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Restriction on rate of Depreciation on account of new notification

The Government has vide notification no. 103/2016 dated 7 November 2016, restricted the highest rate of depreciation to 40% on all assets which were eligible for depreciation at a rate higher than 40%. According to this, new manufacturing companies (incorporated on or after 01/03/2016) can opt for lower corporate tax rate 25% instead of normal corporate tax rate of 30%. However, these companies while computing their total income are not entitled to claim any benefit under 10AA, benefit of accelerated depreciation, benefit of additional depreciation, etc.

This amendment is applicable from F.Y. 2016-17 to companies opting for 25% rate of tax in accordance with Section 115BA of The Income Tax Act and from F.Y. 2017-18 for all other tax payers.

This notification is in line with measures announced by the Finance Minister to reduce corporate tax rates and phases out tax incentives. Further, important part is that it restricts the rate of depreciation on all the categories of asset for all tax payers, including new companies to 40% of existing 50%, 60%, 80% & 100%. This amendment is applicable to all assesses i.e. LLP's, Partnership firms, etc. (even if the corporate tax rate is 30%).

Thus, this amendment needs to be kept in mind for computing advance tax liabilities for F.Y. 2017-18, as the highest rate of depreciation has been restricted to 40% for all assets, which were earlier eligible for depreciation at a rate higher than 40%.

We are hereby attaching an illustrative list of types of assets which were hitherto entitled for depreciation at rates higher than 40% now restricted to 40%.

Sr. No.	Category of Assets	Old Rate (%)	New Rate (%)
I	Buildings: a) Buildings acquired on or after the 1st day of September, 2002 for installing machinery and plant forming part of water supply project or water treatment system and which is put to use for the purpose of business of providing infrastructure facilities under clause (i) of sub-section (4) of section 80-IA b) Purely temporary erections such as wooden structures	100 100	40 40
II 1.	Plant & Machinery: Motor vehicles: a) New commercial vehicle which is acquired on or after the 1st day of October, 1998, but before the 1st day of April, 1999 in replacement of condemned vehicle of over 15 years of age and is put to use for any period before the 1st day of April, 1999 for the purposes of business or profession in accordance with the third & proviso to clause (ii) of sub-section (1) of section 32 b) New commercial vehicle which is acquired on or after the 1st day of April, 1999 but before the 1st day of April, 2000 in replacement of condemned vehicle of over 15 years of age and is put to use before the 1st day of April, 2000 for the purposes of business or profession in accordance with the second proviso to clause (ii) of sub-section (1) of section 32 c) New commercial vehicle which is acquired on or after the 1st day of April, 2001 but before the 1st day of April, 2002 and is put to use before the 1st day of April, 2002 for the purposes of business or profession d) New commercial vehicle which is acquired on or after the 1st day of January, 2009 but before the 1st day of October, 2009 and is put to use before the 1st day of October, 2009 for the purposes of business or profession	60 60 60 60	40 40 40 40
2	Air pollution control equipment	100	40
3	Water pollution control equipment	100	40
4	a) Solidwaste, control equipment being - caustic/lime/chrome/mineral/cryolite recovery systems b) Solidwaste recycling and resource recovery systems	100	40
5	Containers made of glass or plastic used as re-fills	50	40

Sr. No.	Category of Assets	Old Rate (%)	New Rate (%)
6	Computers including computer software	60	40
7	Machinery and plant, used in weaving, processing and garment sector of textile industry, which is purchased under TUFs on or after the 1st day of April, 2001 but before the 1st day of April, 2004 and is put to use before the 1st day of April, 2004	50	40
8	Machinery and plant, acquired and installed on or after the 1st day of September, 2002 in a water supply project or a water treatment system and which is put to use for the purpose of business of providing infrastructure facility under clause (i) of sub-section (4) of section 80-IA	100	40
9	<ul style="list-style-type: none"> a) Wooden parts used in artificial silk manufacturing machinery a) Cinematograph films – bulbs of studio light b) Match factories – Wooden match frames c) Mines and quarries : <ul style="list-style-type: none"> (a) Tubs winding ropes, haulage ropes and sand stowing pipes (b) Safety lamps d) Salt works – Salt pans, reservoirs and condensers, etc., made of earthy, sandy or clayey material or any other similar material 	100	40
10	<ul style="list-style-type: none"> a) Flour mills – Rollers b) Iron and steel industry - Rolling mill rolls c) Sugar works - Rollers 	80	40
11	<p>Energy Saving Devices:</p> <ul style="list-style-type: none"> a) Specialised boilers and furnaces b) Instrumentation and monitoring system for monitoring energy flows c) Waste heat recovery equipment d) Co-generation systems e) Electrical equipment f) Burners g) Other equipment 	80	40
12	Gas cylinders including valves and regulators	60	40
13	Mineral oil concerns	60	40
14	Renewable energy devices	80	40
15	<ul style="list-style-type: none"> a) Books owned by assessee carrying on a profession <ul style="list-style-type: none"> i. Books, being annual publications ii. Books, other than those covered by entry (a) above b) Books owned by assessee carrying on business in running lending libraries 	<ul style="list-style-type: none"> 100 60 100 	<ul style="list-style-type: none"> 40 40 40