

**EUROPEAN COAL AND STEEL
COMMUNITY**

HIGH AUTHORITY

**GENERAL DIRECTORATE FOR
ADMINISTRATION AND FINANCE**

**DIRECTORATE OF INTERNAL AFFAIRS
STUDIES AND ANALYSES DIVISION**

FISCAL DEPRECIATION ALLOWANCES

4th Edition



October 1964

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EXPLANATORY NOTES

The present booklet is aimed at giving in succinct form a general view of the depreciation provided by business concerns, particularly those of the steel industry in the six countries of the European Community, Great Britain, the United States of America and Japan.

The individual provisions relating to the various methods of depreciation have been studied with competent government officials and trade associations.

The information is classified according to countries, in the following order :
Germany, Belgium, France, Italy, Luxembourg, Netherlands, Great Britain, United States and Japan.
and for each country by types of depreciation (normal and special).

This booklet is the 4th edition and has been brought up to date to show the position at October 1, 1964.

The categories of depreciation are presented for each country in the following order with codifying symbols as shown :

<i>Type</i>	<i>Code</i>
Normal	AN
Special	AS

The codifying symbol is followed by the initial of the country's name in its original language (e.g. Germany = D, Netherlands = N, Great Britain = UK) and a number is added to show sub-divisions (if any) of the same category in each country.

The English translation has kindly been made by the Iron and Steel Board, London, for whose co-operation we are most grateful.

In the event of modifications being made or new types of depreciations introduced, amendments to these notes will be issued. All requests for further information should be addressed to :

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Luxembourg, October, 1964

SOURCES OF INFORMATION USED AND CONSULTED

GERMANY

„*Bundesgesetzblatt*“.

„*Steuergesetze*“, Textsammlung, Verlag C.H. Beck, Munich.

„*Einkommen-, Körperschaft- und Gewerbesteuer 1963*“, Dresdner Bank, Düsseldorf.

„*Taxation in Western Europe 1963*“, Federation of British Industries, London, October 1963.

BELGIUM

«*Moniteur belge*».

«*Bulletin des Contributions*», January and June 1963, Administration centrale des Contributions, Brussels.

«*Le régime fiscal des sociétés belges par actions*», par John Kirkpatrick, Maison Larcier, Brussels, March 1963.

«*La réforme des impôts sur les revenus*», par Guy van Frayenhoven, Editions Jaric, Brussels, April 1963.

«*Taxation in Western Europe 1963*», Federation of British Industries, London, October 1963.

FRANCE

«*Journal Officiel de la République française*».

«*Code général des Impôts*».

«*Mémento pratique du Contribuable 1963*», Publications Francis Lefèbvre, Paris.

«*Statistiques et Études financières*», supplément 168, December 1962, Ministère des Finances, Paris.

«*Taxation in Western Europe 1963*», Federation of British Industries, London, October 1963.

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LUXEMBOURG



**I desire to receive the amendments to the booklet on Fiscal
Depreciation Allowances.**

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FISCAL DEPRECIATION ALLOWANCES

BASIS OF DEPRECIATION

Cost of Acquisition or Production.

No adjustment for Currency Devaluation.

ASSETS SUBJECT TO THIS DEPRECIATION :

All wasting business assets.

OBLIGATION TO PROVIDE FOR DEPRECIATION :

Yes.

Depreciation not written off in a business year cannot be carried forward.

METHOD :

Buildings : only straight line; may also the first owner („Bauherr“) of a building completed after the 31st December 1964 apply the reducing balance method. Movables : either straight line or reducing balance method at the option of the taxpayer or (by arrangement in individual cases) also according to performance.

In the case of business where substance is depleted a deduction for reduction of substance is permissible.

Where the reducing balance method is adopted the allowance is restricted to double the amount, which would be allowed under the straight line method, and must not exceed 20 % (Tax amendment law of 30.7.1960). In this connection allowance for unusual technical or economic depreciation is not permissible.

For mines the allowance for depreciation may also be based on the unit of production.

WORKING LIFE :

For mines and the Steel Industry there are no fixed uniform rates of depreciation. These depend upon the actual, foreseeable working life, which varies in individual cases.

