Case Study on Section 35AD

On April 2018 X td. commences the operation of a warehousing facility in Andhra Pradesh for storage of agricultural produce. The following information is available from the record of a company:

Expenses incurred prior to April 1, 2018

Purchase of land for warehouse ₹50,00,000

Construction of warehouse ₹8,00,000

Purchase of know-how for warehouse ₹10,00,000

Salary to staff ₹78,000

These expenses are capitalised on March 31, 2018

Expenses during 2018-19

Construction of warehouse ₹60,00,000

Purchase of old Plant and Machinery(domestic) ₹2,00,000

Purchase of old Plant and Machinery (from Germany) ₹4,00,000

Purchase of new Plant and Machinery ₹9,00,000

purchase of Goodwill ₹3,50,000

Profit and loss account for the year2018-19

Depreciation of building (@5%) 3,40,000 Amount collected from person

Depreciation of Machinery (@23.333%) 3,50,000 using warehouse 78,00,000

cost of know how (written off) 10,00,000

other operating expenses 10,00,000

donation to political party 10,000

Net Profit 53,49,000

 78,00,000 78,00,000

out of other operating expenses, a payment of ₹40,000 is made in cash. Other operating expenditure are deductible under section 37. Find out the taxable income of X ltd. for the A.Y.2019-20 on the assumption that X ltd., has following incomes from other sources

Income from business of commission agency ₹20,15,000

dividend from a foreign company ₹50,000

Calculate taxable income of the company

Solution:

Working Notes:

Amount deductible under sec 35AD

Construction of warehouse ₹8,00,000

Purchase of know-how for warehouse ₹10,00,000

Salary to staff ₹78,000

Construction of warehouse ₹60,00,000

Purchase of old Plant and Machinery(domestic) ₹2,00,000\*

Purchase of old Plant and Machinery (from Germany) ₹4,00,000

Purchase of new Plant and Machinery ₹9,00,000

Total deductible U/S 35AD 93,78,000

\*allowed because it does not exceed by 20% of total value of plant and machinery.

Old imported machinery is always treated as new machinery

Purchase of land is not qualified under section 35AD

Computation of profit and gains form business or businession

Net Profit as p P&L account 53,49,000

Add: Depreciation not allowed because cost is allowed u/s 35AD

Depreciation of building (@5%) 3,40,000

Depreciation of Machinery (@23.333%) 3,50,000

cost of know how (written off) 10,00,000 16,90,000

Amount paid in cash 40,000

Donation to political party 10,000

 Total 70,89,000

Less: Deduction u/s 35AD 93,78,000

Profits and Gains from Business or Profession (-) 22,89,000

Computation of Gross Total Income

Profit and Gains from Business or Profession

Income from eligible business u/s 35 AD (-)22,89,000

Commission agency business 20,15,000 20,15,000

(can not set off)

Income from other sources 50,000

 GTI 20,65,000

Deduction u/s 80GGB 10,000

Taxable Income 20,55,000

Tax Liability

Minimum alternate tax 19.24% of book profit (53,49,000+20,15,000+50,000) = 1426453.6

OR

Normal Tax 31.2% of 20,55,000 = 641160

Whichever is higher