

**DEPRECIATION**  
IN RELATION TO  
**INCOME TAX**  
AND ITS  
**RECORD**

BY  
**GURMUKH SINGH.**

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POONA :

Printed and published by Anant Vinayak Patvardhan, at the  
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**Price Three Rupees**

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## ADDITIONS.

( 1st September 1931. )

**Page 6**—Add the following at the foot of the page.

\* (Note by the author) No depreciation allowance is admissible on articles of 'Machinery', 'Plant' or 'Furniture' held as stock-in-trade by Machinery and Plant or Furniture merchants.

**Page 7**—Add the following :—

2 (a) Salt Works :—

(1) Machinery, plant, locomotives, wagons and rolling stock. ... ..	10
(2) Tugs, barges, motor launches and floating plant	7½
(3) General plant and machinery used in engineering shops. ... ..	7½

**Page 8**—Add the following :—

9. Aeroplanes :—

(1) Aircraft. ... ..	25
(2) Aero-engines. ... ..	33½
(3) Aerial photographic apparatus. ... ..	20

**Page 21**—Add the following after line 8.

The Bombay High Court has however disagreed with the above Madras High Court Ruling; vide *Saraspur Mills Co. Ltd. Ahmedabad, vs. the Commissioner of Income-tax, Bombay Presidency*, where it has been ruled that the original cost to assessee means the original cost to the person who is actually being assessed during the year.

**Page 23**—Add the following at the foot of the page.

However, where a firm suffers loss, but the individual partners thereof have other income, Depreciation should be added to the loss of the Firm, as effect to Depreciation allowance can be given from the other profits of the partners concerned (vide *Ballarpur Collieries vs. the Commissioner of Income-tax, C. P. and Berar.*)

**Page 24**—Add the following at the top of the page.

The general principle is that replacements and renewals, value of which does not materially exceed the original cost of the parts of machinery, etc., replaced or renewed or which do not add to the existing working capacity of the machinery etc., should be treated as Revenue i. e. 'Repair' charges.

This rule also applies to replacements or renewals necessitated by accidents:

The Departmental practice, however, is that any replacement or renewal which is not so extensive as to destroy the identity of the machinery or plant should be charged to Revenue, instead of being treated as Capital expenditure.

In case the cost of renewals or replacements is so extensive as to destroy the identify of the machinery or plant etc., the original cost of the machinery etc., or parts thereof replaced or renewed should immediately be written off the block account in the Depreciation record, and the cost of renewals or replacements treated as capital expenditure.

The burden of proving the original cost of machinery, etc., replaced or renewed, which should always be verified, lies on the assessee, and if he fails to prove it, by means of original invoices, etc., or a certificate of the estimate of cost from a competent authority the cost of renewals etc., should then neither be allowed as a 'repair' charge nor should it be treated as 'Capital expenditure'.

## Second List of Addenda and Corrigenda.

**Page 7**—In the first column of the statement insert the word “Typewriters” before the words “plant used in connection with...etc.” also at the end of the same para, add “plant and machinery used in the manufacture of coke” after the word “machines”.

**Page 7**—Add the following as a new para 2 (a)

2 (a)—Salt works—

- (1) Machinery, plant, locomotives, wagons and rolling stock. 10
- (2) Tugs, barges, motor launches and floating plant. 7½
- (3) General plant and machinery used in engineering shops. 7½
- (4) Reservoirs, condensers, salt pans, delivery channels and piers, if constructed of masonry, concrete, cement, asphalt or similar materials. 5  
Note.—Repairs to earth works of the same kind will be allowed as revenue expenditure.
- (5) Piers, quays and jetties constructed entirely or mainly of steel. 5
- (6) Piers, quays and jetties constructed entirely or mainly of wood. 10
- (7) Pipe lines for conveying brine if constructed of masonry, concrete, cement, asphalt or similar materials. 10

**Page 12**—Para 6, insert the words “and motor cars, if used for profession” between the word “such instruments” and “should be”.

