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The Ultimate Guide on

ESOP Taxation in India

Grant, Exercise & Sale – Tax, Valuation, Accounting and Planning

— GUIDE 2026 —

A practitioner-focused handbook covering end-to-end tax, valuation and accounting implications of ESOPs for companies, employees and investors in India.

BY

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Sagar Shah is the Founder of Elite Valuation and leads the firm's Valuation and Advisory practice. A Chartered Accountant (All India Rank Holder), Company Secretary and IBBI Registered Valuer, he brings 15+ years of professional experience advising promoters, investors, listed companies, startups and multinational groups on complex valuation and transaction matters across India.

Before founding Elite Valuation, he spent 9 years at Ernst & Young across valuation, transaction advisory, transfer pricing and cross-border taxation. His work today spans financial reporting, M&A and restructurings, intangible assets, ESOPs, FEMA, AIFs, securities, financial modelling and other regulator-facing assignments where the valuation must stand up to scrutiny from auditors, regulators, investors and boards.

EXPERIENCE	CLIENT BASE	CREDENTIALS	BIG 4 FOUNDATION
15+ Years	500+ Client Engagements	CA | CS | IBBI RV	9 Years at EY

VALUATION & ADVISORY EXPERTISE

- Business & Company Valuation
- M&A, Merger, Swap Ratio & PPA Valuation
- Intangible Asset, Brand, Patent & IP Valuation
- ESOP, Sweat Equity & Share-Based Payment Valuation
- Ind AS / Financial Reporting Valuation
- Shares, Securities & Complex Instrument Valuation
- FEMA, FDI / ODI & Cross-Border Valuation
- Income Tax, Companies Act & SEBI Valuation
- AIF Valuation, Structuring & Compliance Support
- ESOP Structuring, Scheme Design & Implementation
- Financial Modelling, Fundraising & Transaction Support
- Due Diligence, Transfer Pricing & Cross-Border Advisory

Practice focus. Elite Valuation is built for assignments where financial judgement, regulatory interpretation and transaction context intersect. The team supports both one-time transactions and recurring reporting requirements, with an emphasis on independent analysis, clear documentation and execution that is practical for management and audit teams.

HOW WE APPROACH ENGAGEMENTS

01	02	03	04
Clarify the purpose	**Build from evidence**	**Document the judgement**	**Stay involved through review**
We start with the reporting, transaction or regulatory objective before selecting a method.	Assumptions are anchored to financials, market data, contractual terms and the economics of the business.	The report explains the why behind the number so that reviewers can follow and challenge it.	We support management through auditor, board, investor and regulator questions on the valuation.

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WHAT WE DO

Elite Valuation supports employee equity plans in the wider context in which they actually operate: compensation design, company valuation, tax, financial reporting, fundraising, M&A and cross-border regulation. An ESOP tax question is often also a valuation, accounting, liquidity or cap-table question, so our work is designed to connect those consequences rather than solve them in isolation.

01 ESOP Valuation & Share-Based Payments

Grant-date option valuation, Ind AS 102 / IFRS 2 support, valuation inputs, audit responses and accounting schedules for equity and cash-settled plans.

07 PPA & Ind AS Valuation

Purchase price allocation, impairment, financial instruments and other fair-value measurements for financial reporting.

02 ESOP Structuring & Implementation

Pool design, scheme architecture, vesting, exercise, lapse, liquidity and governance support for startups, unlisted companies and listed groups.

08 Shares, Securities & Complex Instruments

CCPS, CCD, preference shares, convertibles, options and other instruments requiring scenario-based valuation.

03 ESOP Taxation & Cross-Border Advisory

Perquisite tax, employer withholding, capital gains, eligible-startup deferral, mobile employee sourcing and foreign-parent plan support.

09 FEMA, SEBI & Regulatory Valuation

Valuation and advisory support for FDI, ODI, cross-border transactions, Companies Act, SEBI and regulatory purposes.

04 Business & Company Valuation

Independent enterprise and equity valuation for fundraising, strategic decisions, shareholder matters and transaction purposes.

10 AIF Valuation & Advisory

AIF portfolio valuation together with structuring, registration and compliance support for sponsors and fund managers.

05 M&A, Merger & Swap Ratio Valuation

Acquisition, merger, demerger, restructuring, share-exchange ratio and transaction valuation support.

11 Financial Due Diligence & Transaction Advisory

Quality of earnings, working capital, net debt, deal risks and issue translation into transaction mechanics.

06 Intangible Asset & IP Valuation

Brand, customer relationship, technology, patent, copyright, licence and other intellectual-property valuation.

12 Financial Modelling & Fundraising Support

Investor-ready models, cap tables, dilution analysis, fundraising scenarios and transaction execution support.

> ***One team, multiple contexts.*** *A lower exercise-date FMV can change employee tax; the same capital structure can change Ind AS option value; a liquidity event can change the preferred exercise strategy; and an M&A; transaction can accelerate or cash-settle awards. We design the analysis around the whole lifecycle.*

VALUATION	STRUCTURING	TAX	REVIEW SUPPORT
ESOP / Equity / Instruments	**Pool / Vesting / Liquidity**	**Exercise / Sale / Cross-Border**	**Audit / Board / Investor**

WHO WE SERVE

ESOP decisions sit at the intersection of the company and the individual employee. We therefore work with both sides of the plan: companies that need a compliant, auditable and commercially sensible programme, and employees or senior executives who need to understand the tax and liquidity consequences of exercise and sale.

CLIENTS & STAKEHOLDERS

- Founders & Promoters
- CFOs & Finance Teams
- HR / People & Rewards Teams
- Boards & NRC / Compensation Committees
- Startup & Growth Companies
- Listed Companies
- Indian Subsidiaries of MNCs
- PE / VC Portfolio Companies
- Senior Executives & ESOP Holders
- Tax & Payroll Teams
- Company Secretaries & Legal Counsel
- Auditors & Financial Reporting Teams

WHEN CLIENTS TYPICALLY CALL US

NEW PLAN Before creating or refreshing an ESOP pool	**NEW GRANT** Before issuing grants or finalising exercise price	**EXERCISE** When a large perquisite tax or liquidity issue is approaching
FUNDING / M&A; When a transaction changes value, dilution or settlement	**YEAR END** When Ind AS 102 valuation and audit support are required	**CROSS-BORDER** When foreign-parent options involve Indian employees

SECTORS WE WORK ACROSS

Technology & SaaS	Fintech & Financial Services	Consumer & D2C	Manufacturing	Healthcare & Diagnostics
Logistics & Mobility	Professional Services	Education	Infrastructure & Industrials	Funds & Investment Platforms

WHY CLIENTS WORK WITH US

PRACTICAL Plan mechanics and tax consequences explained together	**DEFENSIBLE** Valuation inputs and conclusions documented for audit	**CONNECTED** Tax, valuation, accounting and transaction context in one team	**RESPONSIVE** Hands-on founder-led review through implementation and questions

START A CONVERSATION

If you are designing a plan, preparing a valuation, approaching exercise or trying to understand the tax consequence of an existing grant, share the plan terms and the decision date. We can help map what must be valued, taxed, documented and timed.

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DISCLAIMER

Important Information Before You Use This Guide

General Disclaimer

This guide is published for general educational and informational purposes. It is not legal, tax, accounting, investment, employment or regulatory advice and should not be relied upon as a substitute for advice on a specific ESOP plan, employee, transaction or tax position.

Current-Law Scope

The guide has been technically refreshed for the legal position reviewed in August 2026. The Income-tax Act, 2025 and the Income-tax Rules, 2026 apply from 1 April 2026; transactions and tax years beginning before that date may continue to require analysis under the repealed Income-tax Act, 1961 and the rules then in force. SEBI, Companies Act, FEMA, accounting and tax requirements may also change after publication.

Different Valuations Serve Different Purposes

The value of an underlying share for ESOP perquisite taxation, the fair value of an employee option under Ind AS 102, the price of a preference share in a funding round and a transaction value for M&A are not interchangeable. Each purpose has its own measurement objective, methodology and eligible professional requirements. A report prepared for one purpose should not be reused automatically for another.

Cross-Border and Employee-Specific Matters

Tax residence, place of employment during vesting, foreign tax, treaty language, payroll arrangements, foreign exchange remittances and the identity of the issuing entity can materially change cross-border ESOP outcomes. Illustrative sourcing approaches in this guide are not a substitute for employee-specific tax and FEMA advice.

Illustrations and Market Practice

All numerical examples are illustrative. Market-practice observations on pool size, vesting, exercise timing, buybacks and liquidity are not statutory rules. The economics of an ESOP depend on plan documents, capital structure, shareholder rights, transaction terms and actual future share value.

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EXECUTIVE SUMMARY

Eight Rules That Prevent Most ESOP Tax Mistakes

ESOP taxation is easy to describe in one line - tax at exercise and again on later appreciation - but the practical outcome depends on the exact share value, plan mechanics, employer process, holding period and liquidity path. These eight rules frame the chapters that follow.

