

CAPITAL GAIN ON TRANSFER OF DEPRECIABLE ASSETS.

[SECTION 50]

DEPRECIATION [SECTION 32]

Depreciation methods commonly used are :

- (a) Straight line method
- (b) written down value method

BLOCK OF ASSETS

A group of assets falling within a class of assets comprising

- (a) Tangible Assets
- (b) Intangible Assets

CLASS OF ASSETS

Sl. No.	ASSET	BLOCKS	RATE OF DEPRECIATION
(a)	Buildings	3	5% , 10% , 40%.
(b)	Furniture & Fittings	1	10%.
(c)	Plant & Machinery	5	15% , 20% , 30%.
			40% , 45%.
(d)	Intangible Assets	1	25%.

Each class of assets other than intangible assets may have different blocks or groups on which separate rates of depreciation are prescribed and for each such rate, separate block will be formed.

In the case of intangible assets there will be only one block as only one rate i.e. 25% has been prescribed for all such intangible assets.

The following blocks can be formed on the basis of class of assets and rates of depreciation:

(a) Buildings

Block 1	Buildings which are used mainly for residential purposes except hotels and boarding houses	
Block 2	Buildings other than those used mainly for residential purposes and not covered by sub-items (1) above and (3) below	5%
Block 3	(i) Buildings 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 under section 80-IA(4)(i) (ii) Purely temporary erections such as wooden structures	10% 40%

1. "Buildings" include roads, bridges, culverts, wells and tube-wells.

2. Water treatment system includes system for desalinisation, demineralisation and purification of water.

3. 40% depreciation is allowable on temporary wooden structure and tin shed as these are purely temporary erection.

(b) Furniture and fittings

Block 1	Furniture and fittings including electrical fitting	
"Electrical fittings" include electrical wiring, switches, sockets, other fittings and fans, etc.		10%

(c) Machinery and plant

Block 1	Motor cars, other than those used in a business of running them on hire. (Also see item No. (iv) in block 3 for rate of depreciation of motor car acquired on or after 23.8.2019 but before 1.4.2020 and is put to use before 1.4.2020) Machinery and plant other than those covered by block Nos. 2 to 8 below.	15%
Block 2	Ships: (i) Ocean-going ships including dredgers, tugs, barges, survey launches and other similar ships used mainly for dredging purposes and fishing vessels with wooden hull. (ii) Vessels ordinarily operating on inland waters, not covered by sub-item (c) below. (iii) Vessels ordinarily operating on inland waters being speed boats.	20%
Block 3	(i) Motor buses, motor lorries and motor taxis used in a business of running them on hire. (Also see block 5 for rate of depreciation of Motor buses, motor lorries, etc. acquired on or after 23.8.2019 but before 1.4.2020 and is put to use before 1.4.2020) (ii) Moulds used in rubber and plastic goods factories. (iii) Machinery and plant, used in semi-conductor industry covering all integrated circuits (ICs) (excluding hybrid integrated circuits) ranging from small scale integration (SSI) to large scale integration/very large scale integration (LSI/VLSI) as also discrete semi-conductor devices such as diodes, transistors, thyristors, triacs, etc.) other than those entitled to 80% rate of depreciation, given in block 7 below. (iv) Motor cars, other than those used in a business of running them on hire, acquired on or after 23.8.2019 but before 1.4.2020 and is put to use before 1.4.2020. [Inserted by Notification No. 69/2019, dated 20.9.2019]	30%
Block 4	(i) Aeroplanes — Aeroengines. (ii) Commercial vehicle which is acquired by the assessee on or after 1.10.1998, but before 1.4.1999 and is put to use for any period before 1.4.1999 for the purposes of business or profession. (iii) Specified life saving medical equipment (iv) Containers made of glass or plastic used as re-fills. (v) New commercial vehicle which is acquired on or after 1.1.2009 but before 1.10.2009 and is put to use before 1.10.2009 for the purposes of business or profession	

