

DEPRECIATION
IN RELATION TO
INCOME TAX
AND ITS
RECORD

BY
GURMUKH SINGH.

POONA :

Printed and published by Anant Vinayak Patvardhan, at the
Aryabhushan Press, House No. 936/2 Bhamburda Peth,
Poona City.

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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.

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Chapter V—

Proposed revised form with notes for its posting.

DEPRECIATION

IN RELATION TO

Income Tax and its Record.

CHAPTER I.

INTRODUCTORY.

It is a long established commercial custom and well-known principle of book keeping that real profits arising out of any business can not be ascertained without deducting "interest on capital employed in the business" and value of Depreciation or wear and tear of assets from the gross profits, otherwise computed.

Interest on capital invested, is deducted to know what the business has actually yielded, for the interest would have accrued even if the capital had been locked up in a Bank. Thus the real profit from a business is only that amount which has been earned in addition to interest on capital. Of course, interest on capital is added to the income of the proprietor of the business, for Income Tax purposes, not so much to determine the profits of the business, as to determine the income of the proprietor, as it is the total income of the proprietor (i. e. interest plus profit from business) that is taxable under the provisions of the Income Tax Act and not profit from business alone.

As regards Depreciation or wear and tear of assets, it is a dead loss to the proprietor, for in course of time, machinery and buildings and other articles used for carrying on business, become useless and require replacement or renewal. Hence, in order to recoup the initial capital invested, the proprietor of the business writes off an appropriate part of such initial capital from the annual gross profit of his business. Thus as the write off of Depreciation is only to recoup the sure loss of capital investment in machinery, buildings and other articles used for business, due to their "wear and tear" cost of their repairs is allowed in addition, as without repairs to buildings, and machinery &c., it would be impossible to keep them in such a state as to obtain proper and adequate outturn from them.

Prior to the enactment of one All-India Act i. e. I. T. Act of 1886, there were in force local Acts in the respective Presidencies. Depreciation was then being allowed in different ways in the various

provinces. Under the Act of 1886, the different provincial procedures still continued to be followed in the various Provinces—They were as summarised in the table appended below :—

Statement showing the allowances granted in the various provinces for depreciation on machinery, plant and buildings.

Province.	Depreciation allowance.	Remarks.
Madras.	On machinery.—6 per cent. on the original value of machinery and plant to cover renewals and repairs.	The aggregate of the allowances made may not exceed the original cost of the machinery plus any capital expenditure by way of renewal, improvement or reinstatement. When in any year the full allowance admissible had not been claimed, the deficit could be added to the allowance claimable in subsequent year.
	On buildings.—No allowance was given.	
Bombay.	On machinery.—The actual amount written off in the accounts, subject to a limit of 5 per cent. on written-down value.	Where a larger amount than 5% was written off in the accounts of any one year, the excess was allowed out of taxed profits of past years, provided that the total allowance on account of depreciation did not exceed an average of 5% for each year of the concern's existence, and that any surplus not allowed, could be taken into account in taxing the profits of subsequent years.
	On buildings.—2½ per cent. for buildings which housed heavy machinery in lieu of the actual cost of repairs and maintenance.	
	Allowance on buildings was granted from 1912-13 only.	
Bengal.	On block generally.—Actual appropriation of the year subject to the following maxima per cent :—	Capital cost of block was taken from the published accounts.
	(i) Iron foundries & machine shops 10	
	(ii) Paper Mills 7½	
	(iii) Ice Mills 7½	
	(iv) Jute and cotton mills	} 5
	(v) Oil mills	
	(vi) Silk mills	} 2½
	(vii) Steam printing presses	
	(viii) Hydraulic presses	} 2½
	(ix) Bone crushing mills	
	(x) Flour mills	
	(xi) Glass manufactories—	
	(a) Buildings 2½	
	(b) Furnace 10½	

Province.	Depreciation allowance.	Remarks.
U. P.	On machinery-5% on the capital value (in lieu of the amount actually written off in the accounts.) On buildings.-2½% on the capital value (in lieu of the amount actually written off in the accounts.)	
Punjab.	On machinery & buildings. Amounts actually applied to writing down block.	
Burma.	On buildings & machinery. Actual appropriation to depreciation in the accounts of the year.	
Bihar & Orissa. C. P.	5 p.c. on the value of block of Jute and Cotton mills only. On buildings & machinery. Actual appropriation to depreciation in the accounts of the year.	
Assam.	Where accounts were audited. On block generally-5% on value of block. Where accounts were not audited. On buildings. One-sixth of estimated letting value. On machinery. Either actual expenses on repairs, or, occasionally, 5% on initial cost.	Capital cost was taken from the audited balance sheets.
N.W.F.P.	No information available.	
Delhi.	On machinery & buildings containing heavy machinery. Sums actually set aside in the accounts subject to a maximum of 5% of the written down value of the machinery & 2½% of the written down value of buildings.	When in any year the full allowance admissible had not been claimed, the balance could be added to the allowance, for the following year or subsequent years, provided that the aggregate total allowances did not exceed an average of 5% & 2½% respectively for each year that the machinery and buildings had been in existence.

With the passing of 1918 Income Tax Act, the question of introducing uniform rates of Depreciation, throughout India and Burma was taken up by the Government of India, as the actual practice had given rise to a considerable amount of complaint. Representations had frequently been made, firstly, that the allowances fixed in some of the Provinces were inadequate and secondly that there was an unnecessary discrepancy between the allowance given in different Pro-

vinces for the same class of machinery. Hence the Government of India addressed the Local Governments for ascertaining, in consultation with experts and reporting the appropriate rates of Depreciation. Though the Government of India was doubtful whether absolute general uniformity could be attained, owing to the effects of varying climatic conditions on machinery in different provinces, yet the committee convened for the purpose achieved their object admirably well in evolving uniform rates of Depreciation allowance for the whole of India and Burma. However, these uniform rates did not come into force until the Income Tax Act of 1922 (i.e. the present act.) was passed and brought into force. Thus it was that even under the Act of 1918, the old rates of depreciation prevailing in different Provinces continued to be in force.



CHAPTER II.

Statutory provision of Law-for Depreciation.

The law relating to the allowance of Depreciation &c. is laid down in Section 10 (2) (vi), (vii) and (vii a) of the Indian Income Tax Act of 1922, as amended up to date. It is reproduced below :—

10. (1) The tax shall be payable by an assessee under the head "Business" in respect of the profits or gains of any business carried on by him :—

(2) Such profits or gains shall be computed after making the following, allowances, namely :—

(i) to (v) * * *

(vi) In respect of depreciation of such buildings, machinery, plant, or furniture being the property of the assessee, a sum equivalent to such percentage on the original cost thereof to the assessee as may in any case or class of cases be prescribed :

Provided that—

(a) the prescribed particulars have been duly furnished

(b) where full effect cannot be given to any such allowance in any year owing to there being no profits or gains chargeable for that year, or owing to the profits or gains chargeable being less than the allowance, the allowance or part of the allowance to which effect has not been given, as the case may be, shall be added to the amount of the allowance for depreciation for the following year and deemed to be part of that allowance or if there is no such allowance for that year, be deemed to be the allowance for that year, and so on for succeeding years, and

(c) the aggregate of all such allowances made under this Act or any Act repealed hereby, or under the Indian Income Tax Act, 1886, shall, in no case, exceed the original cost to the assessee of the buildings, machinery, plant, or furniture, as the case may be ;

(vii) in respect of any machinery or plant which, in consequence of its having become obsolete, has been sold or discarded the difference between the original cost to

the assessee of the machinery or plant as reduced by the aggregate of the allowances made in respect of depreciation under clause (vi), or any Act repealed hereby, or the Indian Income-tax Act, 1886, and the amount for which machinery or plant is actually sold, or its scrap value ;

(vii) in respect of animals which have been used for the purposes of the business otherwise than as stock in trade and have died or become permanently useless for such purposes, the difference between the original cost to the assessee of the animals and the amount, if any, realised in respect of the carcasses or animals ;

The rates of Depreciation allowance prescribed by the Central Board of Revenue for different kinds of buildings, machinery, plant, or furniture are contained in Rule 8 and are reproduced below :

8. An allowance under section 10 (2) (vi) of the Act in respect of depreciation of buildings, machinery, plant or furniture shall be made in accordance with the following statement.—

Class of buildings, machinery, plant or furniture.	Rate	Remarks.
	Percentage on prime cost.	
1 Buildings*		
(1) First class substantial buildings of selected materials ...	2½	*Double these rates may be allowed for buildings used in industries which cause special deterioration, such as chemical works, soap and candle works, paper mills, and tanneries.
(2) Buildings of less substantial construction ...	5	
(3) Purely temporary erections such as wooden structures ...	10	
2 Machinery Plant or Furniture†		
General rate ...	5	
Rates sanctioned for special industries—		
Flour Mills, Rice Mills, Bone Mills, Sugar Works, Distilleries, Ice Factories, Aerating Gas Factories, Match Factories ...	6½	†The special rates for electrical machinery given below may be adopted, at firm's option, for that portion of their machinery.
Paper Mills, Ship Building and Engineering Works, Iron and Brass Foundries, Aluminium Factories, Electrical Engineering Works, Motor Car Repairing Works, Galvanizing Works, Patent Stone Works, Oil Extraction Factories, Chemical Works, Soap and Candle Works, Lime Works, Saw Mills, Dyeing and Bleaching Works, Furniture and Plant in hotels and boarding houses, Cement Works using rotary kilns...	7½	

Class of buildings, machinery, plant or furniture.	Rate.	Remarks.
	Percentage on prime cost.	
Plant used in connection with brick manufacture, tilemaking machinery, optical machinery, glass factories, Telephone Companies, Mines and Quarries, Tubewell boring plant, concrete pile driving machines	10	
Sewing machines for canvas or leather	12½	
Motor Cars used solely for the purpose of business	15	
Indigenous sugarcane crushers (Kohlus or Belans)	15	
Motor Taxis, Motor Lorries and Motor Buses.	20	
Ropeways Kopes Trestles sheaves & connected parts	25	
Ropeway structures—		
(i) Trestle, & Station Steel Work	5	
(ii) Driving & Tension gearing	7½	
(iii) Carriers	10	
3 Electrical Machinery—		
(a) Batteries	15	
(b) Other electrical machinery, including electrical generators, motors (other than tramway motors), switchgear and instruments, transformers and other stationary plant and wiring and fittings of electric light and fan installations...	7½	
(c) Underground cables and wires	6	
(d) Overhead cables and wires	2½	
4 Hydro-Electric concerns—		
Hydraulic works, pipe lines, sluices, and all other items not otherwise provided for in this statement	2½	
5 Electric Tramways—		
Permanent way—		
(a) Not exceeding 50,000 car miles per mile of track per annum	6½	
(b) Exceeding 50,000 and not exceeding 75,000 car miles per mile of track per annum	7½	
(c) Exceeding 75,000 and not exceeding 125,000 car miles per mile of track per annum	8½	
Cars-car trucks, car bodies, electrical equipment and motors	7	
General Plant, machinery and tools	5	
6 Mineral Oil Concerns—		

Class of buildings, machinery, plant or furniture.	Rate	Remarks.
	Percentage on prime cost.	
A. Refineries—		
(1) Boilers	10	
(2) Prime movers	5	
(3) Process plant	10	
B. Field Operations—		
(1) Boilers	10	
(2) Prime movers	5	
(3) Process plant	7½	
Except for the following items—		
(1) Below ground—All to be charged to revenue		
(2) Above ground—		
(a) Portable boilers, drilling tools, well head tank, rigs, etc.	25	
(b) Storage tanks	10	
(c) Pipe lines		
(i) Fixed boilers	10	
(ii) Prime movers	7½	
(iii) Pipe line	10	
7 Ships—		
(1) Ocean—		
(a) Steam	5	
(b) Sail or tug	4	
(2) Inland		
(a) Steamers (over 120 ft. in length)	5	
(b) Steamers including Cargo launches (120 ft. in length and under)	6.	
(c) Tug boats	7½	
(d) Iron or Steel flats for cargo, etc.	5	
(e) Wooden cargo boats up to 50 tons capacity	10	
(f) Wooden cargo boats over 50 tons capacity	7½	
(g) Motor launches	10	
(h) Speed boats (a)	15	
8 Mines and Quarries—		
(1) Railway sidings* (excluding rails)	5	
(2) Shafts	5	
(3) Inclines*	5	
(4) Tramways on the surface* (including rails)	10	
		*Depreciation on rails used for tramways and sidings, and in inclines where the rails are the property of the assessee, is allowed at 10 per cent. under item 2 above (plant used in connection with Mines and Quarries) in addition to any depreciation allowance on the cost of constructing the tramways sidings or inclines.