GRANT IS USUALLY NOT THE TAX EVENT For a standard employee option, Indian perquisite taxation is linked to the allotment or transfer following exercise, not merely the grant of the option.	**EXERCISE CREATES SALARY INCOME** The taxable perquisite is generally the prescribed exercise-date FMV less the amount paid by the employee, multiplied by the shares allotted or transferred.
LISTED FMV USES OPENING + CLOSING Under the 2026 Rules, listed equity FMV uses the average of opening and closing prices, with highest-volume and preceding-day rules where relevant.	**UNLISTED TAX FMV NEEDS A MERCHANT BANKER** For unlisted shares, a Category I SEBI-registered merchant banker determines FMV on the exercise date or another permitted specified date not more than 180 days earlier.
STARTUP RELIEF IS A DEFERRAL, NOT A WAIVER Eligible startups can defer payment/withholding on ESOP perquisite until the earliest of 60 months from year-end, sale of shares or cessation of employment.	**SALE IS A SEPARATE CAPITAL-GAINS EVENT** The FMV already used for perquisite taxation becomes the capital-gains cost base, preventing the same spread from being taxed twice.
TAX FMV IS NOT IND AS OPTION FAIR VALUE A tax share-FMV certificate and an Ind AS 102 option valuation solve different measurement questions and should not be substituted for one another.	**CROSS-BORDER ESOPS NEED TWO MAPS** One map is tax/payroll sourcing; the other is FEMA/Overseas Investment reporting. Neither should be assumed from the other.

OUR INSIGHT

The most important distinction in this guide is between three different numbers that are often called "FMV": the tax FMV of the share at exercise, the grant-date fair value of the option for accounting, and the transaction or investor price of a security with its own rights. Treating them as interchangeable is one of the fastest ways to create a tax, audit or employee-communication problem.

PART I - ESOP FOUNDATIONS

Chapter 1: Understanding ESOPs - Structure, Purpose & Legal Framework

1.1 What an ESOP Actually Gives the Employee

An employee stock option gives an employee a contractual right, but not an obligation, to acquire a defined number of shares at a predetermined exercise price after specified vesting conditions are satisfied. Until exercise and allotment or transfer, the employee normally holds an option rather than the underlying share. That distinction explains why plan documents separate grant, vesting, exercise, allotment and sale - and why the tax and accounting consequences do not all arise at the same time.

For the company, an ESOP converts part of compensation into a claim on future equity value. The plan can conserve current cash, align employees with shareholders and create retention through vesting. For the employee, however, the value is never the headline number of options alone. Real value depends on dilution, exercise price, the rights of the underlying share, the timing of liquidity and the tax that must be funded before or at monetisation.

1.2 The Legal Architecture for Unlisted Companies

For an unlisted company, Section 62(1)(b) of the Companies Act, 2013 provides the statutory route for employee stock options, read with Rule 12 of the Companies (Share Capital and Debentures) Rules, 2014. Shareholder approval by special resolution, prescribed disclosures and plan administration requirements therefore matter from the beginning; the scheme cannot be treated as an informal HR benefit that happens to end in shares.

A critical correction to a common market misconception is the vesting period. Rule 12 prescribes a minimum period of one year between grant and vesting, subject to the specific merger/amalgamation adjustment in the rule. Unlisted companies have flexibility on the shape of vesting after that minimum, but they do not have complete freedom to vest standard grants immediately.

Area	Unlisted Company	Listed Company
Core corporate framework	Companies Act, 2013 s.62(1)(b) + Rule 12	Companies Act + SEBI SBEB & SE Regulations, 2021 (as amended)
Shareholder approval	Special resolution under statutory framework	Scheme / approvals under SEBI and corporate framework
Minimum vesting	At least 1 year, subject to rule exceptions	At least 1 year under SEBI framework, subject to applicable exceptions
Tax at exercise	Section 17(1)(d) + Rule 15	Section 17(1)(d) + Rule 15
Tax FMV	Category I merchant banker	Average opening + closing on prescribed exchange/date
Accounting	Ind AS 102 or applicable ICAI framework	Ind AS 102 for Ind AS reporters

ESOP Framework - Listed vs. Unlisted

OUR INSIGHT

A good ESOP scheme answers four audiences at once: the employee must understand the economics, the board must understand dilution and retention, finance must be able to account for it, and tax/payroll must be able to administer exercise without improvising. If the plan works for only one audience, problems usually surface later.

1.3 Listed Companies - SEBI Overlay

Listed companies operate within the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, as amended, in addition to the Companies Act and listing-governance framework. The listed-company regime is more prescriptive on eligibility, scheme approvals, compensation committee administration, disclosures, trust routes and dealing in securities. The current regulation text should always be reviewed before a new grant or amendment because eligibility and transition provisions have evolved over time.

The practical point is that a plan designed for an unlisted company should not simply be carried into an IPO unchanged. IPO readiness should include a scheme-by-scheme review of outstanding grants, vesting, exercise windows, trust holdings, disclosure, employee categories and post-listing settlement mechanics.

1.4 The 2026 Tax Framework

For tax years beginning on or after 1 April 2026, the Income-tax Act, 2025 and Income-tax Rules, 2026 provide the current framework. Section 17(1)(d) treats the value of specified securities or sweat equity shares allotted or transferred by the current or former employer at a concessional rate as a perquisite. The value is based on prescribed fair market value at exercise less the amount paid or recovered from the employee.

Legacy exercises and tax years before 1 April 2026 can still require reference to the repealed Income-tax Act, 1961 and its corresponding provisions. A publish-ready 2026 analysis should therefore identify the relevant tax year before citing a section number rather than mixing old and new provisions in the same calculation.

QUESTIONS TO ASK BEFORE YOU ACT

- Is the underlying award a true option, RSU, SAR or phantom/cash-settled right?
- Which corporate/SEBI framework applies to the issuer at the time of grant?
- Does the scheme satisfy the one-year minimum vesting rule where applicable?
- Who owns valuation, payroll, allotment and employee communication?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

Before approving a scheme, circulate one two-page lifecycle memo showing who approves the grant, who maintains the option register, who commissions tax/accounting valuations, how exercise is processed, how leavers are handled and who owns employee communication. Governance is easiest to build before the first grant.

Implementation Lens - The ESOP Governance Map

A plan becomes operational only when approvals, valuation, payroll, cap-table records and employee communications move together. The company should map each lifecycle event to a responsible owner: the board/NRC for grant and scheme governance; company secretarial for statutory registers and allotment; finance for share values and accounting; payroll/tax for perquisite and withholding; and HR for employee communication and leaver processing. The same map should identify review points before a funding round, IPO or acquisition. A one-page responsibility matrix is often more effective than another twenty pages of scheme wording because it reveals exactly where a missed hand-off can create non-compliance.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Plan / grant documents obtained and key dates mapped
- Current legal framework identified for the relevant year
- Valuation purpose and instrument defined before method selection
- Exercise / allotment / sale quantities reconciled lot by lot
- Tax and accounting valuations kept as separate workpapers
- Liquidity and cash-funding consequence considered explicitly
- Supporting evidence retained for audit / tax / employee query
- Reviewer checks calculations, dates, sections and final communication

PART I - ESOP FOUNDATIONS

Chapter 2: Grant, Exercise & Sale - The ESOP Tax Lifecycle

2.1 The Three Events and the Two Main Tax Layers

The ESOP lifecycle has three commercial milestones - grant, exercise/allotment and sale - but a standard option normally produces two principal Indian tax layers. The first is salary perquisite taxation when exercise results in allotment or transfer of the specified security. The second is capital gains taxation when the employee later transfers the shares. Vesting by itself does not ordinarily create a separate tax layer for a standard option where shares are not yet allotted or transferred.

This timing matters because the first tax can arise before the employee has cash liquidity. An unlisted-company employee may pay the exercise price and become taxable on a substantial spread while holding shares that cannot be sold. The tax system recognises compensation when the share is acquired; it does not wait until the employee eventually realises cash.

2.2 Exercise Date vs. Allotment Date - Get the Mechanics Right

The tax rules determine fair market value by reference to the date on which the option is exercised, while the statutory perquisite concerns the specified security allotted or transferred at a concessional rate. In a well-run plan the exercise workflow, board/committee approval, allotment and payroll process are coordinated so the relevant dates and quantities can be reconciled. Delays between employee exercise instructions and actual allotment should therefore be tracked rather than treated casually.

For every exercise, the company should retain the exercise notice, number of options exercised, exercise price, exercise date, prescribed FMV evidence, allotment/transfer record, perquisite computation and withholding record. That file becomes the audit trail for the employee, employer, statutory auditor and tax reviewer.

