

The following table shows the depreciation deductions for an asset qualifying for the first-year allowance and costing \$1,000 with a useful life of 10 years under both the straight-line and declining-balance depreciation.

	Depreciation	
	Straightline	Declining balance
1 year:		
1st-year allowance (33¼ percent of \$1,000, less \$100 salvage).....	\$300	\$300
Regular allowance.....	90	206
Subtotal.....	390	506
2 years.....	90	102
3 years.....	90	81
4 years.....	90	64
5 years.....	90	51
6 years.....	90	40
7 years.....	60	32
8 years.....		24
9 years.....		
10 years.....		
Total.....	900	900

New houses which are built for rental and put into use between April 1, 1957, and March 31, 1962, may be depreciated at double the regular rate for the first 5 years.

Incentive allowances

None.

Adjustments for price level changes

The taxpayer is allowed to make adjustments in the depreciation base by applying a special price level index prepared by the Bank of Japan. This index is revised when there are significant changes in the price level. The most recent revisions occurred in 1950 and 1953.

Treatment of gains on sale of depreciable property

Gains realized from the sale of depreciable assets are taxed at ordinary rates under the corporation income tax.

Treatment of losses on sale of depreciable property

Losses sustained on the sale of depreciable property are deductible in determining ordinary income.

Relationship of book and tax depreciation

Depreciation must have been recorded on the books in order to be deductible for tax purposes.

Provisions of prior law

Prior to April 1, 1961, several provisions for accelerated depreciation were in effect. Depreciation at 150 percent of the normal rate was allowed for each of the first 3 years on machinery and equipment designated by the Minister of Finance as necessary for the development of the Japanese economy or for the modernization of cooperative business activities. Depreciation of 50 percent was allowed in the first year on machinery and equipment designated by the Minister of Finance as necessary for the modernization of important industries or for use in developing new manufacturing processes. Fifty percent of the cost of machinery and equipment approved by the Minister of Finance for use in experimentation and research could be deducted in the first year, and 20 percent could be deducted in each of the second and third years. In general, these provisions were consolidated into one system of 33¼ percent first-year depreciation allowances as of April 1, 1961.