(a) "Speed Boat" means a motor driven boat with a high speed internal combustion engine capable of propelling the boat at a speed exceeding 15 miles per hour in still water, and so designed that when running at speed it will plane i.e. its bow will rise from the water.

An assessee deriving income from a railway or tramway business may at his option require that in computing the profits or gains of such business the following allowance shall be made in lieu of the allowances specified in clause (v), clause (vi) and clause (vii) of subsection (2) of section 10 of the said Act, namely, the actual expenditure incurred by the assessee during the previous year on repairs, replacements and renewals of plant, machinery, buildings and furniture which are the property of the assessee.

Provided that an assessee who in any year has exercised the option hereinbefore conferred shall not be entitled save with the consent of the Commissioner of Income-tax to withdraw that option in any subsequent year.

Provided further that nothing in this notification shall apply to an electric tramway.

Departmental instructions issued by the Central Board of Revenue in the matter of Depreciation, as incorporated in the Income Tax manual are also reproduced below :—

“Allowances in respect of depreciation. (Section 10 (2) (vi)).— The allowances permissible under this clause are prescribed in rule 8 and the information that must be furnished in order to obtain an allowance is set out in rule 9. It is only the particular classes of buildings, machinery, plant or furniture mentioned in Rule 8 in respect of which the Depreciation allowance can be claimed, and the buildings, machinery, plant or furniture for which depreciation allowance is claimed must be used for the purposes of the particular business of which the profits or gains are being computed. No allowance can be claimed on account of depreciation, for example, of any portion of a building which is used as a residence by the assessee. Further, the Buildings, etc., must be the property of the assessee. No allowance can be claimed if they are leased from others.

Buildings belonging to the owner of a business and used by him in order to house his employes are buildings used for the purpose of business if the owner charges no rent. If, however, rent is charged, section 9 would apply.

The Madras High Court in Commissioner of Income-tax, Madras, versus Messrs. Massey & Co., Ltd., Madras, have ruled that when a person succeeds to a business, he is entitled to carry forward for the purpose of assessment the unexhausted depreciation allowance in respect of buildings, machinery, plant etc., due to his predecessor in the years previous to the succession. The depreciation allowance due to the successor on account of the buildings, machinery, etc., taken

over by him should therefore be worked out on the basis of the original cost to the predecessor and not on the value at which the building, machinery, etc., are taken over by him.

Depreciation should be allowed on the cost of setting up machinery and plant, that is, the expression "original cost" in Section 10 (2) (vi) should be held to include the cost of freight, pay of Engineer and staff who erect the machinery, put it in working order, and carry out experiments to test it. The rates of depreciation allowance fixed in rule 8 are fixed rates for the whole of India. Depreciation at those rates must be allowed each year when there are sufficient profits, and only the excess of the depreciation allowance over profits can be carried forward from year to year until absorbed, and this practice must be followed whether the depreciation allowance is adjusted in the accounts of the assessee or not and irrespective of the amount shown in the accounts. It is for this reason that in the form of returns of income prescribed in rules 18 and 19 any amounts entered in the accounts of an assessee for the depreciation of any of the assets of the business must be written back as the amount allowed for income-tax purposes is the amount prescribed in the rules and not the amount entered in the books of the assessee.

Where an assessee owns more businesses than one, any part of the depreciation allowance in respect of one business, that cannot be set off against the profits of the same business, owing to the profits in question being insufficient, shall be set off, if possible, against the profits for the same year of any other business or businesses owned by the assessee. Any amount of depreciation that cannot be set off against the assessee's business profits for the same year, whether he owns one business or more, shall be set off under Section 24 against his income, profits or gains under any other head in that year. Any part of the depreciation allowance due to an assessee that cannot be set off against his income, profits or gains under all heads for the year in question shall be carried forward to the next year under proviso (b) to sub-section (2) (vi) of Section 10 of the Act. The assessee should not be allowed the option of either setting off unabsorbed depreciation allowance against the profits of any other business or against other heads of income, profits or gains on the one hand or carrying it forward on the other.

This clause provides for the depreciation of furniture, but it may not suit the convenience of particular traders to ask that a depreciation account should be kept up for petty items of furniture and a depreciation allowance on account of furniture should, therefore, be granted only in cases in which it is asked for, in which event the cost

of replacement* should not be allowed; where such depreciation allowance is not asked for, the cost of replacement should be allowed in the year in which the furniture is replaced.

Whatever depreciation allowances are granted, it will be necessary to maintain an account showing the original cost to the assessee of the plant, the amount of the annual allowance, the amount of the allowances already granted and the balance still to be allowed.

The percentage allowance fixed in the rule for the permanent way of electric tramways only covers cases where the number of car miles per mile of track does not exceed 125,000 car miles per annum. Where the number of car miles per mile of track per annum exceeds 125,000 special terms will have to be made in each case. Similarly special consideration should be given to each case where there are special circumstances, such as exceptional gradients, the compulsory use of wood paving, etc., tending to show that the car mileage does not fairly represent the wear and tear of the track. The cost of renewing concrete foundations should be allowed as a trading expense as and when incurred, provided that, if the renewed foundations are an improvement on the old ones, so much of the cost of the renewed foundations as represents such improvement should not be admitted as a trading expense. Amounts received for the old materials, whenever renewals are effected, should be credited against the cost of the renewals, and if the old materials are not disposed of at the time or are used for other purposes, their estimated value should be deducted, subject to adjustment if necessary, as and when the old materials are disposed of. The percentages fixed for the depreciation of the permanent way are based upon the estimated life of a track from a consideration of the number of car miles per mile of track, and consequently these percentages may vary in connection with the same undertaking. It must be clearly understood that the revision of the life of a track need not necessarily be deferred till the whole track is renewed because it may become clear before that date that revision is necessary either in the direction of increasing or decreasing the average life. As regards the rate for general plant, machinery, and tools, all other plant and machinery including workshop tools but excluding loose implements, office furniture and small articles which require frequent renewals (expenditure on which is allowed as a business expense against revenue), should be lumped together and the rate of 5 per cent. depreciation should be allowed thereon in

* Note by the author. Similarly in the case of Types of a Printing Press only replacements should be allowed, being more advantageous to the owners, as a matter of fact, this principle is applied to curtains and other paraphernalia of Theatres and such other articles of machinery and plant which are of the rapidly exhausting nature.

addition to the cost of repairs. No depreciation should be allowed on overhead equipment, i. e., trolley wires and connections; all expenditure on maintenance and renewals should be charged as working expenses, as and when incurred.

The item "Below ground-all to be charged to revenue" in exception (1) under item 6 (Mineral oil companies)—B. (Field operations), in Rule 8 means that on the plant in question (pipes, etc.) below ground, depreciation is to be allowed at 100 per cent. so that if the profits are insufficient in any year to allow of the full 100 per cent. being written off against them, the balance can be carried forward under proviso (b) to section 10 (2) (vi) of the Act to subsequent years.

No depreciation allowances are granted to railways on account of depreciation of their rolling stock as renewal charges are allowed as a business deduction.

An assessee deriving income from a railway or tramway (other than an electric tramway) business may at his option require that in computing the profits or gains of such business the following allowance shall be made in lieu of the allowances specified in clauses (v), (vi) and (vii) of sub-section 2 of section 10 of the Act, namely :

The actual expenditure incurred by the assessee during the previous year on repairs, replacements, and renewals of plant, machinery, buildings and furniture which are the property of the assessee.

If he, however, has exercised the option referred to above in any year, he shall not be entitled to withdraw that option in any subsequent year without the consent of the Commissioner of Incometax.

No depreciation allowance can be allowed on professional equipment, e.g., surgical and dental instruments, because as the law stands, depreciation on machinery and plant, etc., can only be allowed in computing income from business, and not under section 11 in computing income from a profession. The cost of replacing (as distinguished from original and additional purchases) such instruments should be allowed as an expenditure under section 11 (2).

No allowance can be made on account of the depreciation of the assets of a business other than the particular items mentioned in this sub-clause and in rule 8. No depreciation allowance, for example, is permissible to provide for the amortisation of capital sums paid on account of the purchase of the lease of a mine or for the depreciation of wasting assets such as coal. Depreciation allowances should, however, be allowed for sinking shafts, tramways and sidings in coal mines, which are included in the term "plant".

Where a business of such a nature that the profits derived from it were not previously liable to tax owing to a special exemption con-

ferred either by statute or by notification, or rule having the force of law (examples are Shipping Companies and Indigo Companies), is taxed for the first time, the assessee is not entitled to claim in the first year of taxation, under proviso (b) to section 10 (2) (vi), accumulated depreciation allowances for all the years during which the profits of the business were not liable to tax. But in such cases depreciation must be allowed year by year for the full period of 20 years (or whatever it may be).

Shares and securities held as part of the capital of a business should be similarly dealt with. So long as shares or securities continue to be held by a company, firm or individual as part of his or its capital, any depreciation or appreciation in their market value is outside the scope of the Income-tax-Act; and similarly, when the value of shares and securities so held (for example, the securities constituting the reserve fund of a bank or other company) is realised the transaction is a capital transaction, and no account should be taken for income-tax purposes of any profit or loss resulting from the sale. On the other hand, where an individual company or firm habitually uses part of his or its resources in the purchase of securities or shares with a view to obtaining profit on their sale and the subsequent re-investment of the proceeds, the individual, company or firm is, in altering his or its investments, carrying on a trade for the sake of obtaining profit therefrom, and the profits secured or losses incurred are trade profits or losses which must be taken into account in determining the assessment to income-tax. It will, therefore, always be a question of fact to be decided on the merits of each case whether the changes in investment are of sufficiently systematic a character to constitute the exercise of a trade, but if they are, the profits therefrom are liable to assessment, and an allowance must be made for any losses in calculating the amount of tax payable.