Event	What Happens	Typical Tax Consequence
Grant	Employee receives option right	Usually no perquisite tax for standard option grant
Vesting	Right becomes exercisable	No separate tax merely because option vests, if shares not yet allotted/transferred
Exercise / allotment	Employee pays exercise price and receives shares	Salary perquisite based on prescribed FMV less amount paid
Post-exercise holding	Employee owns shares	No tax merely for holding; dividends, if any, follow separate rules
Sale / transfer	Employee disposes of shares	Capital gain/loss using exercise-date tax FMV as cost base

ESOP Tax Timeline

OUR INSIGHT

The biggest ESOP tax risk is not the formula. It is date discipline. Grant date, vesting date, exercise date, allotment date and sale date can be years apart, and each drives a different legal or economic consequence. Treat the timeline as data, not narrative.

2.3 The Cost Step-Up Prevents Double Taxation

Once a share received through an ESOP has been taxed as a perquisite, the same exercise-date FMV is used as the capital-gains cost of acquisition under the current Act. The employee is therefore not taxed again on the spread that was already taxed as salary. Only value movement after the tax FMV becomes a capital gain or capital loss at sale.

This is why personal ESOP records matter. If the employee later uses the exercise price as the capital-gains cost instead of the prescribed FMV, the return effectively taxes the original compensation spread twice. For large grants, that error can be material even when the sale calculation looks arithmetically simple.

2.4 Why Share Price Risk and Tax Risk Are Different

An employee who exercises at a high FMV and sells later at a lower price may have paid salary tax on a perquisite that has economically disappeared. The later fall may create a capital loss, but a capital loss does not reverse salary perquisite income. The two heads of income are legally separate.

That asymmetry is the central planning problem for illiquid ESOPs. Exercise timing should therefore be analysed as a combined decision involving exercise price, prescribed FMV, expected liquidity, share-price risk, employee cash reserves and the holding period required for long-term capital-gains classification.

QUESTIONS TO ASK BEFORE YOU ACT

- Which date controls FMV for this exercise?
- When are shares actually allotted or transferred after exercise?
- Is the employee able to fund tax before sale?
- Is lot-level cost and holding-period evidence being preserved?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

Maintain lot-level records. If an employee exercises the same grant in three tranches, treat them as three acquisition lots with their own exercise dates, FMVs, tax amounts and holding periods. Do not collapse them into one average cost unless the tax computation genuinely permits it.

Case Study - Same Grant, Three Different Outcomes

Consider 10,000 options at Rs. 100. Employee A exercises when FMV is Rs. 250 and sells soon after. Employee B waits until FMV is Rs. 800 and exercises immediately before a secondary. Employee C exercises at Rs. 800 but the expected secondary is cancelled and the share later falls to Rs. 400. The grant is identical, but the tax cash flow, capital-gains position and risk profile are radically different. This is why an ESOP portal balance should never be presented as "wealth created" without an exercise-and-liquidity scenario.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

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PART II - TAX AT EXERCISE

Chapter 3: Taxation at Exercise - Perquisite Tax Mathematics

3.1 The Current Perquisite Formula

Under Section 17(1)(d) of the Income-tax Act, 2025, the taxable value of a specified security or sweat equity share acquired from a current or former employer at a concessional rate is measured using the prescribed fair market value. For a conventional option, the practical formula is the exercise-date FMV less the amount paid by the employee, multiplied by the number of shares allotted or transferred pursuant to the exercise.

The perquisite forms part of salary income. The tax is therefore not a separate flat ESOP tax; it is absorbed into the employee's salary computation for the tax year and the actual incremental tax depends on the employee's total income, regime, rebate availability, surcharge and cess. For planning, the most useful number is the incremental total tax created by the exercise, not a single headline percentage applied to the spread.

3.2 Worked Example - Listed Company Exercise

Assume an employee exercises 4,000 options at an exercise price of Rs. 300 per share. On the exercise date, the prescribed listed-share FMV under Rule 15 is Rs. 1,100 per share. The perquisite per share is therefore Rs. 800 and the total ESOP perquisite is Rs. 32,00,000. If the employee has other salary income of Rs. 18,00,000, total salary before other permitted adjustments becomes Rs. 50,00,000.

Using the section 202(1) tax slabs applicable for the current new-regime framework, the exercise materially increases the employee's tax even though no share has yet been sold. The exact payroll deduction should be computed on the employee's estimated annual taxable income rather than by simply multiplying the Rs. 32 lakh perquisite by 30%.

Item	Amount
Options exercised	4,000
Exercise price per share	Rs. 300
Rule 15 FMV per share	Rs. 1,100
Perquisite per share	Rs. 800
Total ESOP perquisite	Rs. 32,00,000
Other salary income	Rs. 18,00,000
Total salary before other adjustments	Rs. 50,00,000
Key planning point	Compute incremental full-year tax; do not apply a flat ESOP rate

Worked Perquisite Example - Tax Year 2026-27

OUR INSIGHT

For employees, the most useful pre-exercise output is a cash requirement statement: exercise price + estimated incremental tax - immediately available sale proceeds. That number is often more decision-useful than the gross option value shown in the compensation portal.

3.3 Worked Example - Unlisted Startup Exercise

Now assume 2,000 options in an unlisted startup have an exercise price of Rs. 250 and the Category I merchant banker determines tax FMV at Rs. 5,000 per share on a permitted specified date. The perquisite is Rs. 4,750 per share, or Rs. 95,00,000 in aggregate. The employee has acquired an illiquid share but may have a very large salary-tax consequence.

The example illustrates why the question "what are my options worth?" is incomplete. The employee should model cash required for exercise, cash required for tax, probability and timing of liquidity, downside if the share price falls, and the alternative of delaying exercise. The company should communicate these mechanics before the exercise window, not after payroll has already computed the perquisite.

3.4 Marginal Tax, Surcharge and Rebate - Model the Whole Return

For tax year 2026-27, the section 202(1) slab structure under the current regime starts with nil tax up to Rs. 4 lakh, followed by 5%, 10%, 15%, 20%, 25% and 30% slabs across the prescribed bands up to income above Rs. 24 lakh. A resident individual within the statutory income threshold may also be eligible for the section 156 rebate and marginal relief, subject to the conditions of that provision.

Large ESOP exercises can also affect surcharge. The correct planning method is therefore a before-and-after total tax computation. Marginal relief and special-rate capital gains must be handled separately where relevant; a table that labels every employee above a threshold with one "effective ESOP rate" can be misleading.

QUESTIONS TO ASK BEFORE YOU ACT

- What is the prescribed FMV per share?
- What is the employee amount paid per share?
- What is incremental annual tax after the exercise?
- Does the employee have cash or sell-to-cover liquidity?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

For a large exercise, run the employee tax return twice - once without the ESOP and once with it. The difference is the incremental tax attributable to the exercise after slabs, surcharge, cess and other interactions. That is a better cash-planning number than "30% of the spread".

Sensitivity - Why FMV Matters More Than the Exercise Price Once the Company Scales

For an early employee with a very low exercise price, most of the eventual perquisite is driven by the exercise-date FMV. A Rs. 100 change in FMV across 20,000 options changes salary perquisite by Rs. 20 lakh. This sensitivity is why valuation-date planning, material-event review and timely merchant-banker work are not administrative details. They directly affect employee cash requirements and employer withholding.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART II - TAX AT EXERCISE

Chapter 4: Listed vs. Unlisted ESOP FMV - Rule 15 in Practice

4.1 Listed Shares - Opening and Closing Price, Not High and Low

Rule 15(6) of the Income-tax Rules, 2026 prescribes the listed-share FMV for Section 17(1)(d). If the share is listed on a recognised stock exchange on the exercise date, FMV is the average of the opening price and closing price on that date. Where the share is listed on more than one recognised exchange, the exchange recording the highest trading volume in the share is used.

This is a critical technical point because many old templates still describe the rule as an average of the day's high and low. That is not the prescribed 2026 method. If there is no trading on the exercise date, the rule moves to the closing price on the closest immediately preceding trading date, with a highest-volume tie-breaker where relevant.

4.2 Unlisted Shares - Merchant Banker and the Specified Date

Where the equity share is not listed on a recognised stock exchange, Rule 15 requires the FMV to be determined by a merchant banker. The Rules define merchant banker as a Category I merchant banker registered with SEBI. The "specified date" can be the exercise date or another date not more than 180 days earlier.

The 180-day window is operationally important. A company with frequent exercises can plan a valuation calendar rather than commissioning a new report for each employee, provided the chosen specified date remains within the rule and the report is still appropriate in light of material developments. A major funding round, acquisition, loss of a key contract or other value-changing event may make reliance on an older report commercially or defensibly inappropriate even if it remains inside the outer date window.

