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September 2011

Global Legal Research Center
LL File No. 2011-006605

DEPRECIATION SCHEDULES FOR TAX PURPOSES

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AUSTRALIA

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Executive Summary

Australian taxpayers can claim deductions for the decline in value of depreciating assets that are used for a taxable purpose. The two formulas available to calculate the decline in value are both based on the effective life of the particular asset. Taxpayers can choose to work out the effective life themselves or may use the schedules determined by the Commission of Taxation. These schedules include two tables: one with assets grouped by different industries and the other with generic assets that have the same effective life regardless of the industry in which they are used.

1. Introduction

Under the Income Tax Assessment Act 1997, taxpayers may claim deductions for the decline in value of depreciating assets to the extent that those assets are used for a taxable purpose.¹ The calculation of the decline in value for an asset is based on the cost and effective life of that asset.²

In 2011, the Australian Commissioner of Taxation issued a new public taxation ruling on the effective lives of depreciating assets.³ The Ruling and the corresponding legislative

¹ The rules relating to depreciation are set out in the Income Tax Assessment Act 1997 (Cth) Div. 40, available at <http://www.comlaw.gov.au/Details/C2011C00726>. “Taxable purpose” is defined in section 40-25(7); “depreciating asset” is defined in section 40-30. For detailed information on depreciation under Australian tax law see Australian Taxation Office (ATO), *Guide to Depreciating Assets 2011* (current as of May 2011), available at <http://www.ato.gov.au/content/downloads/IND00270218n19960611.pdf>.

² See Income Tax Assessment Act 1997 (Cth) s 40-10 (Simplified outline of this Division).

³ Taxation Ruling TR 2011/2 (Income Tax: Effective Life of Depreciating Assets (applicable from 1 July 2011)), available at <http://law.ato.gov.au/pdf/pbr/tr2011-002.pdf> (also available in html format at <http://law.ato.gov.au/atolaw/view.htm?docid=TXR/TR20112/NAT/ATO/00001> (last visited Sept. 16, 2011), but note that the PDF version is the official version of this ruling). The Ruling is authorized by section 40-100 of the Income Tax Assessment Act 1997 (Cth) and is a public ruling for the purposes of the Taxation Administration Act 1954 (Cth). See also *Capital Allowances: Laws and Rulings*, ATO, <http://www.ato.gov.au/content/20522.htm> (last visited Sept. 20, 2011), stating that “[e]ffective lives are published in tables attached to taxation rulings relating to the effective life of depreciating assets. Previously, these tables were updated and revised every six months by an addendum to one ruling (TR 2000/18). There were several such addenda to Taxation Ruling TR 2000/18. The publication of Taxation Ruling TR 2006/5 saw the practice of periodically updating the tables by issuing a new ruling.”

instrument took effect from July 1, 2011.⁴ Taxpayers may choose to use the Commissioner's determination of the effective life of a depreciating asset, or can make their own estimate.⁵ The Ruling sets out the Commissioner's methodology in determining the effective life of the various assets, including the different factors considered.⁶

The effective lives determined by the Commissioner are set out in a schedule to the Ruling, as well as in the legislative instrument. The schedule is made up of two tables: Table A lists specific assets, grouped under "industry headings," that the Commissioner of Taxation considers are "peculiar to that industry or for which a special effective life is justified because of the use to which those assets are put by the industry."⁷ Table B contains generic assets that may be used by multiple industries, for example buildings, engines, motor vehicles, and kilns.⁸

The tables do not include rates of depreciation. The rate of depreciation is instead incorporated into the formulas used to determine the decline in value for an asset. Taxpayers generally have a choice between two formulas under the "uniform capital allowance"⁹ rules: diminishing value and prime cost.¹⁰ Both formulas are based on the effective life of an asset.¹¹

⁴ Income Tax (Effective Life of Depreciating Assets) Amendment Determination 2011 (Cth), *available at* <http://www.comlaw.gov.au/Details/F2011L00844>. This instrument amended the Income Tax (Effective Life of Depreciating Assets) Determination 2001 (Cth), which is available in full, as amended, at <http://www.comlaw.gov.au/Details/F2011C00437>.

⁵ Income Tax Assessment Act 1997 (Cth) s 40-95. *See also* TR 2011/2, *supra* note 3, at 2.

⁶ TR 2011/2, *supra* note 3, at 8–13.

⁷ *Id.* at 13. The Ruling notes that the industry headings in Table A have, "where possible, been drawn from the ANZSIC [Australian and New Zealand Standard Industrial Classification] subject categories." For information on ANZSIC *see* 2006 Australian and New Zealand Industry Classification (ANZSIC), AUSTRALIAN BUREAU OF STATISTICS, <http://www.abs.gov.au/websitedbs/d3310114.nsf/51c9a3d36edfd0dfca256acb00118404/21eacf784b2252f14a2564e3001e3dc7!OpenDocument> (last visited Sept. 16, 2011).

⁸ TR 2011/2, *supra* note 3, at 14.

⁹ The Australian Taxation Office (ATO) explains that "[t]here are two sets of rules you can use to work out how much you can claim for depreciating assets, such as plant and equipment—the simpler capital allowances rules concession and the uniform capital allowance rules. Small businesses with aggregated turnover of less than \$2 million can select the set of rules you prefer. Larger businesses must use the uniform capital allowance rules." *Guide to Claiming Business Deductions: Capital Allowances – Plant and Equipment Depreciation*, ATO, <http://www.ato.gov.au/businesses/content.aspx?doc=/content/00266008.htm&page=15&H15> (last visited Sept. 20, 2011).

¹⁰ Income Tax Assessment Act 1997 (Cth) ss 40-65 to 40-75. *See also* *Guide to Depreciating Assets 2011*, *supra* note 1, at 6–7; *Guide to Depreciating Assets 2010-11: Working Out Decline in Value*, ATO, <http://www.ato.gov.au/individuals/content.aspx?menuid=0&doc=/content/00270218.htm&page=9&H9> (last visited Sept. 20, 2011).

¹¹ *Uniform Capital Allowance System: Depreciating Assets (Decline in Value)*, ATO, <http://www.ato.gov.au/businesses/content.aspx?doc=/content/33757.htm&pc=001/003/123/002/002&mnu=44966&mfp=001/003&st=&cy=> (last visited Sept. 20, 2011).

II. Effective Lives of Assets

The following seeks to match a selection of the asset classes used by the United States Internal Revenue Service with the industry headings and generic assets listed in the 120-page Australian schedule. Individual assets that are relevant to the US asset classes may be included in both Table A and Table B of that schedule, and the information below may therefore not be exhaustive.¹²

A. Information Systems

“Computers” are included in Table B with a general effective life of four years. Laptop computers have an effective life of four years.¹³

B. Heavy General Purpose Trucks

The industry heading “Motor vehicles, etc” is listed in Table B and includes the following assets and effective lives:¹⁴

- Buses having a gross vehicle mass of more than 3.5 tons: 15 years
- Light commercial vehicles designed to carry a load of one ton or greater and having a gross vehicle mass of 3.5 tons or less: 12 years
- Trailers having a gross vehicle mass greater than 4.5 tons: 15 years
- Trailers having a gross vehicle mass of 4.5 tons or less: 10 years
- Trucks having a gross vehicle mass greater than 3.5 tons (excluding off highway trucks used in mining operations): 15 years

C. Industrial Steam and Electrical

Assets that may come within this class that are listed in Table B include the following:

- Boilers: 20 years¹⁵
- Boiler pumps: 5 years¹⁶
- “Power supply assets,” including:¹⁷

¹² The schedule is very detailed and lists specific assets, including subtypes of some assets. It is readily available in searchable formats online. See footnotes 3 and 4, *supra*, for the relevant links.

¹³ TR Ruling 2011/2, *supra* note 3, at 184.

¹⁴ *Id.* at 188–89. Note that, under section 40-102 of the Income Tax Assessment Act 1997 (Cth), the effective life of some of these assets are subject to caps in certain circumstances.

¹⁵ TR Ruling 2011/2, *supra* note 3, at 183.

¹⁶ *Id.*

¹⁷ *Id.* at 191.

- Emergency or standby generator assets (acoustic hoods and canopies: 20 years; generators: 25 years; power management units: 15 years)
- Uninterruptible power supply (UPS) system (line interactive types: 5 years; on line double conversion types: 10 years)
- Portable generators (diesel: 10 years; petrol: 5 years)

More extensive lists of assets that may come within this class are included under the following industry headings in Table A:

- “Industrial gas manufacturing,” with effective lives of between 4 and 30 years¹⁸
- “Electricity supply,” with effective lives of between 10 and 47.5 years¹⁹
- “Gas supply,” with effective lives of between 5 and 40 years²⁰

D. Manufacture of Wood Products and Furniture

Four industry headings may be relevant to this class:

- “Plywood and veneer manufacturing,” with the various assets listed having effective lives of between 15 and 25 years²¹
- “Reconstituted wood product manufacturing,” with the assets having effective lives of between 15 and 25 years²²
- “Other wood product manufacturing,” with most assets having an effective life of 13^{1/3} years²³
- “Furniture and other manufacturing,” with assets having effective lives of 10, 13^{1/3}, and 20 years²⁴

E. Manufacture of Chemicals

The industry headings that may be relevant to this class include the following:

- “Basic chemical and chemical product manufacturing,” with assets having effective lives of between 10 and 40 years²⁵

¹⁸ *Id.* at 83–86.

¹⁹ *Id.* at 118–21.

²⁰ *Id.* at 122.

²¹ *Id.* at 75.

²² *Id.* at 76.

²³ *Id.*

²⁴ *Id.* at 117.

²⁵ *Id.* at 87.

- “Cleaning compound and toiletry preparation manufacturing,” which includes only “boot and shoe polish manufacturing plant” with an effective life of 13^{1/3} years²⁶
- “Other basic chemical product manufacturing,” which includes only “explosive manufacturing and chemical plant” with an effective life of 13^{1/3} years²⁷

In addition, relevant generic assets may be included in Table B, which includes, for example, “laboratory equipment” with an effective life of 13^{1/3} years.²⁸

F. Manufacture of Primary Nonferrous Metals

The industry heading of “non-ferrous metal casting” in Table A lists assets that have effective lives of between 3 and 20 years.²⁹

G. Manufacture of Foundry Products

There is no specific industry heading related to this class of assets. Relevant assets may be listed under the heading “iron smelting and steel manufacturing,” referred to below.

H. Manufacture of Primary Steel Mill Products

Table A includes an extensive list of assets (covering more than thirteen pages) under the industry heading “iron smelting and steel manufacturing.”³⁰ The effective lives for these assets range from 2 to 40 years.

Table A also includes the headings “alumina production,”³¹ and “aluminium smelting,”³² both listing assets with effective lives of between 10 and 30 years.

I. Manufacture of Fabricated Metal Products

The industry heading “fabricated metal product manufacturing” lists assets with effective lives of between 4^{1/2} and 40 years.³³ In addition, Table B may contain relevant generic assets, such as “galvanising plant” (10 years)³⁴ and “welders” (diesel 10 years, electric 5 years).³⁵

²⁶ *Id.* at 88.

²⁷ *Id.*

²⁸ *Id.* at 187.

²⁹ *Id.* at 111–12.

³⁰ *Id.* at 96–110.

³¹ *Id.* at 110.

³² *Id.* at 111.

³³ *Id.* at 112.

³⁴ *Id.* at 186.

³⁵ *Id.* at 196.

J. Manufacture of Electrical Machinery

There is no industry heading that specifically relates to this asset class. Generic assets listed in Table B that may be relevant include “engineering works machinery installed” (20 years),³⁶ “foundation of plant and machinery which forms an integral party of the plant and machinery (50 years),³⁷ and “laser cutting machine” (5 to 10 years).³⁸

K. Manufacture of Motor Vehicles

Table A includes four pages of assets listed under the industry headings of “motor vehicle manufacturing,”³⁹ “motor vehicle body and trailer manufacturing,”⁴⁰ and “other motor vehicle parts manufacturing.”⁴¹ The assets have effective lives of between 3 and 30 years.

