



Income Under the head
Profit & Gains from
Business & Profession
Part -2 - Depreciation





Topics Covered

- Meaning
- Expenses Allowed
- Expense Disallowed
- Presumptive Taxation
- Partnership
- Corporate Taxation



Depreciation - Meaning

Depreciation is “a measure of the **wearing out, consumption** or **other loss of value** of depreciable asset arising from **use, effluxion of time or obsolescence** through technology and market change. Depreciation is allocated so as to charge **fair proportion** of depreciable amount in each accounting period during the expected useful life of the asset. ”



Why is there a need of depreciation?

1. Depreciation is an accounting convention that allows entities to **write off value** of the asset over a period of its useful life.
2. Assets such as machinery, building are quite expensive, hence the entire cost **cannot be written off in one year**.
3. Depreciating the asset allows entities to **spread out that cost** and **generate revenue from it**.

Depreciation -Income Tax



Depreciation as per Income Tax Act 1961 provides depreciation on the concept of ***Block of Assets***.

This is applicable for the purpose of ***all types of Business & Profession*** (whether a company or a non company).

Depreciation Methods



1. Written Down Value Method
2. Straight Line Method (for Power generating units)



Concept of Block of Assets

Block of asset means a group of assets falling within a class of particular asset like buildings, machinery, plant or furniture.



Rates of depreciation based on block of assets



Name Of Assets	WDV
Machine	15.00%
Building	10.00%
Factory Building	10.00%
Furniture	10.00%
Computer	40.00%
Electrical Fittings	10.00%



Concept of 180 Days in Depreciation

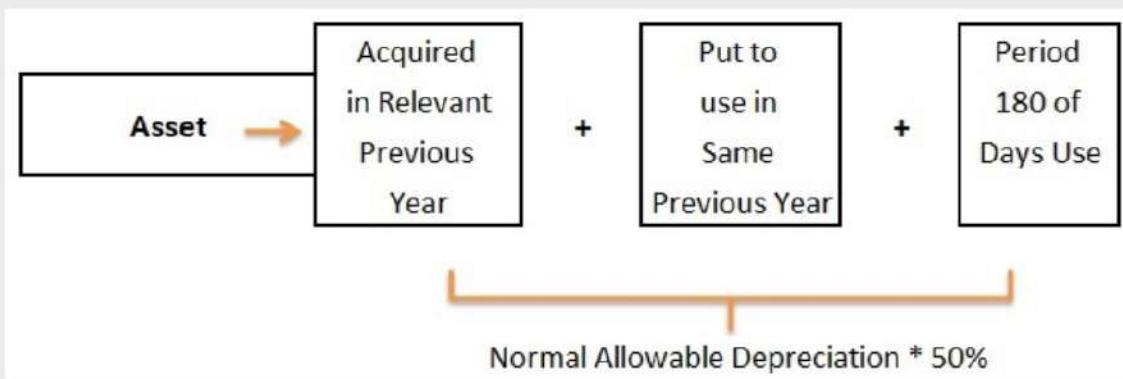
Where any asset falling within a block of asset is **put to use** for a period **less than 180 days** in the year in which it is purchased, then depreciation is restricted to 50%. (i.e. half the rate of depreciation)

The cutoff date turns out to be **3rd October**.

So if an asset is purchased before 3rd October full depreciation is to be charged if asset is purchased after 3rd October half depreciation to be charged.