Situation	Prescribed FMV Approach
Listed on one recognised exchange and traded	Average of opening and closing price on exercise date
Listed on multiple recognised exchanges	Average opening/closing on exchange with highest trading volume
No trading on exercise date	Closing price on closest immediately preceding trading date
Unlisted equity share	Category I SEBI merchant banker value on specified date
Specified date for unlisted	Exercise date or another date not more than 180 days earlier

Rule 15 - FMV Decision Table

OUR INSIGHT

The valuation question for an unlisted company is not "what was the last-round price?" It is "what is the fair value of the security the employee is actually acquiring, under the method and date rule that applies to this tax purpose?" Capital-structure rights can make the difference material.

4.3 Funding-Round Price Is Evidence - Not Automatically Common-Share FMV

A recent financing is highly relevant valuation evidence, but the price paid for preference shares should not be copied mechanically to the common shares underlying ESOPs. Investor securities may carry liquidation preferences, conversion rights, anti-dilution protection, participation rights or other economic features. A valuation may therefore need to allocate value across share classes before arriving at the common-share value relevant to the employee award.

Conversely, a deeply discounted common-share value cannot be justified merely by saying "ESOP shares are ordinary shares". The merchant banker should document the capital structure, transaction recency, rights by class, business performance since the round and the method used to bridge enterprise/equity value to the specific share.

4.4 Tax FMV vs. Ind AS 102 Fair Value

Tax FMV is the fair market value of the specified security for perquisite purposes. Ind AS 102 option fair value is the value of the employee option at grant date for financial reporting. The latter incorporates option characteristics such as exercise price, expected term, volatility, dividend yield and risk-free rate. The two numbers answer different questions.

Accordingly, a merchant banker share-FMV certificate used for payroll is not, by itself, an Ind AS 102 option valuation; nor does a Black-Scholes option value replace the prescribed share FMV required for perquisite tax. This separation should be explicit in the company's valuation file and employee communication.

QUESTIONS TO ASK BEFORE YOU ACT

- Is the share listed on one or multiple exchanges?
- Was there trading on the exercise date?
- For unlisted shares, is the merchant-banker specified date within 180 days?
- Have preference/common rights been considered?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

If you use a merchant-banker report prepared earlier than the actual exercise date, maintain a material-event checklist through each exercise window. A report can be inside the 180-day rule and still deserve an update because the company changed materially.

Valuation File - What the Reviewer Should See

A defensible unlisted FMV file should show the capital structure, rights by class, recent transactions, financial performance, projections where used, method selection, bridge from enterprise to equity value, class allocation where needed, fully diluted share count, and the final common-share value. It should also explain events between the valuation date and exercise window. This makes the report useful beyond tax: it gives the audit and compensation teams a consistent fact base without incorrectly reusing the tax number for another purpose.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Plan / grant documents obtained and key dates mapped
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PART II - TAX AT EXERCISE

Chapter 5: Employer Withholding - TDS, Payroll & Eligible-Startup Deferral

5.1 Employer Withholding Under Section 392

Section 392 of the Income-tax Act, 2025 governs deduction of tax from salary. The employer estimates the employee's salary income for the tax year and deducts tax at the average rate based on the rates in force. Because ESOP perquisite is salary income, the exercise/allotment workflow must feed into payroll promptly enough for the annual tax estimate and deductions to be adjusted.

The employer should not use a flat 30% "ESOP TDS rate" as a substitute for the salary calculation. The correct deduction reflects the employee's estimated taxable salary, other information permitted to be considered, any earlier shortfall or excess and the special timing rule for eligible startups where applicable.

5.2 Non-Monetary Perquisite - Employer May Pay the Tax

Where a perquisite is non-monetary, Section 392(2) permits the employer, at its option, to pay tax on the whole or part of that non-monetary perquisite instead of deducting it from the employee. If the employer bears the tax, the plan and compensation policy should state the commercial treatment clearly because this is an additional employer cost rather than a free mechanism for shifting the employee's statutory liability.

For most companies, the practical choices are to recover additional withholding from cash salary, collect funds from the employee, facilitate a sell-to-cover where securities and plan mechanics permit, or consciously gross up/bear the tax as part of compensation. Each route has payroll, accounting and employee-relations consequences.

Step	Control
1. Exercise record	Capture employee, grant, quantity, price and exercise date
2. FMV	Apply current Rule 15 listed/unlisted method
3. Perquisite	Compute FMV less employee amount paid
4. Salary estimate	Update annual taxable salary and average-rate withholding
5. Funding	Recover tax, sell-to-cover where permitted, or employer bears non-monetary perquisite tax by policy
6. Startup relief	If eligible, apply Section 392(3) / 289(3) timing
7. Reporting	Reconcile payroll, Form 123 / salary certificate and Form 138 (earlier Form 24Q)

Employer ESOP Payroll Control

OUR INSIGHT

An ESOP payroll failure is often a process failure, not a tax-knowledge failure. HR knows the exercise happened, finance has the valuation, secretarial has the allotment, and payroll has none of them at the same time. A single exercise register with named owners prevents most of the gap.

5.3 Eligible-Startup Deferral - Current 60-Month Rule

For an eligible startup referred to in Section 140, Section 392(3) links withholding/payment on the Section 17(1)(d) ESOP perquisite to the special timing in Section 289(3). The relevant trigger is the earliest of: expiry of 60 months from the end of the relevant tax year, the date the employee sells the specified security or sweat equity share, or the date the employee ceases to be employed by the employer that allotted or transferred the security.

This relief is a timing deferral, not an exemption and not a 48-month rule. The tax is still computed by reference to the original exercise/allotment event and the employee remains exposed to the possibility that share value falls before the deferred tax becomes payable. Eligibility should also be tested against the statutory Section 140 conditions, not assumed merely because the company has a DPIIT startup recognition.

5.4 Payroll Evidence and 2026 Forms

The employer should maintain a grant-to-payroll reconciliation showing options exercised, shares allotted/transferred, exercise price, prescribed FMV, perquisite, tax deduction/payment and reporting. Current forms under the 2026 Rules have been renumbered; for example, Form No. 123 is the current perquisite statement corresponding to earlier Form 12BA, and the quarterly salary-TDS statement is Form No. 138 corresponding to earlier Form 24Q.

Teams should therefore avoid blindly carrying old form numbers into 2026 SOPs. The objective is not cosmetic renumbering: payroll, tax and HR systems should all reference the same employee ID, exercise transaction and perquisite amount so that the tax certificate, perquisite statement and return reporting reconcile.

QUESTIONS TO ASK BEFORE YOU ACT

- Has payroll received the exercise and FMV before closing the period?
- Will tax be recovered, funded by sale or borne by employer?
- Does eligible-startup relief actually apply under Section 140?
- Do Form 123 / Form 138 data reconcile to the option register?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

Create a monthly ESOP payroll reconciliation signed by HR, finance/valuation, secretarial and payroll. It should reconcile exercises to allotments, FMV reports, perquisite, tax deduction/payment and statutory reporting. Close exceptions before the quarter-end return.

Control Design - Preventing Payroll Surprises

A mature process sets an exercise cut-off, freezes the relevant FMV source, calculates perquisite, obtains employee funding instructions, validates allotment quantity and only then closes payroll. For large awards, the company should also alert treasury if a sell-to-cover or tax funding arrangement will create material cash or share movement. The process should be tested on one employee before a broad window is opened. Most errors are discovered when multiple employees exercise at once and different teams use different versions of the grant data.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART III - TAX AT SALE & CROSS-BORDER

Chapter 6: Capital Gains at Sale - Holding Period, Cost & Tax Rates

6.1 The Second Tax Event - Transfer of the Shares

When an employee later sells or otherwise transfers shares acquired through an ESOP, the difference between the sale consideration and the tax cost of acquisition is generally considered under capital gains. For specified securities already taxed under Section 17(1)(d), Section 73 of the Income-tax Act, 2025 carries the perquisite FMV into the capital-gains cost base.

The capital-gains calculation therefore begins with the exercise-date tax file. If that FMV is unavailable years later, the employee can struggle to prove the correct cost. A personal ESOP register should record each exercise lot separately because different lots can have different FMVs, exercise dates and holding periods.

6.2 Holding Period - Listed vs. Unlisted

Under the current framework, listed securities generally use a 12-month threshold for short-term classification, while unlisted shares use the general 24-month threshold. The period for ESOP shares is reckoned from allotment or transfer of the specified security, not from the original grant date and not from vesting.

This distinction is important when an employee exercises immediately before an IPO or secondary sale. The option may have been held for four years, but the share itself may have been held only for weeks. The capital-gains classification follows the share holding period after acquisition.