L. Manufacture of Aerospace Products

Table A includes the industry heading “airport operations and other air transport support services,”⁴² but no specific heading related to the manufacture of aerospace products.⁴³

M. Manufacture of Medical and Dental Supplies

Table A includes the industry heading “pharmaceutical and medicinal product manufacturing,” which lists assets having effective lives of between 5 and 20 years.⁴⁴

N. Manufacture of Non-Electrical Equipment and Other Mechanical Products

There is no industry heading that specifically deals with assets related to the manufacture of mechanical products. Table A includes the industry headings “other transport equipment manufacturing,” “photographic, optical and ophthalmic equipment manufacturing,” and “other professional and scientific equipment manufacturing n.e.c.”⁴⁵ The effective lives for assets

³⁶ *Id.* at 185.

³⁷ *Id.* at 186.

³⁸ *Id.* at 187.

³⁹ *Id.* at 113–16.

⁴⁰ *Id.* at 116.

⁴¹ *Id.*

⁴² *Id.* at 144.

⁴³ An Australian government paper on the future of the aviation industry, published in December 2009, states that the submissions received “recognise Australia’s aviation manufacturing future is more likely to lie in niche markets such as small aircraft or components, rather than the manufacture of large aircraft.” Australian Government, Aviation White Paper – Flight Path to the Future (Ch. 3) (Dec. 2009), *available at* http://www.infrastructure.gov.au/aviation/nap/white_paper/chapter3.aspx (last visited Sept. 16, 2011).

⁴⁴ TR Ruling 2011/2, *supra* note 3, at 87.

⁴⁵ *Id.* at 117. This heading includes a single asset: “watchmakers’ plant” with an effective life of 10 years.

under these headings are between 5 and 10 years. Other headings that may be relevant include “electricity supply” and “gas supply,” referred to above.

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BELGIUM

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Executive Summary

Belgium does not have any specific depreciation schedules. Depreciation periods and rates are normally set by agreement between the taxpayer and the tax authorities. There are, however, some standard rates that have been set by administrative instructions or court rulings.

I. Depreciation in General

As a general rule, all assets, tangible and intangible, new and used, owned by the company for the purposes of its business that lose their value either through use or time are depreciable.¹ The asset must be legally owned by the company claiming the deduction.² Depreciation is not authorized on raw material and stock items unless the taxpayer can show that some of the items can no longer be sold.³ The Tax Code emphasizes that, for tax purposes, allowances for depreciation are permitted only to the extent that they are necessary and correspond to a decline in value that actually occurred during the financial year.⁴ Straight-line depreciation is the normal method of depreciation. It is used for all assets that are excluded from the application of the declining-balance depreciation method or assets for which such method is optional.⁵

II. Depreciation Schedules

Belgium does not have any specific depreciation schedules. Depreciation periods and rates are normally set by agreement between the taxpayer and the tax authorities. The general rule is that depreciation rates are based on the normal period of use of the asset for the taxpayer.⁶ As far as plant machinery and equipment, the tax administration has received instructions “not to be too strict in computing the depreciation rates in order to allow the taxpayer a reasonable safety

¹ Dr. René Offermanns & Patrick Vanhaute, *Belgium—Corporate Taxation* ¶ 1.5.1, in INTERNATIONAL BUREAU OF FISCAL DOCUMENTATION [IBFD]: EUROPEAN TAX ANALYSIS, available at <http://online.ibfd.org/kbase/> (by subscription) (last visited Sept. 20, 2011).

² *Id.* ¶ 1.5.2.

³ VADE-MECUM DE L'ENTREPRISE, *Impôts sur les revenus*, 44, Service Public Fédéral Economie, P.M.E., Classes moyennes et Energie, http://statbel.fgov.be/fr/binaries/2_1_FR_tcm326-66802.pdf.

⁴ *Id.*

⁵ Offermanns & Vanhaute, *supra* note 1, ¶ 1.5.1.

⁶ Dr. René Offermanns, *Belgium—Corporate Taxation* ¶ 1.3.5, in IBFD: EUROPEAN TAX SURVEYS, available at <http://online.ibfd.org/kbase/> (by subscription) (last visited Sept. 20, 2011).

margin to cover unforeseen circumstances, such as, for example, damage to machinery or necessity of replacement due to technical or economic developments.”⁷

Standards rates have been set by administrative instructions or court rulings for some assets. The categories are quite broad. The rates are as follows:

- **Commercial or office buildings:** 3%
- **Industrial buildings:** 5%
- **Machinery and equipment:** 10% or 33% depending on the type
- **Computers and software:** 33%
- **Vehicles:** 20–33%
- **Special machinery, e.g. used by oil refineries:** 12.5%
- **Office equipment:** 10%
- **Patents and trademark:** economic life expectancy, up to a maximum of 20 years (the depreciation cannot be less than 5 years and 3 years for Research and Development)⁸

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⁷ Offermanns & Vanhaute, *supra* note 1, ¶ 1.5.4.

⁸ *Id.* ¶¶ 1.5.3–1.5.6.

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BRAZIL

DEPRECIATION SCHEDULES FOR TAX PURPOSES

On December 31, 1998, the Brazilian Internal Revenue Service (*Secretaria da Receita Federal*) issued Normative Instruction (*Instrução Normativa*) No. 162,¹ which determines that the share of depreciation to be recorded in the financial statements of a company (*pessoa jurídica*), as a cost or operational expense, must be established based on the period of useful life and on the depreciation rates listed in Annexes I and II attached to the Normative Instruction.²

According to Annex I of Normative Instruction No. 162, the closest definitions for the requested asset classes include, but are not limited to, the following reference numbers:³

Asset Class	Reference Numbers	Useful Life in Years	Annual Depreciation Rate
Information Systems	8471	5	20%
Heavy general purpose trucks	8705	4	25%
Industrial steam & electrical distribution systems	8402, 8404, 8406, 8410, 8412, 9026, 9028, 9030, 9031, & 9032	10	10%
Manufacture of wood products & furniture	8465, 8467, & 8479.30	10	10%
Manufacture of chemicals	8423, 8426, 8456, 8479.50, 8479.82, 9026, 9027, 9028, 9031, & 9032	10	10%
Manufacture of primary nonferrous	8402, 8404,	10	10%.

¹ Instrução Normativa No. 162, de 31 de Dezembro de 1998, Secretaria da Receita Federal website, <http://www.receita.fazenda.gov.br/Legislacao/ins/Ant2001/1998/in16298.htm>.

² The nomenclature and definitions of assets (*Bens*) used on the Annexes to Normative Instruction No. 162 do not precisely match the descriptions of assets provided in Publication 946, *How to Depreciate Property*, U.S. Department of the Treasury, Internal Revenue Service website (Apr. 6, 2011), <http://www.irs.gov/pub/irs-pdf/p946.pdf>. Considering that the definitions of assets contained in the Annexes are very broad, the author used the closest definitions possible, which may not be accurate, to match with the requested asset classes. However, some of the requested asset classes could not be matched with any of the definitions of assets in the Annexes. Additional research on the subject proved unsuccessful.

³ Anexo I, Instrução Normativa No. 162, de 31 de Dezembro de 1998, Secretaria da Receita Federal website, <http://www.receita.fazenda.gov.br/Legislacao/ins/Ant2001/1998/in16298ane1.htm>.

Asset Class	Reference Numbers	Useful Life in Years	Annual Depreciation Rate
metals	8405, 8406, 8412, 8423, 8426, 8454, 8455, 8457, 8467 & 8479.50		
Manufacture of foundry products	8454 & 8474	5-10	10-20%
Manufacture of primary steel mill products	8402, 8404, 8406, 8410, 8412, 8423, 8426, 8454, 8455, & 8479.50	10	10%
Manufacture of fabricated metal products	8205 & 8206	5	20%
Manufacture of electrical and non-electrical machinery and other mechanical products	8203.20, 8203.30, 8203.40, 8204 & 8205	5	20%
	8455, 8457, 8458, 8459, 8461, 8462, 8467 & 8468	10	10%
Manufacture of motor vehicles (several tools that may be used in the manufacture & assembly of finished automobiles, trucks, trailers, motor homes, & buses)	8203, 8204, 8205	5	20%
Manufacture of aerospace products (devices for the launch of airborne vehicles, devices for the landing of airborne vehicles in aircraft carriers, & flight simulators)	8805	10	10%
Manufacture of medical and dental supplies (odontological devices, instruments, & furniture)	9018.41, 9018.49, 9022 & 9402	10	10%

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CANADA

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Under Canada's Income Tax Act, capital properties can be depreciated at the capital cost allowance rates established in Part XI of the Act¹ and Schedules II, III, IV, V, and VI of the Income Tax Regulations.² Most capital properties are depreciated in accordance with the rules contained in Schedule II. This Schedule establishes over fifty different classes. Each class has a prescribed depreciation rate.

Determining which class a particular asset should be placed in is often difficult. This is particularly true of properties used in the energy sector. One type of property can often fit into more than one type of category depending upon such factors as the type of business or person who has acquired it, the use to which it is being put, when it was acquired, and whether it qualifies for any special incentives. Canada's classes are different than those recognized in the United States. The two classes recognized in the United States, their closest equivalents in Canada, and their usual rates of depreciation in Canada are as follows:

1. Heavy general purpose trucks (US)

<i>Canadian Equivalent</i>	<i>Class</i>	<i>Depreciation Rate</i>
Trucks (automotive)	Class 10	30%
Trucks for hauling freight	Class 16	40%

2. Industrial steam and electrical distribution systems (US)

<i>Canadian Equivalent</i>	<i>Class</i>	<i>Depreciation Rate</i>
Distribution equipment for gas, heat, electrical energy, or water	Class 1	4%
Equipment used for heat or water	Class 17	8%
Steam generating equipment to operate electrical generating equipment	Class 34	15%

¹ Income Tax Act, R.S.C. ch. 1 (5th Supp. 1989), as amended, <http://laws-lois.justice.gc.ca/eng/acts/I-3.3/index.html>.

² Income Tax Regulation, C.R.C. ch. 945 (1970), as amended, <http://laws-lois.justice.gc.ca/eng/regulations/C.R.C..c.945/index.html>.

The manufacture of wood products and furniture, chemicals, primary nonferrous metals, foundry products, primary steel mill products, fabricated metal products, electrical machinery, motor vehicles, aerospace products, medical and dental supplies, and non-electrical equipment and other mechanical products do not appear to be specifically classified. These assets therefore would fall into the general manufacturing classes.

Class 8 of Schedule II allows for the depreciation of property that is processing machinery or equipment at the rate of twenty percent on a declining balance basis.

Class 29 allows property to be used in Canada primarily in the manufacturing or processing of goods for sale at an accelerated rate. Using a straight-line method, twenty-five percent of the cost of acquisition can be written off in the first year, fifty percent in the second year, and the remainder in the third year.³ Allowances not claimed in a tax year can be carried forward. Rolling stock, storage tanks, lift trucks, electrical generating equipment, and computer software are excluded from Class 29.

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³ *Classes of Depreciable Property*, CANADA REVENUE AGENCY, <http://www.cra-arc.gc.ca/tx/bsnss/tpcs/slprtnr/rprtnng/cptl/dprcbl-eng.html> (last modified Jan. 14, 2011).

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CHINA

DEPRECIATION SCHEDULES FOR TAX PURPOSES

According to the Implementation Regulations for the People's Republic of China Enterprise Income Tax Law, depreciation expenses on fixed assets that are calculated using the straight-line method are deductible (Regulations).¹ Fixed assets are defined by the Regulations to be non-monetary assets which are used for a period in excess of twelve months and which are held by an enterprise for the production of goods, the provision of services, leasing or operation and management, including buildings, structures, machinery, mechanical apparatuses, means of transportation, and other equipment, instruments, tools, etc. related to production and business operations.²

The tax law does not provide a depreciation schedule with detailed descriptions of the assets. Rather, the Regulations divide the fixed assets into five general classes and provide a minimum period for calculating depreciation expenses for each class. The Regulations further authorize the central government finance and taxation authorities to promulgate the minimum periods for specific assets.³

The general classes of assets and their corresponding minimum period as provided by the Regulations are as follows:

- Buildings and Structures: 20 years
- Aircrafts, trains, vessels, machinery, mechanical apparatus, and other manufacturing equipment: 10 years
- Instruments, tools, furniture, etc. that are connected with production and business operations: 5 years
- Means of transportation other than aircrafts, trains, vessels: 4 years
- Electronic equipment: 3 years⁴

Therefore, if not decided otherwise by the government authorities, under the general rule, all manufacturing equipment appears to be subject to the 10-year minimum period under Chinese tax law. The information systems in the IRS depreciation schedule may be categorized under "electronic equipment" and therefore subject to the 3-year minimum period. Heavy general

¹ *Zhonghua Renmin Gongheguo Qiye Suodeshui Fa Shishi Tiaoli* [Implementation Regulations for the People's Republic of China Enterprise Income Tax Law] (promulgated by the State Council on Nov. 28, 2007, effective Jan. 1, 2008), art. 59, Central People's Government website, http://www.gov.cn/zwggk/2007-12/11/content_830645.htm.