RATES :

At the time of the Currency Reform and for the purpose of a Deutsche Mark opening Balance-Sheet as at June 21, 1948, the following rates of depreciation were laid down for the Steel Industry :

A. BUILDINGS

1. Dwelling Houses and Offices	
year of acquisition after 21.6.1948.	1.5 %
2. Industrial Buildings	
year of acquisition after 21.6.1948	2.5 %
3. All buildings acquired on or after 1.1.1965 :	
(a) straight line method	2.0 %
for old buildings completed before 1.1.1925	2.5 %
or, in both cases, application of the rate corresponding to a shorter working life :	
(b) reducing balance method only for the first owner („Bauherr“):	
for first 12 years	3.5 %
for next 20 years	2.0 %
for next 18 years	1.0 %
of cost price (law of 16.6.1964, BGBl., part 1, page 353).	

B. MACHINERY AND PLANT

1. Steelmaking Furnaces and Accessories :	
(a) Blast Furnaces in general (including Hot Blast Stoves and Skip Incline)	5 - 6 %
(b) Electric Furnaces	9 - 10 %
2. Mechanical Production Installations and Accessories :	
(a) Rolling Mills (including Continuous Mills and Cooling Banks)	5 - 7 %
(b) Foundries	8 %
(c) Miscellaneous	8 %
3. Power Production and Distribution Plant :	5 %

C. WORKS AND BUSINESS EQUIPMENT

1. Works and Workshop Accessories :	10 %
Fittings for Laboratories and Experimental and Research Establishments :	15 %
3. Vehicles and Other Transport:	20 %

REMARKS :

Interim regulations (arising from revised tax law of 18.7.1958) concerning fittings acquired or manufactured between 1.1.1958 and 31.12.1960.

If working life is from 16 to 25 years depreciation on straight line basis can be trebled up to 16 % of the residual value; if more than 25 years depreciation at 3 1/2 times straight line allowance up to 12 % of the residual value may be charged.

In accordance with the revised tax laws of 18.7.1958 and 30.7.1960 depreciation rates according to the reducing balance method are as follows :

Working Life in years	Rate % 1958 – 1960	Rate % from 1961
5	25.00	20.00
8	25.00	20.00
10	25.00	20.00
12	20.83	16.66
15	16.67	13.32
18	16.00	11.10
20	15.00	10.00
25	12.00	8.00
30	11.67	6.66
40	8.75	5.00

REFERENCES :

„Die steuerliche Abschreibung im In- und Ausland“,

Dr. Gübbels, Institut Finanzen und Steuern, Bonn, Heft 37, p. 46 ff.

„Steueränderungsgesetz vom 18.7.1958“,

Bundesgesetzblatt, Teil 1, No. 26 vom 23.7.1958, p. 476, 477, 486.

„Einkommen- und Körperschaftsteuergesetz“, Commerzbank-Gruppe,
Erläuterte Neufassung nach der Steuerreform 1958, p. 31 bis 38

„Steueränderungsgesetz vom 30.7.1960“,

Bundesgesetzblatt, Teil 1, No. 42 vom 5.8.1960, S. 617.

„Gesetz zur Neuregelung der Absetzungen für Abnutzung bei Gebäuden“
of 16.6.1964, Bundesgesetzblatt I, No. 29 vom 20.6.1964, p. 353.

POSITION : October 1964.

INCOME TAX LAW, Para. 7 b.

Increased Allowance for Dwelling Houses from 1.1.1965.

ASSETS SUBJECT TO THIS ALLOWANCE

One and two family houses and dwellings in joint-ownership for which building permits have been applied since 31.12.1964 and which are more than two-thirds residential.

RATES

Instead of normal depreciation it is possible to write off 5% in the year of completion and 5% in each of the next 7 years, making 40% in all. Thereafter the balance of 60% can be written off at the rate 2½% per annum.

REMARKS :

The accelerated depreciation applies only to that part of the cost which is less than DM.150,000 in the case of one-family houses and DM.200,000 in the case of houses for two families.

The law of 16.5.1963 has limited the application of Para. 7 b (which provided rates of 7½% per annum for the first two years and 4% per annum for the next 8 years) to periods up to 31.3.1964 but this date has been extended to 31.12.1964 by a law of 16.6.1964. These provisions continue to apply to individual houses, groups of houses and dwellings in joint-ownership occupied by the proprietors as in the case of Berlin.

