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Newsflash: Rate of depreciation (50%, 60%, 80%, 100%) under the Income-Tax Act 1961 brought down to 40% for all assesseees

1.0 Background

In the Budget Speech 2016, the Finance Minister had proposed to amend Rule 5 of Income-tax Rules, 1962 ('the IT Rule') to restrict the highest rate of depreciation under the Income-tax Act to 40% for all the assets (whether old or new) falling in the relevant block of assets.

Further, the Finance Act, 2016 introduced section 115BA of the Income Tax Act, 1961 ('the IT Act'). According to this, new manufacturing companies (incorporated on or after 1 March 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 section 10AA, benefit of accelerated depreciation, benefit of additional depreciation etc. With respect to general depreciation it was provided that depreciation will be granted as per the prescribed rate.

2.0 Amendments to reduce Rate of Depreciation to maximum 40%

Now to implement the above budget announcement and to also operationalize the provision of section 115BA, Rule 5 of the IT Rules and **New Appendix I** to the IT rule have been amended vide CBDT Notification dated 7th November 2016.

The following is the gist of amendment:

| Section 32 | Benefit currently available in the Income Tax Act | Amendment |
|---|--|--|
| 32 read with rule 5 of Income-tax Rules, 1962- Depreciation. | <p>The depreciation under the Income-tax Act is available in certain cases, up to 100% on the block of assets.</p> <p>For instance:</p> <ul style="list-style-type: none">• Computers including computer software - depreciation @60%.• Certain Renewable energy devices - depreciation @80%.• Certain Air pollution control equipment – depreciation @ 100% | <p>a) <u>All assesseees (Other than those covered in b herein below)</u></p> <p>New Appendix I to the Income Tax Rules, 1962 has been amended to provide that highest rate of depreciation under the Income-tax Act shall be restricted to 40% w.e.f 01.4.2017. (i.e. from financial year 2017-18 and subsequent years.)</p> <p>b) <u>In case of New Manufacturing Companies</u></p> <p>For new manufacturing companies opting for reduced corporate tax rate of 25% (Plus applicable surcharge and education cess) under section 115BA, depreciation rate maximum up to 40% shall be applicable from 01.04.2016 (i.e. from financial year 2016-17 and subsequent years.)</p> |

The notification is available at the link given below:

http://www.incometaxindia.gov.in/communications/notification/notification103_2016.pdf

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