

INCOME-TAX ACT, 2025

G: Special provisions relating to income of shipping companies

Section 229 - Depreciation and gains relating to tonnage tax assets.

(1) For the purposes of computing depreciation under section 230(1)(d), the depreciation for the first tax year of the tonnage tax scheme (herein referred to as the first tax year) shall be computed on the written down value of the qualifying ships as specified under sub-section (2).

(2) The written down value of the block of assets, being ships or inland vessels, as the case may be, as on the first day of the first tax year, shall be divided in the ratio of the book written down value of the qualifying ships (herein referred to as the qualifying assets) and the book written down value of the non-qualifying ships (herein referred to as the other assets), as per the following formula:--

$$D = A \times \frac{B}{B+C}$$

$$E = A \times \frac{C}{B+C}$$

where,—

D = the written down value of the block of qualifying assets as on the first day of the tax year;

E = the written down value of the block of other assets as on the first day of the tax year;

A = the written down value of the existing block of assets, being ships or inland vessel, as the case may be, as on the first day of the tax year;

B = the aggregate of book written down value of qualifying assets as on the last day of the preceding tax year; and

C = the aggregate of the book written down value of other assets as on the last day of the preceding tax year.

(3) The block of qualifying assets as determined under sub-section (2) shall constitute a separate block of assets for the purposes of this Part.

(4) Where an asset forming part of a block of,—

(a) qualifying assets begins to be used for purposes other than the tonnage tax business, an appropriate portion of the written down value allocable to such asset shall be reduced from the written down value of that block and shall be added to the block of other assets as per the following formula:—

$$A = B \times \frac{C}{D}$$

where,--

A = the appropriate portion of the written down value allocable to the asset which begins to be used for purposes other than the tonnage tax business;

B = the written down value of block of qualifying assets as on the first day of the tax year;

C = the book written down value of qualifying asset which begins to be used for purpose other than the tonnage tax business; and

D = the aggregate of book written down value of all the assets forming the block of qualifying assets;

(b) other assets, begins to be used for tonnage tax business, an appropriate portion of the written down value allocable to such asset shall be reduced from the written down value of the block of other assets and shall be added to the block of qualifying asset as per the following formula:—

$$E = F \times \frac{G}{I}$$

where,—

E = the appropriate proportion of the written down value allocable to the asset which begins to be used for purposes of tonnage tax business;

F = the written down value of block of other assets as on the first day of the tax year;

G = book written down value of the other asset which begins to be used for tonnage tax business; and

I = the aggregate of book written down value of all the assets forming the block of other assets.

(5) For the purposes of computing depreciation under section 230(1)(d) in respect of an asset mentioned in sub-sections (4)(a) and (b), the depreciation computed for the tax year shall be allocated in the ratio of the number of days for which the asset was used for the tonnage tax business and for purposes other than tonnage tax business.

(6) For the purposes of this Act, the depreciation on the block of qualifying assets and block of other assets so created shall be allowed as if such written down value referred to in sub-section (2) had been brought forward from the preceding tax year.

(7) For the purposes of this section, the expression “book written down value” means the written down value as per books of accounts.

(8) Any profits or gains arising from the transfer of a capital asset being an asset forming part of the block of qualifying assets shall be chargeable to income-tax as per sections 67 and 74, and the capital gains so arising shall be computed as per sections 67 to 81.

(9) For the purposes of computing such profits or gains, as referred to in sub-section (8), the provisions of section 74 shall have effect as if for the words “written down value of the block of assets”, the words “written down value of the block of qualifying assets” had been substituted.

(10) For the purposes of this Chapter, the expression “written down value of the block of qualifying assets” means the written down value computed as per sub-section (2).