Obsolescence allowances. (Section 10 (2) (vii).)—It must be particularly noted that the allowances under this clause can only be given where the machinery or plant becomes obsolete. Where machinery or plant is sold for reasons other than that it has become obsolete, no allowance can be given. Where a machine is sold no allowance can be given if the facts present evidence that the machine is not obsolete.

The amount allowed for obsolescence is, again, calculated upon the original cost to the owner. The amount to be given is the amount of such original cost to the owner as reduced by the depreciation allowances under clause (vi) and the amount for which the machine is actually sold or its scrap value. For example a machine costing Rs. 10,000 on which a depreciation allowance of 10 per cent. of the

original cost is admissible is sold after 5 years for Rs. 2,000. The original owner gets Rs. 5,000 for depreciation and nothing for obsolescence as the machine is not scrapped or sold on account of obsolescence. The second owner gets also an allowance at the rate of 10 per cent., and as the cost of the machine to him was Rs. 2,000, his annual allowance is Rs. 200. If owing to its becoming out of date the machine is scrapped useless after three years, then in the year in which it is so scrapped the second owner can claim Rs. 1,400, for obsolescence. No allowance for obsolescence is obviously permissible if the machine lasts 10 years or more.

Allowance on account of dead or useless animals. (Section 10 (2) (viii).)—The allowance in respect of live stock that has died or become permanently useless to the assessee should be granted whether the live stock is replaced or not.

Income Tax form 9, in which particulars of buildings, machinery, plant and furniture, are required to be furnished by the claimant to the Income Tax Officer is subjoined below.

Form for the purpose of obtaining an allowance for depreciation under proviso (a) to section 10 (2) (vi) of the Indian Income-tax Act, 1922.

Description of buildings, machinery, plant or furniture.	Original cost.	Capital expenditure during the year for additions, alterations, improvements and extensions.	Date from which used for the purposes of the business.	Particulars (including original cost, depreciation allowed, and value realised by sale or scrap value) of obsolete machinery, plant or furniture sold or discarded during the year, with dates on which first brought into use and sold or discarded.	Remarks.
1	1 a	2	3	4	5

I _____ declare that to the best of my information the buildings, machinery, plant and furniture described in column 1 of the above statement were the property of _____ during the year ended _____ and that the particulars entered in the statement are correct and complete.

Place _____ Signature _____

Date _____ 193 . Designation _____

CHAPTER III

LAW IN PRACTICE.

The sine-qua non of the grant of Depreciation allowance is, that the buildings, machinery, plant and furniture should have been used for the purpose of carrying on a 'Business' during the account year on the profits of which the Assessment is based.

Buildings containing factories, machinery, plant and furniture are said to be in use for the purpose of a business, if Leased or Let out. they are leased or let out for carrying on business by the lessee. In such a case, the lessor (provided he is the owner) can claim Depreciation allowance for the year, the Buildings containing factories, machinery, plant and furniture were leased or let out, (vide Manglagiri Sir Umamaheswara Gin and Rice Factory Ltd., Guntur Vs. The Comr : of Incometax, Madras).—

However, if the conditions of lease explicitly show that the lessor has included depreciation in the amount of rent chargeable to the lessee, who is allowed such rent paid or payable as a business deduction, no depreciation would be admissible to the lessor in such a case. Nevertheless, as in such a case, full rent received by the lessor would be subjected to tax, depreciation allowance up to cent per cent of the cost of buildings, machinery etc. would be allowed to him, whenever, the owner (i.e. the lessor) uses such buildings, machinery etc. for the purpose of his own business.

Perhaps it should also be stated that depreciation only on such leased or let out buildings can be allowed, as contain machinery or factory &c.

Buildings such as shops and godowns, for which depreciation allowance is granted, when used for business by their owners, cease to be governed by S. 10 (2) (vi) as soon as they are leased or let out, when income therefrom is assessed under Sec. 9 of the Indian Incometax Act of 1922, under the head "Property"—No depreciation allowance can be given to a lessee, who may choose to sub-lease or sublet such buildings &c. to another lessee and might not himself use them for the purpose of his own business, in as much as he is not the owner of such buildings, machinery &c. but is simply a lessee.

At times, in order to eliminate competition or over-production or to corner rates, owners of factories enter into Pools. an agreement between themselves (technically called a 'Pool') to charge certain specified rates and to determine

what factories should work and what should not work. In such cases nett profits earned by the working factories are divided in agreed proportions among the members of the pool. Depreciation allowance to the owners of such factories, which do not work, in consequence of the pool, is not admissible in as much as the factories were not actually working during the year, on the profits of which the assessment is based, though money received from "Pool" is assessed as "Income from other sources" and not "Income from business."

It may be argued that it is only on account of the fact, that an assessee has got a factory in working state that he has got the 'Pool' money, which is duly assessed to tax, hence Depreciation allowance should be allowed for, regardless of the fact that it did not actually work during the year owing to "pool"—It may also be argued that though the factory was not actually working yet the wear and tear of machinery etc. while lying idle was still the same, if not more. Moreover, the factory may be stated to have been used for the purpose of business through the 'pool'

So far as the arguments go, they have a considerable force, but as income from a 'pool' is assessed under section 12 of the Indian Income Tax Act of 1922 (*i. e.* Income from other sources) and not under section 10 *ibid.*, (*i. e.* Income from business), no depreciation allowance is allowed in such cases. At least, this is the practice, based on the theory that as the factory did not actually work, it could not be stated to have been used for the purpose of a business, and that the money received from the pool is more appropriately assessable as "Income from other sources" than as "Income from business."

The question, indeed, is not free from doubt and one can argue with some force that "Depreciation" in such a case should be allowed for and that income from the "Pool" should be assessed as "Income from business."

What is 'Machinery' and what is 'Plant'. There is no concise definition of the two terms. Their determination depends, to a great extent, on the special facts of a particular case. In *Chamberlyne vs. Collins* machinery was described as "mechanical contrivances which by themselves or in combination with one or more other mechanical contrivances, by the combined movement and interdependent operation of their respective parts generate power or evoke, modify, apply or direct natural forces with the object in each case of effecting a definite result."

The word "Plant" is used in a very wide sense. It includes every thing which is not classified under the category of 'machinery', Trade

stock' and "Furniture" or "Buildings". 'Plant' includes Loco-motives, ships, carriages, wagons, trollies, tools &c.

A "Harbour" or a "stallion" is, however, neither machinery nor Plant.

Depreciation allowance can be granted only to the *owner* of To whom depre- "the Buildings, Machinery, Plant and furniture, ciation allowance which are used by the owner for the purpose of can be granted. carrying on a business—Depreciation allowance is also granted to owners of shops and godowns, used by them for their own business, as also on residential accommodation provided free of rent to the owner's employees in his business. If the owner charges rent from his employees, the rent income is assessed under the head "Property" under Section 9 of the Indian Income Tax Act of 1922 and in such a case, question of allowing Depreciation does not arise at all.

In the case of shipping companies the whole of whose profits or gains do not accrue or arise, and are not received Shipping Compa- in India, the procedure is as follows:— nies-Depreciation.

(1) Regular lines:— If a company furnishes annual accounts for the whole of its business, Indian and foreign, there is no difficulty. The second method provided by Rule 33 prescribed by the Central Board of Revenue is applied. Depreciation only has to be considered in calculating the world-profits. These are to be calculated according to the Indian Income-tax Act. Profits calculated according to the United Kingdom Act will, therefore, require certain adjustments. Deductions permitted in the United Kingdom but not permitted in India will have to be added back and deductions permissible in India but not permissible in the United Kingdom will have to be allowed. If any company, however, prefers to claim the depreciation allowed by the United Kingdom Income-tax Authorities, the Commissioners of Income-tax can adopt that figure though it is not strictly speaking legal. Otherwise depreciation will have to be calculated according to the Indian rules. What follows applies to the calculation of depreciatinn according to the Indian rules. For this purpose a complete deprecation record has to be maintained for the entire fleet. Depreciation begins to run from the first year in which the company is "assessed" in India, that is the first year in which its profits (or loss) were determined for the purpose of deciding whether it was liable to Indian Income-tax. Unabsorbed depreciation, *i. e.*, any balance of depreciation which cannot be allowed in any year owing to the profits not sufficing to cover the full amount permissible under the Indian rules will be carried forward and allowed

as far as possible in calculating the world-profits according to the Indian method in the following year and if necessary in subsequent years. What has been said above about depreciation applies equally to obsolescence.

The proportion $\frac{\text{Indian receipts}}{\text{Total receipts}}$ is applied to the world profits calculated according to the Indian method (if there are any such profits) and the result is the Indian income liable to tax. No further deduction is permissible from the amount thus arrived at on account of depreciation (unabsorbed or otherwise) or anything else. The due proportion of all allowances permissible is automatically set off against the Indian profits by the above method.

This method is equally applicable whether a Company works out the profits for each voyage or follows any other method of accounting provided that it prepares complete annual accounts for the whole business, Indian and foreign, and furnishes the accounts of gross receipts, Indian and foreign.

2. Some lines do not furnish complete annual accounts for their world business. They keep separate complete annual accounts for their Indian trade—that is, for all “round voyages” to and from Indian ports. The best course is then to apply the method just described in creating the profits of the Indian trade and the gross receipts of the Indian trade as though they were the “world-profits” and “world receipts” respectively. In fact the business other than the Indian trade is ignored.

A difficulty sometimes arises in such cases owing to the fact that the ships employed in the Indian trade are constantly being changed. The only thing to do—unless United Kingdom depreciation is accepted—is to keep a depreciation record for every ship employed at any time in the Indian trade. This may be laborious but it is inevitable. Depreciation must be allowed on each ship employed in the Indian trade in a given year and the allowance must be a proportion of the annual rate calculated with reference to the number of days spent in the Indian trade—whether at sea or in harbour. Any unabsorbed depreciation in any year must be distributed among the ships in the Indian trade in that year in proportion to the capital cost of each, and the unabsorbed depreciation thus allotted to any ship can only be allowed in any subsequent year against the same ship.

As to for what period depreciation should run in these cases—Obviously, the Company is not entitled to have ultimately an allowance of the full cost of each ship set off against the taxable income in India. Companies in class 1, dealt with above, do not get

this and there is no reason why Companies in class 2 should get it. In such cases the allowance ceases:—(a) on ships included in the fleet in the first year in which the Company becomes liable to assessment in India (irrespective of whether it was actually found to have a taxable income in that year or not), after the twentieth year beginning with that year.

(b) on ships subsequently added to the Company's fleet, after they have been borne on the fleet for 20 years.

In both cases the period may be extended proportionately where the United Kingdom depreciation is allowed in calculating the "profits of the Indian trade" which take the place as already explained of the "world-profits" in case (1).

Obsolescence cannot be allowed in these cases.

