ADDITIONAL DEPRECIATION

[Section 32 (1) (iia)]

In order to give an additional tax benefit to the manufacturing sector, Section 32 (1) (iia) provides that an additional depreciation shall be allowed to an assessee engaged in the business of manufacture or production of any article or thing. Additional depreciation, as the name indicates, shall be allowed in addition to the normal depreciation. Basic requirement of Section 32 (1) (iia) are as under :

A. Assessee eligible for additional depreciation

An assessee engaged in the business of manufacture or production of any article or thing is only eligible to claim depreciation.

B. Assets for which additional depreciation is allowed

Additional depreciation shall be allowed in respect of any ***new*** machinery or plant, which has been acquired and installed after the 31st day of March, 2005. However additional depreciation shall not be allowed in the case of following assets :

1. Ships and aircraft; or
2. Any machinery or plant which, before its installation by the assessee, was used either within or outside India by any other person; or
3. Any machinery or plant installed in any office premises or any residential accommodation, including accommodation in the nature of a guest-house; or
4. Any office appliances or ***road transport vehicles***; or
5. Any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and gains of business or profession" of any one previous year;

C. Rate of additional depreciation

Additional depreciation is allowable ***@ 20% of the actual cost*** of the eligible asset. However, if such asset is acquired and put to use for less than 180 days in the previous year in which it is acquired and installed, then, the rate of depreciation shall be 50% of 20% i.e. 10%. Additional depreciation is available only from the previous year in which new machinery or plant is ***first put to use.***

Illustration 1 :

R. Ltd. is engaged in the business of manufacture of tyres and its installed capacity as on 31-3-2005 is 5 lakh tyres. It acquired and sold the following plant and machinery during the previous year 2010-11 :

	Block 1 (15%) Rs.	Block 2 (30%) Rs.	Block 3 (60%) Rs.
Depreciated value of the block as on 1-4-2010	12,00,000	20,50,000	7,00,000
Additions of new plants during the previous year 2010-11 :			
Machinery X	40,00,000	------	-----
Machinery Y	------	10,00,000	-----
Machinery Z	------	------	12,00,000
Sale of some old plant and machinery	60,000	40,00,000	15,00,000

Machinery X, Y, and Z are acquired on 8-7-2010. Machinery X and Z are put to use on 10-9-2010. Machinery Y is put to use on 5-2-2011.

Compute additional and normal depreciation for the assessment year 2011-12 and capital gains if any.

Solution :

Computation of depreciation

Name of assessee : R Ltd.
Previous Year : 2010-11
Assessment Year : 2011-12

	Block 1 (15%) Rs.	**Block 2 (30%) Rs.**	**Block 3 (60%) Rs.**
WDV of the block as on 01-04-2010	12,00,000	20,50,000	7,00,000
Add : Actual cost of the asset acquired during the P.Y.	40,00,000	10,00,000	12,00,000
	52,00,000	30,50,000	19,00,000
Less : Money payable in respect of asset sold	60,000	30,50,000	15,00,000
WDV of the block as on 31-3-2011 for the purpose of charging depreciation of P.Y. 2010-11	51,40,000	Nil	4,00,000
Less : Depreciation for P.Y. 2010-11			
Normal depreciation	7,71,000	Nil	2,40,000
Additional depreciation (*Note 1*)	8,00,000	Nil	1,60,000
WDV of the block as on 1-4-2011	35,69,000	Nil	Nil

Computation of Capital Gain

	Rs.	Rs.
Sale consideration of old machinery in Block 2		40,00,000
Less : WDV of the Block 2 as on 1-4-2010	20,50,000	
Actual cost of the asset falling within the Block 2 acquired during the previous year	10,00,000	30,50,000
Short-term capital gain		9,50,000

Note 1 :

Additional depreciation :

	Machinery X	**Machinery Y**	**Machinery Z**
Whether additional depreciation is available	Yes	Yes	Yes
Actual cost	40,00,000	10,00,000	12,00,000
Rate of additional depreciation	20%	10%	20%
Additional depreciation	8,00,000	1,00,000	2,40,000

Illustration 2 :

An industrial undertaking which commences the manufacturing activity with effect from 1-9-2010 has acquired the following assets during the previous year 2010-11 :

