

The second year cost recovery amounting to about 7.3 percent of the investment (computed at 9 percent of the original cost reduced by the 10 percent initial allowance and the 9 percent regular depreciation of the first year) brings the 2-year total recovery to 46.3 percent. (The 20 percent investment allowance does not reduce the depreciable basis.)

The additional depreciation in years 3-5 consists of 9 percent declining balance depreciation on the 73.7 percent remaining depreciable basis after the second year. This amounts to roughly 18 percent of cost for these 3 years, which in combination with the 46 percent for the first 2 years brings the total recovery to about 64 percent of cost for the first 5 years.

AVERAGE, NINE FOREIGN COUNTRIES

The average figures shown for the 9 foreign countries represent unweighted arithmetic averages. Sufficient data were not readily available to permit the computation of a weighted average which would be more reliable or meaningful than the unweighted figures.

COUNTRIES PERMITTING DEPRECIATION AND RELATED DEDUCTIONS OF MORE THAN THE TOTAL COST OF ASSETS

Australia, Belgium, the Netherlands, and the United Kingdom have incentive allowances that permit total deductions, including depreciation, to exceed the cost of assets. Under certain conditions, total allowances in Sweden may exceed cost. These provisions for tax-free capital recovery in excess of 100 percent of cost are summarized below.

AUSTRALIA

The Australian income tax and social services contribution assessment bill of 1962 provides a 20-percent investment allowance to encourage investment in manufacturing "plant." Buildings and structural improvements are not included in eligible "plant" for this purpose. This incentive provision permits a deduction from taxable income equal to 20 percent of the capital cost of new manufacturing machinery and equipment, in addition to normal depreciation allowances.

To qualify for the allowance, equipment must be used primarily and directly in the manufacture of goods, exclusive of buildings, roads, and structures. The equipment must be new and owned by the manufacturer. Certain types of equipment are ineligible, including automobiles and trucks, hotel and restaurant equipment, tooling for particular models as well as other short-lived tools, and equipment used in developing electric, steam, or other power for use by the manufacturer rather than for sale.

The Australian 20 percent investment allowance is applicable to eligible machinery and equipment delivered to manufacturers' premises on or after February 7, 1962, and to construction of eligible assets under contracts let on or after this date.

BELGIUM

Belgium provides a special deduction of 30 percent of the excess investment in industrial property over the sum of (1) depreciation for the year on property held at the end of the previous tax year and (2) the proceeds of land, buildings, machinery, and certain securities sold during the year. This deduction (for purposes of the undistributed profits tax, as indicated in "Depreciation Practices in Certain Foreign Countries") is normally distributed in the equal amounts of 10 percent over a 3-year period. This special deduction is in addition to the normal depreciation otherwise allowable on the property. The total of the special deduction and normal depreciation will thus equal 130 percent of the cost of the property.

THE NETHERLANDS

As a special investment allowance, taxpayers in the Netherlands are permitted to deduct a percentage of new investments from taxable profits. This allowance has no connection with regular depreciation; it is simply an additional deduction. The special allowance is 5 percent of cost in each of the first 2 years. Investors are thus permitted to recover 110 percent of cost. Eligible investments are new