If this method be objected to by any one the alternative would be a resort to the first method in Rule 33, that is, assessment on a percentage on turn over.

Casual or Tramp shipping :—Probably a modification of the method prescribed for class (2) above would be appropriate in such cases.

The original cost includes besides, the price paid for machinery &c. cost of freight, Pay of Engineer and Staff who erect the machinery, put it in working order and carry out experiments to test it. However, if such a machinery is subsequently removed to another Business premises, the cost of removal should not be added to the original cost.

The word "Assessee" in S. 10 (2) (vi) is to be interpreted subject to the provisions of sec. 26 of the I. I. T. Act of 1922 (vide Commissioner of Income Tax Madras vs. Messrs. Massey & Co., Ltd.) That is, in the case of succession to a business, the owner during the year of assessment, is to be given Depreciation allowance on the cost of the Buildings, machinery &c. to his predecessor and not on the cost to him. In other words, the business, in the case of succession, is to be treated a continuous one and original cost to the predecessor should be taken as the basis for calculating Depreciation. The effect of this would be that part of the original cost to the predecessor would have been allowed to him and the remainder would be allowed to the successor, i. e. cent per cent Depreciation will be allowed, based on the original cost to the predecessor, irrespective of whether or not the successor gets Depreciation up to the cost incurred by him. Pushing it to its logical conclusion, it would mean that in the case of a second succession, the total Depreciation granted to the two Predecessors and

the present successor should not exceed cent per cent of the cost to the second predecessor, i. e. the first owner. The result is logical enough, but it does involve hardship on the last successor, who might not be able to recoup his capital cost by the grant of the residue of Depreciation allowance. But it must be admitted that the proposition propounded by the Madras High Court is strictly just and equitable, though by reading the wordings of the statute, one is impressed that the intention of the Legislature was otherwise.

If Buildings, machinery, plant and furniture were brought into use for the purposes of business for the first time, during the course of the account year of an assessee proportionate Depreciation allowance is granted with reference to the period, the Buildings &c. were actually in use during the year e. g. if they were brought into use during the last 8 months of the year, 8/12th of the full year's Depreciation allowance will only be granted in this case. In the case of additions and alterations, however, full year's allowance is granted irrespective of the date of bringing them into use. In the case of complete new and independent assets e. g. the purchase of a New Motor Car by a Motor Car Co : or the setting up of a new flour mill or oil mill by a factory owner, Depreciation allowance is granted only from the date, they are actually brought into use for the purposes of business.

No Depreciation allowance becomes admissible, until the prescribed particulars (in Income Tax form 9) are furnished by an assessee.

This is the first condition for claiming or granting 'Depreciation'. The wordings of the Proviso (a) are :—

“ Provided that the prescribed particulars have been duly furnished ”. The words “ have been duly ” clearly connote the furnishing of the prescribed particulars prior to Assessment. Perhaps it should facilitate work, if the Income Tax Officers were to send Income Tax form 9 with forms 10 and 11 to assessees who ordinarily claim or are granted Depreciation. Particulars in Income Tax form 9 must be supplied annually and the declaration at the foot of the form duly signed by the claimant. If these particulars are not supplied in any year, no depreciation becomes admissible for that year, though any arrears due from previous years should be granted, as a matter of course. The effect of this omission on the part of the Assessee, on the Depreciation record is, that no 'Depreciation' is entered for that year in Column 13 of the Record and the year of the write off of the various block accounts, as previously determined are moved on to the

next year in each case. This is done in order to ensure the grant of cent per cent Depreciation, before the block account is written off.

It has to be borne in mind that as cent per cent Depreciation is admissible in all cases, the only result of the nonsubmission of prescribed particulars in I. T. form 9 is that no Depreciation allowance becomes admissible for that particular year.

It may be argued that an assessee might deliberately fail to submit such particulars in years where there are less profits, in order to get advantage of 'rate' in other prosperous years. The argument is correct to a certain extent, but as no Depreciation allowance for the year in which the prescribed particulars are not furnished accrues, in consequence of which no arrears are carried forward to the next year but only the life of the block accounts is prolonged, there cannot be much benefit to such an assessee. Again as it is not the policy of Government to haggle over petty matters, with the assessee, this point does not deserve serious consideration.

As stated above, in ordinary circumstances cent per cent Depreciation allowance is granted in all cases in the course of requisite period. But whenever machinery is rendered useless by an accident and ceases to work altogether, no further Depreciation allowance is granted on the cost of such machinery, after the date of its sale or becoming useless. In the Depreciation Record, its original cost is written off at once in the manner explained in note 6 of the Depreciation Record. In this connection, it may be remarked that expenditure of each year is treated as a separate block account for the purpose of determining the year of its write off.

Figures of cost, as given in I. T. Form 9, are checked by the Income Tax Officer before admitting them. The burden of proving them lies on the assessee, who should produce Invoices and receipts of firms &c. and Railway receipts &c. In cases, where original documentary proofs be not forthcoming e. g. in the case of old machinery and buildings, where old account books might have also been destroyed, and Depreciation might have been claimed for the first time, a competent Engineer's or other competent authority's estimate may be accepted but to obtain and produce such an estimate is the duty of the assessee and not that of the Income Tax Officer. Previously in certain cases, where assessee left the estimate to the discretion of the Income Tax Officer, a sort of compromise was usually arrived at but this rough and ready method, though followed in the beginning just when the present act was brought into force, is not proper now to be allowed any more, hence a competent authority's estimate would be advisable to be

called for, to be produced by the assessee who should have it done at his own cost, as it is his look out to furnish particulars of the cost which could be checked or accepted by the Income Tax Officer. Without the production of proper particulars of cost, of course the assessee loses the right to have Depreciation allowance.

This Proviso says—" when *full effect* cannot be given to any such (i. e. Depreciation) allowance in any year owing Proviso (b) to there being no profits or gains chargeable for that year, or owing to the profits or gains chargeable being less than the allowance, the allowance or part of the allowance to which *effect* has not been given, as the case may be, etc. etc. etc.

The word "chargeable" evidently means 'chargeable to Tax' i. e. the profits or gains should be Rs. 2000/- or more before any Depreciation allowance can be given out of them. The word "chargeable" in this proviso is not to be confused with the word "assessable."

The words "full effect" and "effect" occurring in this proviso read with the context, would appear to mean that in cases where full Depreciation allowance cannot be granted out of an income owing to the excess therein over nontaxable maximum being insufficient, depreciation allowance should be granted only to the extent of the amount, that exceeds the taxable minimum. The following illustration will explain the above plainly:—

Suppose "A" has an income of Rs. 2,500/-, as assessed by the Income-Tax Officer, before allowing Depreciation, which is admissible to the extent of Rs. 1000/. According to the above reading of the law, Depreciation allowance could be granted to the extent of Rs. 501/- only and the balance of Rs. 499/- would be carried over to the next year.

This is based on the theory that as after giving an allowance of Rs. 501/-, there remains no taxable income, no further Depreciation allowance could be given effect to without injuring the interest of the assessee or encroaching upon the principles of equity.

Nevertheless the ordinary practice, in such a case, is to show as granted the whole of the Depreciation allowance of Rs. 1000/- and determine the income at Rs. 1500/-.

Of course, when there is no taxable income, before allowing Depreciation, the admissible allowance is carried forward to the next year.

This proviso says that total Depreciation allowance (including that granted under the old acts) should not exceed the original cost to the assessee of the buildings machinery plant or furniture, as the case may be.

Under the old Presidency Acts or the all-India Act of 1886 assessments were made in a summary way, after taking into account all deductions &c. In the case of companies only, assessments were based on accounts. The method of summary assessments continued to the end of 1917-18. Hence in the case of assesseees other than Companies depreciation allowance should be taken to have been granted in full during those years i. e. up to the end of 1917-18, at the rates given in Chapter I for the various Provinces. In Presidency and certain large towns there used to be special Income Tax staff who have kept Depreciation records in manuscript forms, for Companies only, but in the mofussil records for Companies even were not kept up. As a result, difficulties have arisen as to the original cost of, dates from which buildings, machinery &c. were brought into use and the depreciation allowance already granted. In such cases, the burden of proving the original cost of and the dates from which buildings machinery &c. were brought into use lies on the assessee, who has similarly to prove the non-grant of Depreciation allowance in any of those years, otherwise Depreciation allowance should be considered to have been granted in full at the rates then prevailing. Under the Act of 1918, accounts were started to be called for when making adjustments of provisional assessments, but in the mofussil, still no Depreciation records were kept up, hence information as to Depreciation allowance granted under the act of 1918, has to be got out of the accounts of the assessee concerned, wherever it cannot be obtained from past assessment records. Under the act of 1918, Depreciation actually written off in the accounts (subject to a maximum of the rates given in Chapter I for the various provinces) was only allowed. The actual writing off of Depreciation in accounts was a condition precedent to its grant, under that act, as also under the act of 1886. However, the burden of proving that no depreciation allowance was granted in any particular year lies on the assessee. In case the assessee fails to prove to the contrary, it should be taken for granted that Depreciation was duly granted. As regards arrears outstanding at the end of 1921-22, as per records or as proved I think they should be allowed, under the present act of 1922, as a matter of course, but in some places, the practice is still not to allow them, unless the assessee writes off the Depreciation in his accounts, to the extent of arrears plus that admissible under the act of 1922 i. e. out of arrears outstanding under the acts of 1886 and 1918, only so much is allowed as is actually written off in accounts in excess of the

Depreciation admissible under the act of 1922, though under the present act, now there is no such condition for the actual write off of Depreciation in accounts as was the case under the previous acts.

This is granted only when the machinery has become obsolete i. e. out of date, because it has been superseded by the latest machinery more suitable to its purpose and therefore, although able to perform its functions, it is not in common parlance sufficiently up to date to make it machinery that a prudent man would continue to use, but machinery which he would replace as being in the ordinary meaning of the term 'obsolete.' (vide Rathan Singh vs. Comr : of Income Tax, Madras)

Thus if machinery is rendered useless prematurely by an accident or wear and tear, no obsolescence allowance is admissible.

This allowance is particular to the year and if it cannot be granted in that year either in full or in part, no balance is carried forward. In case, profits be insufficient to meet obsolescence and Depreciation both, obsolescence is first granted in full, and the balance of Depreciation allowance not given effect to is carried over to the next year. Whenever obsolescence allowance is granted no Depreciation on the obsolete articles is granted for that year, even if the articles might have been discarded at the end of the year. This is so as the total balance of the original cost is allowed as obsolescence during that year.

CHAPTER IV

Record of Depreciation.

The prescribed form of Depreciation record (I. T. 46) is appended below, together with its notes of instructions:— To these instructions, I have added a few notes, of mine, for facility of posting the Depreciation record.

Income Tax Department _____ Province.

Depreciation Record.

District or Area _____

Name of assessee—

General Index number

INSTRUCTIONS.