Asset	Date of acquisition	Date when put to use	Cost of acquisition
Factory Buildings	04-04-2010	01-09-2010	50,00,000
Air Pollution Control Equipment	04-05-2010	01-09-2010	4,00,000
Machinery A	05-05-2010	01-09-2010	2,00,000
Machinery B	07-06-2010	01-09-2010	5,00,000
Machinery C	30-08-2010	01-09-2010	10,00,000
Machinery D	01-09-2010	31-10-2010	4,00,000
Machinery E	01-01-2011	28-02-2011	3,00,000
Machinery F (Second hand)	11-01-2011	13-01-2011	2,00,000
Motor car	01-02-2011	01-02-2011	5,00,000
Air-conditioner (installed in office)	01-02-2011	02-02-2011	1,00,000

Compute the depreciation allowable for the assessment year 2011-12 and the WDV as on 1-4-2011.

Solution :

Computation of depreciation

Name of assessee : ....
Previous Year : 2010-11
Assessment Year : 2011-12

	Block 1 Factory Building (10%)	**Block 2 Plant & Machinery (100%)**	**Block 3 Plant & Machinery (15%)**
WDV of the block as on 01-04-2010	Nil	Nil	Nil
Add : Actual cost of the asset acquired during the previous year :			
Acquired and put to use for 180 days or more	50,00,000	4,00,000	17,00,000 *(Note 1)*
Acquired and put to use for less than 180 days	-----	-----	15,00,000 *(Note 2)*
	50,00,000	4,00,000	32,00,000
Less : Money payable in respect asset sold	-----	-----	-----
WDV of the block as on 31-3-2011 for the purpose of charging depreciation of P.Y. 2010-11 **(A)**	50,00,000	4,00,000	32,00,000
Depreciation for P.Y. 2010-11 :			
Normal depreciation	5,00,000	4,00,000	3,67,500 *(Note 3)*
Additional depreciation (*Note 1*) :	Nil	Nil *(Note 5)*	4,10,000 *(Note 4)*
Total depreciation **(B)**	5,00,000	4,00,000	7,77,500
WDV of the block as on 1-4-2011 **(A – B)**	45,00,000	Nil	24,22,500

Note :

1. **Actual cost of the asset acquired and put to use for 180 days or more :**

Machinery A	2,00,000
Machinery B	5,00,000
Machinery C	10,00,000
	17,00,000

2. **Actual cost of the asset acquired and put to use for less than 180 :**

Machinery D	4,00,000
Machinery E	3,00,000
Machinery F	2,00,000
Motor car	5,00,000
Air-conditioner	1,00,000
	15,00,000

3. **Normal depreciation on plant and machinery (Block 3 : 15%) :**

On Rs. 17,00,000 @ 15%	2,55,000
On Rs. 15,00,000 @ 7.5%	1,12,500
	3,67,500

4. **Additional depreciation :**

	Whether additional depreciation is available	Actual cost	Rate of additional depreciation	Additional depreciation
Factory Buildings	No	50,00,000	--------	--------
Air Pollution Control Equipment	No	4,00,000	--------	--------
Machinery A	Yes	2,00,000	20%	40,000
Machinery B	Yes	5,00,000	20%	1,00,000
Machinery C	Yes	10,00,000	20%	2,00,000
Machinery D	Yes	4,00,000	10%	40,000
Machinery E	Yes	3,00,000	10%	30,000
Machinery F (Second hand)	No*	2,00,000	--------	--------
Motor car	No**	5,00,000	--------	--------
Air-conditioner (installed in office)	No***	1,00,000	--------	--------
				4,10,000

*Since not a new machinery.

Since a "*road transport vehicle***".

***Since installed in office premises.

5. **Additional depreciation on plant and machinery (Block 2 : 100%) :**

As per Section 32 (1) (iia) additional depreciation is not allowed on any machinery or plant, the whole of the actual cost of which is allowed as a deduction (whether by way of depreciation or otherwise) in computing the income chargeable under the head "Profits and gains of business or profession" of any one previous year. In the present case whole of actual cost of Rs. 4,00,000 has been allowed as ***normal depreciation*** and therefore additional depreciation is not allowed.