

Depreciation available on machinery even if it is installed for trial run and not for production of goods

Summary – The High Court of Delhi in a recent case of Escorts Tractors Ltd., (the Assessee) held that Even though machinery was installed before end of financial year and used only for trial run and not for production, depreciation on machinery would be allowed

Facts

- The assessee-company claimed depreciation on the plant and machinery which was handed over to it for trial run two days before the end of the relevant previous year.
- The Assessing Officer disallowed the depreciation on the ground that the said machine was not installed before the close of the relevant previous year for the purpose of production of goods.
- On appeal, the Commissioner (Appeals) upheld the order of the Assessing Officer holding that the most important witness who had signed the commissioning/try out report for the machines was not produced and no production sheet or log sheet in respect of the machine were filed.
- On appeal, the Tribunal allowed the depreciation holding that the machine was installed before the close of the year.
- On appeal:

Held

- The machine was handed over to the production department for the purpose of trial two days before the end of the previous year. The revenue qualifies its stand by stating that the same was not for the purpose of production and manufacture. It is not the stand of the revenue that the machine was not installed for trial purposes. Given the finding of the Tribunal it must be inferred and accepted that the machine was installed. Once the machine is installed, it is fit to be used for manufacturing and production. The trial run was to ensure that the machine was working in perfect condition following the installation and could be used henceforth for production and manufacturing purposes.
- Section 32 does not contemplate that manufacturing or production should have actually commenced nor does it contemplate that the assets should be used for the whole of the assessment year. The requirement under Section 32(1) is "owned by assessee" which suggest that the assessee should be the owner in the previous year in question. The second requirement is that the machine should have been used. The purpose of Section 32 is to give due regard to the wear and tear suffered by the assets used by the assessee so that net income is duly arrived.
- If plant and machinery is kept ready for use, that would be enough to grant depreciation.
- The only dispute that has been raised by the revenue is that there was no material to show that the machine was used for production and manufacturing. On a reading of the evidence before it, if the

Tribunal has come to the conclusion that the machine having been installed before the end of the financial year and used for trial in terms of the certificate of factory manager, it is a plausible view that the machine having been used for the purpose of business cannot be interfered with.

- Machine has been duly installed and was in a working condition before the end of the previous year.
- In view of the above, the questions of law need to be answered against the revenue and in favour of the assessee.