

# TAX DEPRECIATION

## real estate

### India Tax Depreciation Information Sheet

Davis Langdon's Banking Tax and Finance division is part of the Specialist Services Group within Davis Langdon LLP, a leading international construction and property consultancy. Widely acknowledged for the past thirty years as the leading advisor in the UK on Tax Depreciation, the Banking Tax and Finance group has grown and diversified to become a leading source of expertise on a wide range of property tax and finance issues.

Every commercial property owner, investor or tenant who incurs expenditure on real estate, has the potential to claim tax relief in the form of Tax Depreciation. Our specialist property tax and finance division delivers managed solutions for clients investing in international construction, infrastructure and real estate.

We represent our client's interests; reducing risk, maximising value and optimising the outcome of cost segregation. In each country, the relative benefits of the particular tax depreciation regime will only become clear through detailed analysis.

Our early involvement will mean that tax depreciation can be considered in sufficient time to make an informed decision.



Our experience and procedures allow us to optimise the outcome of cost segregation studies to produce real benefits through the acceleration of the tax deductions.

We will work with our local partners to ensure compliance with all technical and regulatory issues specific to India.



Tax depreciation rates applied to buildings and fixed assets are prescribed by legislation under the concept of 'Blocks of Assets'. This is defined as a group of assets falling within a class of assets on which the same depreciation rate applies. In order to segregate an item, it is necessary for it to have a different percentage from the Building Block, as well as meeting asset descriptions and the definition of plant.

The concept of using a cost segregation study to access higher rates of tax depreciation is largely unused. The low awareness of the benefits of cost segregation could be due to the existence of a 'building' depreciation rate of 10%, which might appear to obviate the need for a detailed analysis on the basis that this is better than nothing.

If plant and machinery is segregated from cost data, there is, however, an extra 5% allowance over buildings, but better still, if the very green incentives are identified on 'energy saving' plant, 80% can be depreciated in the first year and best of all, some equipment in sophisticated buildings attracts 100%. Cost segregation will, of course, be subject to verification by India's tax authorities and the individual tax inspector and the outcome may vary from case to case.



### Demonstrating the Benefits

In order to demonstrate the potential benefits of a cost segregation study on a new construction project, we would compare the net present value of the tax saving that could result for various building types, rather than depreciating the whole of the building cost at 10%.

We would demonstrate the saving, expressed as the percentage gain over doing nothing.

### How it Works in India

Business income is subject to Corporate Income Tax at 33.3%. Depreciation is allowed as a tax deductible cost. Depreciation can be claimed on the cost of buildings, but not land. The allocation must be made in accordance with the Income Tax Act 1961 Section 32 and Income Tax Rules 1962. The Finance Act 2003 provides a definition of the term 'plant'.

The main categories of assets and their statutory annual tax depreciation rates are shown in the table on the right:

Block	% Rate
1. Buildings - residential	5% (see note 1)
2. Buildings - office, factory, hotel	10% (see note 2)
3. Buildings - water supply project	100% (see note 3)
4. Furniture - furniture, fittings including electrical fittings	10%
5. Plant and machinery - any plant and machinery and any ship or vessels	15% (see note 4)
6. Plant and machinery - motor cars	15%
7. Plant and machinery - means of transport, moulds, life saving medical equipment	20 to 40% (see note 5)
8. Plant and machinery - containers, commercial vehicles, textile industry equipment	50% (see note 6)
9. Plant and machinery - computers, software, commercial vehicles, books	60% (see note 7)
10. Plant and machinery - energy saving devices, renewal energy devices, rollers in flour mills, sugar works and steel industry, gas cylinders, plant used in field operations by mineral oil concerns, direct fire glass melting furnaces	80%
11. Plant and machinery - pollution and waste control equipment, recycling and recovery systems, water supply and treatment equipment, wooden parts in artificial silk manufacturing machinery, cinematograph films, bulbs of studio lights, wooden match frames, plant in mines, quarries and salt works, books	100% (see note 8)
<b>Note 1:</b> Residential buildings other than hotels and boarding houses.	
<b>Note 2:</b> Buildings not mainly used for residential purpose - it covers godowns, hotels and boarding houses not included in Blocks 1 and 3.	
<b>Note 3:</b> Buildings acquired on or after 1 September 2002 for installing machinery and plant forming part of water supply project or water treatment system and which is put to use for the purpose of business of providing infrastructure facilities.	
<b>Note 4:</b> Any plant and machinery not covered by block 6, 7, 8, 9, 10 or 11.	
<b>Note 5:</b> Buses, lorries, taxis, aeroplanes, commercial vehicles of specific date, ships and machinery used in semiconductor industry and moulds used in rubber and plastic goods factories.	
<b>Note 6:</b> Containers made of glass or plastic used as refills and commercial vehicles of specific date and textile industry equipment of certain date.	
<b>Note 7:</b> Commercial vehicles of certain date.	
<b>Note 8:</b> Air and water pollution and solid waste control equipment, books of certain kind owned by profession or lending library.	

