Fact Sheet

The Australian Taxation Office and Business Valuations Explained

Topics discussed in this paper include

Australian Taxation Office | Standards | Reports

Not every situation or transaction fits neatly within the Australian Tax Office's (ATO) laws and regulations as they stand. There are often circumstances where variables come into play, for example, when the value of something needs to be determined, such as plant, property and businesses. When does the ATO require an independent valuation and what do they require within that valuation?

Backgrounder...

There are a number of situations where the ATO could require an independent market valuation of a business, security or intangible asset for tax purposes. Some of these include:

- Changes in capital structure or ownership
- Capital gains tax rollovers
- Company acquisitions or divestments
- Formation of, entry to or exit from a consolidated group

Working with the ATO...

In the above instances, there are generally two options: first, ask the ATO to provide the valuation, or secondly, provide the ATO with a valuation and ask it to confirm that valuation. The ATO may choose to use a professional independent business valuer or review the valuation you have provided internally. In either situation, the valuation must meet the requirements set out in the ATO guidance **Market Valuation for tax purposes**. Generally speaking, it will cost less to confirm a valuation than to undertake a new valuation.

The ATO has stringent standards. Namely, valuation reports must address (amongst other things) the following items to be considered credible:

- Explanation of valuation methods and metrics,
- Effective valuation date,
- Purpose, basis or premise of the valuation,
- A review of the corporate structure and management of the business,
- Market context,
- Overview of operations, especially in terms of product or service offering,
- Strategic and Corporate Development initiatives,
- Sales and Marketing strategies,
- Adjustments for items such as non-operating assets, and
- Consideration of factors such as control, liquidity and marketability

As to the valuation method used, the ATO does not specify a preference, instead leaving it to the Valuer's professional judgement. However, they do mention 'common specific approaches' which include: Comparable Transaction, Comparable Trading, Capitalisation of Earnings, Discounted Cash Flow, and Calculation of Net Assets.

In closing...

While the final value determined by an ATO-compliant report may be the same as a more concise valuation report, the extent of research, professional consideration and insights reported will be significantly more comprehensive. The amount of time required to undertake this work, in order to satisfy the ATO, naturally results in a higher cost valuation. This comprehensive type of business valuation however gives both the ATO and Taxpayer confidence that the business (or asset) in question has been thoroughly reviewed and a robust valuation outcome delivered.

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