# DAY 5: Section 32AC [Effective from A.Y.2014-15]

***Question 1***

Find out the admissible investment allowance under section 32AC for P.Y.2013-14 and P.Y.2014-15 under following cases –

| Company | Investment in new plant and machinery (Rs. in crores) | | Total |
|---|---|---|---|
| | P.Y.2013-14 | P.Y.2014-15 | |
| Alpha Ltd. | 85 | 05 | 90 |
| Beta Ltd. | 80 | 50 | 130 |
| Delta Ltd. | 105 | 20 | 125 |
| Epsilon Ltd. | 115 | 00 | 115 |
| Theta Ltd. | 0 | 112 | 112 |

***Before, we go to the solution, lets comprehend amendment first.***

***Manufacturing companies investing more than Rs. 100 crore in new plant and machinery during the period from 1.4.2013 to 31.3.2015 are entitled to investment allowance@15% of actual cost subject to the following conditions***

(1) The assessee is a ***company.***

(2) It is engaged in the business of ***manufacture or production*** of any article or thing.

(3) It has ***acquired and installed a "new asset"***.

(4) The new asset should be acquired and installed after ***March 31, 2013 but before April 1, 2015.***

(5) The aggregate amount of actual cost of such new asset should be ***more than Rs. 100 crore.***

***Meaning of Terms "New Asset" used in above provision:-***

"New asset" means any new plant or machinery (other than ship or aircraft) but does not include—

(i) any plant or machinery which before its installation by the assessee was used either within or outside India by any other person;

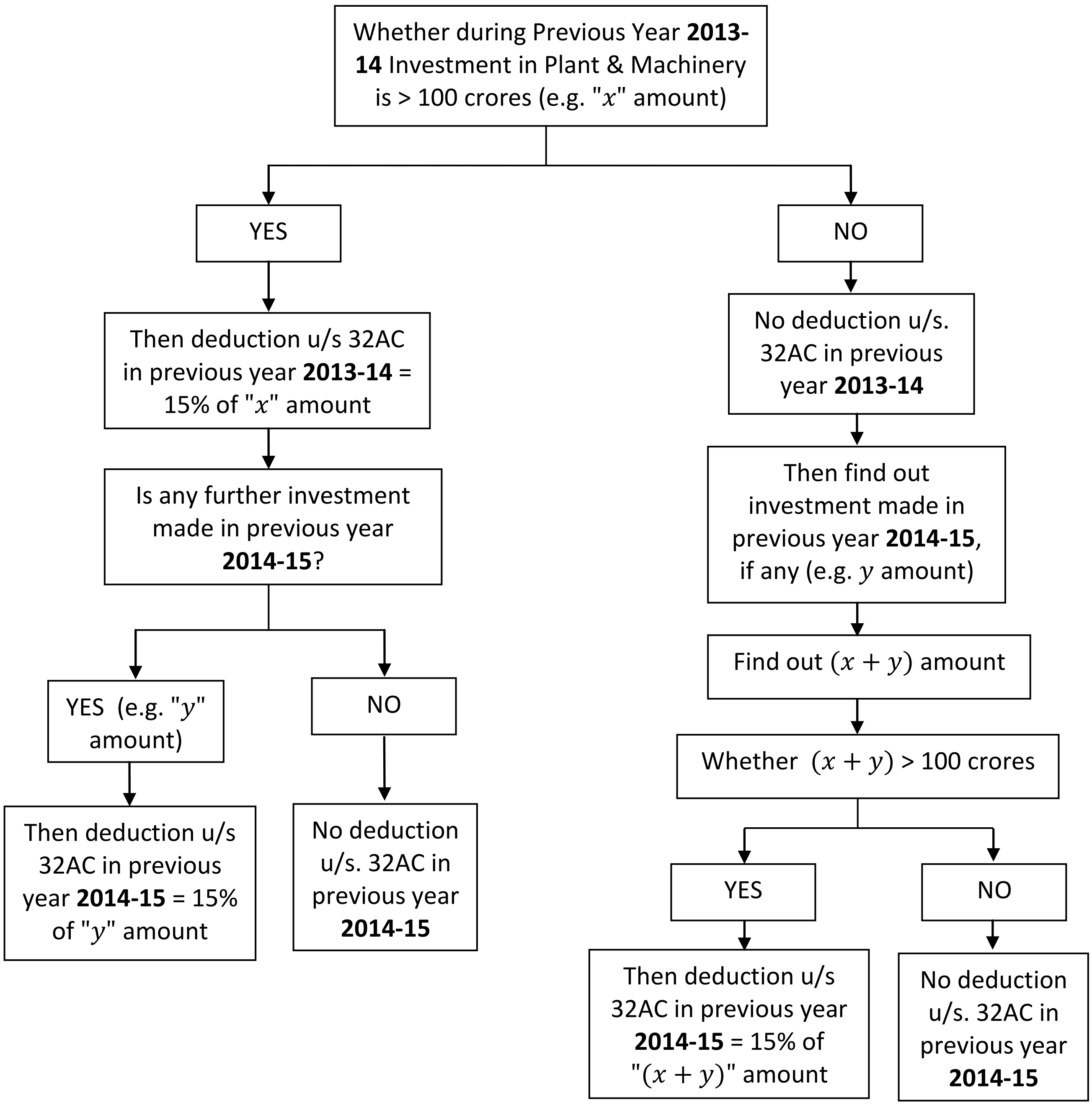
(ii) any plant or machinery installed in any office premises or any residential accommodation, including accommodation in the nature of a guest house;

(iii) any office appliances including computers or computer software;

(iv) any vehicle; or

(v) any plant or machinery, the whole of the actual cost of which is allowed as 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 previous year.

