

Accelerated depreciation

The normal period of depreciation of new plant and equipment and of expenditures for expansion, conversion, and reconstruction of existing plant and equipment may be reduced by not more than two-fifths. Thus, an asset which normally would be depreciated over 20 years at a 5 percent rate may be depreciated over 12 years at an $8\frac{1}{3}$ percent rate. In addition, for the initial period and for each of the three succeeding periods an additional amount not exceeding 15 percent of the cost of the asset is added to normal depreciation.

Incentive allowances

None.

Adjustment for price level changes

At the present time, there is no general provision for adjusting depreciation to take account of changes in the price level. However, not later than 1953, taxpayers were permitted to revalue assets acquired prior to 1948 by coefficients reflecting the depreciation in the value of the currency. Such revalued amounts are used in computing subsequent depreciation.

Treatment of gains on sale of depreciable property

Gains on the sale of depreciable property are taxable as ordinary income.

Treatment of losses on sale of depreciable property

Losses on the sale of depreciable property are deductible from ordinary income.

Relationship of book and tax depreciation

In order to be deductible for tax purposes depreciation must have been recorded in the books of account.

Provisions of prior law

The present system of accelerated depreciation was originally adopted in 1951. In 1957, this system was temporarily superseded by a special deduction for 10 percent of the excess of expenditures for new plants over the depreciation for the year. The deduction was limited to 5 percent of income and was independent of and in addition to the depreciation otherwise allowable on the property. This special deduction was permitted for 1957, 1958, and 1959. In 1960, the original accelerated depreciation provisions were substituted for the special deduction.

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Corporate tax rate

The maximum corporate tax rate on undistributed profits is 38 percent. The maximum rate on profits distributed as dividends is 28 percent.

Method of computing depreciation

Either the straight-line method or the declining-balance method may be used in computing depreciation. Generally, assets having a cost of 10,000 yen (\$28) or less may be written off in the year of acquisition.

Rates of depreciation

Useful lives for various assets have been prescribed by the taxation authorities. Such lives must be used in computing depreciation unless permission is obtained for the use of shorter lives. Salvage value of 10 percent of the original cost is required to be set up for machinery and equipment. Declining-balance rates are applied to the original cost of the asset, while straight-line rates are applied to original cost reduced by salvage value.

The general formula for determining the declining-balance rate of depreciation is

$$1 - n\sqrt[n]{10}$$

where n equals useful life.