- (1) Entries in columns 2 or 9 are to be based on the return submitted annually by the assessee.
- (2) Column 10 shows the progressive total of the items 2 to 9 but should be diminished *pro tanto* by the amount which has been fully paid up. For this operation the entries in columns 11 and 12 will be a guide.
- (3) Columns 11 and 12 are the key of the register. When any entry is made in columns 2 to 9 it should be calculated when the depreciation in respect of that item will normally cease and against the last year in which the depreciation on that account has to be allowed the year of entry in columns 2 to 9 will be entered in column 11 and the amount of depreciation in question in column 12.
- (4) Column 13 represents the total depreciation admissible on the entries in columns 2 to 9. When in any year depreciation on a particular item disappears the figure in column 13 of the next year will be the sum in column 13 of the preceding year diminished by the sum in column 12 with, of course, any addition which may have to be taken into account in respect of the new entries in columns 2 to 9.
- (5) Column 14 is the aggregate of columns 13 and 17.
- (6) When an allowance under section 10 (2) (vii) is entered in column 16 a revision of the figures in columns 11 and 12 is necessary in order that depreciation may be correctly calculated in succeeding years. When the allowance in column 16 involves the complete disappearance of an item entered in columns 2 to 9 the appropriate entries in columns 11 and 12 should be struck out in red ink and corresponding entries should be made in red ink in the same columns opposite the year in which the allowance under section 10 (2) (vii) is given. If the item in columns 2 to 9 does not disappear entirely the original figures in columns 11 and 12 should be amended and the amount by which depreciation in succeeding years will be diminished should be entered in columns 11 and 12 opposite the year in which the allowance under section 10 (2) (vii) is given. The operation should be described in the column of remarks.

11	12	13	14	15	16	17	18



1	2	3	4	5	6	7	8	9	10
1942-43									
1943-44									
1944-45									
1945-46									
1946-47									
1947-48									
1948-49									
1949-50									
1950-51									
1951-52									
1952-53									
1953-54									
1954-55									
1955-56									
1956-57									
1957-58									
1958-59									
1959-60									
1960-61									
1961-62									
1962-63									

11	12	13	14	15	16	17	18

1	2	3	4	5	6	7	8	9	10
1963-64									
1964-65									
1965-66									
1966-67									
1967-68									
1968-69									
1969-70									
1970-71									
1971-72									
1972-73									
1973-74									
1974-75									
1975-76									
1976-77									
1977-78									
1978-79									
1979-80									
1980-81									
1981-82									
1982-83									
1983-84									

11	Year of original expenditure	Record of complete account for Depreciation.
12	Amount of depreciation which ceases in the year of entry.	
15	Total depreciation on columns 2-9	
14	Depreciation to be taken into account in assessment including amount carried forward from previous years (column 13 and column 17.]	
15	Depreciation actually allowed.	
16	Allowance under section 10 [2] [vii]	
17	Balance to be carried forward to column 14 next year.	
18	Remarks	

My further working notes for posting the Depreciation Record.

(i) In column 12, The original cost on which Depreciation ceases from the next year, should also be entered in red ink within brackets, under the amount of Depreciation. This would facilitate the deduction of the original cost from column 10, at sight, instead of having to find it out from the old records.

(ii) Whenever prescribed particulars are not furnished for any year, the word 'nil' or '-' should be entered in column 13, and a remark to the effect made in column 18. Figures in column 14 will in this case be those of column 17 of the last year.

All figures in columns 11 and 12 of the following years will also simultaneously be scored out in red ink and entered in the same columns of the subsequent year, in each case.

(iii) Whenever the grant of cent per cent depreciation involves a fraction of a year ; in the last year in which the part of depreciation only has to be allowed, the excess of depreciation over cent per cent in that year, should at once be noted in column 13 in red ink, as a minus entry, in order to obviate the risk of overallowance in the last year. This entry would have also to be moved on to the next year, whenever prescribed particulars are not furnished.

(iv) Whenever buildings, machinery, plant and furniture are sold or become useless due to an accident, adjustment of their original cost and depreciation admissible thereon should be made in accordance with note 6 on the depreciation record. Should there be any minus entry in column 13 as per (iii) above, it should also be scored out in red ink. In such cases depreciation is allowed to the date of sale or accident.

(v) In the case of rectification of the nomenclature of machinery involving different percentages e. g. electric machinery having for some years been posted through an oversight or want of proper particulars under "ordinary machinery" the mistake should be rectified in the following way :—

(a) The original cost of 'electric machinery' previously shown erroneously under "ordinary machinery" should be shown in the year of rectification as plus entry under the column "Electric machinery" in one of the columns 5 to 9 of the Depreciation record and the same amount should be shown as minus entry in red ink under "ordinary machinery" with an explanatory remark in column 18.

(b) Entries in Columns 12 (and 13 if any) should be rectified at once, in red ink, against the relevant years determined for the write off of the previous block accounts.

- (c) It should first be calculated what depreciation has already been granted (in this case) at 5 per cent on the original cost of the "electric machinery." The residue still admissible would thus be available, from which the year of the write off of the block account could be easily determined by dividing it by 7½. Entries in columns 11 and 12 of the relevant years would then be made and if necessary in column 13 also, as per (iii) above.
- (d) Depreciation at the revised rate would, however, be given only from the year of rectification.*

Before proceeding to make illustrative entries in the Depreciation record, I would state in detail, one of the methods of calculating the Depreciation allowance—that method is as follows :—

How to calculate Depreciation

First of all calculate depreciation allowance at appropriate rates on all amounts of "additions or cost of new assets during the year" column 2 of I. T. form 9.

Add—to it depreciation allowance that was less given for the part of the previous year on the cost of such new assets, on which depreciation was calculated for the part of the year only.

Add—depreciation allowance not given for the part of the previous year on the cost of such articles as were sold or rendered permanently useless during the last year ; after the date of sale or becoming useless.

Add—to it-figures in column 13 of the last year, in the Depreciation Record.

Deduct from the result, figures noted in column 12 of the last year, in the Depreciation Record.

Deduct depreciation less given during the year owing to part depreciation having been allowed or no depreciation having been allowed on portions of previous assets due to sale or accident or obsolescence.

Also deduct, figures if any, noted against column 13 of the year. The result will be the depreciation allowance admissible for the year.

* Note. If the error in classification was due to the assessee not having furnished correct and full particulars in the first instance, he cannot claim arrears, as the mistake was his. If that was due to Income Tax officer's error, the assessee cannot still claim the arrears, if he failed to avail of his remedy of appeal to the Assistant Commissioner against the error of the Income Tax Officer.

I have given this method in detail, as instructions in note 4 to I. T. Form 46 are incomplete, in as much as they do not take into account cases, where depreciation was allowed for the part of the year during the previous year or on portions of previous assets during the current year and also as the prescribed I. T. form 46 is seriously defective, in that the upto date cost of the various headings columns 2 to 9 is not available therein at all, at sight. In order to get over this difficulty, in some places the practice is to keep the record of up to date cost of various buildings, machinery, &c. in the assessment records, where depreciation is calculated as follows :—

Cost of buildings to end of last year	Rs. 2,00,000		
Additions during the year	Rs. 1,00,000		
			Rs.
Total cost to date	3,00,000	at 2½%	7,500
Previous cost of motor cars	Rs. 20,000		
Depreciation at 15%			Rs. 3000.
Two motor cars purchased during the year	Rs. 6,000		
In use since 1-10-28 (Say for 6 months during the year)			
Depreciation for 6 months at 15%			Rs. 450
			Rs.
Cost up to date	Rs. 26,000		3,450
			Rs.
Total Depreciation admissible for the year			Rs. 10,950

This method is preferable to the prescribed method.

Perhaps, a note as to how the year of write off of the block accounts of old Buildings and Machinery, which are in use since several years should be determined, may be made here. Original cost and depreciation already allowed up to 1921-22 are ascertained in the manner, stated in chapter (iii) supra, [Provisos (a) and (c)]. For these a separate Depreciation record (of course at old rates) should be made out, the years of the write off of block accounts could then be determined according to the present rates of depreciation and the new Depreciation record started accordingly from 1922-23. These remarks apply to mofussil only where no Depreciation records were previously kept.

In order to illustrate the method of posting Depreciation record according to the above notes, I have selected a few typical entries and now proceed with their postings into the Depreciation Record. It should be borne in mind that entries in columns 11 to 17 have to be made personally by the Income Tax Officer.

Suppose the manager of the "Multifarious Activities Co., Ltd." has put in his prescribed particulars for Samvat year 1981 as follows, and has been allowed full depreciation allowance admissible :—

**Form for the purpose of obtaining an allowance for depreciation
under proviso (a) to section 10 (2) (vi) of the Indian
Income-tax Act, 1922.**

Description of buildings machinery, plant or furniture.	Original Cost.	Capital expenditure during the year for additions, alterations, improvements and extensions.	Date from which used for the purposes of the business.	Particulars (including original cost, depreciation allowed, and value realised by sale or scrap value) of obsolete machinery, plant or furniture sold or discarded during the year, with dates on which first brought into use and sold or discarded.	Remarks.
1	1 A	2	3	4	5
		Rs.			
<i>Spinning and Weaving Factory</i>					
<i>Buildings</i>		15,00,000	<i>Baisakh Sud: 1 S. Y. 1981 (15-4-25)</i>	at 2½% for 11 months = Rs. 34,375	
<i>Machinery.</i>		32,00,000	-Do-	at 5% for 11 months = Rs. 146,867	
<i>Motor lorry for business</i>		8,000	-Do-	at 20% for 11 months = Rs. 1,467	
<i>Plant</i>		10,000	-Do-	at 5% for 11 months = Rs. 458	
<i>Furniture</i>		3,000	-Do-	at 5% for 11 months = Rs. 138	
2 Motor Cars for hire Nos: X 1842 and X 1843 (each Rs. 5000).		6,000	<i>Chait Sud: 1 S. Y. 1981 (ie. 15-3-25)</i>	at 20% for 12 months Rs. 1,200 <hr/> Total Depreciation admissible Rs. ... 1,84,306	

N. B.—The account year in this case runs from chait to chait.

I, *H. D. Good* declare that to the best of my information the buildings, machinery, plant and furniture described in column 1 of the above statement were the property of the *Multifarious Activities Co. Ltd.*, during the year ended *Phalgun Vad. 30 S. Y. 1981* and that the particulars entered in the statement are correct and complete.

Place *Nowshera.*

Date *16th June 1926.*

Signature *Sd. H. D. GOOD.*

Designation *Manager, The Multifarious Activities Co. Ltd.,*

The admissible depreciation has been worked out on I. T. form 9 (i. e. the form giving prescribed particulars) as shown thereon, to the

extent of Rs. 1,84,305/-. In the case of five items depreciation has been allowed for 11 months only as they were brought into use for the first time, for the purposes of business one month later in the year. In the Depreciation Record entries as regards original cost of 'Buildings' 'Machinery' "Motor Lorry and Motor Cars for hire" and "Plant" and 'Furniture' have been made against the year 1926-27 under columns 2, 5, 7 and 8. Items bearing the same percentage have been grouped together to economise space.