² *Id.*, art. 57.

³ *Id.*, art. 60.

⁴ *Id.*

purpose trucks may be categorized as “means of transportation other than aircrafts, trains, vessels” and subject to the 4-year minimum period. Industrial steam and electrical distribution systems may be categorized under the “machinery, mechanical apparatus, and other manufacturing equipments” and subject to the 10-year minimum period.

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FRANCE

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Executive Summary

France does not have any specific depreciation schedules. As a general rule, the tax authorities recognize depreciation rates customarily accepted by the particular industry involved. In addition, the tax authorities have a tolerance policy under which they will not contest the useful life of an asset chosen by a taxpayer as long as it does not vary by more than 20% from that habitually used in the industry or profession. Tax courts have generally reaffirmed these rates or, on a case-by-case basis, refined the rates.

I. Depreciation in General

Depreciation is taken on fixed assets (assets intended to be used for a period exceeding a fiscal year) that lose their value either through use or time. In addition, the useful life of the asset must be determinable and it must be legally owned by the company claiming the deduction.¹ The depreciable base is the historic cost of the asset excluding the VAT (value-added tax).² Assets composed of various elements that must be replaced or have different characteristics, for example, life spans, may be split so that each element of the asset can be depreciated. This split may be accomplished only if the components represent essential elements of the fixed asset. The tax authorities have issued guidelines as to what constitutes an “essential element.”³

There are two depreciation methods. The straight-line method is the most commonly used.⁴ Companies may also choose the accelerated declining-balance method, which is restricted to certain types of assets, including machinery and equipment used for manufacturing, processing; transporting, or handling; air or water purification installations; steam, heat, or energy-producing equipment; security and safety equipment; medical and social installations; hotels and hotel-related equipment; scientific and technical research equipment; warehousing installations (not the buildings); and industrial buildings with a useful life not exceeding fifteen

¹ Eric Robert, *France—Corporate Taxation* ¶ 1.5.1.1, in INTERNATIONAL BUREAU OF FISCAL DOCUMENTATION [IBFD]: EUROPEAN TAX ANALYSIS, <http://online.ibfd.org/kbase/> (by subscription) (last visited Sept. 15, 2011).

² *Id.* ¶ 1.5.1.3.

³ *Id.* ¶ 1.5.1.2.

⁴ *Id.* ¶ 1.5.1.5.1.

years. Furthermore, three additional requirements must be met: The asset must (1) be new or renovated, (2) have a useful life of at least three years, and (3) not be expressly excluded.⁵

II. Depreciation Schedules

There are no specific depreciation schedules. As a general rule, the tax authorities recognize depreciation rates customarily accepted by the particular industry involved. Tax courts have generally reaffirmed these rates or, on a case-by-case basis, refined the rates.⁶ The tax authorities will not contest the useful life of an asset chosen by a taxpayer as long as it does not vary by more than 20% from that habitually used in the industry or profession.⁷ The *Conseil d'Etat*, France's highest administrative court, ruled that where the tax authorities want to contest an asset's depreciation rate within the particular industry-accepted range, it has the burden of proof to justify the rate it proposes.⁸

The categories found are much broader than those listed in depreciation schedules in the United States. The generally-accepted rates for these categories are as follows:

- **Buildings:** industrial buildings: 5%; administrative or commercial buildings: 2–5%
- **Material and Tools:** material: 10–15%; tools: 10–20%
- **Information Systems:** 10–20% (microcomputers may be depreciated in three years under the accelerated declining-balance method)
- **Vehicles:** automobiles 20%; heavy general-purpose trucks: 25% as a general rule; 12.5% for ready-mix concrete trucks as per a court decision
- **Furniture:** 10%
- **Fittings and Installations:** 5–10%
- **Patent and General Certificates:** 20%⁹

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⁵ *Id.* ¶1.5.1.5.2.

⁶ I LAMY FISCAL: IMPOT SUR LES SOCIETES § 859 (Lamy 2011).

⁷ FRENCH TAX AND BUSINESS LAW GUIDE ¶ 22-210 (Sweet and Maxwell Ltd. 2010).

⁸ *Id.*

⁹ I LAMY FISCAL: IMPOT SUR LES SOCIETES, *supra* note 6, § 859.

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GERMANY

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Executive Summary

For assets acquired or produced after 2010, depreciation must be claimed according to the straight line depreciation method, unless the production method is used. The Federal Ministry of Finance prescribes depreciation rates in a general schedule that applies to all businesses, a general manufacturing schedule, and several special schedules for specific manufacturing industries. These schedules must be used unless the taxpayer can prove diverging recovery periods.

The schedules that apply to the manufacturing industries are very detailed, and they prescribe different recovery periods for various types of machinery and equipment. In the general schedule for manufacturing that is applicable to many industries, the recovery periods for various assets range from 6 to 11 years (17 % to 9 % annual depreciation rates), and similar recovery periods also apply for the manufacture of motor vehicles and dental and medical equipment. Many assets used in chemical manufacturing have a recovery period of 10 years (10%), yet laboratory equipment has a useful life of only 5 years (20%).

Large computers have a useful life of 7 years (14%), personal computers and similar assets depreciate in 3 years (33%). Heavy trucks have a useful life of 9 years (11%).

I. Introduction

In recent years, Germany has reduced depreciation allowances, and this change has served the legislative purpose of eliminating special tax benefits at a time when the corporate income tax was reduced.¹ Since January 1, 2011, newly acquired or produced movable fixed assets can no longer be depreciated with the declining balance method. Thus, taxpayers are limited to the use of the straight line method unless they choose the production method.²

¹ HERRMANN, HEUER & RAUPACH, ESTG/KSTG, KOMMENTAR, § 7 EStG (2008), available at the German legal database JURIS by subscription.

² Einkommensteuergesetz [EStG], repromulgated Oct. 8, 2009, BUNDESGESETZBLATT [BGBl.] I at 3366, as last amended by Gesetz, Apr. 5, 2011, BGBl. I at 554, § 7.

Depreciation is mandatory,³ and taxpayers must use the prescribed depreciation schedules unless they can prove that a different rate is appropriate for them.⁴

Depreciation schedules for various categories of assets are provided by the Federal Ministry of Finance. In the year 2001, the Ministry promulgated a Depreciation Schedule for Generally Used Assets,⁵ a Depreciation Schedule for the Construction of Machinery that applies to most manufacturing industries,⁶ and a Depreciation Schedule for Dental Supplies that also applies to medical devices.⁷ These schedules have been in use for assets that were acquired or produced after December 31, 2000. For the Chemical Industry, the Ministry promulgated a Depreciation Schedule in 1995 that became effective at that time.⁸ For the motor vehicle producing industries, a special depreciation schedule has been in effect since 1997.⁹

These schedules are the basis for comparing German and U.S. depreciation rates for industrial production equipment. Since, however, the classifications used in the German schedules do not coincide with the asset categories listed in Publication 946 of the Internal Revenue Service,¹⁰ the following listing of the German depreciations rates involves a certain amount of guesswork. At times, several German schedules may apply to assets listed in Publication 946. Moreover, due to the detailed nature of the German schedules that focus on individual assets and do not provide an overall depreciation rate per industry, a meaningful comparison would require an understanding of the importance of the various asset categories for each industry.

³ *Id.*

⁴ *Id.*; Bundesministerium der Finanzen, AfA-Tabelle für die allgemein verwendbaren Anlagegüter [AV], http://www.bundesfinanzministerium.de/nr_53848/SiteGlobals/Forms/Suche/SucheForm.templateId=processForm.html?resourceId=53844&input_=&pageLocale=de&searchEngineQueryString=AfA-Tabellen&sortString=-score&searchArchive=0&searchIssued=0&searchtype=suche&className=com.pixelpark.bundonline.customers.bmf.web.database.search.QueryResults&hibernateAction=Save&c-submit.x=330&c-submit.y=140AfA-Tabellen (click on AfA Tabelle Download, last visited Sept. 23, 2011).

⁵ *Id.*

⁶ Bundesministerium der Finanzen, AfA Tabelle Maschinenbau [AfA Maschinenbau], Dec. 6, 2001, BMF-Schreiben IV D 2 - S 1551 - 498/01, http://www.bundesfinanzministerium.de/nr_96040/DE/BMF_Startseite/Service/Downloads/Abt_IV/045.templateId=raw.property=publicationFile.pdf (click on Download AfA Tabelle Maschinenbau).

⁷ Bundesministerium der Finanzen, AfA-Tabelle Zahntechniker, http://www.bundesfinanzministerium.de/nr_53848/DE/BMF_Startseite/Service/Downloads/Abt_IV/043.property=publicationFile.pdf (last visited Sept. 23, 2011).

⁸ AfA –Tabelle für den Wirtschaftszweig “Chemische Industrie” [AfA Chem. Ind.], *available at* <http://www.juris.de> (by subscription, last visited Sept. 23, 2011).

⁹ Bundesministerium der Finanzen, AfA für den Wirtschaftszweig “Kraftfahrzeugindustrie,” July 2, 1997, BUNDESSTEUERBLATT [BSTBL] I at 188.

¹⁰ Department of the Treasury, Internal Revenue Service, Publication 946, *How to Depreciate Property* (Apr. 6, 2011), <http://www.irs.gov/pub/irs-pdf/p946.pdf>.

II. Categories of Assets

Information Systems:

The useful life of large computers is 7 years (14% annual depreciation rate), whereas work stations, personal computers, and related equipment have a useful life of 3 years (33%).¹¹

Heavy General Purpose Trucks

The recovery period for trucks, tractor trailers, and dump trucks is 9 years (11%).¹²

Industrial Steam and Electrical Distribution Systems

The recovery period for distribution systems and pipelines is 15 years (7%).¹³

Manufacture of Chemicals

Most equipment used in the manufacture of chemicals has a useful life of 10 years (10%). Laboratory equipment, however, depreciates in 5 years (20%), while some equipment, such as tanks and silos, depreciates in 20 years (5%).¹⁴

Manufacture of Wood Products, Primary Nonferrous Metals, Foundry Products, Steel Mill Products, Fabricated Metal Products, Electrical Machinery, and Non-Electrical Equipment and Other Mechanical Products

Machinery used in these manufacturing industries is depreciated according to the Machinery Schedule.¹⁵ This schedule lists about 100 types of assets, and these have useful life spans ranging from 6 to 11 years (17% to 9%). To give just a few examples: milling machines have a useful life of 8 years (12%); punching machines with laser technology, 6 years (17%); other punching machines 8 years (12%); cutting machines 8 or 10 years (12% or 10%), drilling machines 7 or 8 years; hydraulic compression machines 6 years; other compression machines, 8 years; and measuring apparatus, 6 years.

Manufacture of Motor Vehicles

The useful life of machinery used in the manufacture of motor vehicles ranges from 5 to 10 years (20% to 10%).¹⁶

¹¹ AV ¶ 6.14.3.

¹² AV ¶ 4.2.3.

¹³ AfA Chem. Ind. ¶ 2.3.

¹⁴ AfA Chem. Ind. ¶ 2.1, ¶ 2.5, & ¶ 2.10.

¹⁵ AfA Maschinenbau.

¹⁶ Bundesministerium der Finanzen, AfA für den Wirtschaftszweig "Kraftfahrzeugindustrie," July 2, 1997, BUNDESSTEUERBLATT [BStBl] I at 188.

Manufacture of Aerospace Products

The schedule for the aviation industry lists large airplanes (weighing more than 20 tons) as having a useful life of 12 years (8%). Smaller craft have a useful life of 14 years (7%).¹⁷ Other equipment, such as radar installations and landing systems, has a useful life of 8 years (12%).¹⁸ It appears, however, that the manufacture of aerospace products is governed by the general schedule for manufacturing described above.