For fixtures (e.g. tenants' fixtures) affected by the restriction it was already possible before 31.12.1964 to apply depreciation allowances calculated in accordance with the rates given above on page 2 letter A number 3.

REFERENCES :

Einkommen- und Körperschaftsteuergesetz, Erläuterte Neufassung nach der Steuerreform 1958 (Commerzbank-Gruppe) pages 39/41.

Steueränderungsgesetz, 30.7.1960. (Bundesgesetzblatt I, No. 42, 5.8.1960, page 617).

Gesetz zur Einschränkung des 7b des Einkommensteuergesetzes 16.5.1963, (Bundesgesetzblatt I, No. 25, 21.5.1963, page 319).

Gesetz zur Änderung des 7 b des Einkommensteuergesetzes 25.3.1964, (Bundesgesetzblatt, No. 14, 28.3.1964, page 217).

Gesetz vom 16.6.1964, (Bundesgesetzblatt I, No. 29, 20.6.1964, page 353).

POSITION : October 1964.

INCOME TAX LAW, Para. 7 c.

Promotion of house building by means of loans.

ASSETS SUBJECT TO THIS ALLOWANCE :

Dwelling houses and rebuilding of buildings destroyed by war.

METHOD :

Interest-free loans up to DM7,000 per dwelling unit (DM10,000 for individually owned houses) for a term of at least 10 years can be given to promote the building of houses. In such cases 25% of the total of loans may be deducted from the profit of the business year in which they are given.

REMARKS :

These provisions applied up to December 31, 1961 and have not been extended. As regards loans for building letting houses for employees the provisions ceased to operate on January 1, 1959.

REFERENCE :

Erläuterte Neufassung nach der Steuerreform 1958, (Commerzbank-Gruppe) Pages 41/43.

Steueränderungsgesetz vom 18.7.1958, Bundesgesetzblatt I, No. 26 of 23.7.1958, page 477.

POSITION : October 1964.

INCOME TAX LAW, Para 7 d.

This paragraph provided privileges relating to the valuation of ships.

It was repealed by the Tax Amendment Law of 18.7.1958 and has not been re-enacted.

REFERENCE :

Bundesgesetzblatt, Teil I, No. 26 of 23.7.1958, page 477.

POSITION : October 1964.

LAW OF 7.1.1952 TO ENCOURAGE CAPITAL INVESTMENT (Investitionshilfegesetz).

Section 36 provided for abatement of taxes on income and profits in respect of certain capital expenditure.

The law is no longer in force (since 1956/57) but it is mentioned here on account of its considerable effect in prior years on the industries to which it related.

ASSETS SUBJECT TO THIS ALLOWANCE :

Fixed assets purchased or manufactured during the period from 1.1.1952 to 31.12.1955 in the Iron and Steel and Coalmining Industries and which were subject to technical depreciation.

RATES :

Spread over years of acquisition and 2 subsequent years for assets acquired up to 31.12.1954 or over year of acquisition and the following year in the case of assets acquired in the year 1955, at the following rates :

Movable Assets	up to 50%
Immovable Assets	up to 30%

calculated on purchase price or cost of production.

Normal depreciation is also allowed but must be calculated on straight line basis.

This facility has been withdrawn since 1956/57.

REFERENCE :

Gesetz über die Investitionshilfe vom 7.1.1952, Bundesgesetzblatt Nr. 1 vom 9.1.1952, page 14.

POSITION : October 1964.

LAW TO AMEND TAX PROVISIONS OF JULY 26, 1957.

Para. 51 (1-2-n) of Income Tax Law re Special Depreciation for Mines.

ASSETS SUBJECT TO THIS ALLOWANCE :

1. Fixed Assets underground and certain assets above ground directly connected therewith belonging to coal and ore mines.
(The date of acquisition or production of these assets must be between 31.12.1955 and 1.1.1968).
2. Certain movable assets connected with open workings.
(The provisions applied to these assets only from 31.12.1955 to 1.1.61).

RATES :

In year of acquisition or production and four following years a total of 50% in respect of Movable Assets and a total of 30% in respect of Fixed Assets calculated in each case on the cost of acquisition or production.