**Page 16** - Add the following paragraphs after paragraphs 5 on page 16 :-

Where a building is used (e. g.) partly for business and partly for some agricultural purpose (e. g.) partly for the storage of grain bought for sale and partly for the storage of the produce of owner's own fields, the procedure is to calculate depreciation on the whole building year by year and allow a fraction of the depreciation allowance

that would be due on the whole building corresponding approximately to the proportion of the building that is used for business.

If the proportion varies from year to year, the income-tax Officer will have to inspect the building, or get his Inspector (if he has one) to do so. It clearly would not be legal to disallow the whole claim.

The allowance for a part of the building of course, satisfies the entire claim for depreciation each year. There is no "unabsorbed depreciation" to be carried forward on this account.

Buildings used for the operations of tea estates present no difficulty. The difficulty of deciding how much of such a building is used for business and how much for agriculture is met by Rule 24.

**Page 21** - Add the following at the end of previous correction on this page.

This ruling is now being followed in all Provinces other than Madras, even though where Madras ruling was followed in the past.

The procedure in the case of succession in other Provinces than Madras now is that where the profits of the predecessor are being assessed in the *first* year after succession any \* accumulated depreciation due to the predecessor is allowed to the successor, but this is not recorded as depreciation allowed against the original cost to the successor, nor is any balance of predecessor's depreciation, still unabsorbed, carried forward to the next year. From the next year only, i. e. when the successor's own profits are assessed, depreciation is allowed on the original cost to *him* and is recorded in a new Depreciation record, year for the write off of the block account being determined with reference to this year only.

Note - Accumulated Depreciation to the predecessor means the balance of Depreciation due to the predecessor at the end of the last year plus Depreciation due to the predecessor for the year, based on the cost of machinery etc. to the predecessor.

**Page 25** - Add the following paragraphs after line 3 on page 25. -

In case Depreciation has been allowed in excess in previous years, the excess previously allowed cannot be adjusted by the Income-tax Officer, *suu motu*, except as permitted by Section 34 or Section 33 of the Act. In

such cases the block account is, however, written off as soon as cent percent Depreciation has been allowed.

In cases where cent per cent Depreciation has already been allowed and that machinery or building etc. is sold off, the value thereof should be treated as income, inasmuch as the whole cost having already been allowed anything received after that is income.

Where an assessment is made under Section 23 (4) of the Act, Depreciation is taken to have been allowed in full, including arrears, if any, (Messers. Government Mail Motor Service, Rawalpindi vs. the Commissioner of Income-tax, Punjab).

**Index Page v - under "S"**

Add the following as second. item.

"Sale - value of old machinery, etc." — 25

### Third Addendum and Corrigendum to 'Depreciation in Relation to Income-Tax and its Record'.

Page 36.—After the 10th line, add the following :—

In the case of excess allowance in previous years the year of the write off of the block account is rectified by moving the figures in Columns 11, 12 and 13 upwards, by the number of years during which the excess depreciation allowed, would be absorbed, requisite adjusting entry being made in Column 13 of the record simultaneously.

Also, so that the excess depreciation shown as minus entry in Column 17 may be wiped off, in the year of the write off of the block account, a plus entry to that extent should be made in Column 17 against the year of the write off of the block account as now determined. The following illustration will explain clearly the above :—

Suppose that through some error, incorrect calculations of the depreciation to be allowed were made in the years 1922-23, 1923-24, and 1924-25, regarding machinery on which ordinarily 5% depreciation is allowed. In the year 1928-29, the excess was found out by an Inspecting Officer. As the excess allowed cannot now be adjusted either through action under Section 34 or Section 33 of the Indian Income-tax Act of 1922, it is rectified by moving the year for the write off of the block account. Illustrative entries are given in the appended Depreciation Record. It would be observed therefrom that at first the year of write off of the block account was 1941-42. Now that Rs. 2100/- have been allowed in excess, depreciation admissible for the last 4 years (viz. Rs. 2000/-) would be set off against the excess. Thus the year for the write off of the block account will be moved up against the year 1937-38 and Rs. 100/- of the excess, still unadjusted will be noted as a minus entry in Column 13 of the record. Plus Rs. 2100/- will be entered in Column 17 and a remark explaining the entry in Column 18.