### Property Acquisitions

Some building components may be depreciated separately by the purchaser in the same way as for new building construction.

The correct allocation of costs between equipment, buildings and land is essential to realise the full benefit of the available deductions and specialist advice is essential.

### Davis Langdon

The Banking Tax and Finance team at Davis Langdon LLP, a leading international construction and property consultancy, delivers managed solutions for clients investing in construction, infrastructure and real estate, independently representing client's interests, reducing risk and maximising value.

### Tax and Accounting Services

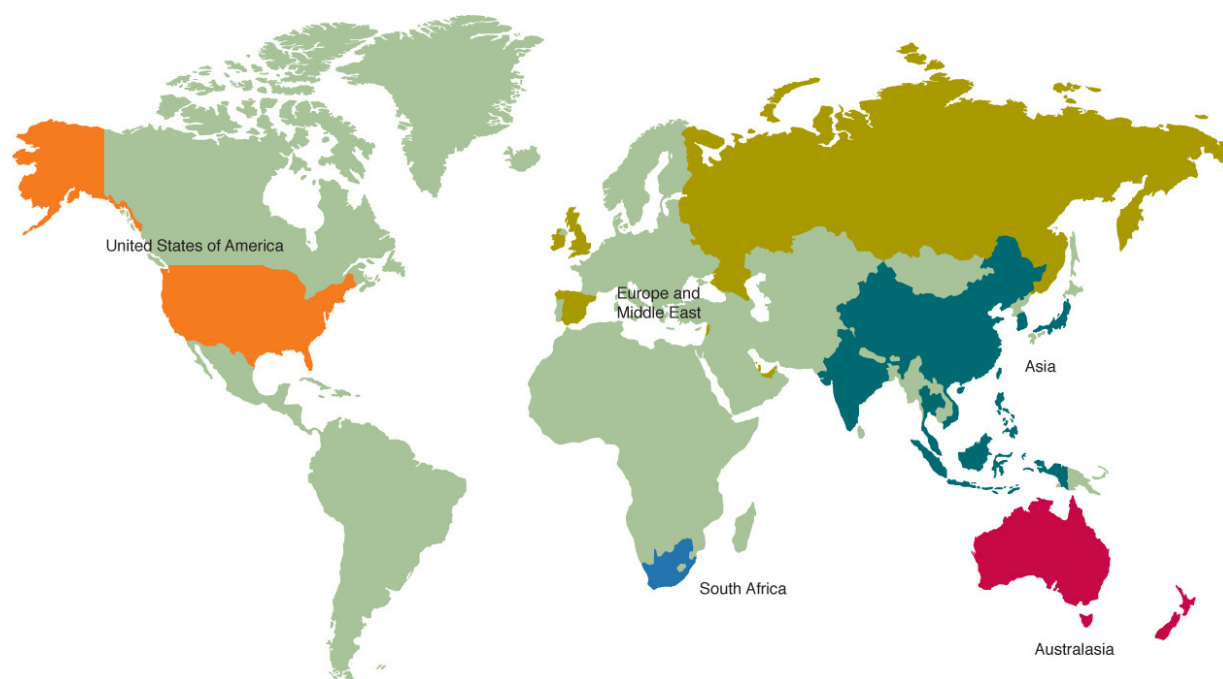
Our property tax team has a unique blend of services comprising a detailed understanding of legislation and construction costs, our analysis skills and ability to cost segregate lump sums, our expertise in property and land valuation and experience in agreeing claims.

Our local partners are leading advisers to businesses in India, offering a full range of services including audit, due diligence, tax advisory, financial outsourcing and corporate finance. We aim to deliver the highest level of customer service, working on projects located in the UK and throughout the world.

The tax depreciation team at Davis Langdon is built upon the specialist expertise and experience of Crosher & James, for many years the UK's leading independent Capital Allowances consultants prior to the merger with Davis Langdon in 2001.



A schedule of Davis Langdon's varied Specialist Services is included overleaf.



