Vol 6 Issue 1 Feb 2016
ISSN No : 2230-7850

International Multidisciplinary Research Journal

Indian Streams Research Journal

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RNI MAHMUL/2011/38595 **ISSN No.2230-7850**

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Indian Streams Research Journal
International Recognized Multidisciplinary Research Journal

ISSN: 2230-7850 Impact Factor : 4.1625(UIF) Volume - 6 | Issue - 1 | Feb - 2016

EVALUATION OF DEPRECIATION PROVISIONS WITH SPECIAL REFERENCE OF SALARIED AND BUSINESS PERSONS

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ABSTRACT:

India has well developed tax structure. The power of levy taxes and duties is distributed among the three tiers of government, in accordance with the provisions of the Indian Constitution. Income tax is direct tax and most significant source of revenue of the government. This Income tax is an important tool to achieve balanced socio-economic growth by providing concessions for development purpose. A large number of research works was done by various researchers. Every researcher did the work in his time. At particular point of time, that work was valuable. But Government has made many amendments every year, now it is complicated.

In this paper I have tried to evaluate the provisions related with car. Car is provided by employer to his employee. It is taxable perquisite in the hands of employee. At the same time, a business entrepreneur is also using car for his business. Of course it is using for the business but at the same time it is also used for his personal use also. Although provisions are made that only official expenses are allowed for deduction from profits but in practical nobody cares about this that whether the proper amount was attributed or not . A business person uses car and deduction are available to him. The Government losses taxes on this car. It is the practice of business entrepreneur that he always buy car for his business and charging depreciation, maintenance expenses, running expenses are charged from the profit in the context of earning of profit. This car is used for earning of profit. At the same time I would like to say that an employee is also using car for the services to be provided to the employer. My question is why there is discrimination. In this paper I tried to evaluate the provision with the help of illustration.

In this paper, I could not take a lot of thing because of wide range of provisions. I have considered only few ones which were given above, due to limitations of this research paper for few

pages.

KEYWORDS: *Evaluation of Depreciation, Salaried, Business Pesrsons, etc.*

INTRODUCTION

In India, Income Tax Act 1961 is in force in whole of the India. Income Tax is a direct tax levied on every person i.e. Individual, HUF, Firm, Companies, and all other artificial judicial person. It is a tax which is not voluntary payment but an enforced contribution that is why tax is known as financial charge or levy. Despite the fact that many provisions are displeasure for the tax payee sometimes provisions are, in my opinion , discriminatory favouring one section of tax payer and not favoring the other section.

In this paper, I have tried to evaluate the provisions related with car. Car is provided by employer to his employee. It is taxable perquisite in the hands of employee. At the same time, a business entrepreneur is also using car for his business. Of course it is using for the business but at the same time it is also used for his personal use also. Although provisions are made that only official expenses are allowed for deduction from profits but in practical nobody cares about this that whether the proper amount was attributed or not . A business person uses car and deduction are available to him.It is necessary in current scenario to evaluate critically the above provisions. The author that is I have no intention to criticize the government or judiciary or the Act but my intension is that we should reconsider the things, that is, provisions in current scenario. Income tax is direct tax and most significant source of revenue of the government. This Income tax is an important tool to achieve balanced socio-economic growth

HISTORY:

In India, Income Tax Act was introduced in 1860 by Sir James Wilson. This tax was introduced to compensate the losses sustained by then government. These losses were due to military mutiny of 1857. Earlier it was temporarily introduced but in 1886, a separate income tax act was passed. In 1918, new income tax act was introduced and again in 1922 it replaced 1918 Act. Every year amendments were made in 1922 Act and due to complications in the Act by virtue of amendments, it was decided to constitute a law commission in 1956. A direct tax administration enquiry committee was appointed by Government of India and in consultation with Ministry of Law, Income Tax Act 1961 was passed.

Income Tax Act 1961 is applicable in whole of the India including Jammu and Kashmir and in force with effect from 1st April, 1962. Every year amendments are made in the budget and presently it is complicated both for administering authority and the tax payers.

OBJECTIVES OF THE STUDY:

In this paper, I have tried to evaluate the provisions regarding depreciation on Car. In current scenario, depreciation on car is playing an important role to save tax from assessee point of view. Depreciation in my opinion, particularly depreciation on Car is a way to reduce the tax liability.

