Market value

How to calculate the market value of shares related to employee share schemes.

QC 82046

ESS – Market value of listed shares and stapled securities

Calculate market value of shares and stapled securities acquired by an employee under an employee share scheme (ESS).

Last updated 7 February 2017

This information will help you calculate the market value of listed shares and stapled securities acquired by an employee under an employee share scheme (ESS) for:

- shares
- stapled securities
- qualifying shares acquired by an employee before 1 July 2009 if
  - the employee did not elect to be taxed in the year when the shares were acquired
  - a cessation time has not happened to the shares before 1 July 2009.

See also:

- ESS interests with a taxing point before 1 July 2009

Market value

The rules in Division 83A of the *Income Tax Assessment Act 1997*, which deal with ESS interests acquired under an ESS, do not define market value. Nor do they prescribe any method for determining the market value of a listed share acquired under an ESS.

Market value is therefore given its ordinary meaning. The increased flexibility that this provides means taxpayers are able to choose a valuation methodology that fits their circumstances and has the lowest compliance costs.

We will accept any reasonable method for determining the market value of listed shares in particular circumstances.

Following are examples of valuation methods for particular circumstances that we consider reasonable.

Valuation methods

A listed share is registered on a recognised exchange such as the Australian Securities Exchange (ASX).

As listed shares are commonly traded on a daily basis, you may be able to rely on the appropriate share market as the source for valuing a listed share.

When you value a listed share, we would expect you to take into account a number of factors in addition to the listed price. These are:

- liquidity
- volatility
- valuation changes resulting from company capital structural events or changes in retained earnings (for example, as a result of dividend payments)
- the period to which the valuation applied.

Former Division 13A of Part III of the *Income Tax Assessment Act 1936* (the former ESS rules) prescribed a number of methods for valuing listed shares. It is reasonable to use these methods for valuing listed shares.

Weighted average actual price

The most common method for valuing listed shares under the former ESS rules was to use the weighted average actual price that the shares were traded on that stock market during a week.

The market value on a particular day is the **weighted** average of the actual prices at which those shares were traded, on a particular stock market, during the one week period up to and including that day, where:

- a share is quoted on the stock market of an approved stock exchange on that day
- there is at least one transaction in shares of that class during the one week period up to and including that day.

Example: Weighted average actual price

Calculating the market value of Happy Ltd shares for Wednesday 7 May.

The market value will be the weighted average actual price of Happy Ltd's shares traded on the stock exchange for the five trading days in the week from Thursday 1 May to Wednesday 7 May inclusive.

An enquiry of the stock exchange reveals 52,000 Happy Ltd shares were traded over these five days, at the following actual prices:

- 4,000 shares @ $2.20
- 10,000 shares @ $2.35
- 8,000 shares @ $2.20
- 30,000 shares @ $2.40.

The weighted average actual price is calculated as:

> (((4,000 + 8,000) × $2.20) + (10,000 × $2.35) + (30,000 × $2.40)) ÷ (4,000 + 10,000 + 8,000 + 30,000)
>
> = $121,900 ÷ 52,000
>
> = $2.34.

The market value of Happy Ltd's shares on Wednesday 7 May is $2.34.

Particular circumstances and recommended methods

Depending on the particular circumstances and the costs involved, it may be more convenient and cost effective to use a method other than the weighted average actual price.

For each of the following circumstances we have provided an example of another method for calculating the market value that we also consider reasonable for that particular circumstance.

Find out about:

- [Shares purchased on-market by a trustee or administrator using amounts contributed by an employee or employer]

- New shares issued to an employee or issued to a trustee to hold on behalf of an employee
- Shares forfeited to a trustee and later allocated to an employee
- New shares acquired via a public float
- Shares acquired under a public offer
- Shares valued at the deferred taxing point

Shares purchased on-market by a trustee or administrator using amounts contributed by an employee or employer

The employee's contribution can be paid from previously taxed income or through an effective salary sacrifice arrangement.

Shares may be purchased at various prices over a number of days by a trustee or administrator who then allocates the shares to all participating employees on a particular day, at which time the shares are acquired by the **employee**.