*Our local partners are leading advisers to businesses in India, offering a full range of service*

## Schedule of Davis Langdon's Specialist Services

- o Administration of Scheme
- o Assess Programme
- o Assessments
- o Asset and Facilities Consulting
- o Asset Management Services
- o Banking and Finance
- o Benchmarking / Market Testing
- o Cost Report
- o Bid Development Support
- o Budget Analysis
- o Building Performance Audit
- o Building Surveying
- o Business Case Preparation
- o Business Continuity
- o Business Improvement
- o Business Intelligence
- o Capital Asset Database
- o Carbon Indexing
- o CDM Co-ordinator
- o Change Management
- o Constructability
- o Construction Programme
- o Contract Management
- o Corporate Recovery
- o Cost Analysis
- o Cost Segregation
- o Cost / Benefit Analysis
- o Design / Procurement Planning
- o Design Cost Review
- o Design Health Checks
- o Design Program Management, as part of Program Management Service
- o Design Project Management, as part of Project Management Service
- o Design Project Management for Designers
- o Design Quality Indicator
- o Develop and Articulate Vision and Mission
- o DLivering Success
- o Due Diligence
- o Earned Value Analysis
- o Economic Impact Assessment
- o Energy Performance Certificates
- o Energy Saving Allowances
- o Engineering Services Support
- o Environmental Impact Analysis
- o Environmental Impact Assessment
- o Estimate Tax Relief
- o Facilities Health Check
- o Feasibility Appraisals
- o Financial Planning
- o FM and Whole Life Cost Benchmarking
- o Funders TA (PFI / PPP)
- o Future Proofing
- o Green Tendering
- o Health and Safety Services
- o Administration of Scheme
- o Independent Programme Review
- o Integrated Project Insurance (IPI)
- o Interim and Final Certificate
- o International Depreciation
- o International Procurement
- o International Specification consultancy
- o Lead Consultant / Contract Administrator
- o Lease Incentives
- o Life Cycle Assessment
- o Make or Buy Decisions
- o Market / Sector Analysis
- o Matching Projects to Business Strategies
- o Method Statement Preparation
- o Mixed Use Master Planning
- o Neighbours
- o Occupier Solutions
- o Operating Strategies
- o Option Appraisal
- o Option Selection
- o Organisational Change Management
- o Output Specifications
- o Overall Master Programme (OMP)
- o Partnering / Collaboration
- o Performance Management
- o PFI / PPP Advice
- o Planning Contractual Advice
- o Planning Visibility
- o Portfolio Strategy
- o Preparing Employers Brief Documentation
- o Process Improvement
- o Process Planning
- o Production of Office Design Manuals
- o Professional Services
- o Program Management
- o Program Management Specifications
- o Programme Gateway and Accountability
- o Programming and Planning
- o Progress Reporting
- o Project Accounting
- o Project Monitoring (Commercial Development)
- o Project Procurement
- o Project Review
- o Provider of University Modules
- o Qualitative Risk Analysis
- o Quality / Project Monitoring
- o Quantitative Risk Analysis
- o Reconcile Stakeholder Requirements
- o Registration and Compliance
- o Research and Development
- o Resource Efficiency
- o Resource Planning
- o Resource and Capacity Assessment
- o Risk Assessment and Compliance
- o Risk Management
- o Risk Management and Tax Compliance incl. SOX compliance
- o Schedule Risk Analysis
- o Service Procurement
- o Specification Consultancy
- o Specification Consulting
- o Specifications for 3D CAD Products
- o Strategic Asset Management Advice
- o Strategic FM Review
- o Strategic Management
- o Strategic Procurement
- o Strategic Project Documentation
- o Strategic Sustainability Advice
- o Subscription Type Services
- o Supply Chain Management
- o Sustainability
- o Sustainable specifications
- o Tax Depreciation
- o Tax Efficient Structures for Development
- o Tax Planning incl. Estimating Relief and Forecasting
- o Team Building
- o Technical Due Diligence
- o Training / Coaching
- o Transaction Planning
- o Valuation of Taxation Allowances on Second Hand Buildings
- o Value and Risk Management
- o Value Engineering
- o Value Improving Practices
- o Value Metrics
- o Value Profiling
- o VAT Recovery
- o Visual Planning
- o Whole Life Cost Models
- o Whole Life Costing Analysis

## tax depreciation specialists

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Health & Safety Services | Legal Support | Management Consulting | Mixed-use Masterplanning | Specification Consulting | Value Planning & Risk