Manufacture of Medical and Dental Supplies

Assets used in the manufacture of medical, dental, and orthopedic supplies have useful lives ranging from 5 to 10 years (20% to 10%).¹⁹

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¹⁷ Bundesministerium der Finanzen AfA-Tabelle für den Wirtschaftszweig “Luftfahrtunternehmen und Flughafensbetriebe,” Sept. 28, 1994, BSTBL I at 769, § 5.

¹⁸ *Id.* ¶ 3.

¹⁹ Bundesministerium der Finanzen, AfA-Tabelle Zahntechniker, http://www.bundesfinanzministerium.de/nm_53848/DE/BMF_Startseite/Service/Downloads/Abt_IV/043.property=publicationFile.pdf.

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INDIA

DEPRECIATION SCHEDULES FOR TAX PURPOSES

I. Depreciation Table under the Income Tax Act

Under the Income Tax Act, 1961 and the Income Tax Rules, 1962 depreciation is computed on a “block” of assets. Each “block” represents a category of assets to which the same depreciation rate applies.¹ Asset depreciation is typically calculated “according to the declining balance method” and is “based on actual cost” or “written down value” of the asset.² Depreciation can be calculated at half the normal rate “if an asset is used for less than 180 days in the first year.”³ Other provisos and conditions can be found in section 32 of the Income Tax Act⁴ and rule 5 of the Income Tax Rules.⁵

The full table of depreciation rates can be found in Appendix I of the Income Tax Rules.⁶ The list of assets on the Indian depreciation table does not exactly correspond with those in the U.S. Internal Revenue Service’s depreciation schedule. Moreover, not all the requested categories are listed in the Indian depreciation table. Machinery and plant other than those specifically listed in the Indian depreciation table are depreciated at a rate of 15%.⁷

Below is a table of depreciation rates for specific “blocks” that appear to be comparable to the requested classes of assets under the depreciation schedule.

¹ Davis Langdon LLP, *India Tax Depreciation Information Sheet*, <http://www.bankingtaxfinance.com/Portals/DavisLangdon/Media/PDF/International%20Cost%20Segregation%20-%20India.pdf>.

² Deloitte, *International Tax & Business Guide: India* 13 (2010), http://www.deloitte.com/assets/Dcom-Global/Local%20Assets/Documents/Tax/Intl%20Tax%20and%20Business%20Guides/2010/dtt_tax_guide_2010_India.pdf.

³ *Id.*

⁴ Income Tax Act, 1961, § 32, Department of Revenue, Indian Ministry of Finance website, http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=ITAC&schT=&csId=2caa131b-51fa-4bd2-9814-77d01037945e&rdb=sec&yr=e5be6bdb-1fc4-42d6-ac7b-34a44fd65485&sec=&sch=&title=Taxmann%20-%20Direct%20Tax%20Laws.

⁵ Income Tax Rules, 1962, Rule 5, Department of Revenue, Indian Ministry of Finance website, http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=ITRU&schT=rul&csId=cdd81d5b-3f5d-4826-bb0c-dbf1c2e5ddb7&rNo=&sch=&title=Taxmann%20-%20Direct%20Tax%20Laws.

⁶ Income Tax Rules, 1962, Appendix I, Department of Revenue, Indian Ministry of Finance website, http://law.incometaxindia.gov.in/DIT/File_opener.aspx?page=ITRU&schT=rul&csId=4a23cee1-1818-45d6-ab19-f155e08ed789&rNo=&sch=&title=Taxmann%20-%20Direct%20Tax%20Laws.

⁷ *Id.* at III.

IRS Schedule	Indian Income Tax Rules	Depreciation Rate
1. Information Systems	Computers including computer software	60%
2. Heavy General Purpose Trucks	New commercial vehicle (“which is acquired on or after the 1st day of October, 1998, but before the 1st day of April, 1999 in replacement of condemned vehicle of over 15 years of age & is put to use for any period before the 1st day of April, 1999”) ⁸	60%
	New commercial vehicle (“which is acquired on or after the 1st day of April, 1999 but before the 1st day of April, 2000 in replacement of condemned vehicle of over 15 years of age & is put to use before the 1st day of April, 2000”) ⁹	60%
	New commercial vehicle (“which is acquired on or after the 1st day of April, 2001 but before the 1st day of April, 2002 & is put to use before the 1st day of April, 2002”) ¹⁰	50%
3. Industrial Steam and Electrical Distribution Systems	Energy saving devices: Specialized boilers & furnaces	80%
	Energy saving devices: Instrumentation & monitoring system for monitoring energy flows	80%
	Energy saving devices: Waste heat recovery equipment	80%
	Energy saving devices: Co-generation systems	80%
	Electrical equipment	80%
	Machinery & plant, used in semi-conductor industry, covering all integrated circuits. Also discrete semi-conductor devices such as diodes, transistors, thyristors, triacs.	30%
4. Manufacture of Chemicals	Moulds used in rubber & plastic goods factories	30%
	Machinery & plant used in weaving, processing & garment sector of textile industry	50%

⁸ *Id.*⁹ *Id.*¹⁰ *Id.*

IRS Schedule	Indian Income Tax Rules	Depreciation Rate
	Glass manufacturing concerns – direct fire glass melting furnaces	60%
5. Manufacture of Primary Nonferrous Metals	Mines & quarries	100%
6. Manufacture of Foundry Products 7. Manufacture of Primary Steel Mill Products 8. Manufacture of Fabricated Metal Products	Iron & steel industry – rolling mill rolls	80%

III. Depreciation Chart under Companies Act, 1956

Another Depreciation chart is used under Companies Act, 1956, for tax reporting or accounting purposes as opposed to calculating tax liability.¹¹

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¹¹ Companies Act, 1956, Sch. XIV, Apurv Relan & Co. website, <http://www.apurvrelan.com/Depreciation%20Chart%20As%20Per%20Companies%20Act.pdf>.

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ITALY

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Italian tax law allows depreciation of five general categories of assets: tangible assets, intangible assets, maintenance and repair costs, multi-year costs, and “beni gratuitamente devolvibili” (revertible assets). Beginning in 2013, these categories will be significantly modified and reduced to four, three of which will be “individual” (buildings, long-term tangible assets, and intangible assets) while the fourth will encompass all other assets. The specific rules governing the new system have not yet been set.

I. Current Law

Under Italian tax law, there are five main categories of depreciable assets:

- Tangible assets
- Intangible assets
- Maintenance and repair costs
- Multi-year costs (costs incurred over several years)
- *Beni gratuitamente devolvibili* (revertible assets)¹

A. Tangible Assets

Tangible assets can be depreciated “if they are used exclusively for business purposes.”² They may be depreciated “either by their owner or by a lessee.”³

Depreciation of tangible assets is permitted on a straight-line basis.⁴ In particular, depreciation is determined by applying the coefficients established by the Minister of Finance to the cost price, reduced by half for the first tax year.⁵

¹ GUIDO PICCINELLI, *IL BILANCIO DI ESERCIZIO NELLA NORMATIVA TRIBUTARIA: LE IMPOSTE SUL REDDITO E IL RAPPORTO TRA AMMINISTRAZIONE FINANZIARIA E IMPRESA* 228–29 (Cedam ed., 2000) (translated by the author).

² II MAURIZIO LEO ET AL., *LE IMPOSTE SUI REDDITI NEL TESTO UNICO 1785* (Giuffrè ed., 2007) (translated by the author).

³ *Id.*

⁴ Laura Greco, *Italy: Corporate Taxation* § 1.3.5, INTERNATIONAL BUREAU OF FISCAL DOCUMENTATION [IBFD]: COUNTRY SURVEYS, <http://online.ibfd.org/kbase/> (by subscription) (last visited May 1, 2011).

Tangible assets can be depreciated from the date they started being used.⁶ Tangible property with an acquisition cost of less than €16.46 (about US \$694) may be written off in the current year.⁷ The coefficients are established by decree published in the *Gazzetta Ufficiale* (Italian Official Journal) for categories of similar assets⁸ “based upon a normal period of wear and tear in the various production sectors.”⁹ The current coefficients are those established by Decree 31/12/1988.¹⁰ For the requested categories under Italian law, the coefficients are the following:¹¹

1. Information Systems

This category encompasses electromechanical and electronic office machines, including computers and electronic telephone systems. The coefficient for this category is 20%.¹²

2. Heavy General Purpose Trucks

The coefficient for this category is 20%.¹³

3. Industrial Steam and Electrical Distribution Systems

There is not a specific category for industrial steam. Instead, with respect to electrical distribution systems, different coefficients are applied according to the nature of the assets used:

- Buildings used for industrial purposes: 3%
- Compressors, pneumatic drills, pumps, diggers, mechanical poles: 25%
- Tools (electrical and electronic measurement tools, ladders): 40%
- Furniture, office machines, fixtures: 12%
- Electromechanical and electronic office machines (including computers and electric telephone systems): 20%

⁵ Testo Unico delle Imposte sui Redditi [TUIR, Income Tax Code], as amended, art. 102.2, introduced by Decreto Presidente della Repubblica 22 dicembre 1986, n. 917, in *Gazzetta Ufficiale della Repubblica Italiana* [G.U.] 31 dicembre 1986, n. 302; *see also* Greco, *supra* note 4.

⁶ TUIR, art. 102.2 art. 102.1.

⁷ *Id.* art. 102.5.

⁸ *Id.* art. 102.2.

⁹ CLARISSA UNGARO, *GLI AMMORTAMENTI 18* (Maggioli ed., 2010) (translated by the author).

¹⁰ Decreto Ministeriale 31 dicembre 1988 [Decreto Ministeriale 1988], in G.U. 2 febbraio 1989, n. 27.

¹¹ These coefficients are applicable only to the assets that became operational since Jan. 1, 1989. The coefficients defined by the Decreto Ministeriale on Oct. 29, 1974, are instead applicable to the assets that became operational before that date. UNGARO, *supra* note 9, at 19.

¹² Decreto Ministeriale 1988, Group XXII.

¹³ *Id.*

- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ¹⁴

4. Manufacture of Wood Products and Furniture

The coefficients for this category are as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 3%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing) and specific systems: 7.5%
- Specific systems and machines (furnaces): 12.5%
- Various and small equipment (tools): 20%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ¹⁵

5. Manufacture of Chemicals

This very broad category encompasses the manufacture of all kinds of chemical products (e.g., chlorine, ammonia, oil, electrodes, alcohol, explosives, soaps, perfumes, and paints). The average coefficients range as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 3–7%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing) and specific systems: 8–12.5%
- Furnaces: 14–22.5%
- Various and small equipment (molds, models, tools and laboratory): 25–40%

¹⁴ *Id.* Group XVI, 1/b.

¹⁵ *Id.* Group VI, 1-5.

- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ¹⁶

6. Manufacture of Primary Nonferrous Metals

The coefficients for this category are as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 5%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing) and specific systems: 10%
- Automatic big systems and machines: 17.5%
- Electrolytic cells: 17.5%
- Furnaces: 15%
- Various and small equipment (molds, models, tools and laboratory): 25%
- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ¹⁷

7. Manufacture of Foundry Products

The coefficients for this category are as follows:

¹⁶ *Id.* Group IX.

¹⁷ *Id.* Group VII, 1/b.

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 5%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing) and specific systems: 10%
- Automatic specific machines: 17.5%
- Furnaces: 15%
- Various and small equipment (molds, models, tools and laboratory): 40%
- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25%¹⁸

8. Manufacture of Primary Steel Mill Products

The coefficients for this category are as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 5%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing) and specific systems: 12%
- Automatic big systems and machines: 17.5%
- Furnaces: 15%
- Production equipment: 25%
- Flexible production systems equipment: 30%
- Various and small equipment (molds, models, tools and laboratory): 25%
- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%

¹⁸ *Id.* Group VII, 1/c.

- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ¹⁹

9. Manufacture of Fabricated Metal Products

The coefficients for this category are as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 3%
- Lightweight constructions (canopies, sheds): 10%
- Machines: 12%
- Various and small equipment (molds, models, tools and laboratory): 35%
- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ²⁰

10. Manufacture of Electrical Machinery

The coefficients for this category are as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 3%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing) and specific systems: 10%
- Automatic specific systems and machines: 15%
- Furnaces: 15%
- Various and small equipment (molds, models, tools and laboratory): 25%

¹⁹ *Id.* Group VII, 1/a.

²⁰ *Id.* Group VII, 23.

- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ²¹

11. Manufacture of Motor Vehicles

The coefficients for this category are as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 3%
- Test strips: 7%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing) and specific systems: 10%
- Automatic big systems and machines: 17.5%
- Electrolytic cells: 20%
- Furnaces: 15%
- Robotized work places: 22%
- Test and control tools: 30%
- Various and small equipment (molds, models, tools and laboratory): 25%
- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ²²

²¹ *Id.* Group VII, 22.

²² *Id.* Group VII, 16/a.

12. Manufacture of Aerospace Products

The coefficients for this category are as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 3%
- Test strips: 7%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing) and specific systems: 10%
- Automatic big systems and machines: 17.5%
- Electrolytic cells: 20%
- Furnaces: 15%
- Robotized work places: 22%
- Test and control tools: 30%
- Various and small equipment (molds, models, tools and laboratory): 25%
- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25% ²³

13. Manufacture of Medical and Dental Supplies

The coefficients for this category are as follows:

- Buildings for industrial purposes (including buildings, plumbing systems, roads and squares, waterworks, sewage systems): 3%
- Lightweight constructions (canopies, sheds): 10%
- Generic systems (including production systems, distribution of energy, maintenance, internal transportation systems, loading and unloading, lifting and weighing): 10%
- Automatic big systems and machines: 15.5%

²³ *Id.* Group VII, 16/b.

- Furnaces: 15%
- Various and small equipment (molds, models, tools and laboratory): 25%
- Purification systems for water, noxious fumes, etc., through the use of chemical reagents: 15%
- Furniture and ordinary office machines: 12%
- Electromechanical and electronic office machines, including computers and electric telephone systems: 20%
- Transportation motor vehicles (heavy general purpose trucks, lift trucks, etc.): 20%
- Motor cars, motor vehicles, and similar: 25%²⁴

14. Manufacture of Non-Electrical Equipment and Other Mechanical Products

Under Italian law, this category does not exist.

B. Intangible Assets

Costs incurred to acquire patent rights and know-how are deductible in yearly installments of up to one-half of the cost.²⁵ Costs incurred to acquire trademarks can be depreciated by up to one eighteenth of their value for each tax year.²⁶ Goodwill may be depreciated up to one eighteenth of its value for each tax year, but only if it is recorded in the balance sheet (this requirement does not apply to companies drafting their financial statements according to the International Accounting Standards.²⁷

C. Maintenance and Repair Costs

Maintenance and repair costs can be depreciated by up to 5% of their value for the current year, and by up to 20% for the next five years.²⁸

D. Multi-Year Costs

For tax purposes, multi-year costs include the following:

- 1) Study and research costs, which are entirely deductible in the current year or may be depreciated over five years;
- 2) Advertisement costs, which are entirely deductible in the current year or may be depreciated over five years; and

²⁴ *Id.* Group VII, 10.

²⁵ TUIR, art. 103.1.

²⁶ *Id.*

²⁷ *Id.* art. 103.3; *see also* Greco, § 1.3.5, *supra* note 4.

²⁸ TUIR, art. 67.7.

- 3) Representation expenses, which may be depreciated by up to one-third of their value over five years.²⁹

E. Beni Gratuitamente Devolvibili

Beni gratuitamente devolvibili (revertible assets) include those assets that a private company buys from the government and that it must return after use.³⁰ Depreciation of such assets is allowed on a straight-line basis: the deductible amount is obtained by dividing the cost of the assets by the number of years during which the assets were used by the company.³¹

II. Prospective Law

Beginning in 2013, the depreciation system for tax purposes will change significantly. Both the coefficients of depreciation and the categories of depreciable assets will be changed or modified. The specific rules will be defined in a law that has not yet been passed, but from the text of the new law announcing the plan to change the rules,³² it appears that there will be four categories of assets (tangible or intangible). Three of the categories will be “individual” and depreciable based upon a normal period of wear and tear in the various production sectors. These assets include

- a) Buildings, which will be depreciable over a period of 40 years;
- b) Long-term tangible assets, which will be depreciable over a period of 15 years; and
- c) Intangible assets, which will be depreciable over a period of 15 years.³³

The fourth category will encompass all other assets. A common coefficient will be applied to them.³⁴

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²⁹ *Id.* art. 74.

³⁰ GUIDO PICCINELLI, *IL BILANCIO DI ESERCIZIO NELLA NORMATIVA TRIBUTARIA: LE IMPOSTE SUL REDDITO E IL RAPPORTO TRA AMMINISTRAZIONE FINANZIARIA E IMPRESA* 228–29 (Cedam ed., 2000) (translated by the author).

³¹ TUIR, art. 104.

³² Legge 15 luglio 2011, G. U. n. 111, art. 23.47.

³³ *Id.*

³⁴ *Id.*

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JAPAN

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Generally, a company in Japan may depreciate tangible assets using the straight-line method or declining balance method during the service lives of assets. Depending on the classification of the depreciated assets, up to three depreciation methods may be assigned by the Cabinet Order.¹ If multiple methods are assigned, the company can choose one of them.²

The amount of depreciation is limited to the acquisition value, which is calculated by adding the acquisition price and the expenses for the acquisition that are specified in the Cabinet Order.³ Before the 2007 amendment of the Cabinet Order,⁴ tangible depreciable assets retained 10% of acquisition costs on the balance sheets after depreciation was completed. This was based on the assumption that most depreciable assets retain some value after the statutory useful life of the asset has elapsed.⁵ The 2007 amendment abolished this residual value system and the allowable limit for depreciation. Under the current system, depreciable assets may be written down to one yen (about US\$0.01) when the asset reaches the end of its statutory service life.⁶

The service life of a tangible depreciable asset is prescribed in a Ministry Ordinance.⁷ The depreciation schedules for specific assets are set out below. Because the Japanese classification of assets does not correspond with those in the U.S. IRS Depreciation Schedule, the closest categories of assets were compared. All presented assets are depreciated using the straight-line method or declining balance method.⁸

¹ Corporation Tax Law, Law No. 34 of 1965, *last amended by* Law No. 13 of 2009, art. 31, para. 1; Corporation Tax Law Enforcement Order, Order No. 97 of 1965, *last amended by* Order No. 105 of 2009, arts. 48 & 48-2.

² Corporation Tax Law Enforcement Order, arts. 48 & 48-2.

³ *Id.* art. 54, para. 1.

⁴ Cabinet Order 83 of 2007.

⁵ KPMG Tax Corporation, JAPAN TAX NEWSLETTER 1 (Dec. 2006), http://www.kpmg.or.jp/resources/newsletter/tax/taxnl200612_e.pdf (last visited Sept. 21, 2011).

⁶ National Tax Agency, *Hōjinzei no genka shōkyaku seido no kaisei ni kansuru Q&A* [Q&A Concerning the Amendment of the Depreciation System under the Corporation Tax Law], at 4, <http://www.nta.go.jp/shiraberu/zeiho-kaishaku/joho-zeikaishaku/hojin/h19/genkaqa.pdf> (last visited Sept. 21, 2011).

⁷ Corporation Tax Law Enforcement Order, art. 56; Genka shōkyaku shisan no taiyō nensū tō ni kansuru shōrei [Ministry Ordinance Concerning Service Lives of Assets Subject to Depreciation] (Service Lives Ordinance), Ministry of Finance (MOF) Ordinance No. 15 of 1965, *last amended by* MOF Ordinance No. 20 of 2010, Annexed Tables.

⁸ Corporation Tax Law Enforcement Order, arts. 48 & 48-2.

1. Information Systems⁹

Items	Service Life (years)
Personal Computer	4
Other computers, including a server	5
Copy machine	5
Facsimile	5

2. Heavy General Purpose Trucks¹⁰

Heavy general purpose trucks	5
Truck mixer	4

3. Industrial Steam and Electrical Distribution Systems

Facility attached to a building¹¹ - Electrical equipments

Electricity storage	6
Others	15

Facility attached to a building¹² - Others

Equipment made of mainly metals	18
Others	10

Structures for transmission of electricity¹³

Underground electricity line	25
Tower, column, lines	36

Structures for distribution of electricity¹⁴

Iron tower and iron column	50
Reinforced concrete column	42
Wood column	15
Underground structure housing lines	25

Equipments for electricity business¹⁵

Hydraulic power generation facility not for	20
---------------------------------------------	----

⁹ Service Lives Ordinance, Annexed Table 1 (Service Lives Tables for Tangible Depreciable Assets, excluding Machines and Apparatuses), Tools and Equipment, No. 2 Office machines and communication tools.

¹⁰ *Id.* Annexed Table 1, Automobiles and Transportation Tools, Others.

¹¹ *Id.* Annexed Table 1, Facility Attached to a Building.

¹² *Id.*

¹³ *Id.* Annexed Table 1, Structures, For Generation of Distribution of Electricity.

¹⁴ *Id.*

¹⁵ Service Lives Ordinance, Annexed Table 2 (Service Lives Table for Machines and Apparatuses), No. 31.

electricity business	
Steam power generation facility	15

4. Manufacture of Wood Products and Furniture

Equipment for production of wood products, other than furniture ¹⁶	8
Equipment for production of furniture ¹⁷	11

5. Manufacture of Chemicals

Equipment for the chemical industry¹⁸

Equipment for production of bromine, iodine or chloride, or bromine or iodine compound	5
Equipment for production of chloride phosphorus	4
Equipment for production of activated carbon	5
Equipment for production of gelatin or glue	5
Equipment for production of photoresist for semiconductor fabrication	5
Equipment for production of color filters for flat panel display, polarizing plates, or films for polarizing plates	5
Other equipment	8

6. Manufacture of Primary Nonferrous Metals¹⁹

Equipment for non ferrous metals production other than nuclear fuel production	7
--------------------------------------------------------------------------------	---

7. Manufacture of Foundry Products

Equipment for production of metal products²⁰

Equipment for production of metal coating, metal sculpture, metal leaf by banging, and metal name plates	6
Other	10

¹⁶ *Id.* Annexed Table 2, No. 4.

¹⁷ *Id.* Annexed Table 2, No. 5.

¹⁸ *Id.* Annexed Table 2, No. 8.

¹⁹ *Id.* Annexed Table 2, No. 15.

²⁰ *Id.* Annexed Table 2, No. 16.

8. Manufacture of Primary Steel Mill Products

Equipment for production of iron and steel²¹

Equipment for production of steel with surface treatment or iron powder, or manufacturing from iron scrap	5
Equipment for production of pure iron, raw iron, base metals, ferro alloys, cast iron pipes	9
Other	14

9. Manufacture of Fabricated Metal Products

The same time spans apply as for manufacture of foundry products (*see above*, section 7.)

10. Manufacture of Electrical Machinery

Equipment for production of electrical machines/tools ²²	7
---------------------------------------------------------------------	---

11. Manufacture of Motor Vehicles

Equipment for production of machines for transportation ²³	9
-----------------------------------------------------------------------	---

12. Manufacture of Aerospace Products

The same time spans apply as for manufacture of motor vehicles (*see above*, section 11).

13. Manufacture of Medical and Dental Supplies

There is no directly comparable category in Japan.

Equipment for production of plastic products ²⁴	8
Equipment for production of machines for business ²⁵	7
Equipment for production of rubber products ²⁶	9

²¹ *Id.* Annexed Table 2, No. 14.

²² *Id.* Annexed Table 2, No. 21.

²³ *Id.* Annexed Table 2, No. 23.

²⁴ *Id.* Annexed Table 2, No. 10.

²⁵ *Id.* Annexed Table 2, No. 19.

²⁶ *Id.* Annexed Table 2, No. 11.

Equipment for production of metal products (others) ²⁷	10
Equipment for production of other items ²⁸	9

14. Manufacture of Non-Electrical Equipment and Other Mechanical Products

Equipment for production of machines for business ²⁹	7
-----------------------------------------------------------------	---

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²⁷ *Id.* Annexed Table 2, No. 16.

²⁸ *Id.* Annexed Table 2, No. 24.

²⁹ *Id.* Annexed Table 2, No. 19.

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MEXICO

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Executive Summary

Mexico provides depreciation schedules that prescribe annual depreciation rates for machinery and equipment of various manufacturing industries. Taxpayers, however, also have the option of claiming depreciation at lower annual rates. Moreover, under certain circumstances, taxpayers also have the option of claiming an immediate deduction of a large percentage of the original amount of the investment.