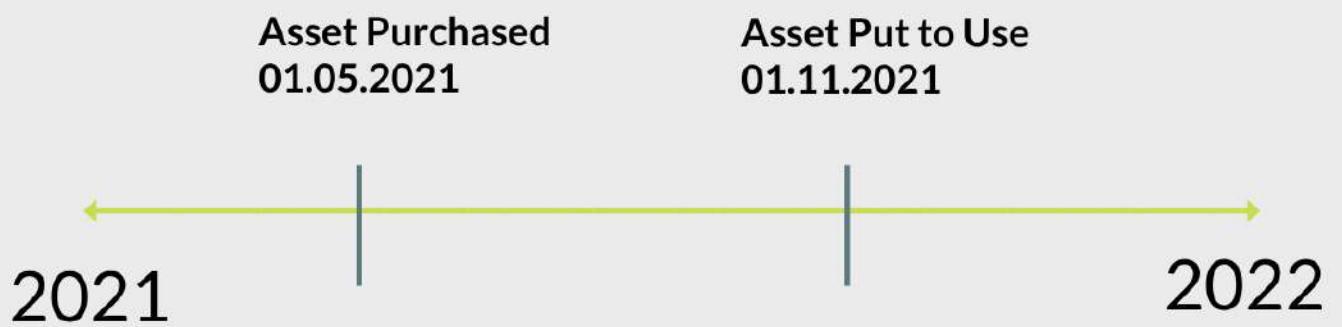


Concept of 180 Days in Depreciation





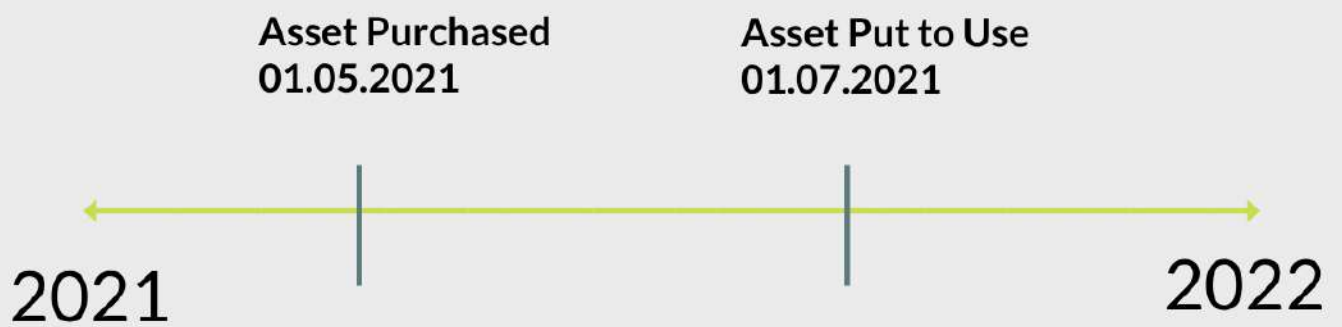
Concept of 180 Days in Depreciation



Half Depreciation Rate Applicable



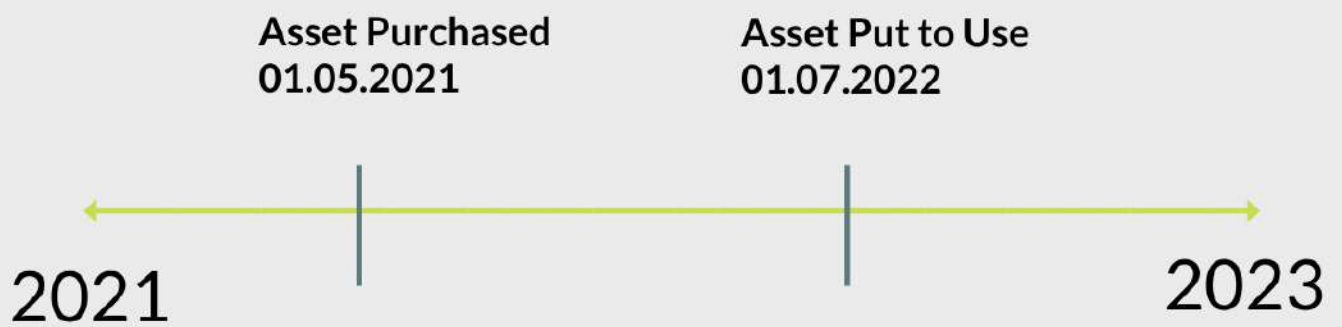
Concept of 180 Days in Depreciation



Full Depreciation Rate Applicable



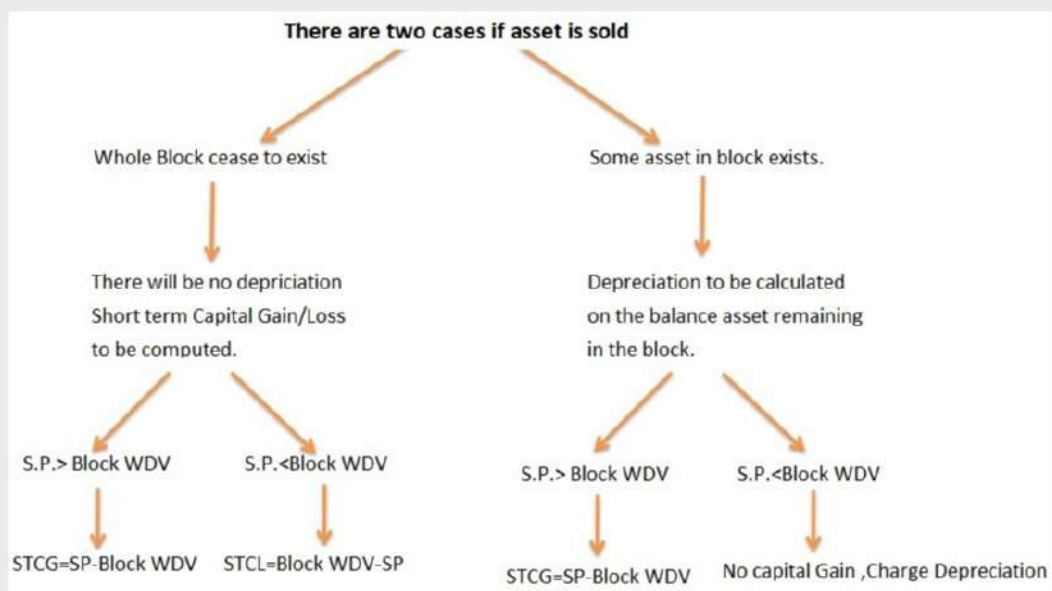
Concept of 180 Days in Depreciation



Full Depreciation Rate Applicable



Treatment of Sale of Asset





Computation

Opening WDV	XXX
Add: Asset put to use during the PY	XXX
<u>Less: Consideration received from selling the asset</u>	<u>XXX</u>
<u>Closing WDV before depreciation</u>	<u>XXX</u>



Actual Cost of Asset

“Actual Cost” means the

1. Actual cost of the assets to the assessee
2. Reduced by that portion of the cost which has been met by any other person or authority.

Purchase Price	XXX
Add: Expense to bring asset to Put to use	XXX
<u>Less: Any cost met by other person or authority</u>	<u>XXX</u>
<u>Actual Cost</u>	<u>XXX</u>

