

No tax liability on Axis or Enam: Nishith Desai & Asso

The [Axis Bank](#)'s board has approved the buy of investment banking and equities businesses of Enam Securities. Siddharth Shah of Nishith Desai and Associates, in an interview on CNBC-TV18, shared his views on this transaction.

Also read: [Axis Bank board approves Axis-Enam deal](#)

Below is the edited transcript of the interview. Also watch the accompanying video.

Q: Can you explain this transaction? Axis has paid 3.3% of its equity, which at today's value amounts to about Rs 1500 crore to Enam, but when it sells it to its subsidiary and subsidiary pays a book value of Rs 274 crore. How would you explain this discrepancy?

A: The swap ratio on payment is pre-agreed and it would be undertaken effectively through the subsidiary structure. As far as difference in the valuation is concerned, one needs to examine whether that would give rise to any potential tax for the entity because book value of lower than that can give rise to a potential tax for the entity at the subsidiary level. The issue will have to be in compliance with the pricing norm laid down by Sebi.

Q: The tax liability, if any, would be at the subsidiary level, would it have to be paid by Axis shares and stocks?

A: The book value is where the income could be taxed.

Q: It is not a discount to the book value because the Axis notice says that the book value is Rs 274 crore, but Axis has paid 3.3% of its shares, which works out to Rs 1500 crore ?

A: So, there is difference between the market value and the book value because the tax law refers to the book value in this regard. So, if the transaction is at the same price at the book value, then there would not be any gain, which can be attributed in that case.

Q: Do you mean to say that the tax consideration could be Rs 1500 crore, which is the actual market price minus Rs 274 crore, so the tax would be about Rs 1200 crore?

A: There is an exemption under the Tax Law for shares of a publicly-traded entity, which is where possibly the shelter has been created under the structure because those are specifically exempted from provisions of section 56.

Q: So, there will not be a tax liability on either entity because market value is not taken into consideration while computing tax or capital gain?

A: Yes.