CHAPTER - V

THE CRITICAL EXAMINATION OF STATUTORY PROVISIONS UNDER THE INCOME TAX ACT, 1961 & COMPANIES ACT 1956

It may be noted depreciation rates prescribed under Schedule XIV of the companies Act are generally lower than those specified in the rules framed under the Income Tax Act. For example general rate of depreciation for plant and machinery on written down value basis is 15% under the Schedule while it is 33.1/3% under the Income Tax Rules.

For tax purposes the cost of an asset purchased during the accounting year is added to the depreciated value for relevant block of assets and it qualifies for full years depreciation irrespective of the date of purchase whereas under the companies Act the depreciation is to be charged on individual assets only from the date of purchase on pro-rata basis.

Under the Income Tax Act, proceeds of assets sold, discarded etc. during a year is deducted from depreciated valu of block of assets. Whereas under the companies Act normal depreciation has been provided till the date of sale etc.

A company will have to be make two types of depreciation calculations one for tax purposes and another for purposes of the company's law that is to say the depreciation allowance on assets will have to be separately computed for tax purposes.

In accordance with sound company practice, if a company desires to deduct depreciation in respect of it's agricultural assets for the purposes of section 350 it may adopt the rates prescribed in the Agricultural Income Tax Act, of the state in which it is situated.