Share / Sale	Short-Term Threshold	Rate Framework
Listed equity with qualifying STT	12 months	Section 196: 20% for qualifying STCG; Section 198 for qualifying LTCG
Qualifying listed equity LTCG	More than 12 months	12.5% on qualifying gains above Rs. 1,25,000 under Section 198
Unlisted shares	24 months	STCG generally normal rates; LTCG generally Section 197 framework
Cost base for ESOP share	N/A	FMV taken into account under Section 17(1)(d)
Off-market / non-resident / special case	Case-specific	Check STT, treaty and special provisions before applying headline rates

Capital Gains - Practical Map

OUR INSIGHT

The cost step-up is the bridge between salary taxation and capital gains. If the exercise-date FMV is wrong or cannot be evidenced later, both tax layers become vulnerable. Preserve the valuation file for as long as the shares may remain unsold.

6.3 Current Rates - Listed Equity and General LTCG

For short-term gains on listed equity shares satisfying the securities transaction tax conditions, Section 196 applies a 20% rate. For long-term gains on qualifying listed equity shares, Section 198 applies 12.5% to the gains exceeding the annual Rs. 1,25,000 threshold, subject to its conditions. General long-term capital gains under Section 197 are also taxed at 12.5% in the situations covered by that provision.

Short-term gains on unlisted shares do not receive the listed-equity Section 196 rate merely because the company may later list; they generally fall into the normal rate framework applicable to the taxpayer. Off-market sales, non-resident cases, treaty positions, STT conditions and special transactions require separate analysis rather than a one-line rate table.

6.4 Capital Loss After Exercise

If the sale price is lower than the exercise-date FMV used for perquisite tax, the employee may have a capital loss even though salary tax was previously paid. That loss cannot be set off against salary. Broadly, short-term capital loss can be set off against short-term or long-term capital gains, while long-term capital loss is restricted to long-term capital gains, subject to return-filing and carry-forward conditions.

The key planning lesson is not that a later loss "refunds" ESOP tax. It does not. The lesson is to preserve evidence and claim the capital loss correctly so the post-exercise decline is at least reflected within the capital-gains rules.

QUESTIONS TO ASK BEFORE YOU ACT

- What is the allotment/transfer date for each lot?
- Is the share listed or unlisted on the relevant transfer date?
- Are STT conditions met for concessional listed-equity rates?
- Can the Section 17(1)(d) FMV cost be evidenced?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

When shares are sold, reconcile the broker contract note or sale agreement lot-by-lot to the exercise/allotment register. A single sale can contain shares acquired on different dates with different tax FMVs and different short/long-term character.

Decision Lens - Tax Rate Is Only One Variable

Suppose a listed share has Rs. 500 of post-exercise gain per share. Waiting for long-term treatment can reduce the tax rate on that incremental gain if the statutory conditions are met, but it also exposes the full share value to market movement for the waiting period. A modest decline in price can exceed the tax saved. The right comparison is after-tax sale proceeds today versus a range of after-tax proceeds after the holding period, not simply 20% versus 12.5%.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART III - TAX AT SALE & CROSS-BORDER

Chapter 7: Cross-Border ESOPs - FEMA, Payroll Sourcing & Treaty Relief

7.1 Foreign-Parent ESOPs - Separate Tax and FEMA Workstreams

Indian employees of multinational groups frequently receive options, RSUs or other equity awards in a foreign parent rather than the Indian employing entity. The plan can therefore create Indian salary-tax/payroll issues and Overseas Investment/FEMA issues at the same time. These workstreams overlap factually but are not the same legal test.

The tax analysis asks which part of the employment-related award is taxable in India, when the perquisite arises, which entity has payroll/withholding responsibilities and whether foreign tax credit is available. The FEMA analysis asks how a resident individual acquires, holds, pays for and disposes of foreign securities and how the prescribed reporting is made.

7.2 FEMA Reporting - Do Not Put Form OPI on the Employee by Default

Under the current Overseas Investment framework, Form OPI includes a specific section for overseas portfolio investment by resident individuals through ESOP/employee benefit schemes. The form states that consolidated ESOP/EBS reporting is to be made by the relevant Indian company, branch or office for the half-year, rather than treating every employee exercise as a personal Form OPI filing within 60 days.

This corrects a common legacy checklist error. The employee and employer should still coordinate with the authorised dealer bank on the exact plan, remittance route and reporting responsibility. If the employee remits money abroad to fund exercise, the Liberalised Remittance Scheme and the overall USD 250,000 financial-year limit may also be relevant, subject to the current Overseas Investment rules and bank process.

Topic	Company / Employer	Employee
Indian payroll	Coordinate perquisite and withholding where applicable	Provide mobility / foreign tax information
FEMA ESOP/EBS reporting	Consolidated Form OPI reporting through Indian company/branch/office where applicable	Provide acquisition/disposal/remittance data
Exercise remittance	Support plan process / AD-bank coordination	Check LRS / bank documentation if remitting personally
Foreign asset reporting	Entity FLA only if entity criteria apply	Personal ITR foreign-asset disclosure where applicable
Foreign tax credit	Provide payroll statements where available	Maintain foreign tax proof and claim under applicable treaty/domestic rules

Cross-Border ESOP - Responsibility Map

OUR INSIGHT

Cross-border awards should be mapped twice: first by where the employee earned the award during vesting, and second by how the foreign security is acquired and reported under FEMA. Combining those maps too early is what produces false rules such as "every exercise needs a personal Form OPI".

7.3 FLA Is an Entity Return, Not the Employee Foreign-Asset Schedule

The RBI annual Foreign Liabilities and Assets return applies to specified Indian-resident entities with relevant foreign liabilities or direct-investment assets; it is not the return an individual employee files merely because she holds foreign employer shares. An individual's income-tax return may separately require foreign asset disclosure where the applicable return schedules and residency rules require it.

Keeping these two reporting systems separate prevents both under-compliance and unnecessary filings. The company should maintain the consolidated ESOP/EBS investment information required for FEMA reporting, while the employee should maintain grant, acquisition, sale, bank remittance and foreign tax records for personal tax reporting.

7.4 Mobile Employees - Vesting-Period Sourcing Is a Starting Framework

For internationally mobile employees, employment income from share awards may need to be allocated by reference to services performed during the period in which the award was earned, often the vesting period. A days-worked allocation is a common treaty and global-mobility starting point, but it should not be presented as an automatic Indian statutory formula for every award.

The actual outcome depends on residence, domestic charging provisions, the relevant tax treaty, grant conditions, vesting service, employer recharge arrangements and foreign-country tax. Where the same income is taxed abroad and in India, foreign tax credit may be available subject to the treaty or domestic rules and the prescribed evidence/filing process.

QUESTIONS TO ASK BEFORE YOU ACT

- Who is the legal issuer and who is the Indian employer?
- Where did the employee work during the award-earning period?
- Who makes consolidated OPI reporting and through which AD bank?
- Is foreign tax credit and personal foreign-asset reporting relevant?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

For foreign-parent plans, ask the AD bank and the group global-mobility/payroll team to confirm responsibilities before the first Indian employee exercises. Post-event remediation is slower because tax, bank remittance and FEMA data often sit in different countries.

Mobility File - Data You Need Before the Employee Leaves India

Cross-border sourcing becomes much harder after an employee has changed countries or employers. Keep grant date, vesting start/end dates, work location by period, travel/workday evidence, foreign payroll statements, foreign tax payment, exercise date, share value, remittance evidence and sale details together. The goal is to make the eventual treaty and foreign-tax-credit claim reproducible rather than dependent on reconstructed calendars years later.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART IV - ACCOUNTING & VALUATION

Chapter 8: ESOP Accounting Under Ind AS 102 - P&L; Impact & Disclosure

8.1 Why Accounting and Tax Must Be Kept Separate

Ind AS 102 measures the compensation cost of share-based payment arrangements for financial reporting. The tax chapter measures a share perquisite when the employee exercises and receives specified securities. The accounting value is therefore not the payroll FMV and the payroll FMV is not the accounting value. Companies should maintain separate workpapers even where the same underlying equity valuation informs both.

For a standard equity-settled option, Ind AS 102 generally measures grant-date fair value and recognises the employee service expense over the vesting period, with a corresponding equity reserve. Subsequent movements in the company's share price do not remeasure the grant-date fair value of an equity-settled award merely because the market value changed.

8.2 Vesting Conditions and Expense Recognition

Service conditions and non-market performance conditions affect how many awards are expected to vest and therefore the quantity ultimately recognised, rather than simply being priced as a probability discount into grant-date fair value. Market and certain non-vesting conditions are treated differently and can affect fair value at grant date. The plan's condition taxonomy therefore matters before any model is run.

For graded vesting, the accounting pattern can differ from a simple straight-line allocation depending on the applicable award structure and the standard's attribution requirements. Finance teams should not build the P&L schedule by dividing total value by four years without reading the actual vesting tranches and conditions.

