



March 15th 2021 BIMONTHLY VOLUME II

Goodwill, no longer a depreciable asset [effective from April 1, 2021]

Treatment of goodwill:

- Accounting Standard 14 (Accounting for Amalgamation) allows amortization of goodwill, acquired in a business acquisition, over a period not exceeding 5 years unless a longer period can be justified.
- Ind AS 103 (Business Combinations) requires amortization of goodwill over its useful life if the same is finite. But if the useful life of the goodwill is determined as indefinite, then there shall not be any amortization.
- Section 32 of the Income-tax Act allows depreciation on tangible and intangible assets which is deductible from the income computed under the head profits and gains from business or profession.

As per Explanation 3 to Section 32(1), 'intangible assets' eligible for depreciation are know-how, patents, copyrights, trademarks, licenses, franchises, or any other business or commercial rights of similar nature. The term 'goodwill' of a business or a profession has not been included specifically in the definition of an 'intangible asset'. Further, it is also not included in the definition of 'Block of Assets' as defined in section 2(11).

Supreme Court in case of PCIT v Zyduz Wellness Ltd. [2020] – The Apex court upheld depreciation would be allowed on the goodwill recognized in a business combination.

Budget 2021 – The Finance Ministry is of the view that Goodwill, in general, is not a depreciable asset and in fact depending upon how the business runs; goodwill may see appreciation or in the alternative no depreciation to its value. Therefore, there may not be a justification of depreciation on goodwill in the manner there is a need to provide for depreciation in case of other intangible assets or plant & machinery. The Budget 2021-22 proposes that goodwill of a business or profession will not be considered as a depreciable asset and there would not be any depreciation on goodwill of a business or profession in any situation.

The following amendments have been proposed by Budget 2021-22:

- Section 2(11) – block of assets shall not include goodwill of a business or profession.
- Section 32(1)(ii) – goodwill of a business or profession shall not be considered as an asset for the purpose of the said clause and therefore not eligible for depreciation. Further, it is also proposed to amend Explanation 3 to sub-section (1) of the said section to provide that goodwill of a business or profession shall not be considered as an asset for the said sub-section.
- Substituting the section 55(2)(a) – in relation to a capital asset, being goodwill of a business or profession, or a trademark or brand name associated with a business or profession, or a right to manufacture, produce or process any article or thing, or right to carry on any business or profession, or tenancy rights, or stage carriage permits, or loom hours: -
 - (i) In the case of acquisition of such asset by the assessee by purchase from a previous owner, means the amount of the purchase price; and
 - (ii) In the case falling under sub-clause (i) to (iv) of sub-section (1) of section 49 and where such asset was acquired by the previous owner (as defined in that section) by purchase, means the amount of the purchase price for such previous owner; and
 - (iii) In any other case, shall be taken to be nil.
- Section 49(1)(i) to 49(1)(iv) – in case of goodwill of business or profession acquired by the assessee by way of purchase from a previous owner, any deduction on account of depreciation under section 32 of the Act has been obtained by the assessee in any previous year preceding the previous year relevant to the assessment year commencing on or after the 1st April, 2021, then the cost of acquisition will be the purchase price as reduced by the depreciation so obtained by the assessee before the previous year relevant to assessment year commencing on 1st April, 2021.

COMPLIANCE CALENDER MARCH 2021



GST	
GSTR 3B FEB 2021(Turnover in the previous financial year more than Five Crores)	20-03-2021
GSTR 3B FEB 2021 (Others)	22-03-2021
GSTR 1(Turnover more than Rs. 1.5 Crores)	11-03-2021
Income Tax	
Deposit of TDS	07-03-2021
ESI	
Payment for the month of FEB 2021	15-03-2021
PF	
Payment for the month of FEB 2021	15-03-2021
Return Filing for the month of FEB 2021	25-03-2021