REFERENCE :

Gesetz zur Änderung steuerrechtlicher Vorschriften vom 26.7.1957.
Steueränderungsgesetz vom 30.7.1960.
Gesetz vom 29.7.1963 zur Förderung und Rationalisierung im Steinkohlenbergbau.

POSITION : October 1964.

LAW TO AMEND TAX PROVISIONS OF JULY 1957 (continued).

Para. 51 (1-2-1) of Income Tax Law re Special Depreciation of Effluent Cleaning Plant.

ASSETS SUBJECT TO THIS ALLOWANCE :

Fixed Assets exclusively intended for eliminating or minimising damage by trade effluent and acquired or produced during the period 1.1.1955 to 31.12.1965. The acquisition or production of the assets must be in the public interest.

RATES :

1. Movable business assets up to a total of 50%.
2. Fixed business assets up to a total of 30% of the cost of acquisition or production.

REFERENCE :

Einkommen- und Körperschaftsteuergesetz.
Erläuterte Neufassung nach der Steuerreform 1958, page 111 (Commerzbank-Gruppe).
Steueränderungsgesetz 30.7.1960, (Bundesgesetzblatt I, Nr. 42, 5.8.1960, page 618).

POSITION : October 1964.

LAW TO AMEND TAX PROVISIONS OF JULY 26, 1957 (continued).

Para. 51 (1-2-0) of Income Tax Law re
Special Depreciation for Air Purification Plant.

BUSINESS ASSETS SUBJECT TO THIS ALLOWANCE :

Movable business assets exclusively intended to prevent or reduce pollution of atmosphere and acquired or produced in the period January 1, 1957 to December 31, 1965. The acquisition or production of the assets must be in the public interest. This special depreciation is not permitted for business assets acquired or produced within the framework of erections of new works or workshops.

RATES :

Up to a total of 50% of the cost of acquisition or production spread over the year of acquisition and the following year.

REFERENCE :

Erläuterte Neufassung nach der Steuerreform 1958, pages 113 and 114, (Commerzbank-Gruppe).
Steueränderungsgesetz 30.7.1960, (Bundesgesetzblatt No. 42, 5.8.1960, page 618).

POSITION : October 1964.

BASIS OF DEPRECIATION :1. *Ordinary Practice*

Value of asset or net cost.

No permanent adjustment for currency depreciation.

2. *Extraordinary Practice (Law of 20.8.1947)*

Buildings and Industrial Plant acquired or constructed before 1940 and still in use at end of 1945 can be written down on the basis of a valuation not exceeding 2½ times their value at August 31, 1939.

ASSETS SUBJECT TO THIS DEPRECIATION :

All business assets subject to deterioration.

OBLIGATION TO PROVIDE FOR DEPRECIATION :1. *Ordinary Practice*

No obligation but in the event of no depreciation or insufficient being written off in one or more accounting periods the written-off period can be extended so as to permit the full amount allowable being written off.

2. *Extraordinary Practice (Law of 20.8.1947)*

Amortisation compulsory to the extent of the profit. If profit is insufficient, the period in which the amortisation may be charged can be extended so as to permit the full amount allowable being written off.

3. *Surpluses of Taxed Amortisation*

These surpluses (difference between depreciation charged and that allowed) are recoverable in the course of the following years at the agreed annual rates until complete restitution up to the value of the asset has been made.

METHOD :

Straight line or Reducing Balance.

WORKING LIFE AND RATES (straight line) :

This varies according to the individual particulars of each case. There is no official scale. The depreciation rates are fixed by the local administration in agreement with the taxpayer. These rates can be reviewed when circumstances require. In determining the rates the following will be taken into account :

- (a) the wear and tear or physical depreciation,
- (b) obsolescence or economic depreciation.

e.g. the motor vehicle trade :

	Rate	Working Life
Industrial Buildings, Garages	3%	33 years
Fittings, material, plant	10%	10 years
Rolling stock	20%	5 years
Loose tools	33%	3 years

OPTIONAL REDUCING BALANCE METHOD :

For items acquired or produced on or after January 1, 1963 or, in the case of accounting periods other than the calendar year, on or after the first day of the accounting period ending in 1964, the company can, in terms of the royal decree of October 8, 1963, adopt the reducing balance method.