1. To Give information about the depreciation as per financial accounts.
2. To Elaborate the provisions of depreciation as per Income Tax Act,
3. To Evaluate the views on Depreciation on Car of various people from salry section and business section.
4. To Evaluate the provision on Depreciation with suitable examples.
5. To Give an suggestions on Depreciation in the light of current scenario.

REVIEW OF LITERATURE:

A large number of researchers has evaluated various aspects of the taxes. Many researchers in India, evaluated various other provisions and most of them tried to summarize the information. The way of presenting, in my opinion, is just informative and sometimes comparison over the period is mentioned or elaborated. I tried to evaluate the provisions and to give certain suggestions.

The review of literature is confined to India only in this study. We have various information about this paper from various newspapers, Act, books and other articles for study purpose.

SCOPE AND LIMITATION:

In this paper, I could not take a lot of thing because of wide range of parameters. I have considered only few ones, due to limitations of this research paper for few pages. Although there is a need to discuss other aspects also but there is a time limitation and research limitation.

RESEARCH METHODOLOGY:

In present study research methodology is descriptive and explanatory in nature. In this various books on direct taxes, public finance, circulars of CBDT, reports in the newspapers, various research papers in journals and magazines, various internet sites, other relaevant literature were consulted. It is tried to consult the views of the public. I tried to get the views of service persons and business persons. The views of both are different and are in nature of self gain. On the basis of the views, I analyzed these views in the light of current scenario. In this only depreciation on car is considered for evaluation of provisions and need to change the provisions.

These people are selected on the basis of two things. First person should know about the provisions and he is also drawing the same or sometimes not, but he should be. Second what the people feel to get it change.

Every individual was assured to keep his her name, place, designation, working place strictly confidential. It was also assured to them not reveal information to anyones. The information collected is exclusively used for this paper and suggestions given by them are considered.

DEPRECIATION - MEANING:

Depreciation is a diminution in value or lost usefulness. It is a expenses which is result of using any fixed assets. Actually it is a permanent reduction in value of the fixed asset. The reason is due the wear and tear from the use of those assets in the business. In business, on continuous use of asset in business the value of the assets shrinks. If this is not reduced according to usefulness then balance sheet will not show the correct picture of the organization. The book value of the asset may be overstated or understated. Depreciation is charged due to earning from such assets. It is just and fair to charge such loss against the revenue in order to match the cost and revenue process. It is done to arrive at the true net profits or loss sufferance during the given period.

DEPRECIATION - OBJECTIVES:

1. To show the assets at correct value in the Balance Sheet to show correct financial position of the Enterprise.
2. To Calculate the profits for the financial period so that income tax can be paid at right rate.
3. To make necessary arrangements for the Replacement of the Existing Asset.
4. To reduce the Tax Liability of the firm, it is my opinion but it is true which can be seen in the profit and

loss account.

DEPRECIATION AS PER FINANCIAL ACCOUNTS:

According to the Accounting Standard on Depreciation AS-6, which was issued by the Institute of Chartered Accountants of India in August 1994," Depreciation is a measure of the wearing out, consumption or other loss of value of a depreciable asset arising from use, effluxion of time or obsolescence through technology and market changes. Depreciation is allocated so as to charge a fair proportion of the depreciable amount in each accounting period during the expected useful life of the asset. Depreciation include amortization of assets whose useful life is predetermined."

As per accounting standard 6, depreciable assets are assets which

(I) Are expected to be used during more than one accounting period
(ii) Have a limited useful life
(iii) Are held by an enterprise for use and not for the purpose of sale in the ordinary course of business.

PROVISIONS OF DEPRICIATION ON CAR AS PER INCOME TAX:

In Income Tax the depreciation on car or any all other asset is provided on the basis of Block of Assets. Block of Assets means group of assets falling within a class of assets having

(a) Tangible assets, being buildings, machinery, plant or furniture
(b) Intangible assets being copyrights, licence, know how, patents acquired on or after 01.04.1998.

In respect of which the same percentage of depreciation is prescribed. Each class of assets may have different blocks on which separate rate of depreciation are prescribed and for each rate, separate block will be formed. In Income Tax, a taxpayer may have 13 different blocks of assets out of which 12 locks are for tangible assets and 1 Block for intangible assets.

In income tax car is in Block 5 known as Plant and Machinery. In this any plant or machinery (except those plant and machinery not covered in other blocks), Motor Car (other than those used in a business of running them on hire) acquired or put to use on or after April 1, 1990. In this Block, depreciation @15% is provided subject to certain conditions. Cars are considered in this block i.e. @15% on the written down value of car on 01.04.2015 for the previous year 2015-2016 (Assessment Year 2016-2017) for this research paper.

