**Case Study (Section 50 and Tax Planning)**

X ltd. Maintains books of account on the basis of financial year. On April 1, 2018, the depreciated value of assets is as follows:

First block: Plant (rate of depreciation:15%)

* Plant A ₹20,000
* Plant B ₹4,10,000
* Plant C ₹60,000

Second block: Plant (rate of depreciation:30%)

* Plant P ₹10,65,000
* Plant Q ₹25,00,000

During the previous year 2018-19, the company has purchased/sold the following plants:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Asset** | **Date of sale/Purchase** | **Cost** | **Selling price** | **Rate of depreciation** |
| Plant D | April 20, 2018 | 45,000 | - | 15% |
| Plant B | May 10, 2018 | - | 10,60,000 | 15% |
| Plant P | May 15, 2018 | - | 2,00,000 | 30% |

**How to avoid short term capital tax liability suggest possible option within four corner of income tax.**

**Solution**

First Block

W.D.V on April 1, 2018 4,90,000

* Add: Cost of plant D 45,000

Total **5,35,000**

Less: Sale proceeds of plant B (not exceed ₹ 5,35,000) 5,35,000

Written down value March 31, 2019 Nil

Depreciation Nil

**Computation of Short-term Capital Gain**

Sale Proceeds 10,60,000

**Less: Cost of acquisition**

**WDV on April 1, 2018 5,35,000**

**Short Term Capital Gain 5,25,000**

Tax on short term capital gain 30% of 5,25,000 1,57,500

Add: Health and education cess 4% 6,300

Tax Liability 1,63,800

**How to Avoid this tax liability**

Tax liability of ₹ 1,63,800 can, however, be avoided if a plant of ₹5,25,000 eligible for depreciation, at the rate of 15%, is acquired at any time during the previous year 2018-19.

Suppose X ltd. Acquire Plant E (new) for ₹5,25,000 on March 31, 2019 amount of depreciation and STCG would be as follows:

* W.D.V on April 1, 2018 4,90,000
* Add: Cost of plant D and E (45000+ 5,25,000) 5,70,000
* Total 10,60,000
* Less: Sale proceed Plant B 10,60,000
* WDV on March 31, 2019 nil
* Depreciation nil

**Calculation of Capital Gain**

* Sale Proceeds 10,60,000
* Less: W.D.V. on April1, 2018 4,90,000

Cost of Plant D 5,70,000 10,60 000

* + - * STCG Nil

**Impact of Cash flow due to purchase new plant E**

Cash outflow on account of Purchase plant E (+) ₹5,25,000

Tax Saving on STCG (-)₹1,63,800

Net cash outflow (-) ₹3,61,200