Question	Tax Perquisite FMV	Ind AS 102 Option Fair Value
What is valued?	Specified security / underlying share	Employee option / award
Measurement date	Exercise date / permitted specified date for unlisted FMV	Grant date for equity-settled award
Main authority	Income-tax Act 2025 + Rule 15	Ind AS 102
Unlisted professional	Category I merchant banker for tax share FMV	Appropriately qualified valuation professional; standard does not make MB tax certificate the option value
Key inputs	Share value under prescribed method	Share value, strike, term, volatility, risk-free rate, dividend yield, award conditions

Tax Valuation vs. Accounting Valuation

OUR INSIGHT

A lower tax FMV is not automatically a lower accounting expense, and a higher funding-round price is not automatically a higher option value. The financial reporting model cares about the option and its terms; payroll cares about prescribed share FMV at exercise. Keep the files separate.

8.3 Option-Pricing Inputs

The familiar inputs are underlying share value, exercise price, expected term, risk-free rate, expected volatility and expected dividends. For an unlisted company, the underlying share value may require a separate equity valuation and volatility normally requires a defensible peer set or other market evidence. The expected term should reflect expected exercise behaviour rather than automatically using the contractual life.

Input consistency is as important as model selection. A four-year expected term should use a risk-free rate consistent with that tenor; a peer set used for volatility should resemble the company's risk and business profile; and the share value should be measured at the correct grant date rather than borrowed from a much later funding event.

8.4 Non-Ind AS Companies

Companies outside the Ind AS framework should not refer to a fictional "AS 102". ICAI has a Guidance Note on Accounting for Share-based Payments (Revised 2020) for the relevant non-Ind AS accounting context. The applicable accounting framework should be identified first and the valuation report should state the purpose clearly.

Audit-ready documentation should connect the scheme, grant approval, vesting terms, valuation date, share value, option-pricing assumptions, forfeiture expectations and expense schedule. Most year-end disputes arise from inconsistent assumptions or incomplete plan data, not from the Black-Scholes equation itself.

QUESTIONS TO ASK BEFORE YOU ACT

- Is the award equity-settled or cash-settled?
- Which vesting conditions are market, non-market or service conditions?
- What share value and option assumptions support grant-date FV?
- Is the expense attribution consistent with the actual vesting tranches?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

Ask the valuer to provide an assumption memo alongside the option model. Audit committees should be able to see why each input was selected, what data supports it and how sensitive the fair value is to the most judgmental assumptions.

Audit Lens - Reconcile Quantity Before Debating the Model

A mathematically perfect option value applied to the wrong number of awards still produces the wrong expense. The grant register should reconcile authorised pool, grants, forfeitures, modifications, exercises and outstanding awards before valuation. For graded vesting, the vesting schedule should be machine-readable rather than described only in prose. Quantity, condition classification and attribution are often more important to the final expense than a small change in volatility.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART IV - ACCOUNTING & VALUATION

Chapter 9: ESOP Valuation - Black-Scholes, Binomial & Monte Carlo

9.1 The Model Follows the Award - Not the Other Way Around

Black-Scholes, lattice/binomial and Monte Carlo models are tools for valuing option-like awards; they are not interchangeable shortcuts chosen because one produces a preferred expense. The appropriate model depends on the award's exercise flexibility, contractual term, expected exercise behaviour, dividend features and any market or path-dependent conditions.

For a plain-vanilla employee option with service-based vesting, a Black-Scholes-type model can often provide an efficient and auditable estimate when expected term is calibrated appropriately. A lattice can model early exercise and changing assumptions through time more explicitly. Monte Carlo becomes useful where the payoff or vesting depends on simulated market paths, relative total shareholder return or similar conditions.

9.2 Black-Scholes - What It Does Well and What It Does Not

The standard Black-Scholes framework estimates the value of an option from the underlying share value, strike price, expected term, volatility, risk-free rate and dividend yield. Its simplicity is an advantage when assumptions are transparent and the award is not heavily path-dependent. The key limitation for employee options is that contractual terms and exercise behaviour can differ from a simple traded European call option.

The practical response is not to reject Black-Scholes automatically. It is to choose an expected term and other inputs that reflect the employee award and to explain why the model remains fit for purpose. A model can be mathematically sophisticated and still be wrong if the inputs do not match the plan.

Award Feature	Usually Suitable Approach	Why
Plain-vanilla time-vested option	Black-Scholes-type model	Efficient where expected term captures exercise behaviour
Early exercise / varying assumptions need explicit modelling	Binomial / lattice	Models exercise decisions and assumptions through time
Relative TSR or market-path condition	Monte Carlo	Simulates market paths and condition achievement
Cash-settled liability award	Model depends on payoff; remeasurement required	Accounting classification changes measurement cadence
Complex hybrid award	Potential lattice / Monte Carlo / scenario model	Instrument terms drive method

Model Selection - Practical Guide

OUR INSIGHT

Model sophistication is not a substitute for assumption discipline. A transparent Black-Scholes model with a defensible peer set and expected term can be stronger than a Monte Carlo model whose behavioural inputs were chosen because they "look reasonable".

9.3 Binomial / Lattice Models

A lattice divides the option life into periods and models possible share-price movements and exercise decisions through the tree. This allows the valuer to incorporate expected early exercise triggers, changing dividend assumptions and other behavioural features more directly than a single closed-form calculation.

Lattice models are particularly useful when management has meaningful historical exercise data or when the plan has windows and behavioural triggers that cannot be captured well through one expected-life assumption. Their extra flexibility should, however, be supported by evidence; adding parameters without data can create the appearance of precision rather than better valuation.

9.4 Monte Carlo - Use It for Market-Path Conditions

Monte Carlo simulation is especially powerful when vesting or payoff depends on a market condition that must be evaluated across many simulated share-price paths - for example, relative TSR hurdles. It is not generally necessary for every ordinary ESOP and should not be used simply to introduce employee forfeiture probabilities that accounting guidance treats through the number of awards expected to vest rather than the option fair value.

For complex awards, the report should identify which conditions are inside the fair-value model and which are reflected in the expected number of awards. This one distinction prevents a common double adjustment in which the same condition reduces both the option value and the expected vesting quantity.

9.5 Volatility, Expected Term and Share Value - The Three Audit Questions

For unlisted companies, volatility is often the most debated input because there is no traded history. A peer set should be selected for business risk, lifecycle and operating similarity; the measurement period should be consistent with the expected term; and unusual peer events should be considered rather than blindly averaged.

Expected term can be equally important. Employees often exercise before contractual expiry once an award is vested and sufficiently in-the-money. Finally, the underlying share value must reflect the economics of the specific share underlying the award. Preference-share funding prices may need class-rights analysis before being translated into common-share value.

QUESTIONS TO ASK BEFORE YOU ACT

- Which award feature requires this model?
- What evidence supports expected term and volatility?
- Are conditions reflected in fair value or expected vesting quantity - not both?
- Does sensitivity analysis show the important judgement range?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

Do not include service-condition forfeiture twice - once as a probability reduction in option fair value and again by reducing expected awards to vest. Map each condition to the accounting treatment before modelling.

Sensitivity Lens - A Range Is Better Than False Precision

An unlisted ESOP value should rarely be presented as if volatility or expected term were known to two decimal places. A practical report shows sensitivity to the key assumptions and explains the range management and auditors should consider reasonable. Sensitivity is not an admission of uncertainty; it is evidence that the valuer understands which inputs actually drive the result.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

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PART V - DESIGN & LIQUIDITY

Chapter 10: Startup ESOP Structuring - Pool, Vesting, Exercise & Liquidity

10.1 Pool Size Is a Hiring Budget, Not a Market Statistic

An ESOP pool should be sized from the company's hiring plan, seniority mix, refresh-grant policy and funding horizon rather than by copying a 10%, 15% or 20% market benchmark. Investor negotiations often require the pool to be created or topped up on a pre-money basis, shifting dilution to existing shareholders. The cap-table model should therefore show both the nominal pool percentage and who economically bears the top-up.

A useful pool model starts with named expected hires and grant bands, adds refresh and promotion reserves, accounts for unvested/lapsed recycling under the scheme and then tests dilution under the next funding round. The output is an operating hiring budget expressed in equity, not a decorative percentage in the term sheet.

10.2 Vesting and Exercise - Retention vs. Tax

A four-year schedule with a one-year cliff remains common, but the statutory one-year minimum for standard ESOP vesting under the unlisted-company rules sets the legal floor. Back-loaded, performance-linked and hybrid schedules can be used where they match retention objectives, subject to the governing framework and plan wording.

Exercise design matters just as much as vesting. A short post-termination exercise window may force a departing employee to choose between losing vested options and paying tax on illiquid shares. A longer window reduces that pressure but leaves the company managing a larger population of former employees with outstanding rights. There is no universal answer; the design should make the trade-off explicit.