Block of assets and written down value can be illustratred as follows:

Mr. X his owns the following assets in his business on 01.04.2015.

Building A 10% Rs.3,00,000	Plant A 15% Rs.2,50,000	Trade Mark 25% Rs.1,00,000
Building B 5% Rs.2,00,000	Plant B 15% Rs.3,00,000	
Building C 10% Rs.4,00,000	Plant A 20% Rs.4,50,000	

It means :

Block I Building A+C, Depreciation @10% WDV as on 01.04.2015 = Rs. 7,00,000
Block II Building B, Depreciation @5% WDV as on 01.04.2015 = Rs. 2,00,000
Block III Plant A+B, Depreciation @15% WDV as on 01.04.2015 = Rs. 5,50,000
Block IV Plant C, Depreciation @20% WDV as on 01.04.2015 = Rs. 4,50,000
Block V Trade Mark, Depreciation @25% WDV as on 01.04.2015 = Rs. 1,00,000

Calculation of Depreciation as per Income Tax:

WDV of the Block of Assets on 1st day of the previous year	xxxx
Add: Assets falling in the block purchased during the previous year	xxxx

Less: Assets falling in the block sold (including scrap value)	xxxx
WDV of the block for the purpose of charging depreciation	xxxx
Less: Depreciation as per block rate	xxxx
WDV of the Block of Assets on Last day of the previous year	xxxx

It is very important if WDV of a block of asset is reduced to zero then no depreciation is admissible. Although the block of of asset does not cease to exist on the last day of the previous year.

EVALUATION OF PROVISION OF CAR FOR SALARIED PERSON:

For Salaried person if car is provided by employer to employee: If employer is providing car to employee and maintenance and running expenses area met by employer then it is taxable in the hands of employee.

It can be of two types:

(a) Car is owned by employer and expenses are met by employer . If such car is used partly official purposes and partly for private purposes. Then it is taxable @Rs.1,800 per month in case of small car (cubic capacity of engine does not exceed 1.6 liters or 1600 cc) and @Rs.2,400 per month in case of large car (cubic capacity of engine exceeds 1.6 liters or 1600 cc). If driver is also paid by employer then 900 per month is also taxable in the hands of employee

(b) Car is owned by employee and expenses are met by employer . If such car is used partly official purposes and partly for private purposes. Then the actual expenditure incurred by the employer as reduced by @ Rs.1,800 per month in case of small car (cubic capacity of engine does not exceed 1.6 liters or 1600 cc) and @ Rs.2,400 per month in case of large car (cubic capacity of engine exceeds 1.6 liters or 1600 cc). If driver is also paid by employer then @ Rs.900 per month is also reduced from the actual salary of driver and residual amount is taxable in the hands of employee.

It means if any employer is providing car to his employee then for small car with driver is taxable @Rs.32,400 per annum and for large car it is @ Rs39,600 per annum is taxable. It means employee can be in either 10% or 20% or 30% tax bracket.

If he is in 20% bracket then the cost of car to him will be for:

Value + Tax = Total Cost

Small Car: Rs. 32,400 + Rs. 6,480 = Rs.38,880

Large Car: Rs. 39,600 + Rs. 7,920 = Rs.47,520

If he is in 30% bracket then the cost of car to him will be for:

Value + Tax = Total Cost

Small Car: Rs. 32,400 + Rs. 9,720 = Rs.38,880

Large Car: Rs. 39,600 + Rs.11,880 = Rs.47,520

It means every employee every employee using car which is provided by employer is making cost to him. It means additional tax burden is on the employee. Even when he is using just for his employment work.

EVALUATION OF PROVISION OF CAR FOR BUSINESS PERSON:

Car is under the block 5 which means plant and machinery, motor car (other than those used in the business of running them on hire) acquired or put to use on or after April 1, 1990, the depreciation @ 15% is provided in that block.

In India, trading or other activities engaged business persons uses this clause to reduce tax liability by purchasing car. If motor car is used less than 180 days then depreciation at half rate is provided. Most of the business persons if you are carrying on la business or profession one of the major instrument of reducing tax liability is to claim depreciation on the purchase of your new vehicle. How they are using this technique, to understand this we have to read the following provision. Any expenditure incurred for the purpose of the business is allowed as deduction from your business income. As such expenditure incurred on vehicle used in the business viz fuel expenses, repair and maintenance expenditure, vehicle insurance are allowed as deduction for the said purpose. In addition, income from business can be reduced by amount of depreciation, provided by section 32 of the Income Tax Act.

