Tax planning & Managerial Decision

1. Tax planning in respect of own or lease
2) Sale of Assets used for Scientific research.
3) Make or Buy Decision
4) Repair, Replace, Renewal or Renovation of an Assets
5) Shut down or Continue Decision

Tax planning in respect of own or lease

Assets may purchased or taken on lease. Apart from Tax angle other factor also are important in taking lease or buy Decision. like rate of change in technology.

Advantages when Assets are taken on lease – lease rental can be claimed as deduction as revenue expenditure.

however Depreciation can not be claimed since Assets are not owned by assessee.

- Advantage when Assets are purchased – Depreciation of on specified assets can be claimed as Deduction u/s 32. The Assets may be purchased in cash or may be taken on loan. where The assets is taken on loan Interest amount can be claimed as revenue exp or can be capitalised

When a person needs an assets for his business purpose he has to decide whether the assets should be purchased or taken on lease. while taking this decision he should keep in mind the following factor

1. Cash position
2. Depreciation
3. Obsolescence risk
4. Risidual value
5. profit Margin
6. Profit after tax consideration

Conclusion

As far as possible The Assets should be purchased and not taken on lease because the cost of use of the Assets purchased is less than the cost of lease assets. However where the assessee is suffering from liquidity crunch and can not invest in an assets nor can he avail substantial credit from the supplier he should take an assets on lease.

For Example

From the following Information determine whether the assessee should purchase assets or taken on lease:

1. Cost of assets 100000
2) Rate of Dep 15%
3) Rate of Interest 10%
4) Repayment of loan by the assessee 20000 p.a
5) Rate of Tax 26%
6) Residual value 20000 p.a
7) profit of the assess 100000 before Dep Int & tax / before lease rent & tax
8) Lease Rent 30000 p.a

YEAR

Solution : Assets Purchased

	I	II	III	IV	V	Total
Profit before Dep & Interest	100,000	100,000	100,000	100,000	100,000	500,000
Less: Depreciation	(15000)	(12750)	(10,838)	(9212)	(7830)	(55,630)
PAD BI&T	85000	87250	89162	90788	92170	444370
Less: Interest	(10,000)	(8000)	(6000)	(4000)	(2000)	(30,000)
PAD&IBT	75000	79250	83162	86788	90170	414370
Less Tax @26%	(19500)	(20,605)	(21622)	(22565)	(22444)	(107736)
PAT	55500	58645	61540	64223	66726	306,634

Loss on sale of An Asset = 100,000 − (55,630 + 20,000)

= 100,000 − 75630

Loss on sale = 24370

II When Assets taken On lease:

	I	II	III	IV	V	Total
Profit before ~~Dep~~ & Tax	100,000	100,000	100,000	100,000	100,000	500,000
Less: Lease Rent	(30,000)	(30,000)	(30,000)	(30,000)	(30,000)	(150,000)
PATax	70000	70,000	70000	70,000	70,000	350000
Less Tax 26%	18200	18200	18200	18200	18200	(91,000)
	51800	51800	51800	51800	51800	259,000

Compair

→ Profit on Assets Purchased = 306,634
Less If Assets Sold (Loss on Sale) = 24,370
Total Profit 282264

→ Total Profit When Assets taken on lease is ₹ 259000.

∴ Profit on Assets Purchased is more than Profit ~~tax~~ on Assets taken on lease that is why Assets should be purchased.

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Dep

	Amt
Cost of Assets	100,000
Less 15% Dep	15,000
	85,000
Less 15% "	12750
	72250
Less 15% "	10838
	61412
Less 15% "	9212
	52200
Less 15% "	7830
	44370

Payment of Int on loan

100,000, Repayment Every year 20,000

Int on loan :	1st =	10,000	= 100,000
	2nd =	8 000	= 80,000
	3rd	6 000	= 60,000
	4th	4000	= 40,000
	5th –	2000	= 20,000