This method does not apply to the following :

1. Items whose normal working life is less than 6 years or more than 19 years.
2. Patents, trade marks, stock-in-trade, goodwill, firm's name and other similar intangibles.

The rates of depreciation for the reducing balance method must not exceed twice those for the straight line method or 20%.

METHOD :

The annual allowance for the reducing balance method applicable to each group of items written down at the same rate is determined as follows :

For the tax period current at the date of acquisition or production - a rate not greater than twice the corresponding straight line rate based on the normal working life of the items in question is applied.

For each subsequent tax period - the same rate is applied to the then residual value of the said items, i.e. their cost price diminished by depreciation already written off and admitted up to the end of the previous tax period.

The rate thus determined cannot however exceed 20%.

Commencing with the tax period for which the amount written off under the reducing balance method no longer exceeds that under the straight line method, the taxpayer has the option to apply annually a fixed rate not exceeding the straight line rate until the cost is entirely written off.

The inadequacies of depreciation relating to any taxable period whatever, for items belonging to the same group, can be made good by transfer of the excess depreciation previously assessed; they can, in such a case, be covered, after the expiry of the normal writing off period, by one or more annual allowances not exceeding the straight line rate.

The adoption of the reducing balance method of depreciation for the same group of items is irrevocable except for items belonging to the same group which are acquired subsequently.

REFERENCES :

Taxation in Western Europe 1963, page 47 et seq.

Article 13 of the Law of 20.11.1962 (Moniteur belge 1.12.1962)

Royal decree of 8.10.1963 (Moniteur belge 19.10.1963).

POSITION : October 1964.

ASSETS SUBJECT TO THIS ALLOWANCE :

Ships and Boats.

RATES :

1st year in service	20%
2nd year in service	15%
3rd year in service	15%
Each subsequent year	10%

REFERENCE :

Taxation in Western Europe 1963 page 49.

Instruction administrative du Ministère des Finances.

POSITION : October 1964.

ASSETS SUBJECT TO THIS ALLOWANCE :

Furnishings purchased, demolished and rebuilt (for bank offices or other similar establishments).

RATES :

Immediate writing off of purchase price of asset demolished, excluding value of land.

Sett-off value of materials against expense of demolition.

Immediate writing-off of one-third of assets reconstructed.

Annual rate of 1% of the surplus remaining.

REFERENCE :

Instruction administrative du Ministère des Finances.

POSITION : October 1964.

*Law of July 13, 1930
(Article 27, para. 2 (5) of co-ordinated Laws)*

ASSETS SUBJECT TO THIS ALLOWANCE :
Workers's Dwellings and Social Establishments.

METHOD :

Profits appropriated, within twelve months of the end of the business year, for investment in the construction of workmen's dwellings and establishments for the benefit of personnel (canteens, showers, cloakrooms, etc.) are exempted (from tax) up to one-half.

Such fixed assets can be written off up to 100% of their value.

REFERENCES :

Law of 13.7.1930 (Moniteur belge 16.7.1930)

Law of 20.11.1962, introducing revenue tax reform, (Moniteur belge 1.12.1962).

POSITION : October 1964.

*Law of July 27, 1953
(Article 27, para. 2(5) of co-ordinated Laws)*

ASSETS SUBJECT TO THIS ALLOWANCE :

Loans for Construction or Purchase of Dwelling Houses.

METHOD :

Profits appropriated, within twelve months of the end of the business year, for the granting of complementary loans to employees having obtained a principal loan from a public credit organisation for the construction or purchase of a dwelling house for their personal use, may be exempted (from tax) up to one-half.

REFERENCE :

Law of 20.11.1962, introducing revenue tax reform, (Moniteur belge 1.12.1962).

POSITION : October 1964.

Law of May 31, 1955

ASSETS SUBJECT TO THIS ALLOWANCE :

Industrial Buildings and Artisans' Houses.

METHOD :

State grants received to assist economic expansion and absorption of unemployed, by the construction or acquisition of industrial buildings and artisans' houses, are exempt from tax. The grant cannot exceed 30% of the cost of construction or of the value of the buildings acquired or B.Fr. 750,000.

