

purposes of the computation of subsequent years' depreciation under the declining-balance method. The current rates of initial allowance are:

	Percent
New assets:	
Industrial buildings and structures.....	5
Mining works.....	20
Automobiles.....	30
Agricultural buildings.....	0
Scientific research assets.....	0
Ships.....	0
Other plant and machinery.....	10
Used assets, including ships and cars.....	30

Assets used for scientific research may be depreciated 60 percent in the first year and then 10 percent for 4 years. Agricultural and forestry buildings may be depreciated at a 10 percent rate for 10 years.

Incentive allowances

An "investment" allowance is permitted on the acquisition of many types of new depreciable property. At the present time, both the allowance and the additional first-year depreciation may be claimed on the same property. Rates of allowances are:

	Percent
Industrial buildings and structures.....	10
Agricultural works.....	10
Mining works.....	20
Scientific research assets.....	20
Ships.....	40
Cars.....	0
Other plant and machinery.....	20

The following table gives the deductions allowable with respect to a \$1,000 new asset, having a 10-year life and qualifying for a 10-percent first-year depreciation and a 20-percent incentive allowance. The regular rate of depreciation for such an asset is 25 percent under the declining-balance method and 11 percent under the straight-line method.

	Declining-balance method	Straight-line method
1 year:		
Regular depreciation.....	\$250	\$110
1st-year depreciation.....	100	100
Investment allowance.....	200	200
Subtotal.....	550	410
2 years.....	163	110
3 years.....	122	110
4 years.....	91	110
5 years.....	68	110
6 years.....	52	110
7 years.....	38	110
8 years.....	29	110
9 years.....	22	20
10 years.....	1 65	0
Total.....	1,200	1,200

¹ Remaining undepreciated cost of asset.

Adjustments for price level changes

None.

Treatment of gains on sale of depreciable property

Gains on the sale of depreciable property are taxable as ordinary income to the extent of depreciation previously allowed with respect to the property. Any gain in excess of this amount is nontaxable as a capital gain. A taxpayer may elect, in the case of plant or machinery, instead of paying the tax on the gain to reduce correspondingly the basis of the replacement property for purposes of computing the initial depreciation and regular depreciation. However, the election does not decrease the investment allowance on the new asset.