Mexico's Income Tax Law (ITL) provides that investments in fixed assets (i.e., tangible property used by taxpayers to carry out their activities that depreciate by use in service and over the course of time) may be deducted by applying, in each tax year, the maximum depreciation percentages specified in the ITL to the original amount of the investment.¹ Taxpayers may choose to apply percentages lower than those provided by the ITL, in which case the selected percentage is generally mandatory for five years.²

Alternatively, taxpayers may choose to take an immediate deduction of investments in fixed assets in a single year, instead of the maximum yearly deduction, by applying the applicable depreciation rate provided by the ITL to the original amount of the investment.³ Assets eligible for immediate depreciation must be located permanently in Mexico and outside of the metropolitan areas of Mexico City, Guadalajara, and Monterrey, although this rule is not applicable to companies that do not require intensive use of water for their operations and that use clean technologies for their emissions, as certified by the Mexican federal government.⁴

The ITL provides the asset classes eligible for yearly and immediate depreciation and their corresponding depreciation rates, although these are not as detailed as those provided by the U.S. IRS publication 946. The following chart provides a list of assets classes as defined by the IRS and comparable asset definitions as provided by Mexico's ITL.

¹ Ley del Impuesto sobre la Renta [Income Tax Law] arts. 37, 38, *as amended*, DIARIO OFICIAL DE LA FEDERACIÓN [DO], Jan. 1, 2002, Mexico's House of Representatives website, <http://www.diputados.gob.mx/LeyesBiblio/pdf/82.pdf>.

² Income Tax Law, art. 37.

³ *Id.*, art. 220.

⁴ *Id.*

Asset classes as defined by the IRS	Maximum yearly depreciation rates applicable to comparable asset classes as provided by arts. 40 & 41 of the ITL	Immediate depreciation rates applicable to comparable asset classes as provided by art. 220 of the ITL
Information Systems	30% for personal desktop & laptop computers & peripheral equipment	88% for personal desktop & laptop computers & peripheral equipment
Heavy General Purpose Trucks	25 % for trucks & trailers	87% for trucks & trailers used in the transportation of cargo on federal highways
Industrial steam and Electrical Distribution Systems	5% for machinery & equipment used in the generation, conduction, transformation, and distribution of electricity	57% for machinery & equipment used in the generation, conduction, transformation, and distribution of electricity
Manufacture of Wood Products and Furniture	No similar asset class is specifically provided by the ITL. Therefore, a maximum yearly depreciation rate of 10% for assets used in activities not specifically defined by the ITL may be applicable	No similar asset class is specifically provided by the ITL. Therefore, an immediate depreciation rate of 74% for assets used in activities not specifically defined by the ITL may be applicable
Manufacture of Chemicals	9% for machinery & equipment used to manufacture chemical products	71% for machinery & equipment used to manufacture chemical products
Manufacture of Primary Nonferrous Metals	6% for machinery & equipment used in the production of metal obtained in first process	62% for machinery & equipment used in the production of metal obtained in first process
Manufacture of Foundry Products	8% for machinery & equipment used to manufacture metal products	69% for machinery & equipment used to manufacture metal products
Manufacture of Primary Steel Mill Products	6% for machinery & equipment used in the production of metal obtained in first process	62% for machinery & equipment used in the production of metal obtained in first process
Manufacture of Fabricated Metal Products	8% for machinery & equipment used to manufacture metal products	69% for machinery & equipment used to manufacture metal products
Manufacture of Electrical Machinery	8% for machinery & equipment used to manufacture machinery	69% for machinery & equipment used to manufacture machinery
Manufacture of Motor Vehicles	8% for machinery & equipment used to manufacture motor vehicles	69% for machinery % equipment used to manufacture motor vehicles
Manufacture of Aerospace Products	12% for machinery & equipment used for the construction of aircraft	77% for machinery & equipment used for the construction of

Asset classes as defined by the IRS	Maximum yearly depreciation rates applicable to comparable asset classes as provided by arts. 40 & 41 of the ITL	Immediate depreciation rates applicable to comparable asset classes as provided by art. 220 of the ITL
		aircraft
Manufacture of Medical and Dental supplies	11% for machinery & equipment used to manufacture textile products (no information about other medical and dental supplies)	75% for machinery & equipment used to manufacture textile products (no information about other medical and dental supplies)
Manufacture of Non-Electrical Equipment and Other Mechanical Products	8% for the machinery & equipment used to manufacture machinery and professional and scientific instruments	69% for the machinery & equipment used to manufacture machinery and professional and scientific instruments

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THE NETHERLANDS

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Executive Summary

The Netherlands does not designate asset classes for purposes of corporate tax depreciation in a manner similar to those of the United States. Instead, depreciation must generally be based on sound business practices while certain sectors, e.g. technology for environmental protection and shipping, are designated as being eligible for special depreciation benefits. The laws also provide for enhanced depreciation of business assets for start-up enterprises as a means of stimulating economic development.

I. Depreciation Under Tax Laws of the Netherlands

Corporate income tax in the Netherlands is levied under the provisions of the Corporate Income Tax Law of 1969 (*Wet op de vennootschapsbelasting 1969*).¹ The rules for computing the taxable amount are based both on this Law and on the Individual Income Tax Law of 2001 (*Wet inkomstenbelasting 2001*).² Various implementing decrees and regulations may also apply.³

Depreciable business assets (*bedrijfsmiddelen*) under Dutch tax law “are capital assets used in a business for a period longer than 1 fiscal year” and the term refers in general “to fixed assets whether tangible or intangible.”⁴ The Dutch rules on depreciation are based on the principle of “depreciation according to sound business practice [goed koopmansgebruik].” This means that a company may choose a system of depreciation as long as it is in line with “sound business practices” and is consistent.⁵ “Depreciation of business assets ... is compulsory and must take place whether the company is profitable or whether it sustains losses.”⁶

¹ Wet op de vennootschapsbelasting 1969 (as last amended July 8, 2011, effective July 22, 2011), OVERHEID.NL, http://wetten.overheid.nl/BWBR0002672/geldigheidsdatum_21-09-2011.

² Wet inkomstenbelasting 2001 [Law on Individual Income Tax 2001] (as last amended July 8, 2011, effective Sept. 1, 2011), OVERHEID.NL, http://wetten.overheid.nl/BWBR0011353/geldigheidsdatum_08-09-2011.

³ René Offermanns, *Netherlands – Corporate Taxation*, § 1.1.2. *Statutory framework*, International Bureau of Fiscal Documentation (IBFD) online subscription database.

⁴ *Id.* §1.5 *Depreciation and amortization*.

⁵ On advice from the Financial Counselor, Embassy of the Kingdom of the Netherlands, Washington, D.C., Sept. 15, 2011, via email.

⁶ Offermanns, *supra* note 4 [§1.5].

The generally accepted methods of depreciation in the Netherlands are the commonly used and accepted straight-line method, as well as the degressive method and the declining balance method, both of which may be used only for assets that have a greater utility in the first years of their useful economic life. For each type of asset, a different method may be selected.⁷

For plants, machinery, and equipment, the straight-line depreciation method typically applies, with the historical cost price as the depreciable base. The depreciation rates “are determined by the circumstances,” but for all business assets the maximum annual depreciation is 20% of the production or acquisition cost, with the exception of those assets produced or acquired before January 1, 2007.⁸ A transitional depreciation scheme applies to such business assets, whereby the depreciation “is equal to 12/60 less the months that the assets were already depreciated before January 1, 2007.”⁹ Thus, under this transitional scheme, the amortization period for assets such as machinery and IT equipment is at least five years.¹⁰ If the asset’s economic life is longer than five years, the amortization period is equal to the longer life.¹¹

Depreciable assets that are valued less than €450 (about US\$616) are written off in the year purchased.¹²

II. Sector-Oriented Schemes

The Dutch tax depreciation system, unlike that of the United States, on the whole does not rely on asset class tables for purposes of calculating depreciation. In some specific cases, there are schemes based on free (random) depreciation, which may be somewhat more flexible than regular accelerated depreciation. These schemes of free depreciation are typically sector oriented. One example of this is depreciation for investments in environmental technology; another is shipping.¹³

A. Environmental technology (VAMIL)

As was noted above, assets that contribute to the protection of the environment in the Netherlands can be randomly depreciated by 75%, according to the Law on Income Tax.¹⁴ Such

⁷ *Id.*

⁸ Offermanns, *supra* note 3, §1.5.4 *Plant, machinery and equipment*, citing to art. 3.30 of the Law on Individual Income Tax.

⁹ *Id.*

¹⁰ Overgangsrecht afschrijving op onroerende zaken en (andere) bedrijfsmiddelen [Transitional Depreciation of Property and (Other) Assets] [Google translate] (June 22, 2007), http://actueel.nl.pwc.com/site/bouw_en_vastgoed/bouw/46/overgangsrecht_afschrijving_op_onroerende_zaken_en_andere_bedrijfsmiddelen.html?internalreferrer=list#.

¹¹ *Afschrijven (waaronder willekeurige afschrijving 2009, 2010 en 2011)* [Depreciation (including depreciation in 2009, 2010 and 2011)] [Google translate] (Feb. 3, 2011), TAX COLLECTIVE NETHERLANDS, <http://www.belastingcollectief.nl/belastingadvies/vennootschapsbelasting/winstbepaling/afschrijven>.

¹² Law on Individual Income Tax 2001, *supra* note 2, art. 3.30(2), cited in Offermanns, *supra* note 3.

¹³ Financial Counselor, Embassy of the Kingdom of the Netherlands, *supra* note 5.

¹⁴ Law on Individual Income Tax 2011, art. 3.31(1), *supra* note 2.

assets are limited to those that 1) are not yet in widespread use, 2) have never been used before, and 3) can contribute significantly to ameliorating the adverse effects on the Dutch environment from human activities – including the consumption of raw materials – in the form of contamination, degradation, or depletion by preventing, reducing, or canceling them.¹⁵

The government agency AgentschapNL annually publishes an Environment List (Milieulijst), organized under coded categories, of capital equipment eligible for MIA (Milieu Investeringsaftrek), the Environmental Investment Allowance, and/or VAMIL (willekeurige afschrijving milieu-investeringen), the Random Depreciation of Environmental Investments. The former was introduced in 2000; the latter was first developed in 1991.¹⁶ “VAMIL facilitates the affordability of a purchase of an environmental technology such as a piece of equipment, by allowing the purchaser to determine the rate of depreciation.”¹⁷

The categories in the Environment List include, for example: A 1160 water hydraulic systems, A 5100 machinery for construction and earthwork, A 5110 machines for maintenance of public spaces and industrial sites (e.g., lawnmowers, suction machines, garbage trucks), and A 5200 machinery for heavy lifting, where “A” indicates a 27% MIA rate as well as the VAMIL 75% rate.¹⁸

B. Shipping

For seagoing vessels, the maximum annual free depreciation permitted is 20% of the purchase price of the vessel, minus the estimated residual value, provided that the vessel qualifies for the tonnage regime but the company has chosen not to use that regime. However, the depreciation can only be applied to the extent that the depreciation charges for the given tax year are covered by the year’s profits from the vessels’ operation; if such profits are insufficient to absorb the full 20% depreciation, the unutilized portion can be carried forward to the next year.¹⁹

Degressive depreciation of seagoing vessels is also permissible, provided that the vessel is depreciated as a whole; that it is a new vessel or one purchased within 132 months after first

¹⁵ *Id.* art. 3.31(3); *see also* Uitvoeringsregeling willekeurige afschrijving 2001 [Implementation Regulation for Free Depreciation 2011] (as last amended June 16, 2011, effective July 1, 2011), arts. 2-5, 11029 STAATSCOURANT [GOVERNMENT GAZETTE] (June 22, 2011), http://wetten.overheid.nl/BWBR0012035/geldigheidsdatum_13-09-2011.

¹⁶ *Case 6: VAMIL and MIA, The Netherlands*, at 2, EUROPA, http://ec.europa.eu/environment/sme/pdf/vamil_mia_en.pdf (last visited Sept. 21, 2011).

¹⁷ *Id.*

¹⁸ AGENTSCHAPNL, MIA\VAMIL 2011 BROCHURE EN MILIEULIJST [MIA/VAMIL 2011 BROCHURE AND ENVIRONMENT LIST] (Jan. 2011), <http://www.agentschapnl.nl/sites/default/files/bijlagen/BrochureMilieulijst2011.pdf>.