The buildings must have been acquired or their construction begun by January 1, 1957 and have cost not more than B.Fr. 2,500,000.

The buildings concerned are exempt from Real Estate Tax (Contribution foncière) for 5 years; as regards depreciation they are subject to the rules of common law.

This law has been replaced by those of 10.7.1957 and 17.7.1959, under which state grants are no longer permitted; the only tax advantage is exemption from the Real Estate Tax for 5 years from January 1 following the date of occupation.

REFERENCES :

Moniteur belge du 26.7.1957 and 15.2.1958.

Law of 17.7.1959 (Moniteur belge 29.8.1959).

POSITION : October 1964.

*Law of 15.7.1959 (M.B. 28.7.1959) supplemented by
Article 127 of the Law of 14.2.1961 (M.B. 15.2.1961)*

ASSETS SUBJECT TO THIS ALLOWANCE :

Complementary Capital Expenditure on Fixed Business Assets. By this is meant the difference between (a) the value of the assets acquired or constructed during the tax period in question and (b) the amount realised for the fixed assets disposed of during the said period as well as participations and investments in the enterprise, augmented by the depreciation allowances agreed for the same period in respect of the total fixed assets in the business at the end of the previous tax period.

METHOD :

The taxable profits are exempt from the «taxe professionnelle» up to 30% of the value of the complementary capital expenditure on fixed business assets in Belgium during each of the years 1959, 1960, 1961 and 1962 insofar as it amounts to 50,000 francs per tax period in 1959 and 1960 and 30,000 francs per tax period in 1961 and 1962.

This allowance is deducted from profits as to one-third in the year of acquisition of the assets and one-third in each of the two following years.

In the event of a loss occurring in one of the 3 years the allowance can be carried forward for the next 5 years.

This law was due to expire at the end of the year 1962 but for the purpose of carrying forward losses its effects can be prolonged until 1967/68.

REFERENCES :

Law of 15.7.1959 (M.B. of 28.7.1959)

Law of 14.2.1961 (M.B. of 15.2.1961)

Law of 20.11.1962, article 82(2). (M.B. of 1.12.1962)

POSITION : October 1964.

BASIS OF DEPRECIATION :

Purchase price or cost of production, adjusted, if necessary, for currency depreciation by a factor fixed by legislation relating to balance sheet revaluation.

ASSETS SUBJECT TO THIS DEPRECIATION :

All business assets having a working life of more than one year.

OBLIGATION TO PROVIDE FOR DEPRECIATION :

No, but depreciation not written off in the appropriate year can only be charged at the end of the period during which normal depreciation is permitted.

In the event of a deficit the postponement of depreciation is possible.

METHOD :

Straight line. If there has been revaluation, the latter covers the purchase price and the depreciation already provided.

WORKING LIFE AND RATES :

For industry in general the following rates are usually admitted :

	Working Life (years)	Annual Rate
Industrial Buildings	20	5%
Industrial Material.	5 - 10	10% - 20%
Motor Vehicles	3 - 5	20% - 33%
Machinery, Machine Tools and Electric Motors	7 - 10	10% - 15%
Workshop and Store Equipment . . .	10	10%

Averages usual in Steel Industry :

Blast Furnaces	20 years
Open Hearth Steel Furnaces	10 years
Bessemer Converters	10 years
Electric Arc Furnaces	5 years
Rolling Mills	10 years

WORKING LIFE AND RATES : (Cont'd.)

**Table of Depreciation Annuities
Straight Line Method**

Working Life		10	7	5	4	3
		years	years	years	years	years
Note		(1)	(1)	(1)		
Annuity in :		%	%	%	%	%
Year	1	28	28	28	25	33 $\frac{1}{3}$
	2	8	12	18	25	33 $\frac{1}{3}$
	3	8	12	18	25	33 $\frac{1}{3}$
	4	8	12	18	25	
	5	8	12	18		
	6	8	12			
	7	8	12			
	8	8				
	9	8				
	10	8				

REFERENCES :

Mémento pratique du contribuable 1963, p. 97 et seq.
Code général des impôts, Article 39 et seq.

POSITION : October 1964.

