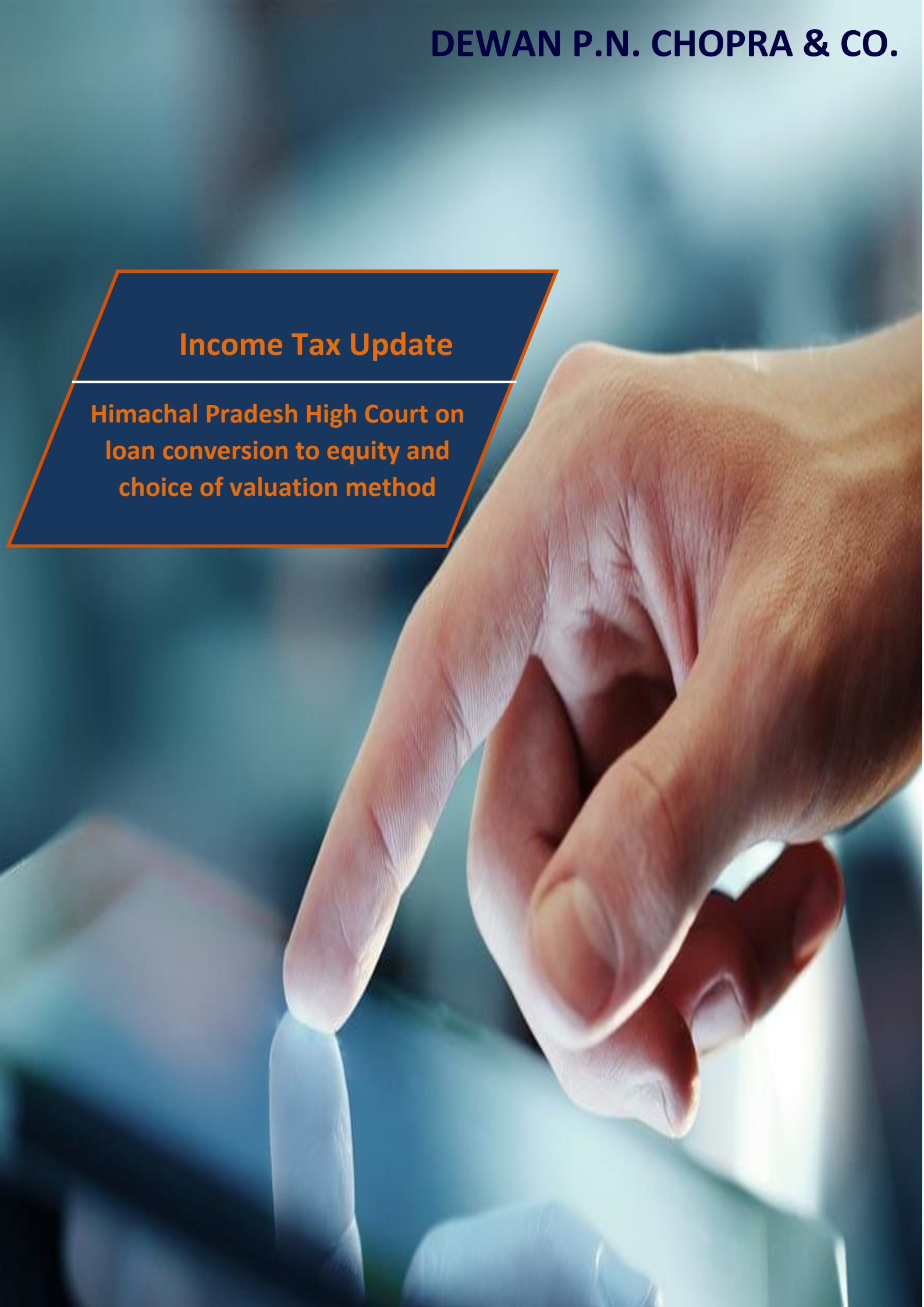


Income Tax Update

**Himachal Pradesh High Court on
loan conversion to equity and
choice of valuation method**



Himachal Pradesh High Court on implication of Section 56(2)(viib) on conversion of Loan to Equity and Choice of Valuation method

Hon'ble High Court of Himachal Pradesh ('HC') in the case of **Pr. Commissioner of Income Tax-1, Chandigarh vs M/s I.A. Hydro Energy (P) Limited** dated 31st May 2024, dismisses Revenue's appeal, confirm ITAT and CIT(A)'s decision that the Assessee did not receive any consideration when pre-existing unsecured loans of partners were converted into equity shares at a premium on the partnership's conversion into the Assessee-company; HC thus confirms the view taken by ITAT & CIT(A) that Section 56(2)(viib) of Income Tax Act, 1961, did not apply since Assessee did not receive any consideration on account of issuance of shares.

It was held that the valuation is done by the assessee as per DCF method, which is an internationally accepted method of valuation of shares, and is a permissible methodology as per Rule 11UA(2)(d) of the Rules.

It further clarified that the right to select the method of valuation (NAV or DCF), is vested with the assessee, and the Assessing Officer erred in substituting the assessee's method of valuation, i.e. DCF, with his own method of valuation, i.e. NAV method.

For complete details, please refer judgement of High Court of Himachal Pradesh in the case of **Pr. Commissioner of Income Tax-1, Chandigarh vs M/s I.A. Hydro Energy (P) Limited** dated 31st May 2024:

https://highcourt.hp.gov.in/viewojpdf/view.php?path=2024&nc=2024:HHC:3038&fname=204400000042024_1.pdf&smflag=N

DISCLAIMER: - The summary information herein is based on judgement of High Court of Himachal Pradesh in the case of Pr. Commissioner of Income Tax-1, Chandigarh vs M/s I.A. Hydro Energy (P) Limited dated 31.05.2024. While the information is believed to be accurate, we make no representations or warranties, express or implied, as to the accuracy or completeness of it. Readers should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, advice or solicitation. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it.