A reasonable method for determining market value on the day of acquisition would be the average cost of the shares. This would be acceptable provided that the shares were purchased and allocated within five trading days.

However, if the shares were purchased continuously over a period (up to 30 days) so as not to distort the market price, it is still acceptable to use the average cost of shares method.

Example: Average cost of shares

The trustee of the Sunny Ltd Employee Share Trust purchases a total of 100,000 shares in Sunny Ltd to allocate to participants in the Sunny Ltd ESS during the period 6 May to 9 May. The total cost of the shares (excluding brokerage) is $407,000.

The trustee allocates the shares to the participants according to the ESS rules on 10 May.

The market value of each share acquired under the plan is $4.07.

New shares issued to an employee or issued to a trustee to hold on behalf of an employee

New shares may be issued to an employee on a particular day or shares may be issued to a trustee and subsequently allocated to an employee on a particular day.

A reasonable method for determining the market value of newly issued shares on the particular day the shares were issued is to use the 'weighted average closing price'. This is based on the closing market prices over the five trading days before, but not including, the particular day.

Basing the calculation on closing prices rather than actual prices, and only on the five trading days before the particular day enables the employer to:

- know the market value before issue
- reduce the cost of working out the market value of newly issued shares.

Example: Weighted average closing price (previous five trading days)

Snowy Ltd issues new shares to participants in its ESS on Monday 10 October.

The number of shares traded in Snowy Ltd and closing prices for each of the five trading days before 10 October were as follows.

Date	Number of shares traded	Closing price
3 October	60,000	$4.10
4 October	20,000	$4.10
5 October	80,000	$4.10
6 October	40,000	$4.00
7 October	40,000	$3.90

The weighted average closing price is calculated as:

$$(((60{,}000 + 20{,}000 + 80{,}000) \times \$4.10) + (40{,}000 \times \$4.00) + (40{,}000 \times \$3.90)) \div (60{,}000 + 20{,}000 + 80{,}000 + 40{,}000 + 40{,}000)$$

$$= \$972{,}000 \div 240{,}000$$

$$= \$4.05.$$

The market value of Snowy Ltd shares issued to participants on 10 October is $4.05.

Shares forfeited to a trustee and later allocated to an employee

Under the conditions of some ESSs, where shares are allocated to an employee by the trustee or administrator of the ESS, the shares may be subsequently forfeited. In this case, they will revert to the trustee or administrator of the ESS.

If those same shares are then reallocated to an employee on a particular day (the employee's date of acquisition), a reasonable method for determining their market value on the particular day is the weighted average closing price calculated over the five trading days before, but not including, the particular day.

It is also reasonable to calculate the 'weighted average closing price' using the closing market prices over the five trading days up to and including the particular day.

Example: Weighted average closing price (five trading days including particular day)

The administrator of the Butterfly Bags Ltd ESS allocates shares to participants in its ESS on 12 March. In accordance with the ESS rules, a number of participants subsequently forfeit their shares to the administrator. On Thursday 12 September the administrator reallocates those same shares to participants in accordance with the ESS rules.

The number of shares traded in Butterfly Bags Ltd and closing prices for each of the five trading days up to and including 12 September are as follows.

Date	Number of shares traded	Closing price
6 September	15,000	$3.10
9 September	27,000	$3.19
10 September	22,000	$3.18
11 September	18,000	$3.18
12 September	25,000	$3.22

The weighted average closing price is calculated as:

> ((15,000 × $3.10) + (27,000 × $3.19) + (22,000 + 18,000 × $3.18) + (25,000 × $3.22)) ÷ (15,000 + 27,000 + 22,000 + 18,000 + 25,000)
>
> = $340,330 ÷ 107,000
>
> =$3.18.

The market value of Butterfly Bags Ltd shares issued to participants on 12 September is $3.18.

New shares acquired via a public float

New shares are issued to employees as part of a public float or issued to a trustee and subsequently allocated to an employee on a particular day.

A reasonable price to use as market value of the shares on the particular day is the retail offer price, provided that the particular day was within five days either side of the shares being issued under the float.

Shares acquired under a public offer

Shares are issued to employees as part of a public offer or are issued to a trustee and subsequently allocated to an employee on a particular day.