(*) Note : In determining the straight line depreciation, the initial allowance of 10% has been taken into account for material to be written off in 5 years to 10 years and double the first annual charge for material having a normal working life of at least 5 years.

*Law of 28.12.1959, Art. 37
Decree of 9.5.1960*

**INAUGURATION OF A SYSTEM OF DEPRECIATION BASED ON
THE REDUCING BALANCE METHOD**

BASIS OF DEPRECIATION :

Purchase Price or Cost of Production of Business Assets purchased or produced on or after 1.1.1960.

ASSETS SUBJECT TO THIS DEPRECIATION :

(As per list in decree of 9.5.1960)

Materials and Equipment used for business operations in manufacture, conversion and transportation.

Handling equipment.

Plant for Water and Air Purification.

Plant for Production of Steam, Heat and Power

Safety and Medical Appliances.

Office Machines excluding Typewriters.

Equipment for Scientific and Technical Research.

Stores and Warehouses unless excluded as serving a profession (and thus subject to the straight line method).

Fixtures and Equipment of Hotels.

Exceptions : Dwelling House Fixtures.

Stores and Warehouses used in the exercise of a profession, which remain subject to depreciation by the straight line method

METHOD :

Reducing Balance (or Written-down Value) as an alternative to Straight Line Method.

WORKING LIFE AND RATES :

Table of Depreciation annuities
Reducing Balance Method

Working Life	10 years	7 years	5 years	4 years	3 years
Rate of Depreciation	% 25.00	% 35.71	% 40.00	% 37.50	% 50.00
Annuity in :					
Year 1	25.00	35.71	40.00	37.50	50.00
2	18.75	22.96	24.00	<u>23.44</u>	25.00
3	14.06	14.76	<u>14.40</u>	19.53	25.00
4	10.55	9.49	10.80	19.53	
5	7.91	<u>6.10</u>	10.80		
6	<u>5.83</u>	5.49			
7	4.45	5.49			
8	4.45				
9	4.45				
10	4.45				

The figures below the line represent the Annuity after returning to the straight line method.

The following table shows the reducing balance rates corresponding to working lives of various durations :

Working Life in years	Depreciation Rate on Straight Line Basis (100 divided by Col. 1)	Coefficient applicable	Depreciation Rate on Reducing Balance Basis (Col. 2 x Col. 3)
1.	2.	3.	4.
	%		%
3	33.33	1.5	50
4	25	1.5	37.5
5	26	2	40
6	16.66	2	33.33
6 ² / ₃	15	2.5	37.5
8	12.5	2.5	31.5
10	10	2.5	25
12	8.33	2.5	20.83
15	6.66	2.5	16.66
20	5	2.5	12.5

Assets having a normal working life of less than 3 years do not benefit by the reducing balance method.

REMARKS :

Subject to the temporary provisions of Article 51 of the law of 28.12.1959, accelerated depreciation ceases to be applicable to all assets acquired or produced as from 1.1.1960. By adopting the reducing balance method one is precluded from claiming the following allowances in respect of accelerated depreciation :

1. Special deduction of 10% of the cost of certain materials.
2. Doubling the first year's normal depreciation.
3. Special depreciation of 50% of the cost of scientific and technical research except fixtures for the latter.
4. Accelerated depreciation by way of an allowance in relation to turnover granted to steelmaking and mining companies in accordance with ministry decision of 25.10.1952.
5. Accelerated depreciation to exporters.

REMARKS : (Cont'd.)

However, Article 51 provides special temporary measures regarding assets acquired or produced between 1.1.1960 and 1.1.1965.

Consequently undertakings can select either the new written-down value method or continue to claim accelerated depreciation until 1.1.1965. This option must be exercised when submitting the accounts for the first period after 9.5.1960 and is irrevocable.

REFERENCES :

Law of 28.12.1959 (J.O. 29.12.1959 p. 12464).

Decree of 9.5.1960 (J.O. 10.5.1960 p. 4232).

Administrative Notice of 22.8.1960 (BOCD No. 31 of 31.8.1960).

Mémento pratique du contribuable 1963, p. 101 et seq.

Code général des impôts, Art. 39 A.

POSITION : October 1964.