Record of complete Account for Depreciation.							Remarks.
Year of original expenditure.	Amount of Depreciation which ceases in the year after the year of entry.	Total depreciation on columns 2-9.	Depreciation to be taken into account in assessment including amount carried forward from previous years (columns 13 & 17).	Depreciation actually allowed.	Allowance under section 10 (2) (vii).	Balance to be carried forward to column 14 next year.	
11	12	13	14	15	16	17	18
		2,500	2,500	3,500		-1000	
		2,500	1,500	3,500		-2000	
		2,500	500	2,600		-2100	
		2,500	400	2,500		-2100	
		2,500	400	2,500		-2100	
		2,500	400	2,500		-2100	
1922-23	2000 (20000)						
1922-23	500 (10000)	-100				(a) 2100	(a) Adjustment of Excess allowance in 1922-23, 1923-24 and 1924-25.
1922-23	500 (30000)						

## P R E F A C E .

In compiling this pamphlet, my main object is not only to explain how, when and on what articles Depreciation can be claimed by the public and granted by the Income Tax Officers, but also to delineate certain technicalities in procedure, intricacies in legal application and complexities in posting the Depreciation record in the form prescribed by the Central Board of Revenue.

I have also proposed at the end of this pamphlet a revised form, which might simplify the up keep of the Depreciation Record.

My effort has been to make this pamphlet as brief, as concise, as clear and as plainly intelligible as possible, so that it may serve the purpose of an easy and ready handbook of reference on the subject. Whereas instructions of the Central Board of Revenue in the Income Tax Manual have been reproduced in chapter II, further exposition of the Law and practice has been delineated in Chapter III. Hence Chapters II and III are interdependent and should be read and referred to together to understand fully the interpretation of Law as actually applied in practice.

Perhaps, I should also make it distinctly clear, in view of my official position, that this pamphlet has been compiled by me in my private capacity only and that responsibility for its contents is entirely mine.

POONA, }  
The 23rd Oct. 1930. }

GURMUKH SINGH.

### ERRATA.

PAGE	LINE	INCORRECT	CORRECT.
27	7	or	to
33	Column 12	3 insert ' after the year '	after ' year '
47	" 14	4 column	columns
50	" IA	origina	original
59	31	Obsolecence	Obsolescence
63	Column 13	2,30,614	2,30,684
63	Column 18	15 Sodi	Sold

# TABLE OF CONTENTS.

## Chapter I—Introductory.

Commercial custom in regard to interest on Capital and Depreciation ; Practice under the old acts—Different rates for various Provinces—same rates continued under acts of 1886 and 1918—Table of old different rates—Committee appointed after passing of the Act of 1918 evolved uniform rates—brought into force with the Act of 1922.

## Chapter II—Statutory provision of Law.

Section 10 (2) (vi), (vii) & (vii a) of the Act of 1922—Present rates of Depreciation. Instructions of the Central Board of Revenue in the Income Tax Manual—Replacements to be allowed in certain cases instead of Depreciation—e. g. Printing Press Types, Theatre curtains and other rapidly wasting plant—Permanent way of electric tramways—Items below ground, meaning of—Railways—no depreciation admissible on professional equipments—shares and securities, depreciation or appreciation of—obsolescence allowance—Dead or useless animals—form of prescribed particulars.

## Chapter III—Law-in-practice.

Condition for the claim of Depreciation—Factories, Machinery &c. leased or let out by the owner—used for business—Pools. Definition of Machinery and Plant—to whom Depreciation allowance can be granted—Shipping Cos :—original cost to the assessee in case of succession—Date from which Depreciation is admissible—Result of not furnishing prescribed particulars—arrears not effected, effect on Depreciation Record—Depreciation ceases from the date the Machinery becomes useless—Each year's expenditure treated as a separate block account—verification of prescribed particulars by the Income Tax officer—Burden of proof on the assessee—meaning of "chargeable" and "full effect"—Practice—Depreciation records not kept in the mofussil for the allowance granted under the old Acts—kept in large towns only—How to collect information to write up old Depreciation Records—arrears at the end of 1921-22—obsolescence allowance, meaning of obsolete—admissible for the year only.