Decision	Questions to Answer Before Approval
Pool size	Which hires, refresh grants and funding horizon consume the pool?
Pre-money vs post-money top-up	Who bears dilution in the next round?
Vesting	What retention behaviour is intended and what is the statutory minimum?
Exercise window	How much post-employment time is commercially appropriate?
Exercise price	What does law/scheme permit and what employee economics result?
Liquidity	IPO, secondary, buyback or M&A - who controls the window?
Communication	Can an employee estimate exercise cash, tax and realistic net proceeds?

Startup ESOP Design Decisions

OUR INSIGHT

The most expensive ESOP design mistake is often a liquidity problem disguised as a tax problem. If employees are forced to exercise because of a short exit window but cannot sell the shares, the plan may destroy goodwill even though every legal document is technically correct.

10.3 Liquidity Architecture

For an unlisted company, employees cannot assume a market for the shares acquired on exercise. Liquidity can arrive through an IPO, investor secondary, company-facilitated secondary, M&A transaction or a company buyback, each with different legal, tax and cap-table consequences. The plan should state who decides whether a liquidity window occurs and what rights employees have when it does not.

The most employee-friendly plan is not necessarily the one with the lowest exercise price or largest number of options. It is the one where the employee understands exercise cost, likely tax, transfer restrictions, leaver treatment and realistic routes to cash. Transparent communication reduces the mismatch between "paper wealth" and usable compensation.

10.4 Buyback and Secondary Sales - Do Not Use One Tax Label for Both

A company buyback and a secondary sale to an investor are legally different transactions. Indian buyback taxation changed materially from 1 October 2024 and the new 2025 Act has also been amended for 2026, so old "capital gains vs. deemed dividend" summaries should not be copied into current employee guidance without checking the exact transaction date and mechanism.

For a current liquidity programme, the company should model the route before announcing a headline price. Company-law limits, source of funds, shareholder approvals, valuation, transfer restrictions, tax treatment, withholding and the employee's acquisition cost can all change the net proceeds. A secondary sale that looks commercially similar to a buyback can produce a different tax outcome.

QUESTIONS TO ASK BEFORE YOU ACT

- What hiring plan supports the pool size?
- Who bears the dilution from the next pool top-up?
- What happens to vested options when employment ends?
- What realistic liquidity routes exist for employees?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

When drafting leaver provisions, test three real employee scenarios: resigns after 18 months, leaves after full vesting but before liquidity, and is terminated just before an M&A event. If the intended economics are unclear in any scenario, the plan needs more drafting.

Transaction Lens - What Happens at M&A or IPO

Change-of-control terms can create more employee value than the ordinary vesting schedule. The scheme should address acceleration, cash-out, rollover into acquirer options, treatment of unvested awards and exercise timing. In an IPO, outstanding awards may need to transition into the listed-company governance framework. These clauses should be designed before a transaction is imminent because last-minute amendments can create tax, accounting and employee-consent issues.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Plan / grant documents obtained and key dates mapped
- Current legal framework identified for the relevant year
- Valuation purpose and instrument defined before method selection
- Exercise / allotment / sale quantities reconciled lot by lot
- Tax and accounting valuations kept as separate workpapers
- Liquidity and cash-funding consequence considered explicitly
- Supporting evidence retained for audit / tax / employee query
- Reviewer checks calculations, dates, sections and final communication

PART V - DESIGN & LIQUIDITY

Chapter 11: Tax Planning for ESOP Holders - Timing Without Tax Myths

11.1 Planning Objective - Maximise Risk-Adjusted After-Tax Value

ESOP tax planning should not be reduced to "pay the least tax". The employee is deciding whether to convert an option into a concentrated equity investment using personal cash and often paying salary tax before liquidity. The objective is therefore to maximise after-tax value after considering share-price risk, liquidity probability, exercise cost, employment decisions and diversification.

A strategy that saves tax but forces the employee to hold an illiquid, concentrated position for an extra year may be economically worse than a higher-tax immediate sale. The analysis should be scenario-based rather than rate-based.

11.2 Staggering Exercise - When It Can Help

Exercising options across more than one tax year can manage cash flow and may reduce exposure to surcharge thresholds or other non-linear tax effects. But it is not automatically tax-saving. If the employee remains in the same marginal band in both years and the share FMV rises between exercises, delaying part of the exercise can actually increase total perquisite even if the tax rate is unchanged.

The correct model compares at least three variables for each tranche: expected FMV on each potential exercise date, incremental tax from adding the perquisite to that year's income and the probability of liquidity. Staggering should be a deliberate trade-off, not a rule of thumb.

Situation	Potential Direction	Primary Risk
Listed, liquid, large spread	Cashless / sell-to-cover may reduce funding risk	Giving up future upside; short-term gain on later movement
Unlisted, no liquidity visibility	Delay exercise may be rational	FMV may rise, increasing future perquisite
Near liquidity event	Model exercise-and-sell vs pre-event exercise	Transaction timing / valuation changes
Near surcharge threshold	Staggering can be modelled	Higher later FMV can outweigh rate benefit
High conviction, diversified finances	Holding for long-term classification may be considered	Concentration and market risk

Exercise Decision Matrix

OUR INSIGHT

Tax planning should be expressed in rupees of after-tax, risk-adjusted outcome, not just percentages. The right decision can be to pay more tax sooner if that avoids concentrated downside or funding risk.

11.3 Cashless Exercise / Sell-to-Cover

Where the shares are liquid and the plan permits it, a cashless exercise or sell-to-cover can align tax funding with monetisation. Part of the shares or proceeds are used to fund exercise cost and withholding, reducing the employee's need to finance the transaction personally. Listed-company plans commonly use administrator processes that can support this approach.

The trade-off is that an immediate sale gives up future upside and may produce short-term capital-gains treatment on any post-exercise movement. For employees who would otherwise borrow to fund tax or remain over-concentrated in employer stock, however, liquidity and risk reduction may be more valuable than the tax-rate difference.

11.4 Hold for Long-Term Classification - Tax Tail vs. Investment Risk

After exercise, holding listed shares beyond the relevant 12-month threshold or unlisted shares beyond the 24-month threshold may improve capital-gains classification. The saving applies only to the post-exercise gain; it does not change the salary tax already paid on the perquisite.

The break-even question should therefore be framed around the post-exercise position: how much tax rate benefit is available on the incremental gain, and how much share-price decline would erase that benefit? Employees should avoid anchoring on the total ESOP gain when only the post-exercise appreciation is at stake in the hold-versus-sell decision.

11.5 Advance-Tax and Documentation Planning

Where employer withholding does not fully cover the employee's overall tax liability, a large exercise or sale can affect advance-tax obligations and interest exposure. The employee should recompute the full-year tax position after a major ESOP event rather than wait for return filing. This is particularly important in cross-border cases where the Indian payroll may not capture the entire foreign-parent award.

Planning also means preserving evidence: grant letter, vesting statement, exercise confirmation, FMV support, employer perquisite statement, tax withholding, allotment evidence, broker statements, foreign tax evidence and sale contract. A well-maintained ESOP register is one of the simplest controls against future tax errors.

QUESTIONS TO ASK BEFORE YOU ACT

- What is the cash cost of exercise plus tax?
- How would later FMV change the cost of delaying exercise?
- What tax benefit applies only to post-exercise gains?
- How much employer-stock concentration can the employee tolerate?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

Build an annual ESOP decision calendar with expected vesting, exercise windows, valuation dates, possible liquidity events and tax-payment dates. Decisions made under a 48-hour exercise deadline are rarely optimal.

Personal Balance-Sheet Lens

An employee should treat exercised ESOP shares like any other concentrated investment. After exercise, the decision is no longer only about compensation; the employee has chosen to allocate personal capital to one employer-related asset. Emergency cash, debt, other investments, family goals and tolerance for illiquidity should therefore influence the exercise-and-hold decision. Tax optimisation that ignores personal balance-sheet risk can create financially fragile outcomes.

For execution, preserve the calculation and the decision trail together. The file should identify the controlling date, the share or option quantity, the source of the valuation input, the applicable rule or accounting requirement, the person who approved the treatment and the evidence supplied to payroll, finance or the employee. This is especially important where the same grant is revisited months later for exercise, audit, a secondary sale or an M&A event. A compact, contemporaneous record prevents a technically correct position from becoming difficult to defend simply because the supporting facts were scattered across emails and spreadsheets.

PRACTITIONER CHECKLIST

- Plan / grant documents obtained and key dates mapped
- Current legal framework identified for the relevant year
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- Reviewer checks calculations, dates, sections and final communication

PART V - DESIGN & LIQUIDITY

Chapter 12: Common ESOP Tax & Valuation Mistakes - A Practitioner Checklist

12.1 Mistake - Using the Wrong Listed FMV Formula

Using an average of intraday high and low prices instead of the prescribed opening-and-closing average can misstate the perquisite. The error can propagate into payroll withholding, Form 123, the employee's salary reporting and the capital-gains cost base years later.

