjustment amount that reduces the amount available for decline in value of the depreciating asset.

## Shortcut 2: Depreciating assets that have been depreciated on an accelerated basis

A revised adjustable value can be taken as the market value for all depreciating assets where all of the following apply:

they have been depreciated on an accelerated basis

their individual adjustable values amount to 1% or less of the joining entity's ACA they are eligible for a deduction under Division 40 of the ITAA 1997, except for the same intangible assets that are not eligible for valuation shortcut 1.

The revised adjustable value reflects an amount calculated as if the asset had been depreciated at normal rates in accordance with its effective life. This ignores the effect of broad-banding of effective life under the accelerated depreciation provisions and can ignore the effect of a balancing adjustment amount. The effective life is prescribed by the ATO, unless the taxpayer has self-assessed the effective life for depreciation purposes.

To work out the revised adjustable value at the joining time, the taxpayer must recalculate the asset's depreciation from the time it was first depreciated by the joining entity up to the joining time. The taxpayer can also choose to exclude from the adjustable value of the asset any balancing adjustment amount that had reduced the amount available for a depreciating asset's decline in value. The depreciation rates to be used for the recalculation are the applicable standard (that is, non-accelerated) rates that would have applied to that particular asset for the period from the time the asset was first depreciated by the joining entity up to the joining time.

### Shortcut 3: Trading stock

This shortcut is not available for joining entities that were majority owned by the prospective head company at 27 June 2002. The trading stock of such entities must be treated as a retained cost base asset.

The terminating value at the joining time can be taken as the market value for assets that are items of trading stock, except where either of the following applies:

the trading stock comprises livestock, standing or growing crops, crop-stools and trees planted and tended for sale

the value of the trading stock has been affected by market volatility, market collapses, obsolescence or any other event to the extent that its terminating value would not be a reasonable approximation of its market value at the joining time. In such cases, the trading stock should be valued appropriately at the joining time.

### Shortcut 4: Employee share interests

Shares and stapled securities issued under an employee share scheme (ESS interests) that represent 1% or less of the membership interests in an entity are disregarded for the purposes of determining whether an entity is wholly owned. However, the market value of the (disregarded) ESS interests is used in calculating the entry ACA for the entity (company) on it joining the consolidated (or multiple entry consolidated (MEC)) group, and also in calculating the exit ACA for the company if it leaves the group.

The availability of this shortcut option acknowledges that valuing minority interests is a difficult and complex process.

Where an employee, under the former Division 13A of the ITAA 1936, holds shares or stapled securities, those interests will have been market valued where the employee has either:

    elected to have the discount given in relation to their acquisition of the ESS interests included in their assessable income at the time they were acquired

    not elected to have the discount included in their assessable income but the cessation time has occurred, and the employee continues to hold the shares.

This also applies where the employee has previously held rights and has exercised those rights, and now holds shares or stapled securities.

For employers providing ESS interests to their employees after 30 June 2009, Division 392 of the TAA requires employers to report the discount they give in relation to those interests to us by 14 July after the end of the financial year in which the interests are provided. In order to meet their reporting requirements, employers will need to market value the ESS interests.

Under this valuation shortcut, the head company may rely on these existing market valuations when calculating the employee share interest component of the entry ACA for the company on it joining the group (or exit ACA on it leaving the group) provided for ESS interests acquired either:

    before 1 July 2009, the valuation was for the purposes of Division 13A in accordance with the former sections 139FB, 139FD and, in the case of rights, 139FE of the ITAA 1936

    after 30 June 2009, the valuation was for the purposes of Division 83A in accordance with Subdivision 960-S of the ITAA 1997, in accordance with any method specified by regulation in the Income Tax Assessment Regulations 1997, or (from 1 July 2015) using any method approved by legislative instrument in accordance with section 960-412 of the ITAA 1997, and the

    original market valuations were appropriately documented

    decision to use the existing market valuations is documented and these valuations are, if necessary, updated in accordance with the requirements set out under [Use of previous valuations](#).

## Shortcut 5: Membership interests that are unlisted shares

As all membership interests in a wholly-owned subsidiary will be held by the head company or other members of the consolidated group, they will not be listed on a stock exchange. The availability of this valuation shortcut acknowledges that valuing unlisted membership interests is a difficult and complex process.

Where any ESS membership interests in the joining entity have been market valued for Division 13A of the ITAA 1936 or Division 83A of the ITAA 1997, the head company can rely

on these valuations to work out the cost of all its membership interests in the joining entity, provided:

the ESS membership interests acquired before 1 July 2009 were valued for the purposes of either:

Division 13A in accordance with the former sections 139FB and 139FD

the former Division 13A and

arose because of the granting of qualifying rights

those rights have been exercised, or the cessation time in relation to those rights has occurred, and the employee continues to hold those shares

those rights were valued in accordance with the former sections 139FC, 139FD and 139FE.

the ESS membership interests acquired after 30 June 2009 were valued for the purposes of Division 83A in accordance with any of the following:

subdivision 960-S of the ITAA 1997

a method for calculating the value of an ESS interest specified by regulation in the Income Tax Assessment Regulations 1997

from 1 July 2015, a method approved by the Commissioner by legislative instrument, in accordance with section 960-412 of the ITAA 1997

the original market valuation was appropriately documented

the decision to use the existing market valuation is documented and this valuation is, if necessary, updated in accordance with the requirements set out under [Use of previous valuations](#).