Entries in columns 13, 14 and 15, do not require any explanation,

Entries in columns 11 and 12 against the relevant years have been made as follows :—

(a) On two motor cars for hire worth Rs. 6000/-, depreciation has been allowed for the full year, hence in their case, the year for the write off of the block account would be after the fifth year. Therefore, against the year 1930-31, under column 11 has been entered "1926-27" i. e. the year from which depreciation has been started to be given and under column 12, Rs. 1200/- the amount of depreciation that will cease after that year, with Rs. 6000, noted in brackets underneath, to show the 'original cost' of the block account to be deducted next year from the figure in column 10.

In the case of other items, as depreciation for full year has not been granted, during the year, the year of the write off of their block accounts will be the year succeeding to the normal year e. g. in the case of buildings, entries in columns 11, and 12 should ordinarily have been against the year 1965-66 (i. e. against the 40th year) but as depreciation for full year has not been granted for 1926-27, the entries in these columns have to be made against the succeeding year i. e. 1966-67. However, in order to ensure that only cent per cent depreciation should be allowed to the end of 1966-67 and to obviate the risk of excess allowance in the last year, part depreciation allowed in 1926-27 has at once been shown as a minus entry under column 13 —against the year 1966-67. Years for the write off of other similar items (i. e. where part depreciation has been allowed during the year) have, similarly been determined, and entries thereagainst made similarly. The posted Depreciation record is appended below :—

Income Tax Department, N. W. Frontier Province.

Depreciation Record.

District or Area-Peshawar.

Name of assessee—The Multifarious Activities Co. Ltd
Nowshehra.

General Index No. N. 182.

11	12	13	14	15	16	17	18
		184,305	1,84,305	1,84,305			
1926-27	1,200 (6,000)						
1926-27	1,600 (8,000)	-1,467					

1	2	3	4	5	6	7	8	9	10
1942-43									
1943-44									
1944-45									
1945-46									
1946-47									
1947-48									
1948-49									
1949-50									
1950-51									
1951-52									
1952-53									
1953-54									
1954-55									
1955-56									
1956-57									
1957-58									
1958-59									
1959-60									
1960-61									
1961-62									
1962-63									

11	12	13	14	15	16	17	18
1986-87	1,60,650 (32,13,000)	-147268					



1	2	3	4	5	6	7	8	9	10
1963-64									
1964-65									
1965-66									
1966-67									
1967-68									
1968-69									
1969-70									
1970-71									
1971-72									
1972-73									
1973-74									
1974-75									
1975-76									
1976-77									
1977-78									
1978-79									
1979-80									
1980-81									
1981-82									
1982-83									
1983-84									

Record of complete Account for Depreciation.							
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 (column 13 & 17)	Depreciation actually allowed.	Allowance under section 10 (2) (vii).	Balance to be carried forward to column 14 next year.	Remarks.
11	12	13	14	15	16	17	18
1946-27	37,500 (15,00,000)	-34375					

For the next year prescribed particulars are furnished as per form reproduced below :—

In order to show clearly the entries made in each year in the Depreciation Record, I am giving specimens of Depreciation records posted to the end of each year separately.

In this year, there are additions to 'machinery' to the extent of Rs. 6 lakhs, since 16th May 1926.

In the case of additions however, depreciation is allowed for the whole year in full, hence, depreciation admissible will be Rs. 190,000 in the case of machinery and full 12 months' allowance in other 4 items. In the case of Motor Lorry, as it was sold on the 22nd January 1927, only 10 months' depreciation would be granted. Entries against the year 1931-32 under columns 11, 12 and 13 are now scred out, (as the lorry has been sold) and transferred under columns 11 and 12 against the year 1927-28. Of course, the entry under column 13 against the year 1931-32, altogether disappears; suitable remarks to the effect are given in column 18.

Entries in columns 11 & 12 regarding the addition of Rs. 600,000 to machinery are made against the year 1946-47. The Depreciation record as posted to the end of 1927-28 will be as per sample appended elow :—

**Form for the purpose of obtaining an allowance for depreciation
under proviso (a) to section 10 (2) (vi) of the Indian
Income-tax Act, 1922.**

Description of buildings, machinery, plant or furniture.	Original cost.	Capital expenditure during the year for additions, alterations, improvements and extensions.	Date from which used for the purposes of the business.	Particulars (including original cost, depreciation allowed, and value realised by sale or scrap value) of obsolete machinery, plant or furniture sold or discarded during the year, with dates on which first brought into use and sold or discarded.	Remarks.
1	1A	2	3	4	5
		Rs			
<i>Spinning and Weaving factory</i>					
<i>Buildings</i> ...	16,00,000	...	...	at 2½ % = 37,500	
<i>Machinery</i> ...	82,00,000	6,00,000	Jeth Sud. 1 S. Y. 1932 (16-5-26)	at 5% = 1,90,000	
<i>Motor Lorry for business</i> ...	8,000	...	...	at 20 p. c. for 16 months = 1334 Sold for Rs. 4,000 on Magh Sud 7. S. Y. 1932 i. e. (22-1-27) in use since 15-4-25	
<i>Plant</i> ...	10,000	...	...	at 5 p. c. 500	
<i>Furniture</i> ...	8,000	...	...	Do. 150	
<i>2 Motor cars for hire</i> ...	6,000	...	...	at 20 p. c. 1200	
			Total ...	Rs. 2,30,884 Profits Rs. 2,90,000, hence depreciation allowed to that extent only	

I, *H. D. Good*, declare that to the best of my information the buildings machinery, plant and furniture described in column 1 of the above statement were the property of the *Multifarious Activities Co. Ltd.* during the year ended, *Phalgun Vad, 30 S. Y. 1932* and that the particulars entered in the statement are correct and complete.

Place *Nowshera.*

Date *16th June 1937.*

Signature *H. D. GOOD.*

Designation *Manager.*
The Multifarious Activities Co. Ltd.

Income Tax Department, N. W. Frontier Province.

Depreciation Record.

District or Area—Peshawar.

**Name of assessee—The Multifarious Activities Co. Ltd.
Nowshehra.**

General Index No. N. 182.

11	12	13	14	15	16	17	18
		1,84,305	1,84,305	1,84,305			
1926-27	(a) 1600 (8,000)	2,30,684	2,30,684	2,30,000		684	(a) motor lorry sold on 22-1-27
1926-27	1,200 (6,000)						
-Do-	(a) 1600 (8000)	-1467					(a) Sold on 22-1-27.

1	2	3	4	5	6	7	8	9	10
1942-43									
1943-44									
1944-45									
1945-46									
1946-47									
1947-48									
1948-49									
1949-50									
1950-51									
1951-52									
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1954-55									
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1956-57									
1957-58									
1958-59									
1959-60									
1960-61									
1961-62									
1962-63									

11	12	13	14	15	16	17	18
<i>1926-27</i>	1,60,650	<i>-147263</i>					
<i>1927-28</i>	(3213000)						
	30000						
	(600000)						

1	2	3	4	5	6	7	8	9	10
1963-64									
1964-65									
1965-66									
1966-67									
1967-68									
1968-69									
1969-70									
1970-71									
1971-72									
1972-73									
1973-74									
1974-75									
1975-76									
1976-77									
1977-78									
1978-79									
1979-80									
1980-81									
1981-82									
1982-83									
1983-84									

Record of complete account for Depreciation.		11	12	13	14	15	16	17	18
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) (vi).	Balance to be carried forward to column 14 next year.	Remarks.
1986-87	57,500 (1800000)			-34375					

For the S. Y. 1983, the prescribed particulars have been furnished as per statement reproduced below. The outstanding features, are the addition of Rs. 2 lakhs worth machinery, burning of a godown worth Rs. 2 lakhs from 1-10-27, sale of obsolete machinery worth Rs. 1,50,000, for Rs. 60,000, the purchase of a new motor car for business at a cost of Rs. 5000, from the 1st October 1927 and one motor car for hire worth Rs. 3000, having become useless by accident from the 1st November 1927.

Perhaps, I have now reached the stage where I can very well demonstrate the two methods for calculating the depreciation allowance admissible.

I have worked out calculations of depreciation admissible in each case on the I. T. form 9 itself, (i. e. the form giving the prescribed particulars) but as in practice assessee give figures of original cost according to their own books, which in several cases differ from the Income Tax Office records, the safest course to calculate correctly the depreciation allowance admissible is according to the two methods given above. For the S.Y. 1983, admissible depreciation is therefore, worked out below in both of these ways.

FIRST METHOD.

	Rs.
Additions 5% on Rs. 2,00,000 (machinery) ...	10,000
15% on Rs. 5000. (motor car) for 6 months ...	375
Add :—Less allowed for 2 months during 1927-28 on value of motor lorry sold during that year	266
(N. B. this is done in order to make the depreciation allowance—full for the past year, as this has to be taken in full for this year)	
Add : column 13 of last year ...	2,30,684.
	<hr/>
Total Rs. ...	2,41,325

Deduct :—

(a) Column 12 of last year ...	Rs. 1,600
(b) 5% on Rs. 1,50,000 (machinery obsolete) ..	7,500
(c) Short allowed on one motor car worth Rs. 3,000, became useless by accident, for 5 months at 20%. ...	Rs. 250
(d) — Do — value of godown burnt (for 6 months) 2½% on Rs. 2,00,000, ...	Rs. 2,500
	<hr/>

Net depreciation admissible for the year. Rs. 2,29,475

SECOND METHOD.

		Rs.
Buildings-2½% on Rs. 15,00,000 cost		
of buildings to end of last year	Rs. 37,500	
Less for six months on Rs. 2,00,000		
(godown burnt on 1-10-27)	Rs. 2,500	35,000
Cost to end of the year	Rs. 13,00,000	
Machinery cost to end of last year	Rs. 38,00,000	
Additions during the year	Rs. 2,00,000	
Less obsolete machinery sold.	Rs. 1,50,000	
	<hr/>	
Cost to date ... 2½% on	Rs. 38,50,000	1,92,500
Motor car for business :—		
15% on Rs. 5000 for six months		375
Plant cost up-to-date	Rs. 10,000	
Furniture cost up-to-date	Rs. 3,000	
	<hr/>	
5% on ...	Rs. 13,000	650
Motor cars for hire :—		
20% on cost to end of last year Rs. 6000	Rs. 1200	
Less for 5 months on one motor car (value		
Rs. 3,000) rendered useless by accident		
since 1-11-27.	Rs. 250	
	<hr/>	950
Total cost at end of the year.	Rs. 3000	
	<hr/>	
Total Depreciation admissible		Rs. 2,29,475

As I have stated above the second method is preferable to the first. Depreciation record as posted to end of 1928-29 is reproduced below. Entries in column 11, 12, and 13 with explanatory remarks in column 18 now do not require any further comments. They have been made as already explained above.

The only point worth noting is that out of the profits of Rs. 1,25,000, Rs. 75,625 on account of obsolescence allowance has first been granted in full and depreciation granted out of the residue. Obsolescence allowance has been worked out as follows :—

Original cost.	...	1,50,000
Depreciation already allowed	...	Rs. 14,375
Sale price.	...	Rs. 60,000
		<hr/>
Obsolescence allowance admissible		Rs. 75,625

Form for the purpose of obtaining an allowance for depreciation under proviso (a) to section 10 (2) (vi) of the Indian Income-tax Act, 1922.