A reasonable method for determining the market value on the particular day is the retail offer price.

Shares valued at the deferred taxing point

Where shares are acquired under an ESS, they are assessable at a deferred taxing point if either:

- for shares acquired after 30 June 2009 – they were not subject to taxation at acquisition
- for qualifying shares acquired before 1 July 2009
  - the employee did not elect to be taxed in the year when the shares were acquired
  - a cessation time has not happened to these shares before 1 July 2009.

Where shares are sold on-market within 30 days of the deferred taxing point, the taxing point will be moved to the date of sale, and the sale proceeds from the shares can be taken as their market value.

For shares that are not sold within 30 days of the deferred taxing point, their market value is the weighted average closing price for the five trading days before, but not including, the date of the deferred taxing point. It is also reasonable to calculate the 'weighted average closing price' using the closing market prices over the five trading days up to and including the particular day.

Example: Weighted average closing price (five previous trading days)

Paul is an employee of Sneezy Ltd and participates in the Sneezy Ltd ESS. Paul's ESS shares are at real risk of forfeiture and are subject to deferred taxation. The deferred taxing point for Paul's ESS shares is Monday 17 May. Paul has not sold his shares within 30 days of the deferred taxing point.

The number of shares traded in Sneezy Ltd and closing prices for each of the five trading days before 17 May are as follows.

Date	Number of shares traded	Closing price
10 May	50,000	$4.10

11 May	30,000	$4.20
12 May	70,000	$4.10
13 May	40,000	$4.00
14 May	30,000	$3.90

The weighted average closing price is calculated as:

> (((50,000 + 70,000) × $4.10) + (30,000 x $4.20) + (40,000 x $4.00) + (30,000 x $3.90)) ÷
> (50,000 + 30,000 + 70,000 + 40,000 + 30,000)
>
> = $895,000 ÷ 220,000
>
> = $4.06.

The market value of Sneezy Ltd shares at Paul's deferred taxing point on 17 May is $4.06.

However, in circumstances where a stock is relatively liquid and does not exhibit significant price volatility, it is reasonable to use the closing price of the particular stock as the market value on the day of the deferred taxing point.

Example: Market value on the day of the deferred taxing point

Carol is an employee of Sleepy Bank Ltd and participates in the Sleepy Bank Ltd ESS. Carol's ESS shares are at real risk of forfeiture and are subject to deferred taxation. The deferred taxing point for her ESS shares is Thursday 23 August. Carol has not sold her shares within 30 days of the deferred taxing point.

Sleepy Bank Ltd shares are heavily traded on a daily basis and exhibit very low price volatility.

On Thursday 23 August there are 2,150,000 shares in Sleepy Bank Ltd traded on the stock exchange and the closing price is $2.88.

The market value of Sleepy Bank Ltd shares at Carol's deferred taxing point is $2.88.

See also:

- ESS – Employers

QC 27239

ESS – Market value of unlisted rights to acquire listed shares and stapled securities

How to calculate the market value of unlisted rights over listed shares and stapled securities, acquired under an ESS.

Last updated 27 June 2022

On this page

Unlisted rights and qualifying rights

This information explains how to calculate the market value of unlisted rights (including options) to acquire listed shares and listed stapled securities, where those rights are acquired by an employee under an employee share scheme (ESS) after 30 June 2009.

An unlisted right is a right that is not quoted on an approved stock exchange, such as the Australian Securities Exchange (ASX).

This information also applies to qualifying rights acquired by an employee **before 1 July 2009** if:

- the employee did not elect to be taxed in the year when the rights were acquired
- a cessation time has not happened to the rights before 1 July 2009.

Working out market value

The rules in Division 83A of the *Income Tax Assessment Act 1997* do not define the market value of an ESS interest.

Under the *Income Tax Assessment (1997 Act) Regulations 2021*, an employee can choose to value unlisted rights that must be exercised within 15 years of acquisition (or 10 years if they had a taxing point before 1 July 2015) at either:

- the market value according to its ordinary meaning
- the value determined by application of the regulations.

However, an employee must use the ordinary meaning of market value if the deferred taxing point occurs either on the day the employee disposes of:

- the right (other than by exercising it)
- the share acquired from exercise of the right.