Types of Incentives



1. Profit Linked Incentives

2. Investment Linked Incentives

3. Specified Business

4. Expenditure Linked Incentives

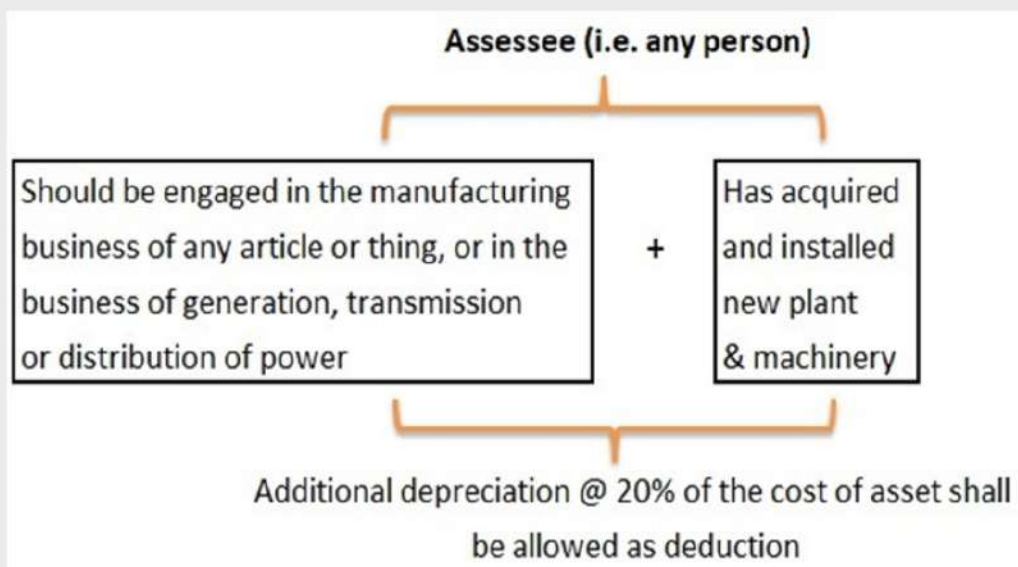


Concept of Additional Depreciation

Additional Depreciation is allowed on any ***new Machinery or Plant*** acquired and installed by the assessee engaged in the ***business of manufacture or production*** of any article or thing or in business of generation, transmission or distribution of power at the rate of 20% of actual cost of Machinery or Plant



Concept of Additional Depreciation





Rate of Additional Depreciation

Rate of Depreciation is 20%.

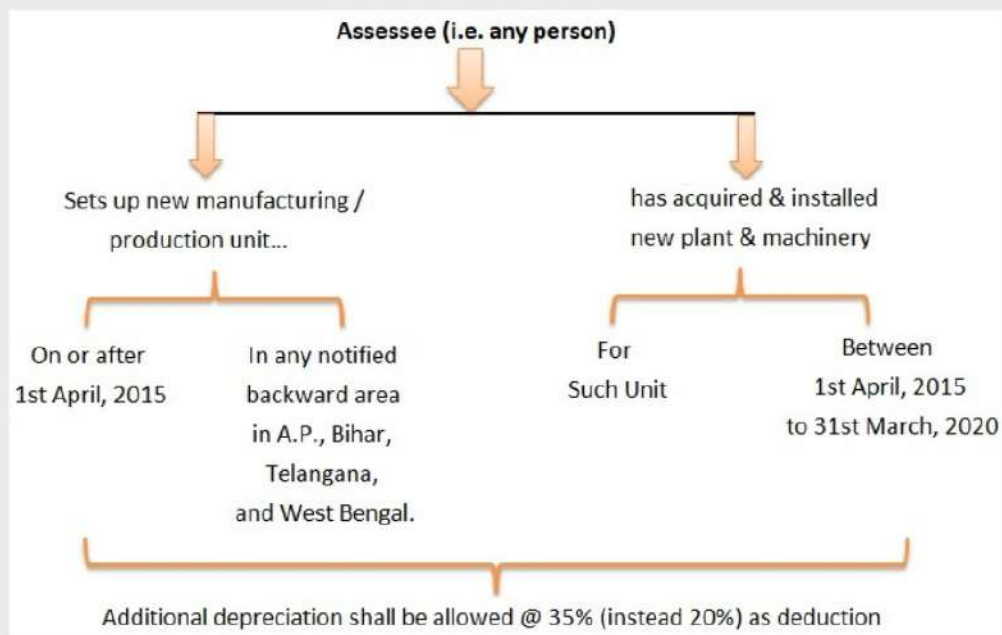
Concept of 180 days of depreciation is also applicable.

<u>For example</u>	>180 days	<180 days
Normal Depreciation	15%	7.50%
Additional Depreciation	20%	10%
Total	35%	17.50%

↓
Balance Depreciation can
be claimed in next year.



Concept of Additional Depreciation



Rate of Additional Depreciation



Rate of Depreciation is 35%.

Concept of 180 days of depreciation is also applicable.

Non-Applicability



1. Ships and Aircraft's
2. Second hand or used P & M
3. P & M used in office/Home/Guesthouse
4. Office Appliances
5. Road Transport Vehicles(Car etc)
6. 100% Depreciable Assets (like Pollution Control Equipment)
Additional Depreciation is only for factories or power generation units,
not for dealer or service providers.



Concept Clarity !!!

Depreciation Laptop / AC

Installed in
Office

Installed in
Factory

Depreciation
Additional Depreciation

Depreciation
Additional Depreciation



Section 32AD: Investment allowance for acquisition and installation of new P & M



Non-Applicability of Section 32AD



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