Block 5	(vi) Computers including computer software	40%
	(vii) Books, (other than books, (a) being annual publications, or (b) books owned by assessee carrying on business in running lending libraries).	
	(viii) Gas cylinders including valves and regulators, Direct fire glass melting furnaces used in Glass manufacturing concerns, Plant used in field operations (above ground) distribution, and Plant used in field operations (below ground), but not including kerbside pumps including underground tanks and fittings used in field operations (distribution) by mineral oil concerns.	
	(ix) Rollers used in Flour mills, Rolling mill rolls used in Iron and steel industry, Rollers used in Sugar works, Energy saving devices, Renewal energy devices and	
	(x) Wind mills and any specially designed devices which run on wind mills installed on or after 1-4-2014	
	(xi) Any special devices including electric generators and pumps running on wind energy installed on or after 1-4-2014	
	(xii) Machinery and plant, acquired and installed 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 section 80-IA(4)(i).	
	(xiii) Wooden parts used in artificial silk manufacturing machinery.	
	(xiv) Cinematograph films — bulbs of studio lights.	
	(xv) Match factories — Wooden match frames.	
	(xvi) Tubs, winding ropes, haulage ropes and sand stowing pipes, and Safety lamps used in Mines and quarries.	
	(xvii) Salt works — Salt pans, reservoirs and condensers, etc., made of earthy, sandy or clayey material or any other similar material.	
	(xviii) Books owned by assessee carrying on a profession, being annual publications.	
	(xix) Books owned by assessee carrying on business in running lending libraries.	
	(xx) Air pollution control equipment, Water pollution control equipment, Solidwaste control equipments, Solidwaste recycling and resource recovery systems.	
	Motor buses, motor lorries and motor taxis used in a business of running them on hire, acquired on or after 23.8.2019 but before 1.4.2020 and is put to use before 1.4.2020. [Inserted by Notification No. 69/2019, dated 20.9.2019]	45%

1. "Computer software" means any computer programme recorded on any disc, tape, perforated media or other information storage device.
2. Machinery and plant includes pipes needed for delivery from the source of supply of raw water to the plant and from the plant to the storage facility.
3. Plant shall not include buildings, furniture and fittings and as such the building, electrical fittings, etc. cannot be treated as plant.

(d) Intangible Assets

Block 1	Know-how, patents, copyrights, trademarks, licences, franchises or any other business or commercial rights of similar nature.	25%
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It may be observed that for the above four classes of assets, there can be 10 blocks.

IMPORTANT POINTS TO REMEMBER:

- (1) In case of block of assets system, normal depreciation is allowed on the basis of written down value method whereas, in case of power generating or generating and distributing undertaking, depreciation is allowed on the basis of straight line method on each and every asset separately (WDV method can be considered as per the option availed by the concerned organisation).
- (2) The following conditions must be satisfied in order to claim depreciation as deduction:
 - (a) the asset must be owned by the assessee, - wholly or partly
 - (b) the asset must be used for the purposes of business or profession
 - (c) the asset must be used during the previous year.
- (3) Depreciation provisions shall apply, whether or not the assessee has claimed the deduction in respect of depreciation in computing his total income.

Income under the Head "Profits and Gains of Business or Profession"

Chap. 6

Similar procedure will be followed for making blocks of plant and machinery. However, for intangible assets and furniture and fittings there will be only one block in each case.

Illustration 6.1: The following are the assets owned by X as on 1.4.2019:

Asset	WDV (₹)	Rates of Depreciation
Building A	2,40,000	10%
Building B	3,60,000	10%
Building C	1,20,000	5%
Building D	5,20,000	10%
Machinery A	40,000	15%
Machinery B	1,00,000	15%
Machinery C	1,60,000	30%
Machinery D	80,000	15%
Car X	2,20,000	15%
Furniture and Fixture	2,40,000	10%
Furniture & fixtures used in meeting hall	3,00,000	10%
Motor taxis used in a business of running them on hire, acquired on or after 23.8.2019 but before 1.4.2020 and is put to use before 1.4.2020.	8,00,000	45%

Classify the assets into different block of assets.

Solution

Block for Buildings	W.D.V. (₹)
First Block (10%)	
Building A	2,40,000
Building B	3,60,000
Building D	5,20,000
	11,20,000
Second Block (5%) Building C	1,20,000

Block for Plant & Machinery	W.D.V. (₹)
First Block (15%)	
Machinery A	40,000
Machinery B	1,00,000
Machinery D	80,000
Car	2,20,000
	4,40,000
Second Block (30%) Machinery C	1,60,000
Third Block (45%)	
Motor taxis used in a business of running them on hire, acquired on or after 23.8.2019 but before 1.4.2020 and is put to use before 1.4.2020	8,00,000

Block for Furniture & Fittings	W.D.V. (₹)
(A) Furniture & Fixture	2,40,000
(B) Furniture & Fixture used in meeting hall	3,00,000
	5,40,000

CALCULATION OF WDV FOR CHARGING DEPRECIATION

Particulars	Amount
WDV of the entire block at the beginning of the previous year	xxx
Add: Asset of the same block, which is acquired during the previous year	xxx
Less: Asset of the same block, which is discarded / sold / destroyed during the previous year. (This amount cannot exceed from the value of opening WDV + value of new asset).	(xxx)
WDV of the block at the end of the year for the purpose of charging current year depreciation.	xxx
Less: Depreciation	(xxx)
WDV at the end of the year	xxx