Where the disposal of the right or share is an arm's-length disposal, the amount received on disposal of the share or right will generally be taken to be the market value – for example, where the share is sold on market.

When an employee chooses to use the value determined by using the regulations, the value will be the greater of:

- the market value of the share on the day that the employee may acquire it by exercising the right, less the lowest amount that the employee must pay to exercise the right to acquire the beneficial interest in the share (that is, the intrinsic value)
- the value determined according to the calculation tables in the regulations. If the exercise price is nil or cannot be determined, then the value of the right is equal to the market value of the underlying share on that day.

Example: market value determined by regulations

Barry is an employee of XYZ Ltd. Barry participates in XYZ Ltd's tax-deferred ESS.

On 26 March 2015, Barry is granted 200,000 unlisted rights to purchase shares in XYZ Ltd under the ESS. He is restricted from selling the rights, or the shares he will acquire if he exercises the rights, until 29 March 2019.

The rights have an exercise price of 10 cents and will lapse after 7 years, on 25 March 2022.

On 29 March 2018, Barry ceases his employment with XYZ Ltd but he is allowed to keep his rights. From 1 July 2022, cessation of employment is not a deferred taxing point.

Barry's deferred taxing point occurs when he ceases employment. At this time, the underlying shares in XYZ Ltd have a market value of 12 cents. Barry does not exercise his rights at this time.

Barry has 4 years left to exercise his rights before they will lapse on 26 March 2022.

Barry chooses to value the rights in accordance with the regulations.

The market value of Barry's rights on 26 March 2018 is the greater of:

- the right's intrinsic value, and
- the value according to the regulations.

Calculating the right's intrinsic value

The **Intrinsic value** equals the current market value of the underlying share **less** the exercise price of the unlisted right.

12 cents – 10 cents = 2 cents

Calculating the value according to the regulations

The **calculation percentage** equals:

(A ÷ B) × 100%

Where:

A is market value, on the particular day, of the share that is subject of the right

B is amount, or lowest amount, that must be paid to exercise the right

(12 cents ÷ 10 cents) × 100 = 120%

As the calculation percentage is equal to, or greater than, 110%, Barry uses the figures in table 2 of the regulations.

Base percentage and additional percentage

The exercise period is 48 months (4 years). When the period falls into 2 ranges in the calculation table, use the lower range. Here Barry uses 36 to 48 months, rather than 48 to 60 months.

Exercise period	Base percentage	Additional percentage
36 to 48 months	11.4%	0.8%

From the table, the **base percentage** is 11.4% and the **additional percentage** is 0.8%.

Excess

Calculate the excess, which is the amount by which the calculation percentage exceeds 110%, as follows:

> Excess = 100 **multiplied by** (calculation percentage **less** 110%)
>
> = 100 × (120% − 110%)
>
> = 10.

Calculating market value

Calculate the market value using the following formula:

Amount or lowest amount that must be paid to exercise the right **multiplied by** [base percentage **plus** (excess **multiplied by** additional percentage)]

= 10 cents × ((11.4% + (10 × 0.8%))

= 10 cents × (11.4% + 8%)

= 10 cents × 19.4%

= 1.94 cents

The value according to the regulations (1.94 cents) is less than the right's intrinsic value (2 cents).

Therefore, the market value of the right is 2 cents.

The market value of Barry's 200,000 rights on 26 March 2018 is $4,000.

Market value ordinary meaning

The market value according to its ordinary meaning must be determined if either:

- an unlisted right has an exercise period greater than 15 years (10 years for those with a taxing point before 1 July 2015)
- an employee chooses not to use the amount determined by the application of the regulations for valuing unlisted rights.

Any method used to determine the **market valuation for tax purposes** should have regard to the terms and conditions which apply to the right being valued. However, in working out the market value of the right you must disregard anything which would prevent or restrict conversion of the right to money.

For example, where the terms of an ESS impose disposal restrictions or provide for rights to be forfeited in particular circumstances, these factors should be disregarded when determining the market value.

For more information on approved market valuation methods you can use, see **ESS – Safe-harbour valuation methods**.

For more information on ESS for employers, see **Employers**.

QC 23093

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