Although deduction on account of depreciation is essential but most businessman uses this provision to reduce tax liability. They are always purchasing new cars and costly cars and getting benefits. To claim depreciation on car following conditions have to be fulfilled:

- you must be the owner of the motor car
- the car must be actually used by the owner for the purpose of his or her business or profession.
- The car must be used during the financial year.

If the vehicle is used for personal purposes then depreciation would be proportionately disallowed by tax authority. But in practice no one says that it is used for personal purpose,.

The rate of depreciation for motor car is 15% while the rate of depreciation for motor busses, motor lories and motor taxies used in the business of running them on lhire is 30%. It is important to note that if the car is purchased during the year and is used for the business or profession for less than 180 days then depreciation is provided at 50% percent of the allowable depreciation i.e. 7.5%. But in the following year and thereafter the depreciation allowed will be 15% of the wdv. Now taking on example (assumed data)

Block: Plant and Machinery Being Motor Car – 15% Depreciation

Motor Car purchased on 01.05.2011	Rs. 5,00,000
Less: depreciation for Financial Year 2011-2012 @15%	Rs. 75,000
Written Down Value on 31.03.2012	Rs. 4,25,000
Add: New car purchased on 01.07.2012	Rs. 6,00,000
Total	Rs. 10,25,000
Less: Depreciation for Financial Year 2012-2013 @15%	Rs. 1,53,750
Written Down Value on 31.03.2013	Rs. 8,71,250
Add: New car purchased on 01.08.2013	Rs. 16,00,000
Total	Rs. 24,71,250
Less: Depreciation for Financial Year 2013-2014 @15%	Rs. 3,70,687
Written Down Value on 31.03.2014	Rs. 21,00,563
Add: New Big car purchased on 01.06.2014	Rs. 30,00,000
Total	Rs. 51,00,563
Less: Depreciation for Financial Year 2014-2015 @15%	Rs. 7,65,085
Written Down Value on 31.03.2015	Rs. 43,35,478
Less: Depreciation for Financial Year 2015-2016 @15%	Rs. 6,50,322
Written Down Value on 31.03.2016	Rs. 36,85,156

Further more if one has taken a loan for purchase of the vehicle then Interest on loan would be allowed as business expenditure. It is noted that insurance paid also considered as expenses:

Now on the basis of hypothetical figures following table shows how business persons are reducing tax liability. It is also presumed that loan is also taken.

Table 1

(Calculation of Written Down Value and Depreciation as per Income Tax Act)

All figures are in Indian Rupees

Year		Car 1 (01.05.2011)	Car 2 (01.07.2012)	Car 3 (01.08.2013)	Car 4 (01.06.2014)
2011-2012	WDV	5,00,000			
	Dep	75,000			
2012-2013	WDV	4,25,000	6,00,000		
	Dep	63,750	90,000		
2013-2014	WDV	3,61,250	5,10,000	16,00,000	
	Dep	54,187	76,500	2,40,000	
2014-2015	WDV	3,07,063	4,33,500	13,60,000	30,00,000
	Dep	46,060	65,025	2,04,000	4,50,000
2015-2016	WDV	2,61,003	3,68,475	11,56,000	25,50,000
	Dep	39,151	55,271	1,73,400	3,82,500
	WDV	2,21,852	3,13,204	9,82,600	21,67,500

Table 2

(Calculation of Total Depreciation as per Income Tax Act)

All figures are in Indian Rupees

Year	Car 1 (01.05.2011)	Car 2 (01.07.2012)	Car 3 (01.08.2013)	Car 4 (01.06.2014)	Total Depreciation
2011-2012	75,000	-	-	-	**75,000**
2012-2013	63,750	90,000	-	-	**1,53,750**
2013-2014	54,187	76,500	2,40,000	-	**3,70,687**
2014-2015	46,060	65,025	2,04,000	4,50,000	**7,65,085**
2015-2016	39,151	55,271	1,73,400	3,82,500	**6,50,322**

Table 3

(Calculation of Total Insurance @4% as per Income Tax Act)

All figures are in Indian Rupees

Year	Car 1 (01.05.2011)	Car 2 (01.07.2012)	Car 3 (01.08.2013)	Car 4 (01.06.2014)	Total Insurance
2011-2012	20,000	-	-	-	**20,000**
2012-2013	17,000	24,000	-	-	**41,000**
2013-2014	14,450	20,400	64,000	-	**98,850**
2014-2015	12,282	17,340	54,400	1,20,000	**2,04,022**
2015-2016	10,440	14,739	46,240	1,02,000	**1,73,419**

