

Share valuations: Deceased Estates

 SARS

South African Revenue Service

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Introduction

1. Introductory considerations

1. Where to gain the list of requirements

1. SARS website

1. Search for “Share valuations checklist”

[Unlisted-Shares-Valuation-Pack-Checklist](#)

22/01/2022

Unlisted-Shares-Valuation-Pack-Checklist

[Read More »](#)

1. Timing

1. No need to wait. Can submit as soon as valuation pack collated.

2. When not to submit

1. If shares devolve to surviving spouse *in specie*.

Main methodologies overview

1. Net Asset Value Method

1. Most frequently used in cases where Properties or Investments owned as main assets
2. Makes use of the market values of assets as at date of death
3. Taxes impact value calculated, namely CGT, recoupment, Dividend Withholding Tax etc.

2. Price-earnings method/ Earnings capitalisation method

1. Maintainable earnings calculated
2. Calculated Maintainable Earnings is either multiplied by a Price-earnings multiple or capitalised at an appropriate rate

3. Cashflow methods

1. Includes Discounted Cashflow method and Dividend cashflow method
2. Calculate future cashflows
3. Present-value cashflows to date of death

Areas of consideration

1. Collation of valuation packs

1. Authority

1. Proof of authority is required

2. Which accountant/ auditor to use

1. No need to use the accountant or auditor of the company

3. Financial statements

1. If none prepared, then reconstruction to occur (Deeds info/ bank statements/ etc.)

4. Property valuations

1. To comply with property valuation methodology and be fully supported

Share blocks

1. Similar to property ownership, thus mostly by way of property valuations

Areas of consideration

1. Collation of valuation packs (continued)
 5. Undue expectations/ reliance on company directors or accountants for proof
 1. Executor procures appraisals/ property valuations
 6. Executor is representative taxpayer bearing the burden of proof
 1. Be mindful of section 46 of Tax Administration Act for Relevant Material as too often advisors/ heirs limits the executor's ability to comply
 7. Keeping track
 1. Other parties rarely has the same urgency as executor to resolve queries and it is therefore advisable that the executor manage information flows (i.e. allows executor to keep track if accountant/ heir/ advisor/ valuer has provided information or not)
 8. Incomplete packs/ Incomplete responses
 1. Executor to ensure items sent matches requests by SARS

Areas of consideration – Possible pitfalls

1. Inapplicability of section 5(1)(a) of Estate Duty Act
 1. Section 5(1)(a) specifically precludes itself from being used when section 5(1)(f)bis applies
2. Inapplicability of Buy-and-sell agreements for valuation approval
 1. Section 5(1)(f)bis Estate Duty Act and section 9HA read with par 31(3) Income Tax Act requires value at date of death
 2. Buy-and-sell is the post-death Capital Gains Tax (CGT) event's "proceeds". Share value approved will be the value at date of death as well as the "base cost" of the post-death CGT event.
3. Executor sells shares and distribute cash to spouse
 1. Valuation approval remains required as value is relevant for Capital Gains Tax
4. Anti-avoidance provisions
 1. Both section 5(1)(f)bis of Estate Duty Act and paragraph 31(3) of 8th Schedule to Income Tax Act has anti-avoidance provisions which can drastically alter the value approved

Areas of consideration – Possible pitfalls

5. Farming properties (section 5(1A) of Estate Duty Act).
 1. Proof required that “bona fide farming operation” carried on, on each of the farms in question.
 2. S5(1A) will not apply to all farms as there are activities that resemble farming but cannot be considered a “bona fide farming operation”
 3. Will require two separate share valuations, as 8th schedule of Income Tax Act does not have a corresponding provision

6. Partial ownership of properties
 1. Executor to inform accountant of percentage fixed property owned to ensure correct share value

7. Primary requirement is “market value as at date of death” and therefore the following should be steered clear from being used:
 1. Insurance values/ Auction values/ Municipal values/ Lightstone automated valuations etc.

Prior posed questions answered

1 Loan account in share valuation versus L&D account

- Example scenario 1
- Example scenario 2

2 CGT base cost of property where 1 October 2001 valuation was not obtained

- 8th Schedule to income Tax Act prohibits retrospective establishment of base cost by way of valuation.
 - Should have been completed by 30 September 2004
- Nevertheless, 8th Schedule allows usage of TAB method and 20% of Proceeds method, whichever yields the highest base cost.
 - Par 26(1) of 8th Schedule to Income Tax Act
 - SARS TAB calculator example 1
 - SARS TAB calculator example 2

Main concerns/ trends noted

The following are the most recent areas of concern related to valuations submitted:

1. Hybridising of valuation methods.
 1. Note: Using different methods to value different portions of the company is warranted in certain scenarios, however it is not warranted to use for example Weighted average cost of capital (i.e. WACC of a DCF) in an Earnings Multiple valuation.
2. Utilisation of purchased valuations models/ reports. These are concerning as they use hybridised valuation methodologies and do not calculate a reliable value even though they provide a very impressive looking report.
3. Taxes not properly included in calculations
4. Accountants doing property valuations

Main concerns/ trends noted

5. Buy and sell values used instead of properly calculated valuation at date of death
6. Backdating of transactions/ dividends etc.
7. Usage of liquidation values instead of market values
8. Revenue multiples used or so-called “Rule of thumb” methods used
9. Valuing a business that ceased to trade prior to death on one of the income-approach methods
10. Averaging of methods’ results

Main concerns/ trends noted

11. Unsupported assumptions
12. Providing answers instead of specific proof requested
13. Unsupported property valuations
14. Property valuations at death that is much lower than executor's selling price thereof

Conclude

1. Questions

Thank you
Siyabulela
Siyabonga
Siyathokoza
Dankie
Re a leboga
Re a leboha
Ro livhuwa
Ha khensa



South African Revenue Service