

Philippines amends fair market value definition for unlisted shares of stock

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Executive summary

The Philippine Bureau of Internal Revenue (BIR) issued Revenue Regulations No. 20-2020¹ amending the definition of fair market value (FMV) of shares of stock not listed and traded on the Philippine stock exchange. The regulation became effective from 3 September 2020.

Detailed discussion

The FMV of shares of stock not listed and traded on the Philippine stock exchange is as follows:

1. 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 FMV.
2. For preferred shares of stock, the liquidation value, being equal to the redemption price of the preferred shares as of the balance sheet date nearest to the transaction date (including any premium and cumulative preferred dividends in arrears), shall be considered as the FMV.

3. If a corporation has 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 the balance sheet date nearest to the transaction date.
4. The book value of the common shares of stock or the liquidation value of the preferred shares of stock is not required to be adjusted to include any appraisal surplus² from any property of the corporation not reflected or included in the latest audited financial statements when determining the FMV. The latest audited financial statements shall be sufficient in determining the FMV of the shares of stock subject of the sale, barter, exchange, or other disposition.

Implications

The Adjusted Net Asset Value Method, which required that all assets and liabilities of the company whose shares were being transferred be adjusted to FMV, no longer applies. Multinational companies contemplating the transfer of unlisted shares of stock in a Philippine corporation pursuant to any merger or acquisition, and corporate restructuring, among others, should consider the impact of the new definition of FMV as it applies to common and preferred shares of stock.

Endnotes

1. Issued on 17 August 2020. Full text of Revenue Memorandum Circular No. 83-2020 is available at the [BIR website](#).
2. Increase in the value of property usually determined by an independent appraiser.

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