Description of buildings, machinery, plant or furniture.	Original cost.	Capital expenditure during the year for additions, alterations, improvements and extensions.	Date from which used for the purposes of the business.	Particulars (including original cost, depreciation allowed, and value realised by sale or scrap value) of obsolete machinery, plant or furniture sold or discarded during the year with dates on which first brought into use and sold or discarded	Remarks.
1	1A	2	3	4	5
		Rs.			Rs.
<i>Spinning and Weaving factory</i>				<i>Godown worth Rs. 2 lakhs burnt on 1st October 27, in use since 15-4-25.</i>	55,000
<i>Buildings</i> ...	15,00,000	...	...
<i>Machinery</i> ...	38,00,000	2,00,000	15-9-27	<i>Sold obsolete looms, worth Rs. 1,50,000 for Rs. 80,000 on 1-10-27. Depreciation allowed from 15-4-25.</i>	1,92,500 Obsolescence allowance requested (replaced by up to-date looms worth Rs. 2,00,000.)
<i>1 Motor Car for business</i> ...		5,000	1-10-27	<i>for 6 months at 15 p. c.</i>	375
<i>Plant</i> ...	10,000	...	...		500
<i>Furniture</i> ...	3,000	...	...		150
<i>Motor cars for hire</i> ...	6,000	...	...	<i>One Motor (No. X 1842) car rendered useless by accident from 1-11-27 (in use from 15-3-26) original cost Rs. 3,000. Profits for the year Rs. 1,25,000 only.</i>	950 <hr/> 2,29,475

I *H. D. Good* declare that to the best of my information the buildings, machinery, plant and furniture described in column 1 of the above statement were the property of *the Multifarious Activities Co. Ltd.* during the year ended *Phalgun Vad. 30 S. Y. 1923* and that the particulars entered in the statement are correct and complete.

Place *Nowsheera*.

Date *17th July 1923.*

Signature (Sd.) *H. D. Good.*

Designation *Manager,*
The Multifarious Activities Co. Ltd.

Income Tax Department, N. W. Frontier Province.

Depreciation Record.

District or Area-Peshawar.

Name of assessee—The Multifarious Activities Co. Ltd
Newshehra.

General Index No. N. 182.

11	12	13	14	15	16	17	18
		1,84,305	1,84,305	1,84,305			
1926-27	(a) 1,600 (8,000)	2,30,614	2,30,684	2,30,000		684	(a) Motor lorry sold on 22-1-27
-Do-	(b) 13,100 (8,53,000)	2,29,476	2,30,159	49,375	76,625	180784	(b) Godown worth Rs. 2 lakhs burnt on 1-10-27 obsolete machi- nery worth Rs. 1,50,000 granted obsolescence all- owance. 1 motor car worth Rs. 3000 rendered useless from 1-11-27.
1926-27	(b) -600 1,200 (8000) -(3000)						(a) Sold on 22-1-27
-Do-	(a) 1888 (8888)	-1487					
1928-29	750 (5000)	-625					

1	2	3	4	5	6	7	8	9	10
1942-43									
1943-44									
1944-45									
1945-46									
1946-47									
1947-48									
1948-49									
1949-50									
1950-51									
1951-52									
1952-53									
1953-54									
1954-55									
1955-56									
1956-57									
1957-58									
1958-59									
1959-60									
1960-61									
1961-62									
1962-63									

11	12	13	14	15	16	17	18
	-7500						
1926-27	1,60,650	-147263					
(b)	(-150000)	+6875(b)					(b) Rendered obsolete and obsolescence allowance granted in 1928-29
1927-28	80,000						
	(6,00,000)						
1928-29	10,000						
	(2,00,000)						

1	2	3	4	5	6	7	8	9	10
1963-64									
1964-65									
1965-66									
1966-67									
1967-68									
1968-69									
1969-70									
1970-71									
1971-72									
1972-73									
1973-74									
1974-75									
1975-76									
1976-77									
1977-78									
1978-79									
1979-80									
1980-81									
1981-82									
1982-83									
1983-84									

Record of complete Account for Depreciation.							
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.	Remarks.
11	12	13	14	15	16	17	18
1926-27 (b)	-5000 37,500 (1500000) (-200000)	+4583(b) -34376					(b) Godown worth Rs. 2 lakhs burnt on 1-10-27

For the s. y. 1984, the Company fails to submit the prescribed particulars in Income Tax form-9, hence no depreciation becomes admissible for the year 1929-30. The arrears of Rs. 1,80,784 are, however, granted out of the current year's profits as a matter of course and they are so noted; the years for writing off of the various block accounts have been moved on to the succeeding year in each case, i. e. the present entries in columns 11,12 and 13 have been scored out and re-entered in the succeeding year in each case. The Depreciation record, as it stood at the end of 1929-30 is reproduced below:—

Income Tax Department, N. W. Frontier Province.

Depreciation Record.

District or Area—Peshawar.

Name of assessee—The Multifarious Activities Co. Ltd.
Nowshehra.

General Index No. N. 182.

11	12	13	14	15	16	17	18
		1,84,305	1,84,505	1,84,305			
1926-27	(a) 1600 (8000)	2,30,684	2,30,684	2,30,000		684	(a) Motor lorry sold on 22-1-27.
-Do-	(b) 13,100 (353000)	2,29,475	2,30,159	49,375	75,625	180784	(b) Godown worth Rs. 2 lakhs burnt on 1-10-27, obsolete machinery worth Rs. 15000 granted obsolescence allowance, one motor car worth Rs. 3000 rendered useless from 1-11-27. I.T. form not furnished
1926-27	(b) -600 3200 (8000)	—	1,80,784	1,80,784*			(a) Sold on 22-1-27.
-Do-	(a) 1600 (8600)	-1467					
1926-27	600 (3000)						
1928-29	750 (6000)	-625					
1929-29	750 (5000)	-625					

1	2	3	4	5	6	7	8	9	10
1942-43									
1943-44									
1944-45									
1945-46									
1946-47									
1947-48									
1948-49									
1949-50									
1950-51									
1951-52									
1952-53									
1953-54									
1954-55									
1955-56									
1956-57									
1957-58									
1958-59									
1959-60									
1960-61									
1961-62									
1962-63									

11	12	13	14	15	16	17	18
	-7500						
1926-27	460650	-147263					
	(3213000)	(b)-6875					
	(b)(-150000)						
1927-28	30000						
	(600000)						
1928-29	30000						
	(200000)						
1926-27	153150						
	(3063000)	-140388					
1927-28	30000						
	(600000)						
1928-29	30000						
	(200000)						
							(b) Rendered obsolete and obsolescence allowance granted in 1928-29

1	2	3	4	5	6	7	8	9	10
1963-64									
1964-65									
1965-66									
1966-67									
1967-68									
1968-69									
1969-70									
1970-71									
1971-72									
1972-73									
1973-74									
1974-75									
1975-76									
1976-77									
1977-78									
1978-79									
1979-80									
1980-81									
1981-82									
1982-83									
1983-84									

Record of complete account for Depreciation.																	
11	12	13	14	15	16	17	18	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.											
1926-27	-50000 87500 (3800000)	(b) +4563 -74579						(b) Godown worth Rs. 2 lakhs burnt on 1-10-27									
1926-27	(b) 32500 (1300000)	-20792															

For the s. y. 1985, the Company submits its prescribed particulars in Income Tax form 9. The outstanding feature is that the Company now state that electric machinery worth Rs. 12,00,000 (ten lakhs purchased in s. y. 1981 and two lakhs purchased in s. y. 1982) was incorrectly shown as 'ordinary machinery.' After verification of the particulars, this is admitted and depreciation at $7\frac{1}{2}$ p. c. allowed thereon from this year.

The Depreciation record is corrected as follows :—

In the year 1930-31, Rs. 12,00,000 are shown as minus entry under column 5 (machinery) and as plus entry under column 6 (electric machinery), the year for the write off of block accounts is then determined on Rs. 10,00,000. The depreciation so far allowed at 5 p. c. is Rs. 1,45,833 viz : Rs. 45,833 for 11 months of 1926-27 and Rs. 50,000 for each of the years 1927-28 and 1928-29 (during 1929-30 nothing was granted, as prescribed particulars were not submitted) hence the balance of Rs. 8,54,167 has to be granted from 1930-31, in order to make up cent per cent depreciation. At $7\frac{1}{2}$ % on Rs. ten lakhs, it would take 11 years and part of the 12th year to wipe Rs. 8,54,167 off, hence Rs. 75,000 are entered under column 12 against the year 1941-42, with Rs. 10,00,000 underneath within brackets. But as in the 12th year, Rs. 45,833 should be granted less in order to make up Rs. 8,54,167, Rs. 45,833 have been entered as a minus entry in column 13 against the year 1941-42. On Rs. 2,00,000, Rs. 20,000 has already been granted depreciation allowance at 5 p. c. during the years 1927-28 and 1928-29, the balance of Rs. 1,80,000 would require 12 years to wipe off the block account. This amount is therefore, also entered against the year 1941-42 under column 12, where the total depreciation to be written off in the next year now amounts to Rs. 90,000 and original cost to Rs. 12,00,000, consequential minus entries have been made against the years 1947-48 under column 12, with requisite explanatory remarks in column 18. The Depreciation record as now posted to end of 1930-31 is reproduced below :—

Form for the purpose of obtaining an allowance for depreciation
under proviso (a) to section 10 (2) (vi) of the Indian
Income-tax Act, 1922.

Description of buildings, machinery, plant or furniture.	Original cost.	Capital expenditure during the year for additions, alterations, improvements and extensions.	Date from which used for the purposes of the business.	Particulars (including original cost, depreciation allowed, and value realised by sale or scrap value) of obsolete machinery, plant or furniture sold or discarded during the year, with dates on which first brought into use and sold or discarded.	Remarks.
1	1A	2	3	4	5
Spinning and Weaving factory	18,00,000	Rs.			
Buildings	...	...	...		22,500
Ordinary Machinery	26,50,000	...			1,32,500
Dynamos Generator's and other electric machinery & installations	12,00,000		(Rupees 10,00,000 since 15-4-25 & Rs. 200000 since 16-5-26)		90,000 Electric machinery separated. It was previously erroneously shown under ordinary machinery (Details given in the attached list)
1 Motor car for business	5,100	...	...		750
Plant	10,000	...	...		500
Furniture	2,000	...	...		150
1 Motor car for hire	3,000	...	...		500
1 Motor car for hire No. 4743		4,000	15-7-28	for 8 months	533
					<u>2,57,533</u>

I, H. D. Good, declare that to the best of my information the buildings, machinery, plant and furniture described in column 1 of the above statement were the property of the Multifarious Activities Co. Ltd. during the year ended Phalgun Vad. 30 S. Y. 1935 and that the particulars entered in the statement are correct and complete.

Place Nowshera.
Date 16th June 1930.

Signature (Sd) H. D. GOOD.
Designation Manager,
The Multifarious Activities Co. Ltd.

Income Tax Department, N. W. Frontier Province.