¹⁹ *Tax Facilities, DOING BUSINESS IN THE NETHERLANDS*, Ministry of Finance website, http://english.minfin.nl/Subjects/Taxation/Doing_business_in_the_Netherlands/Tax_facilities (last visited Sept. 22, 2011); *Doing Business in the Netherlands – The Dutch Tax Regime and Incentives for Shipping Companies*, TAX CONSULTANTS INTERNATIONAL, http://www.tax-consultants-international.com/read/The_Dutch_tonnage_tax_regime (last visited Sept. 22, 2011); Implementation Regulation for Free Depreciation 2011, *supra* note 15, art. 11.

being put into use; and that its residual value, economic life expectancy, and rates of depreciation comply with the relevant decree, which is the Ministry of Finance Decree CPP2008/1222M.²⁰

III. Economic Stimulus and Start-Up Enterprises

The Dutch government put in place a stimulus measure between January 1, 2009 and December 31, 2010, which has been extended, that allows for accelerated and random depreciation (in two years) of business assets. The 2011 tax budget extended the regime for an additional year, so that investments made in 2011 are eligible for accelerated and free depreciation in 2011 and 2012. This depreciation applies to most assets; instead of there being an asset class list for permitted investments, there is a list of exceptions.²¹

As part of the 2009-2011 economic stimulus, the Dutch government provided a new opportunity to entrepreneurs for depreciation of assets. The main conditions are: 1) the maximum depreciation in the year of purchase of the asset is 50% of the purchase price, taking into account the residual value) and 2) exclusions from the scheme are not made on the basis of where the assets are invested; the major exceptions to this being passenger cars (unless they are certain types of company cars), goodwill, and assets intended for rental to third parties.²² More specifically, the types of excluded assets are “buildings, earthworks, civil engineering works, animals, intangible assets (including software), mopeds, motorcycles and cars.”²³

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²⁰ Offermans, *supra* note 3, § 1.5.7.

²¹ *The Netherlands: Extension of Accelerated and Random Depreciation*, YEAR END TAX BULLETIN 2010, at 3, Loyens & Loeff website, <http://www.loyensloeff.com/nl-NL/Documents/Nieuws/Publicaties/Flashes/YETB-2010.pdf>. Free depreciation of “other designated business assets” such as those to promote economic development or entrepreneurship covered generally under the Law on Individual Income Tax 2001, *supra* note 2, art. 3.34; *see also* Willekeurig afschrijven voor startende ondernemers [Free Depreciation for Start-Up Enterprises], BEELDRIJK, <http://www.beeldrijk.org/cat/fiscaliteiten/Investeren%20en%20afschrijven/151> (last visited Sept. 22, 2011).

²² *Afschrijven (waaronder willekeurige afschrijving 2009, 2010 en 2011)*, *supra* note 10.

²³ *ZZP Belasting Afschrijvingen* [ZZP Tax Depreciation], ZZP Nederland, <http://www.zzp-nederland.nl/artikel/zzp-belasting-afschrijvingen> (last visited Sept. 22, 2011) [Google translation used].

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RUSSIAN FEDERATION
DEPRECIATION SCHEDULES FOR TAX PURPOSES

Chapter 25 of the Russian Federation Tax Code¹ defines methods and procedures for calculating depreciation deductions. Article 258 of the Code states that depreciation deductions can be taken if the useful economic life of an asset in question is more than one year, and its original cost is more than 10,000 rubles (approximately US\$400). Each organization defines which of its assets are subject to depreciation deductions and selects one of two calculation methods allowed by article 259 of the Tax Code. A depreciation deduction starts on the first day of the month following the month in which an asset was acquired for accounting and ends on the first day of a month after the month in which the useful economic life of the asset ends.²

The Code allows the owner to select one of two methods for the depreciation calculation: the linear and non-linear calculation methods. The linear method must be used to calculate depreciation rates for buildings, transforming and connecting machinery, and intangible assets. This method is used for calculating depreciation rates for each individual asset according to the following formula: $K=1/N \times 100\%$, where K is the depreciation percentage rate of the original asset's cost, and N is the number of months included in the depreciation period established by the depreciation schedule. The non-linear method is used for groups of assets and takes into account depreciation indexes established by the Tax Code.³ Accelerated rates of depreciation are established for equipment used under especially harsh conditions, agricultural equipment, and assets used by enterprises that are residents of a special economic zone.⁴

The length of useful economic lives for varied types of assets was established by Russian Government Regulation No. 1 of January 1, 2002 (last amended on December 10, 2010) on Classification of Assets Included in the Depreciation Schedule.⁵ Provisions of this Regulation apply to assets used for business purposes after January 1, 2002.

The Russian Classification contains a list of assets that do not directly coincide with those in the U.S. Internal Revenue Service's Depreciation Schedule. The chart below compares the most closely related categories of assets.

¹ NALOGOVIYI KODEKS (hereinafter Tax Code), SOBRANIE ZAKONODATELSTVA ROSSIISKOI FEDERATSII [SZ RF, official gazette] 2000, No. 32, Item 3340.

² YURI KVASHA, KOMMENTARII K NALOGOVSOMU KODEKSU ROSSIISKOI FEDERATSII 782 (Moscow: Yurait, 2010).

³ Tax Code art. 259.2.

⁴ *Id.* art. 259.3.

⁵ SZ RF 2002, No. 1(II), Item 52.

#	IRS Classification	Russian Classification	Years
1.	Information Systems	Electronic computer technology (including personal computers and printers, servers of various capacities, networking equipment for local networks, data storage systems, LAN modems, modems for backbone networks)	2-3
2.	Heavy General-Purpose Trucks	General-purpose trucks with capacity of over 5 tons	7-10
3.	Industrial Steam and Electrical Distribution Systems	Low-voltage electrical equipment (up to 1000V) (circuit breakers, contactors, control and protection relays, motor starters, switches, magnetic amplifiers, choke control panel, switchgear, lighting shields, cathodic protection devices)	7-10
		Electric high-voltage equipment (over 1000V) (circuit breakers, contactors, voltage transformers, capacitors, relays, fuses, conductors, transformers, power semiconductor devices, heat sinks and coolers)	10-15
		Steam boilers, except boilers for central heating	10-15
		Steam, gas, and hydraulic turbines	10-15
		High voltage AC switches, contacts and reversers, circuit breakers, separators, high voltage AC grounding conductors, high voltage transformers	15-20
		Generators for steam, gas, and hydraulic turbines	25-30
4.	Manufacture of Wood Products and Furniture	Tools, equipment and means of minor mechanization for forestry	1-2
		Constructions of timber production enterprises (timber detaining, channeling, fencing and berthing wooden facilities)	3-5
		Timber tractors	3-5
		Circular saw, band saw, and jigsaw machines	3-5

#	IRS Classification	Russian Classification	Years
		Single storey stationary and mobile frame saws	3-5
		Technological equipment for logging and timber floating	3-5
		Machines for cutting wood, uprooting, collecting, and loading tree stumps	3-5
		Equipment for grinding and preparation of wood-cutting tools; specialized machinery	5-7
		Agricultural and forestry machinery and equipment (except tractors)	5-7
		Timber vehicles	5-7
		Woodworking equipment for furniture production	5-7
		Constructions of timber production enterprises (timber detaining, channeling, fencing and berthing metal facilities)	7-10
		Universal and combined machines; other woodworking machines	7-10
		Other woodworking equipment	7-10
		Two-story frame saws	10-15
5.	Manufacture of Chemicals	Injection molding machines and units for rubber and lines for preparation of rubber compounds and glues	5-7
		Tank trucks for transportation of petroleum product, fuels and oils, chemicals	5-7
		Furnaces with rotating drums, tubular furnaces for chemical plants	7-10
		Machines and equipment for pulp and paper production, printing, processing of plastics and manufacturing of	7-10

#	IRS Classification	Russian Classification	Years
		rubber products	
		Machines and equipment for generating artificial fibers; machines for preparing textile fibers and production of textile yarns, winding and rewinding machines	10-15
		Equipment based on roller and drum machines for producing plastic products	15-20
6.	Manufacture of Primary Nonferrous Metals	Separators (separators for sorting scrap and waste of non-ferrous metals; separation units)	3-5
		Machines for loading (in production of secondary non-ferrous metals)	3-5
		Structures of coal and shale mining; structures for mining and processing of crude ore and production of ferrous metals; structures for production of non-ferrous metals	15-20
		Buildings for production of non-ferrous metals	15-20
7.	Manufacture of Foundry Products	Steel mill rolls (for section rolling, strip and sheet rolling mills)	1-2
		Steel mill rolls (roller bearings)	2-3
		Machines for casting and transport of iron, steel and slag (conveyor filling machines)	5-7
		Foundry-rolling units	7-10
		Electric steel smelting furnace	7-10
		Electric furnaces, remelting and casting devices, precision devices for growing and heat treatment of single crystals (open, vacuum, compression), plasma heating, plasma generator	10-15
		Electric arc steel smelting furnace	10-15
		Foundry rolling mills and units	15-20

#	IRS Classification	Russian Classification	Years
		Blast furnace	20-25
		Open hearth furnace	15-20
		Blast furnace bin trestles	25-30
8.	Manufacture of Primary Steel Mill Products	Wire drawing, drawing-rolling, cutting, and correcting equipment (machinery and equipment for producing ropes, metal cords, fasteners)	7-10
		Cutting units (units for cutting hot and cold sheets)	7-10
		Machinery and equipment for metallurgical processes (equipment for production of iron powders by sputtering method)	7-10
		Recovery and separation machinery for metallurgical processes (working machines and equipment of shops for separation of ferroalloy slag)	7-10
		Other machines and equipment for metallurgy	10-15
		Semi-continuous casting machines	10-15
		Rolling mills for elements of machine engineering	10-15
9.	Manufacture of Fabricated Metal Products	Non-motorized equipment, hand equipment for oxygen cutting of metals and replaceable machine cutters	2-3
		Metal-working machines, not included in other groups (equipment for gas flame processing, metal plating, thermal spraying, flexible manufacturing systems (robots))	3-5
		Metal working, metal cutting machines (turning, drilling, boring, gear cutting, milling, planning and slotting groups; bolt and nut-tapping; special and specialized cutting)	7-10

#	IRS Classification	Russian Classification	Years
		machines)	
		Forge and press metalworking tools and machinery (mechanical, hydraulic presses, forge and press machines, hammers, forging machines and mills; machines for bending and correcting; scissors; forge and press automated systems and complexes)	7-10
		Production lines for containers made of polymer and duplicated materials, metal and composite containers	10-15
10	Manufacture of Electrical Machinery	Specialized technological equipment for manufacturing of electrical devices and materials	7-10
		Specialized technological equipment for manufacturing of light bulbs	7-10
		Specialized technological equipment for electronic and radio manufacturing	7-10
11	Manufacture of Motor Vehicles	Not found	
12	Manufacture of Aerospace Products	Not found	
13	Manufacture of Medical and Dental Supplies	Equipment for production of medical equipment and prosthetic industry	3-5
		Technological equipment for medical industry	5-7
14	Manufacture of Non-Electrical Equipment and Other Mechanical	Technological equipment for mechanical engineering	2-3
		Other general purpose machinery and equipment	5-7

#	IRS Classification	Russian Classification	Years
	Products	Shaving, milling, tenoning, grinding, polishing, drilling, groove-cutting, and slotting machines.	7-10

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TAIWAN

DEPRECIATION SCHEDULES FOR TAX PURPOSES

According to the Income Tax Act of Taiwan, buildings, fixtures, appurtenant equipment, vessels, machinery, tools, apparatus, appliances, and other fixed assets are evaluated at cost less prescribed depreciation.¹ Fixed assets are depreciated by using the straight-line method, fixed percentage on diminishing book value method, sum-of-years-digits method, production method, working-hour method, or other depreciation methods approved by the competent authority.² The service life of various kinds of fixed assets is prescribed in the Table of Service Life of Fixed Assets.³ In the computation of depreciation of each kind of fixed assets, the service life of such fixed assets shall not be shorter than the minimum years of service life specified in the Table, unless special permission has been granted by the government to adopt a shortened life as a measure to encourage the development of certain industries.⁴

The chart below provides the service years of assets which are closest to the asset classes in question as described by the U.S. IRS Depreciation Schedule:⁵

No.	Classes of Assets in the IRS Schedule	Description of Assets under Taiwanese Law	Service Life in Years
1.	Information Systems	Electronic computers and their peripheral equipment	3
2.	Heavy General Purpose Trucks	Trucks for transportation business	4
		Trucks for other business	5
3.	Industrial Steam	Hydro-power generating equipment	20

¹ Income Tax Act (as last amended Jan. 19, 2011), art. 50, English version provided on the Taxation Agency of the Ministry of Finance website, <http://www.dot.gov.tw/en/home.jsp?mserno=200912160006&serno=200912160008&menudata=EnMenu&contlink=ap/law/lawcontrast.jsp&level2=Y#> (last visited Sept. 22, 2011).

