Article

Rebirth of Investment Allowance

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March 6, 2013

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Rebirth of Investment Allowance

Analytical Speaking

The Budget 2013-14 introduced a Section 32AC, IT Act which provides **one time** investment allowance of 15% on the actual cost of the asset. **Section 32AC as reproduced below –**

> (*1*) Where an assessee, being a company, engaged in the business of manufacture or production of any article or thing, acquires and installs ***new asset*** **(emphasis ours)** after the ***31st day of March, 2013 but before the 1st day of April, 2015*** **(emphasis ours)** and the aggregate amount of actual cost of such new assets ***exceeds one hundred crore rupees*** **(emphasis ours)**, then, there shall be allowed a deduction,—
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> *(a)* for the assessment year commencing on the 1st day of April, 2014, of a sum equal to fifteen per cent. of the actual cost of new assets acquired and installed after the 31st day of March, 2013 but before the 1st day of April, 2014, if the aggregate amount of actual cost of such new assets exceeds one hundred crore rupees; and
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> *(b)* for the assessment year commencing on the 1st day of April, 2015, of a sum equal to fifteen per cent. of the actual cost of new assets acquired and installed after the 31st day of March, 2013but before the 1st day of April, 2015, as reduced by the amount of deduction allowed, if any, under clause (*a*).
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> (*2*) If any new asset *acquired and installed* **(emphasis ours)** by the assessee is sold or otherwise transferred, except in connection with the amalgamation or demerger, within a period of five years from the date of its installation, the amount of deduction allowed under sub-section (*1*) in respect of such new asset shall be deemed to be the income of the assessee chargeable under the head "Profits and gains of business or profession" of the previous year in which such new asset is sold or otherwise transferred, in addition to taxability of gains, arising on account of transfer of such new asset.
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> (*3*) Where the new asset is sold or otherwise transferred in connection with the amalgamation or demerger within a period of five years from the date of its installation, the provisions of sub-section (*2*) shall apply to the amalgamated company or the resulting company, as the case may be, as they would have applied to the amalgamating company or the demerged company.
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> (*4*) For the purposes of this section, "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.'.

What does the section say

New asset acquired in the financial year 2013-14 & 2014-15 will allowed 15% investment allowance along with depreciation benefit. For example, if a company acquires plant & machinery in financial year 2013-14 then investment allowance will be available in the assessment year 2014-15 relating to the previous year in which the "new assets" is acquired and installed after satisfying all the conditions mentioned below:

1. Cost of acquired and installed new plant & machinery should be more than Rs.100 crores;
2. Investment should be made after 31st March, 2013 but before 1st April, 2015; and
3. Companies specifically engaged in the business of manufacture or production of any article or thing.

The provision of section 32AC is explained hereunder with the help of Examples:

Example 1:

Company X (engaged in the business of manufacture or production) acquiring new asset costing Rs. 50 Crore in AY 2014-15 and Rs. 50 Crore in next assessment year, when will be the investment allowance available?

Company shall be eligible to take investment allowance in the AY 2015-16 on the entire amount of Rs. 100 Crore.

Example 2:

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Company X (engaged in the business of manufacture or production) acquiring new asset costing Rs. 100 Crore in AY 2014-15 and Rs. 50 crore in next assessment year, when will be the investment allowance available?

Company shall be eligible to take investment allowance @15% on the entire amount of Rs. 100 crore in AY 2014-15. In the next year i.e. in AY 2015-16 Company is eligible to take investment allowance @15% on Rs. 150 Crore minus allowance already taken in AY 2014-15.

Withdrawal of allowance

However, this investment allowance shall be withdrawn, where:

1) New asset is sold within 5 years from the date of acquisition and installation. In such scenario the amount of allowance availed shall be chargeable to income tax under section head 'Profit & Loss account' in the yeat of sale.

In case the company which has acquired new assets and merges with another company, the 5 year provision shall be applicable to the resultant amalgamated company as well.

What does Section 32AC offer leasing companies?

The new section provides impetus to leasing business to generate more leasing business in plant & machinery segment as additional investment allowance shall have implications on the economics of leasing as well. The lessor can claim 15% deduction if he satisfies the condition mentioned above. However, in leases of less than 5 years, this benefit will not be available.

There are several case laws where the Leasing Companies were allowed additional depreciation u/s 32(1)(iia) of the IT Act. In case of Shaan Finance[1], the Supreme Court held that notwithstanding the fact that the assessee is a leasing company and the plant and machinery leased out by it are not used by the assessee in any industry the assessee is entitled to investment allowance.

Conclusion

This section is come as a blessing to the company basically engaged in the business of manufacture or production of any article or thing. Acquirer is free to take allowance of 15% at the time of acquisition and can claim depreciation for the entire

[1] http://indiankanoon.org/doc/300999/

life of the asset. It's a kind of double benefit which will surely affect the business of manufacturing & production.