## Chapter IV—Record of Depreciation.

Form of Depreciation Record—working notes for posting—How to calculate Depreciation—two methods—How to determine years for the write off of old block accounts—methods of writing up Depreciation record—entries in columns 11 to 17 to be made by the Income Tax Officer, in his own hand—Depreciation Records for 1926-27, 1927-28, 1928-29, 1929-30 and 1930-31, how written 'Electric Machinery' how separated from 'ordinary machinery' and record written.

## Chapter V—

Proposed revised form with notes for its posting.

## INDEX.

### A

	PAGE.
Accidents—Machinery rendered useless—how treated. ...	22 & 35
Accidents—Machinery rendered useless—how depreciation record written up—in case of ...	35
Additions—Depreciation allowed for full year on ...	49
Animals—used for business. ...	14
Assessee—Interpretation of ...	20
Assessments—made in summary way—under 1886 Act—How depreciation treated. ...	24

### B

‘Below ground’—Meaning of—in the case of mineral oil Companies. ...	12
Block account—Year of write off—Determination of ...	39
Block account—Expenditure of each year treated as a separate. ...	22
Buildings used for housing employees—taken as used in connection with business. ...	9
Buildings—residential—No depreciation admissible on ...	16
Burden of proving—Non—grant of Depreciation under old acts on the assessee. ...	25
Business—previously not liable to tax—how to allow Depreciation in such a case. ...	12 & 13
Business—Succession—how Depreciation allowed ...	9

### C

Capital—Amortisation of—Depreciation not admissible for ...	12
“Chargeable”—meaning of ...	23
Commercial custom—real profits—how arrived at ...	1
Condition for the grant of Depreciation. ...	9

### D

Date from which Depreciation is admissible. ...	21
Dental instruments—No depreciation admissible on ...	12
Depreciation admissible to the owner ...	9 & 18

	PAGE.
Depreciation admissible on leased out or let out machinery etc., but not on sub-leased. ....	16
Depreciation allowance—Sine-qua-non for ....	16 & 21
Depreciation—how allowed in the case of succession to business ....	9
Depreciation—Instructions about—by the Central Board of Revenue ....	9 to 14
Depreciation—Calculation of—Method of ....	36 & 37 58 & 59
Depreciation—in respect of one business can be set off—against the profits of other business or other heads of income ....	10
Depreciation—not admissible on furniture, machinery and plant held as stock-in-trade ....	6
Depreciation—not admissible on residential buildings, but admissible on shops and godowns ....	16 18
Depreciation—of assets—dead loss ....	1
Depreciation rates—Uniformity of—how attained. ....	3 & 9
Depreciation rates prescribed by the Central Board of Revenue 6, 7, 84,	
Depreciation—Shipping Companies ....	18 & 19
Depreciation record—form of—with Board's instructions ....	27 to 33
Depreciation record—method of posting of—Further working notes ....	35 to 37
Depreciation record—Sales—how shown in ....	49
Depreciation record—Typical entries—posted in—for five years—with explanatory notes ....	37 to 85
Depreciation record—present defects in ....	86
Depreciation records—new proposed form—with instructions for posting ....	86 to 93
Depreciation—under the Old Acts—allowed in different provinces	2 & 3
Depreciation under the Old Acts—how treated ....	24
Depreciation under the Old Acts—Non-grant of burden of proving on the assessee ....	25
Determination of the year of write off of Block account ....	39

## E

“Effect” and “full effect”—meaning of ....	23
Entries—illustrative—typical in 5 Depreciation records with explanatory notes ....	37 to 85

