

*Incentive allowances*

No direct incentive allowances are made. However, the operation of the investment reserves for economic stabilization may, in effect, permit the taxpayer either accelerated depreciation or an incentive allowance. Corporations are permitted to set aside up to 40 percent of their pretax business income as an investment reserve for economic stabilization. Amounts allocated to the investment reserve are deductible for tax purposes. Forty-six percent of the amount so allocated must be deposited with the Bank of Sweden, the other 54 percent remaining as part of the working capital of the corporation. The control of the use of the reserve is vested in the Labor Market Board. The Board may authorize a corporation to use all or part of its investment reserve whenever the economic and employment situation so warrants. Under the law, the Board may even direct a corporation to use all or part of its investment reserve. The purposes for which the reserve may be used include the construction of buildings, the acquisition of new machinery and equipment, the purchase of inventory, and the development of mineral deposits.

When an investment reserve is used with the permission of the governmental agency, the amount so used is not restored to taxable income. However, the basis of assets acquired by use of the reserve must be reduced correspondingly. A corporation using an investment reserve with the permission of the Labor Market Board receives a special additional "investment deduction" of 10 percent of the amount of the reserve so used. If a reserve is used without permission of the Board, the amount of the reserve plus a penalty of 10 percent must be added to taxable income. However, after 5 years, the corporation may withdraw up to 30 percent of the reserve without Government permission without incurring the 10-percent penalty.

*Adjustments for price-level changes*

None.

*Treatment of gains on sale of depreciable property*

Gains on the sale of machinery and equipment are not taxable as such under the "book depreciation" method. However, any proceeds of sale reduce the basis for depreciation of other machinery and equipment. However, gains on the sale of buildings are considered capital gains. Capital gains are taxed on a sliding scale so that no tax is levied if the buildings have been held 10 years or more.

*Treatment of losses on sale of depreciable property*

Losses on the sale of machinery and equipment are not deductible as such on the "book depreciation" method. The proceeds of sale are credited to the basis of the entire stock of machinery and equipment and thus, any loss is deductible in the form of future depreciation allowances. Losses on the sale of buildings are considered capital losses which are deductible only to the extent of capital gains.

*Relationship of book and tax depreciation*

Depreciation on machinery and equipment under the "book depreciation" method must be recorded in the books of account in order to be deductible for tax purposes. Other depreciation may be deducted even though it is not recorded on the books.

*Provisions of prior law*

Beginning in 1938, taxpayers were allowed, under the "book depreciation" method to write off the cost of machinery and equipment in the year of acquisition or to depreciate the cost in any manner chosen by the taxpayer. The present limitations on the amount which may be written off in any one year became effective in 1956.

A temporary tax on certain capital expenditures, the investment tax, was in effect in 1952 and 1953, lifted for 1954, and in effect again in 1955, 1956, and 1957. The tax applied to the total of the taxpayer's taxable investment in excess of an annual exemption. The rate was 12 percent for 1957, but since the tax was deductible for ordinary income tax purposes, the effective rate was somewhat lower. This tax was levied as an anti-inflation measure.