REVALUATION RESERVE CAN BE CONVERTED INTO REALISED RESERVE:

1. Revaluation Of Real Estate Of A Banking Company must be done at the prevailing rate as per Reckoner published by the Statutory Authorities and also should be backed-up by Full Insurance Coverage. This will give more credibility to the Revaluation.
2. If the Banking Companies transfer its Real Estates (Fixed Assets) at its Current Market Price, to its Fully Owned Subsidiary Company, then the Revaluation Reserve is Converted into Realised Reserve.
3. The Banking Company need not have to pay any Capital Gains provided the relationship between the Holding Company and the Fully Owned Subsidiary Company is maintained for 8 (EIGHT YEARS) from the DATE OF TRANSFER. This is based on the relevant Prevailing Provisions of Income Tax Act.
4. Once this is done, then the Realised Reserve is allowed to be used to write off not only the Accumulated Losses /Arrears of Depreciation, but also the NPA Provisions. This will ensure that the Current Revenue Profits of the Banking Companies are not disturbed and / or diluted.
5. The Current Profits are then available for Declaration of Divided and the benefits of Dividend Declaration adds to Additional Sources of Fund as far as Budgetary Proposals are concerned.
6. The Transfer of Real Estates of a Banking Company, from Holding Company to its Fully Owned Subsidiary Company must be done over a period of time, i.e. Every Year Real Estates based on each of the States may be taken up and transferred, so that the Banking Company is benefited of Realised Reserves from time to time to set off the possible losses as enumerated hereinabove.

CA. Pradip R. Shroff
Managing Director
V. B. Desai Financial Services Limited
Category – I Merchant Banker
Registered with SEBI
Mobile : 93232 75316
E-mail : pradip@vbdesai.com