The control is simple: the payroll SOP should cite the current Rule 15 formula and retain the exchange evidence used for each exercise date. Where the share trades on more than one recognised exchange, the highest-volume exchange rule should be documented.

12.2 Mistake - Treating Funding Price, Tax FMV and Option Fair Value as One Number

A preference-share funding price is transaction evidence, a tax FMV is a prescribed share value, and an Ind AS 102 option value is a grant-date option value. Using any one as a universal "ESOP FMV" can produce incorrect tax, accounting and employee communication.

The control is a purpose matrix that states the valuation date, instrument, standard/rule, professional requirement and output for each report. The title page of every valuation should make the purpose unmistakable.

Mistake	Correct 2026 Position
Listed FMV = high/low average	Use opening/closing average under Rule 15
Unlisted has no 1-year minimum vesting	Rule 12 prescribes minimum one-year grant-to-vesting period, subject to exceptions
Startup deferral = 48 months	Current Section 289(3) uses 60 months from end of tax year, subject to earlier sale/cessation
Employee personally files Form OPI in 60 days	Current Form OPI provides consolidated ESOP/EBS reporting by Indian company/branch/office
FLA return for employee foreign shares	FLA is an entity-level RBI return; personal tax foreign-asset reporting is separate
Merchant banker tax FMV = Ind AS option value	Separate share FMV for tax from option fair value for accounting
Capital loss offsets salary perquisite	Capital loss remains within capital-gains set-off rules
AMT automatically applies because ESOP is large	Do not treat AMT as a general ESOP surcharge; test only if statutory AMT conditions are actually met

Publishing-Ready ESOP Error Checklist

OUR INSIGHT

Most ESOP disputes are traceable to one of three category errors: wrong date, wrong value or wrong legal purpose. A disciplined register that identifies all three for every grant and exercise is more valuable than a long generic compliance checklist.

12.3 Mistake - Applying the Old 48-Month Startup Deferral

Current eligible-startup ESOP relief uses the timing in Section 289(3), including the 60-month trigger from the end of the relevant tax year. Old 48-month summaries should be removed from 2026 employee guides and payroll manuals.

Equally important, a company should not assume that DPIIT recognition alone satisfies the eligible-startup condition referenced by Section 392(3). The Section 140 eligibility conditions need to be checked for the employer.

12.4 Mistake - Personal Form OPI / FLA Advice for Foreign ESOPs

Current Overseas Investment reporting is often misunderstood. Form OPI expressly provides for consolidated ESOP/EBS reporting by the Indian company, branch or office, while the FLA return is an entity-level return for applicable foreign liabilities/assets and is not an individual employee foreign-share filing.

The control is to map the actual foreign plan through the authorised dealer bank and maintain separate checklists for employer FEMA reporting, employee remittance, employee tax return foreign-asset disclosure and foreign tax credit.

12.5 Mistake - Treating a Later Capital Loss as a Reversal of Salary Tax

A post-exercise share-price decline can create a capital loss but does not reverse the perquisite already taxed as salary. Capital losses are governed by their own set-off and carry-forward rules and cannot simply be netted against salary income.

The practical control is pre-exercise liquidity modelling. If the employee cannot tolerate the possibility of paying tax and then holding a much lower-value share, the exercise decision should be reconsidered or aligned with a realistic liquidity event.

12.6 Mistake - Valuing Before Reading the Plan

Option valuation is not a spreadsheet-first exercise. Vesting, exercise windows, performance conditions, dividend equivalents, settlement choices, leaver provisions and transaction acceleration can change the instrument being valued. Running Black-Scholes before mapping these terms risks valuing an instrument that the plan does not actually create.

The control is a signed-off term sheet for valuation inputs that links each key assumption back to the scheme, grant letter, board/committee approval or management policy. Audit questions are easier to resolve when the model has a documented contractual source.

QUESTIONS TO ASK BEFORE YOU ACT

- Are all current section/rule references 2026-correct?
- Are tax share FMV and accounting option FV separated?
- Are FEMA responsibilities mapped to current OI reporting?
- Can every worked calculation be recreated from the stated inputs?

Practical Application

The relevant rule or valuation method should be translated into an operating decision: who owns the step, which document proves it, what date controls it, and what happens if the expected liquidity or transaction does not occur. This implementation layer is where technically correct ESOP plans most often succeed or fail in practice.

PRO TIP

Before publishing any ESOP FAQ or employee handbook, run a forbidden-string check for legacy items: "high-low average", "48 months", "no minimum vesting for unlisted", "employee Form OPI in 60 days", old phone number and old Income-tax section references presented as current law.

Final Review Gate - Five Questions Before Publication or Filing

Before a company circulates an ESOP tax memo or files payroll, ask: Is every date correct? Is the share value calculated under the rule for that purpose? Are current 2026 section/rule references used? Is the employee/employer/FEMA responsibility correctly assigned? Can every number in the example be recalculated from the stated assumptions? If any answer is no, the document is not ready even if the formatting looks complete.

PRACTITIONER CHECKLIST

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CONCLUSION

The ESOP Decision Framework - From Grant to Real Cash Value

An ESOP succeeds only when the legal plan, valuation, tax, accounting and liquidity mechanics point in the same direction. The employee should understand what she owns, what she must pay to exercise, what tax arises before sale, what rights attach to the resulting share and when a realistic path to liquidity may exist. The company should be able to administer the same lifecycle with evidence that survives payroll review, audit, due diligence and a future transaction.

For Companies - Five Operating Disciplines

First, design the scheme around hiring and retention rather than a generic pool percentage. Second, keep tax share-FMV and accounting option valuation as separate purposes. Third, integrate HR, secretarial, finance and payroll through a single exercise register. Fourth, communicate tax and liquidity before employees exercise. Fifth, revisit the plan before every funding round, IPO or M&A event so outstanding awards do not become a late transaction issue.

For Employees - Five Questions Before Exercise

What cash do I need for exercise? What is the prescribed FMV and resulting salary perquisite? When can I realistically sell? What happens if the share value falls after I pay tax? And what is the after-tax result under immediate sale, delayed sale and no-liquidity scenarios? If those five answers are not available, the employee does not yet have enough information to make a fully informed exercise decision.

01 Plan terms read	**02** Dates reconciled	**03** Tax FMV supported	**04** Option FV separate	**05** Payroll mapped
06 Liquidity modelled	**07** Cross-border mapped	**08** Sale cost preserved	**09** Current law checked	**10** Employee communication clear

The Final Test

If a company cannot explain an ESOP in plain language from grant through tax and liquidity, the plan is not finished. If an employee cannot quantify the downside of exercising before liquidity, the exercise decision is not finished. Good ESOP advisory reduces both forms of uncertainty: it makes the company administratively defensible and the employee economically informed.

ONE LAST THING BEFORE YOU CLOSE THIS GUIDE

If the ESOP is meant to create value, make sure tax and liquidity do not destroy it.

The worst time to discover an ESOP problem is after an employee has exercised, tax has become payable, the shares cannot be sold, or a transaction team has already priced the cap table. Most ESOP issues are easier to fix while the plan, grant, valuation or exercise window is still being designed.

You do not need to know whether your question is "tax", "valuation", "accounting" or "structuring" before calling us. Send us the plan, the cap table, the relevant dates and the decision you are trying to make. We can identify which workstreams matter and which ones do not.

CALL US WHEN YOU ARE DEALING WITH

- A new ESOP pool, scheme or top-up before a funding round
- A large employee exercise with material perquisite tax
- An unlisted-company merchant-banker FMV or Ind AS 102 option valuation
- A foreign-parent ESOP involving Indian employees
- A short post-termination exercise window creating employee pressure
- An IPO, M&A or secondary sale where outstanding options need treatment
- Audit questions on volatility, expected term, vesting or expense
- Any wider valuation, M&A, FEMA, AIF or transaction issue in the group

EXPERIENCE	CLIENT ENGAGEMENTS	CREDENTIALS	BIG-4 FOUNDATION
15+ Years	**500+**	**CA | CS | IBBI RV**	**9 Years at EY**

WHAT HAPPENS IN THE FIRST CONVERSATION

01	02	03
Show us the facts	**We map the workstreams**	**You get a practical scope**
Plan, grant, exercise/transaction date, cap table and the decision you need to make.	Company law / SEBI, tax FMV, option valuation, payroll, FEMA, accounting and liquidity.	Required documents, timing, deliverables, dependencies and what can be solved immediately.

BOOK A 15-MINUTE INTRODUCTORY CALL

Speak to us before the grant, exercise or transaction becomes irreversible. A short review before action is usually easier than correcting tax, valuation or plan mechanics after shares have already been allotted.

CALL	EMAIL	VISIT
+91 9879557558	**sagarrvshah@elitevaluation.in**	**www.EliteValuation.in**

An ESOP is easiest to fix before the employee exercises.

Elite Valuation | Independent Valuation and Boutique Advisory | Pan-India