	PAGE
Expenditure of each year—treated as a separate Block account ...	22
<b>F</b>	
Firm suffering loss—individual partners having other income—Depreciation should be added to the loss of the Firm, ...	23 & 24
Form of prescribed particulars ...	15
Form of Depreciation record with Board's instructions ...	27 to 33
Form of proposed new Depreciation record—with instructions for posting ...	86 to 93
Fraction of a year—in grant of Depreciation—how dealt with ...	35
Furniture—held as stock-in-trade—Depreciation—Not admissible on ...	6
Furniture—replacements admissible instead of Depreciation ...	10 & 11
<b>G</b>	
Godowns and shops—Depreciation on—Admissible ...	18
<b>H</b>	
Harbour—neither machinery nor plant ...	18
<b>I</b>	
Illustrative entries—typical—in 5 Depreciation records with explanatory notes ...	37 to 85
Interpretation of assessee ...	20
Instructions by the Central Board of Revenue; in re : Depreciation ...	9 to 14
Interest on capital—why added to income for income-tax purposes. ...	1
<b>L</b>	
Leased out—Machinery etc.—Depreciation admissible on ...	16
Live stock—used for business ...	14
<b>M</b>	
Machinery—incorrect nomenclature of—how rectified ...	35 & 77
Machinery—held as stock-in-trade—no Depreciation allowance—admissible on ...	6



	PAGE.
Machinery--Original cost--includes setting up, experiments, pay of Engineers, etc. ...	10
Machinery and plant--definition of ...	17
Machinery--rendered useless by accident--how treated ...	22
Methods of calculating Depreciation ...	36 & 37 58 & 59

## N

Nomenclature--incorrect--of machinery--how rectified ...	35 & 77
Non-submission of prescribed particulars--Depreciation and Record--effect on ...	21 & 22 & 68

## O

Obsolescence allowance--how given and calculated ...	13 & 25 26 & 59
Obsolescence allowance to shipping Companies ...	20
Oil companies--mineral--meaning of "Below ground". ...	12
Old Acts--Depreciation allowed under--different Pro- vinces ...	2 & 3
Option allowed in the case of Railway and Tramway business ...	9
Original cost--includes cost of setting up machinery, etc., not cost of removal ...	10 & 20
Owners of machinery etc, only granted Depreciation ...	18

## P

Plant--held as stock-in-trade--No Depreciation admis- sible on. ...	6
Plant and Machinery--definition of ...	17
Pools ...	16 & 17
Prescribed particulars--form of ...	15 & 21
Prescribed particulars not furnished--Effect of--Deprecia- tion and record ...	21 & 22 & 68
Prescribed particulars must be verified--How to do so ...	22 & 23
Printing Presses--Types--Replacements admissible ...	11
Profits--real--how arrived at--commercial custom and principles of Book-keeping ...	1

	PAGE.
Professional equipments—No depreciation admissible on ...	12
Proposed new Depreciation record form with instructions for Posting ...	86 to 93
Posting of—Depreciation record—further working notes. ...	35 to 37

## R

Railway business—option allowed ...	9 & 12
Railways—No Depreciation allowed on Rolling stock ...	12
Rates of Depreciation in force at present ...	6,7,8, & 9
Rectification of incorrect nomenclature of machinery ...	35 & 77
Renewals and replacements—When to be charged to Revenue ...	24
Repairs—cost of—to machinery and buildings—allowed in addition to Depreciation ...	1

## S

Sales—how shown in Depreciation record ...	49
Set off—of Depreciation in respect of one business against profits from other businesses or other heads of income ...	10
Setting up—Machinery—cost of—included in original cost ...	10
Shares and Securities—Depreciation of ...	13
Shipping Companies—Depreciation on ...	18 & 19
Shipping Companies—Obsolescence allowance not admis- sible ...	19
Shops and godowns—Depreciation admissible on ...	18
Sine-Qua-non for Depreciation allowance ...	16 & 21
Stallion—Neither machinery nor plant but live stock ...	18
Statutory provision in the Indian Income-tax Act of 1922 for allowing Depreciation etc. ...	5 & 6
Sub-lease—Machinery, etc.—No Depreciation admissible ...	16
Succession to business—How depreciation allowed ...	9
Surgical instruments—No Depreciation admissible on ...	12

## T

Theatres—curtains, etc. replacements admissible ...	11
Tramway business—Option allowed ...	9 & 12

	PAGE.
Tramways—Electric—instructions about	... 11
Types—Printing Presses—Replacements admissible	... 11

**U**

Uniformity of—Depreciation rates—How arrived at	... 3 & 4
---	-----------

**W**

Write off—year of—Block account—Determination of	... 39
--	--------

**Y**

Year of—Write off of Block account—Determination of	... 39
---	--------

---