Table 4
(Calculation of Total Maintenance Cost Assumed at 4%+.05%+.05% as per Income Tax Act)
All figures are in Indian Rupees

Year	%	Car 1	%	Car 2	%	Car 3	%	Car 4	Total Mainten Cost
2011-2012	4.0	20,000							**20,000**
2012-2013	4.5	22,500	4.0	24,000					**46,500**
2013-2014	5.0	25,000	4.5	27,000	4.0	64,000			**1,16,000**
2014-2015	5.5	27,500	5.0	30,000	4.5	72,000	4.0	1,20,000	**2,49,500**
2015-2016	6.0	30,000	5.5	33,000	5.0	80,000	4.5	1,35,000	**2,78,000**

Table 5
(Calculation of Total Deduction as per Income Tax Act)
All figures are in Indian Rupees

Year	Dep	Intt on Loan (assumed)	Insurance	Maintenance	Running Expenses	Total
2011-2012	75,000	42,500	20,000	20,000	26,000	**1,83,500**
2012-2013	1,53,750	87,125	41,000	46,500	52,000	**3,80,375**
2013-2014	3,70,687	2,10,056	98,850	1,16,000	78,000	**8,73,593**
2014-2015	7,65,085	4,33,548	2,04,022	2,49,500	1,04,000	**17,56,155**
2015-2016	6,50,322	3,68,516	1,73,419	2,78,000	1,04,000	**15,74,257**

Table 6
(Calculation of Total Tax Benefits for 20% and 30% tax bracket holders as per Income Tax Act)
All figures are in Indian Rupees

Year	Total Deduction claimed	For 20% Tax Bracket	For 30% Tax Bracket
2011-2012	1,83,500	37,801	56,702
2012-2013	3,80,375	78,357	1,17,536
2013-2014	8,73,593	1,79,960	2,69,940
2014-2015	17,56,155	3,61,768	5,42,652
2015-2016	15,74,257	3,24,897	4,86,445

The above illustration is just taking assumed figures. But in practical if it is going on then it is seen that a firm can save tax of huge amount. It is a loss to exchequer. It can be seen that the following is the result of the above.

1. Loss to the Government on account of tax in the case of Car only
2. It is creating a huge traffic on account of Car. It is creating huge congestion on roads.
3. Another effect is due to large number of cars are on road, they are consuming Petrol or Diesel for which again Government has to pay foreign exchange for import of Oil.
4. Natural Resources and National Wealth are going to be wasted for unproductive usage of Car.
5. In last I would like to say huge pollution is also there and it is dangerous to the environment. For our next generation we have to reply for such present action. In this Government has to play an important

role by withdrawing the depreciation on car used in firms of trading activities.

COMPARISON OF BENEFITS OF CAR FOR SERVICE AND BUSINESS CLASS:

1. One side shows that service person has to pay taxes for using such car. Whereas business person is entitled for tax benefits as shown in above table.
2. If both are using car to earn then why service person is deprived from such benefits.

CONCLUSION:

Though the payment of tax is a moral obligation of the taxpayer. Tax payer knows the motive behind the fact of this tax but a large number of persons are not willing to pay tax. The reasons are due to many factors. First is lack of implementation of provisions strictly. Secondly punishable offences are there but due to lack of honesty and work pressure has resulted with no or less tax. Third is lack of patriosm and nationalism among the people citizen of India.

Although it is used for welfare of society. This is the time to create work culture, honesty and dedication among the implementing staff. The enforceability of law in strict and punishable manners is required. Most of important, in this research, researcher found that from both salary and business section, there is need to review the provisions on depreciation on car (except hiring / taxies business of car). When car depreciation, maintenance and running expenses are allowed to business, it is clear that a large amount is used to save tax and huge amount of tax is saved by business section. Government also loose the tax. On the other hand salary class has to pay tax on Car provided to him by the employer and no deduction is allowed to him even when assessee own a car and used for his employment.

In conclusion it is necessary to have a limit to provide depreciation on car subject to certain conditions. For example only one car should be allowed for depreciation. Second deprecation can be reduced to 5%. Thirdly depreciation on car can be given only for those lfirms having turnover of more than Rs. One Crore per car. It is necessary to consider again the provision on account of depreciation on Car by the Government.

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