² *Id.*, art. 51.

³ *Id.*

⁴ *Id.*, art. 51.

⁵ Table of Service Life of Fixed Assets, [in Chinese], obtained by searching the Taxation Agency Taxation Law and Regulations Database, <http://www.dot.gov.tw/dot/home.jsp?mserno=200912140006&serno=200912140020&menudata=DotMenu&contlink=ap/law/allsearch.jsp&level2=Y&qclass> (last visited Sept. 19, 2011).

No.	Classes of Assets in the IRS Schedule	Description of Assets under Taiwanese Law	Service Life in Years
	& Electrical Distribution Systems	Gas turbine power generation equipment, recycling power generating equipment	10
Electric transmission, distribution, & transforming equipment		15	
Equipment of thermo-power generation, nuclear power generation, internal combustion engine-power generation, geothermal power generation, & other power generation equipment		15	
Wind-driven power generating equipment		9	
4.	Manufacture of Wood Products & Furniture	Movable tree-planting, logging, & transportation equipment	4
		Manufacturing & processing equipment of wood chips, veneer, plywood, wood product, wood preservation, artificial boards, and other manufacturing and processing equipment	7
5.	Manufacture of Chemicals	Phosphorus chloride manufacturing equipment	5
		Equipment to prepare and repackage vitamins and other pharmaceuticals; manufacturing equipment for paints, printing ink, & dyes & pigments; bromine, iodine, chloride, and their components; sulphuric acid, nitric acid, phosphorus acid, phosphorus sulphide, chromic anhydride, active carbon, salt, dye intermediates, caprolactam, cyclohexane, o-phthalic acid, phthalic ester, tolyl diisocyanate, halides of hydrocarbons, aldehyde, acetic acid, cyclohexylamine, organic peroxides, synthesized pesticide originals, explosive (including powder filling and repairing and packing equipment) & tar;, & manufacturing equipment for hydrofluoric acid, ferric fluoride, and other fluorides	6
		Other manufacturing equipment for the chemical industry	7
6.	Manufacture of Primary	Metal Manufacturing Equipment: Blast furnaces and body of air-heating furnaces	5

No.	Classes of Assets in the IRS Schedule	Description of Assets under Taiwanese Law	Service Life in Years
	Nonferrous Metals	Metal Manufacturing Equipment: Others	8
		Metal Product Manufacturing Equipment: Metal powder and foil (excluding those for rolling) manufacturing equipment	7
		Metal Product Manufacturing Equipment: Others	8
7.	Manufacture of Foundry Products	See above, item no. 6.	
8.	Manufacture of Primary Steel Mill Products	See above, item no. 6.	
9.	Manufacture of Fabricated Metal Products	See above, item no. 6.	
10.	Manufacture of Electrical Machinery	Semi-conductor and integrated circuit manufacturing equipment	3
		Other electrical appliance manufacturing equipment	6
11.	Manufacture of Motor Vehicles	Automobile manufacturing equipment	10
10.	Manufacture of Aerospace Products	Vessel and aircraft manufacturing equipment	10
11.	Manufacture of Medical and Dental Supplies	Machine and equipment for medical care purposes	7
12.	Manufacture of Non-Electrical Equipment and Other Mechanical Products	N/A	

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UNITED KINGDOM

DEPRECIATION SCHEDULES FOR TAX PURPOSES

Executive Summary

The United Kingdom does not have a depreciation schedule, nor does it allow deductions for depreciation in its corporate tax regime. Instead, it has a system of capital allowances, which provides tax relief for certain expenditures incurred by both individuals and businesses.

The United Kingdom does not have a depreciation schedule for commercial items, nor does it allow for tax deductions for depreciation in commercial accounts. It does, however, have a complex system of capital allowances, which provide tax relief on certain types of expenditures.¹ These allowances only apply to certain areas and within those areas to certain items of expenditure. The areas are: “plant and machinery; industrial buildings; agricultural buildings; mineral extraction; research and development; know-how; patents; dredging; and dwelling-houses let on assured tenancies.”²

Manufacturing equipment generally falls into the category of plant and machinery. There has been considerable debate over what qualifies as “plant”³ in the above category, but the interpretation has been quite broad to include:

anything which is in the nature of a tool of the trade, or which is physically used in carrying out the actual operations of the trade is likely to be plant. Most of the various types of apparatus and equipment used in manufacturing would clearly be plant (insofar as they are not already covered by “machinery”).⁴

The term “plant” also includes computer software and rights.⁵

In order to qualify for a capital allowance for plant and machinery, certain criteria must be met.⁶ These are that the capital expenditure must have been incurred on the provision of plant

¹ Capital Allowances Act 2001, c. 2, Explanatory Notes, ¶ 11-12, <http://www.legislation.gov.uk/ukpga/2001/2/notes/division/2/5>.

² Capital Allowances Act 2001, c. 2, <http://www.legislation.gov.uk/ukpga/2001/2/contents>.

³ Detailed guidance from Her Majesty’s Revenue and Customs on this issue is available at: *The Tax Manual, CA21000 - Plant & Machinery Allowances (PMA): Meaning of Plant & Machinery: Contents*, <http://www.hmrc.gov.uk/manuals/camanual/CA21000.htm> (last visited Sept. 20, 2011).

⁴ Taxation of Companies and Company Reconstructions, ¶ A 7.2.2.

⁵ Her Majesty’s Revenue and Customs, *The Tax Manual, CA23400 - PMA: Computer Software: Contents*, <http://www.hmrc.gov.uk/manuals/camanual/CA23400.htm> (last visited Sept. 20, 2011).

and machinery used wholly or partly for the purposes of business, and the business must own that asset as a result of incurring expenditure; the asset must last for more than two years and not be something that is brought and sold as part of the trade.⁷

There are different types of allowances available for expenditures on plant and machinery. These include an annual investment allowance, a first year allowance, a main pool writing-down allowance, a special rate pool writing-down allowance, and a small pools allowance.

Annual Investment Allowance

There is an annual investment allowance for expenditures of up to £100,000 (approximately US\$160,000) per year on plant and machinery, with the exception of cars. There have been proposals to reduce this allowance down to £25,000 (approximately US\$40,000) from April 2012.⁸

First Year Allowance

There are first year allowances, which provide tax relief for up to 100% the cost of certain energy-saving and water-efficient equipment. The equipment must appear on a specific list of equipment that qualifies for this allowance.⁹

Writing Down Allowances

The writing down allowance¹⁰ is given during an accounting period by “referencing the aggregate expenditure on machinery or plant less aggregate ‘disposal receipts’ for machinery or plant that ceases to be used for trade purposes.”¹¹ Specifically, Her Majesty’s Revenue and Customs notes that the writing down allowance is calculated by pooling expenditures:

⁶ Capital Allowances Act 2001, c. 2, § 11(1), <http://www.legislation.gov.uk/ukpga/2001/2/contents>.

⁷ Her Majesty’s Revenue and Customs, *The Tax Manual, CA23010 - Plant & Machinery Allowances (PMA): Qualifying Expenditure: General Rule*, <http://www.hmrc.gov.uk/manuals/camanual/CA23010.htm> (last visited September 20, 2011). See also *Capital Allowances on Plant and Machinery*, BUSINESS LINK, <http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1086384583&r.11=1073858808&r.12=1086692188&r.13=1086445219&r.14=1086384131&r.s=sc&type=RESOURCES> (last visited Sept. 20, 2011).

⁸ *Capital Allowances on Plant Machinery, id.*

⁹ For more information on items that qualify for this allowance see Her Majesty’s Revenue and Customs, *The Tax Manual, CA23100 - Plant and Machinery Allowance (PMA): First Year Allowance (FYA): Contents*, <http://www.hmrc.gov.uk/manuals/camanual/CA23100.htm> (last visited Sept. 20, 2011) and *First-Year Allowances: The Basics*, BUSINESS LINK, <http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1086384611&r.11=1073858808&r.12=1086692188&r.13=1086445219&r.14=1086445242&r.15=1086384077&r.s=sc&type=RESOURCES> (last visited Sept. 20, 2011).

¹⁰ Her Majesty’s Revenue and Customs, *CA23220 - PMA: WDA & Balancing Adjustments: Rate of WDA*, <http://www.hmrc.gov.uk/manuals/camanual/CA23220.htm> (last visited Sept. 20, 2011).

¹¹ TAXATION OF COMPANIES AND COMPANY RECONSTRUCTIONS, ¶ A 7.3.2.

Expenditure is pooled in order to calculate writing down allowances, balancing allowances and balancing charges. You pool expenditure by adding it together and deducting disposal values from the total. If the disposal values are more than the expenditure in the pool the difference is a balancing charge. There are no balancing allowances until the qualifying activity ends. When it does, the balancing allowance is equal to the unrelieved qualifying expenditure.¹²

Disposal values are the market rate for the item.¹³

The general rule is that a “writing down” allowance is given at 20% (with a proposed reduction to 18% after April 2012)¹⁴ per annum on qualifying expenditures.¹⁵ There are exceptions to this rule, including a “special rate pool” for expenditure incurred to “provide or replace integral features; long life assets; and thermal insulation.”¹⁶ The allowance in this “special rate pool” is 10% for long-life assets, which include assets with a useful economic life span of over 25 years¹⁷ (with a proposed reduction to 8% after April 2012),¹⁸ and the allowance is further reduced if the qualifying activity is conducted only for part of the financial year.¹⁹

If the remaining balance of the expenditure is less than £1,000 (approximately US\$1,600) after the main and special rate allowances have been taken, then the “small pools allowance” may be available. The small pools allowance provides the tax payer with an allowance for the entire amount of the residual expenditure of less than £1,000.²⁰

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¹² Her Majesty’s Revenue and Customs, *The Tax Manual, CA23210 - PMA: WDA & Balancing Adjustments: Pooling*, <http://www.hmrc.gov.uk/manuals/camanual/CA23210.htm> (last visited Sept. 20, 2011).

¹³ Her Majesty’s Revenue and Customs, *The Tax Manual, CA23250 - PMA: WDA & Balancing Adjustments: Disposal Values*, <http://www.hmrc.gov.uk/manuals/camanual/CA23250.htm> (last visited Sept. 20, 2011).

¹⁴ *Capital Allowances on Plant and Machinery*, BUSINESS LINK, <http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1086385443&r.i=1086384583&r.11=1073858808&r.12=1086692188&r.13=1086445219&r.14=1086384131&r.s=sc&r.t=RESOURCES&type=RESOURCES> (last visited Sept. 20, 2011).

¹⁵ Capital Allowances Act 2001, c. 2, § 56(1) (as amended by the Finance Act 2008, c. 9, § 80).

¹⁶ Her Majesty’s Revenue and Customs, *The Tax Manual, CA23220 - PMA: WDA & Balancing Adjustments: Rate of WDA*, <http://www.hmrc.gov.uk/manuals/camanual/CA23220.htm> (last visited Sept. 20, 2011).

¹⁷ *Capital Allowances on Plant and Machinery: Writing Down Allowances*, BUSINESS LINK, <http://www.businesslink.gov.uk/bdotg/action/detail?itemId=1086393051&r.i=1086385443&r.11=1073858808&r.12=1086692188&r.13=1086445219&r.14=1086384131&r.t=RESOURCES&type=RESOURCES> (last visited Sept. 20, 2011).

¹⁸ *Capital Allowances on Plant and Machinery*, *supra* note 14.

¹⁹ Capital Allowances Act 2001, c. 2, § 56(1) (as amended by the Finance Act 2008, c. 9, § 80).

²⁰ *Capital Allowances on Plant and Machinery*, *supra* note 14.