

CBDT notifies rules for computing capital gains and WDV where depreciation on goodwill has been obtained

Introduction

The Finance Act 2021, amended provisions of the Income-tax Act, 1961 (the Act) to provide that depreciation shall not be allowable on goodwill with effect from 1 April 2021 [i.e. Assessment Year (AY) 2021-22 onwards]. In this regard, amendment were carried out in the, definition of block of assets to exclude goodwill from its ambit, provisions dealing with depreciation, adjustment in written down value (WDV) of block of assets and determination of short term capital gains.

The Central Board of Direct Taxes (CBDT) has now notified rules [Rule 8AC in the Income-tax Rules 1962] for computing short-term capital gains and for adjusting the WDV of block of assets where depreciation on goodwill has been obtained by the taxpayer.

Computation of WDV

- It has been reiterated that the WDV shall be computed in the manner prescribed under the Act for the purpose of 'block of assets'. [Section 43(6)(c)(ii) of the Act] as reduced by prescribed adjustment given in the Act.

Computation of short term capital gains

- It has been stated that where the reduction in WDV due to application of the amended provisions exceeds the opening unadjusted WDV of the block as on 1 April 2020 and the cost of 'intangible' asset added in the block in the FY 2020-21, the excess amount shall be taxable as short-term capital gains.
- However, if the 'goodwill' is the only asset in the 'block of asset' relating to 'intangible' for which depreciation has been claimed in Financial Year (FY) 2019-20 and the 'block of asset' ceases to exist on account of there being no further asset acquired during the FY 2020-21 in that block, there will not be any capital gains or loss on account of the block of asset having ceased to exist.

Our comments

The rule aims at providing requisite clarity to the taxpayers on the matters relating to computation of WDV of intangible block of assets and short-term capital gains where goodwill (on which depreciation has been claimed by the taxpayer) forms part of the 'block of assets'.