***Deduction for Investment Allowance can be claimed for previous year 2013-14 and previous year 2014-15 only. Following chart highlights the methodology to compute investment allowance u/s 32AC.***



# *Solution 1:*

***Alpha Ltd***

**(a) Deduction for previous year 2013-14**

- ✓ Investment during previous year 2013-14 does not exceed 100 crores, therefore Alpha Ltd. is not entitled for investment allowance for the previous year 2013-14.

**(b) Deduction for previous year 2014-15**

- ✓ The aggregate investment for the previous year 2013-14 and 2014-15 does not exceed 100 crores, therefore Alpha Ltd. is not entitled for investment allowance for the previous year 2014-15.

***Beta Ltd.***

**(a) Deduction for previous year 2013-14**

- ✓ Investment during previous year 2013-14 does not exceed 100 crores, therefore Beta Ltd. is not entitled for investment allowance for the previous year 2013-14.

**(b) Deduction for previous year 2014-15**

- ✓ The aggregate investment for the previous year 2013-14 and 2014-15 exceeds 100 crores, therefore Beta Ltd. is entitled for investment allowance of Rs. 19.50 crores i.e., 15% of 130 crores (80 crores + 50 crores) for the previous year 2014-15.

***Delta Ltd.***

**(a) Deduction for previous year 2013-14**

- ✓ Investment during previous year 2013-14 exceeds 100 crores, therefore Delta Ltd. is entitled for investment allowance of Rs.15.75 crores (i.e., 15% of 105 crores) for the previous year 2013-14.

**(b) Deduction for previous year 2014-15**

- ✓ Delta Ltd. is entitled for further investment allowance of Rs. 3.00 crores (i.e., 15% of 20 crores) for the previous year 2014-15.

***Epsilon Ltd.***

**(a) Deduction for previous year 2013-14**

- ✓ Investment during previous year 2013-14 exceeds 100 crores, therefore Epsilon Ltd. is entitled for investment allowance of Rs.17.25 crores (i.e., 15% of 115 crores) for the previous year 2013-14.

**(b) Deduction for previous year 2014-15**

- ✓ No investment is made in previous year 2014-15, therefore Epsilon Ltd. is not entitled for investment allowance for the previous year 2014-15.

***Theta Ltd.***

**(a) Deduction for previous year 2013-14**

- ✓ No investment is made in previous year 2013-14, therefore Theta Ltd. is not entitled for investment allowance for the previous year 2013-14.

**(b) Deduction for previous year 2014-15**

- ✓ The aggregate investment for the previous year 2013-14 and 2014-15 exceeds 100 crores, therefore Theta Ltd. is entitled for investment allowance of Rs. 16.80 crores i.e., 15% of 112 crores for the previous year 2014-15.

***Question 2***

X Ltd, engaged in manufacture of goods, commenced operations during previous year 2013-14. It provides following information:

| **Sr. No.** | **Particulars** | **Amount (Rs. in crores)** |
|---|---|---|
| (i) | Investment in new eligible plant and machinery on 1st July, 2013 | 200 |
| (ii) | Investment in second hand plant and machinery on 1st August, 2013 | 10 |
| (iii) | Depreciation rate applicable to block (in percentage) | 15 |

You are required to calculate:-

(a) Written Down Value as on 1st April, 2014.

(b) Investment Allowance , if any

***Before, we go to the solution, lets comprehend amendment first.***

***Investment allowance is in addition to depreciation (including additional depreciation).***

***Further, investment allowance shall not be reduced to arrive at written down value of plant and machinery block.***

## *Solution 2:*

**(a) Calculation of Written Down Value as on 1st April, 2014.**

| **Particulars** | **Amount (Rs. In crores)** |
|---|---|
| Opening W.D.V as on 1st April 2013 | Nil |
| Add: Purchase of New Plant & Machinery during the previous year 2013-14 | 200.00 |
| Add: Second hand Plant & Machinery during the previous year 2013-14 | 10.00 |
| W.D.V. for the previous year 2013-14 | 210.00 |
| Less : Regular Depreciation [15% of 210 crores] | (31.50) |
| Less : Additional Depreciation [20% of 200 crores]{Refer Note1} | (40.00) |
| **W.D.V as on 1st April 2014** | **138.50** |

**Note 1:** Additional depreciation is not available on second hand plant and machinery.

**(b) Calculation of Investment Allowance u/s 32AC**

- ✓ Investment Allowance is restricted for new plant and machinery and not available for second hand plant and machinery.
- ✓ Investment Allowance =200 crores x 15%
  =30 crores

***Additional Points on 32AC***

**(1) Withdrawal of investment allowance –**

- ✓ The new asset should not be sold or otherwise transferred within a period of 5 years from the date of its installation.
- ✓ If the new asset is sold or transferred within 5 years from its installation, the amount of investment allowance allowed to the assessee shall be deemed to be the income of assessee of the previous year in which such asset is sold or otherwise transferred. Such deemed income will be taxable under the head “Profit and gains of business or profession”.
- ✓ Such deemed income shall be taxable in addition to taxability of capital gain which arises under section 45, read with section 50.

**(2) Above restriction not to apply in case of amalgamation/demerger**

- ✓ The above restriction will not apply in a case of amalgamation or demerger. In other words, if the undertaking of the assessee-company is amalgamated or demerged within 5 years from the date of installation of new asset, investment allowance allowed to the amalgamating company or demerged company will not be taken back.
- ✓ However, the amalgamated company or the resulting company should not transfer the new asset within 5 year (from its installation by the amalgamating company or demerged company). If it is sold or otherwise transferred within 5 years by the amalgamated company/resulting company, the notional income stated above will be taxable in the hands of amalgamated company or resulting company.