Depreciation Record.

District or Area-Peshawar.

Name of assessee—The Multifarious Activities Co. Ltd.,
Nowshera.

General Index No. N. 182.

11	12	13	14	15	16	17	18
		1,84,305	1,84,505	1,84,805			
1926-27	(a) 1600 (8000)	2,30,684	2,30,684	2,30,000		684	(a) Motor lorry sold on 22-1-27.
-Do-	(b) 13,100 (353000)	2,29,475	2,30,159	49,875	75,625	180784	(b) Godown worth Rs. 2 lakhs burnt on 1-10-27, obsolete machinery worth Rs. 15000 granted obsolescence allowance, one motor car worth Rs. 3000 rendered useless from 1-11-27. I. T. form 9 not furnished. (d) Electric machinery separated.
		—	1,50,784	1,30,784			
1926-27	(h) -600 1200 (6000) (-3000)	2,57,533	2,57,533	2,57,533			
-Do-	(u) 1000 (8000)	-1467					(a) Sold on 22-1-27.
1926-27	600 (3000)						
1926-29	750 (6000)	-625					
1930-31	800 (4000)	-533					
1928-29	750 (5000)	-625					
1926-27	90000	-40833					
1927-28	(120000)						

1	2	3	4	5	6	7	8	9	10
1942-43									
1943-44									
1944-45									
1945-46									
1946-47									
1947-48									
1948-49									
1949-50									
1950-51									
1951-52									
1952-53									
1953-54									
1954-55									
1955-56									
1956-57									
1957-58									
1958-59									
1959-60									
1960-61									
1961-62									
1962-63									

11	12	13	14	15	16	17	18
	(b)-7500						
1926-27	160050	-147268					(b) Rendered obsolete and obsolescence allowance granted in 1928-29.
	(b) (-150000)	+6375(b)					
	(3213000)						
1927-28	30000						
	(600000)						
1928-29	30000						(c) Electric machinery transferred from ordinary machinery.
	(200000)						
	-50000	+ 45833	(c)				
1926-27	153150	-140388					
	(c) (-1000000)						
	(3063000)						
1927-28	-10000						
	30000						
	(600000)						
	(c) (-200000)						
1928-29	10000						
	(300000)						

1	2	3	4	5	6	7	8	9	10
1963-64									
1964-65									
1965-66									
1966-67									
1967-68									
1968-69									
1969-70									
1970-71									
1971-72									
1972-73									
1973-74									
1974-75									
1975-76									
1976-77									
1977-78									
1978-79									
1979-80									
1980-81									
1981-82									
1982-83									
1983-84									

Record of complete account for Depreciation.							
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.	Remarks.
11	12	13	14	15	16	17	18
1926-27	-5000 37500 (1500000)	+4583 -34375	(b)				
(b) 1926-27	32500 (1800000)	-29792					(b) Godown worth Rs. 2 lakhs burnt on 1-10-27.

CHAPTER V.

Proposed New Form.

From the foregoing chapter, it would be observed that the present form of Depreciation Record is defective in the following respects:—

(i) Uptodate cost of the various items of buildings, machinery, tools and plant &c. is not available in the Form itself.

(ii) There is less space between two lines to admit of all adjustment entries being made. It has particularly been found very inconvenient in the case of motor service Cos: where the assets are rapidly changing.

(iii) Whenever prescribed particulars are not furnished, figures in columns 11 and 12 are required to be moved on to the succeeding years.

(iv) It is rather complicated for posting.

(v) Notes of instructions for posting the record are not full.

In order to remedy these defects, I have proposed a revised form, (reproduced below with full notes of instructions, applicable to the proposed form). It will be observed therefrom that the year of write off of a block account would require no change, in the proposed form. It would be a constant factor, whereas the year in which depreciation becomes admissible, would be a varying factor. I have also reason to think that it would be simpler to post.

INCOME TAX DEPARTMENT _____ PROVINCE.

Depreciation Record of _____ (a)

District or Area _____

Name of assessee—

General Index Number—

(a) Here give description of factory etc.

		RECORD OF COST.									
Serial No. of Times (a)	Year in which Depreciation has become admissible (b).	Particulars.	Class of buildings.			Machinery, Plant & Furniture.					
			First Class 2½%.	Less substantial 5%.	Temporary 10%.						
1	2	3	4	5	6	7	8	9	10	11	
1	1926-27	1 Additions during the year.									
		2 Reductions during the year									
		3 Total cost to end of the year									
2	1928-29	1 Additions during the year.									
		2 Reductions during the year									
		3 Total cost to end of the year									
3	1929-30	1 Additions during the year.									
		2 Reductions during the year									
		3 Total cost to end of the year									
		and so on									

N. E.—To be printed for 60 years—with requisite number of inner sheets.

(a) Nos. in column 1 will be printed.

(b) Years in column 2 will be written in manuscript.

RECORD OF DEPRECIATION.					
Depreciation admissible for the year.	Total De- preciation admissible to date, Columns 12 plus 16 of last year.	Add:-Obso- lescence allowance granted during the year.	Total allowance during the year.	Balance outstand- ing at the end of the year.	Remarks.
12	13	14	15	16	17
					Particulars for 1927-28 not furnished.

Instructions for Posting.

(1) The first column 'Serial No. of Times' denotes the number of times for which depreciation has to be granted in a particular case e. g. in the case of Machinery, 20 times. This column will determine the occasion when block account should be written off, e. g. in the case of temporary buildings, the depreciation has to be allowed 10 times. So against S. No. 11 the cost of temporary buildings will be noted for writing off against line 2 column 3.

(2) Year in which depreciation becomes admissible should be written in manuscript in column 2. No depreciation becomes admissible unless prescribed particulars in Income Tax Form No. 9 are furnished by the assessee. Hence when such particulars are not furnished, for that year no depreciation becomes admissible nor is any allowed. No entries for that year have therefore, to be made in the Depreciation Record. However in order to have a consecutive record of the years as well, in the 'Remarks' column an entry should be made stating the non-submission of prescribed particulars in Income Tax Form No. 9, in a particular year. In case, there be any arrears of allowance still to be given, they should, of course be allowed irrespective of the non-furnishing of the prescribed particulars, but the grant of arrears should not be entered against any serial No.; it should be entered in columns 13 and 15, against the remark as to the non-furnishing of the prescribed particulars for the year concerned.

(3) (a) Column 3, Line 1. The original cost or the cost of additions, alterations and extensions should be entered against this line, in columns 4 to 11, particulars for which are furnished by the assessee annually in Income Tax Form No. 9. Simultaneously, these figures should be entered in red ink against line 2 in those columns against the serial number when the block account would be written off i. e. the serial number succeeding the serial number in which the last instalment of depreciation allowance will normally be granted. This will automatically ensure the requisite reduction of the admissible depreciation allowance, as upto date cost will exclude all such figures, on which full depreciation allowance has been granted. In certain cases full depreciation allowance might not have been granted during the normal period, owing to there being no profits or insufficient profits to cover the admissible depreciation allowance, nevertheless block account should

be written off, as originally marked, in as much as balance of depreciation allowance still admissible, would be carried forward in column 16 and allowed in subsequent years.

- (b) In some cases fraction of a year is involved, in order to allow cent per cent depreciation e. g. in the case of motor cars for business, where 15 per cent depreciation is allowed. So that in the seventh serial No. excess depreciation may not be allowed, 5 per cent. of the original cost in this case should be entered as minus entry under column 12 of the seventh serial number, at once in the first year of entry so that in the seventh serial number only the residue of depreciation actually admissible viz. 10 per cent. may be allowed on that occasion and the risk of over-allowing depreciation allowance obviated automatically.

(4) Column 3. Line 2. Against line 2 of the relevant serial number the original cost should be noted for deduction so that the block account may be written off automatically when due. Whenever any machinery is sold or obsolescence allowance is granted on any machinery etc. the original cost should be shown against line 2 of that year, so that upto date cost may be rectified at once. Simultaneously against line 2 in column 3 of the relevant serial number (i. e. the serial number in which the original cost has been shown as due to be written off) this original cost should be shown as plus entry, so that when the block account is written off in the serial number concerned, amounts representing original cost already deducted may not be deducted over again in the serial number at first determined for write off of the block account.

(5) Columns 4 to 11 do not require any remarks as they are self-explanatory. The figure under Column 12 will be based on nett entries against line 3 (Column 3) under columns 4 to 11, after making due allowance for depreciation on such new and independent assets, on the cost of which depreciation might have to be allowed for the part of the year only, as also after deducting the allowance not admissible on articles sold or rendered useless during the year after the date of sale or accident etc. Figures in Column 13 will be the total of the figures shown in column 12 plus the figures shown against the last year under column 16.

(6) In column 14 obsolescence allowance granted during the year should be entered. It should be borne in mind that obsolescence allowance is to be granted only when machinery has become out of date and is discarded on that account. If

machinery has been discarded, because it is worn out, or scrapped owing to accident or its having been rendered useless through wear and tear, no obsolescence allowance can be granted in such a case. Another point, that should be borne in mind in this connection is, that if there are no profits or insufficient profits to cover the amount of obsolescence allowance admissible; in the former case, no allowance and in the latter case, obsolescence allowance will be granted to the extent of total profits of the assessee but balance not allowed will not be carried forward to the next year.

(7) In the case of succession to a business, depreciation should be continued to be allowed to the successor, on the original cost of machinery and buildings to his predecessor, as if there has been no change. In other words, the depreciation record of the predecessor will simply be transferred to the assessment record of the successor and continued on as if depreciation already granted to the predecessor had been granted to the successor.

(8) In the case of rectification of the nomenclature of machinery, involving different percentages, e. g. 'Electric machinery' having for some years been posted through an error or want of particulars under 'Ordinary Machinery', the mistake should be rectified in the following way :—

- (a) Original cost of "Electric Machinery" previously debited erroneously under "Ordinary Machinery" should be shown in the year of rectification as plus entry against Line 1 under the Column "Electric Machinery."
- (b) The same amount should be shown as minus entry, in that year, against Line 2 under the column "Ordinary machinery."
- (c) It should first be calculated what depreciation has already been granted at 5%, on the original cost of the 'Electric Machinery.' The residue per cent as well as total amount still admissible would thus be available.
- (d) Serial No. for the write off of the block account of the "Electric Machinery," by dividing $7\frac{1}{2}$ over the residue per cent would next be determined and the amount of original cost written against line 2 of the Serial No. thus found out, under the column "Electric Machinery."
- (e) Simultaneously, against line 2 of the Serial No. where this amount had originally been shown under the column 'Ordinary Machinery' for write off of the block account

a plus entry would be made underneath that entry, so that there may not be double deduction.

- (f) In case there might be involved some fraction for adjustment, the procedure indicated in para. 3 (b) above should be followed.
- (g) Depreciation at revised rate should, however, be given only from the year of rectification, if the error in classification was due to the assessee not having furnished correct and full particulars in the first instance.

Even if the error was of the Income Tax Officer, the assessee could not still claim arrears, if he failed to avail of his remedy of appeal to the Assistant Commissioner of Income Tax, in the year of error.

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