Order of 25.9.1958

ASSETS SUBJECT TO THIS ALLOWANCE :

Capital Expenditure on Fixed Assets, Material and Equipment made to encourage Scientific or Technical Research, as defined by decree.

RATE :

In the first year 50% of the cost.

In subsequent years normal rate of depreciation.

REMARKS :

This allowance has been withdrawn in principle for material and equipment for research acquired or produced on or after 1.1.1960 but continued for fixtures. However, the allowance can still be claimed, in place of using the reducing balance method, in respect of expenditure between 1.1.1960 and 1.1.1965.

REFERENCES :

Journal officiel of 26.9.1958, p. 8859.

Mémento pratique du contribuable 1963, p. 101 et seq.

POSITION : October 1964.

Decree of March 8, 1951

ASSETS SUBJECT TO THIS ALLOWANCE :

Plant and Machinery acquired or manufactured since January 1, 1951 and of which the normal working life is at least 5 years.

RATE :

It is possible to double the first year's normal depreciation allowance. The writing-off is thus accelerated by one year.

REMARKS :

In principle this allowance does not apply to assets acquired or manufactured since January 1, 1960.

Its application has however been provisionally extended, at the taxpayer's option, in place of the reducing balance method, to assets acquired or manufactured between January 1, 1960 and January 1, 1965.

REFERENCES :

Mémento pratique du contribuable 1963, p. 100.

Code général des impôts, Annexe 1, articles 01 to 03.

POSITION : October 1964.

*Ministerial Decision of October 25, 1952
relating to the Steel and Coal Mining Industries*

ASSETS SUBJECT TO THIS ALLOWANCE :

Installations for :

1. Production of Pig Iron and Semi-finished and Finished Steel Products.
1. Re-rolling.
3. Production of Coal, Coke and Iron Ore.

RATES :

Depreciation may be accelerated in relation to the value of the production of such steel or mining enterprises.

The regulations permit the optional writing off of additional depreciation.

The following rates are applicable as a percentage of the turnover (excluding taxes) of the products mentioned :

A. IRON AND STEEL**1. Pig Iron**

Production of Phosphorus Foundry Pig Iron and Basic Pig Iron	8%
Production of Hematite Pig Iron (Foundry and Refined)	6%
Production of Spiegeleisen	6%
Production of Ferro-Manganese	4%

These rates cover the depreciation of Blast Furnaces.

2. Steel

Production of Semi-finished and Finished Products of Bessemer Steel	15%
(This rate covers the depreciation of blast furnaces, steel works and rolling mills)	
Production of Semi-finished and Finished Products of Open Hearth or Electric Steel	10%
(This rate covers the depreciation of steelworks and open hearth and electric furnaces)	
Re-rolling (Bessemer, Open Hearth or Electric Steel)	4.5%
(This rate covers the depreciation of rolling-mills only)	
Galvanising without Re-rolling.	2.5%

RATES : (Cont'd.)**3. Coke Ovens at Steel Works**Production of Coke **8%****B. IRON ORE MINES**Production of Iron Ore **20%****C. COAL MINES**Production of Coal and Coke **13%****REMARKS :**

In principle this depreciation does not apply to assets acquired or manufactured since January 1, 1960.

Its application has however been provisionally extended, at the taxpayer's option in place of the reducing balance method, to assets acquired or manufactured between January 1, 1960 and January 1, 1965.

REFERENCES :

Mémento pratique du contribuable 1963, p. 103.

Code général des impôts 39 et seq.

POSITION : October 1964.

Ministerial Order of January 15, 1955

ASSETS SUBJECT TO THIS ALLOWANCE :

Certain installations for modernisation purposes, e.g. the following :

- Means of internal management
- Water and Air Purification
- Steam, Heat or Power Plants
- Safety Devices
- Office Machines other than typewriters
- Research Laboratory Equipment
- Second-hand equipment is excluded.

RATES :

Initial Allowance is 10% of cost, the balance being subject to normal depreciation.

REMARKS :

A provision of relatively minor importance.

In principle this allowance does not apply to assets acquired or manufactured since January 1, 1960.

Its application has however been provisionally extended, at the taxpayer's option, in place of the reducing balance method, to assets acquired or manufactured between January 1, 1960 and January 1, 1965.

REFERENCES :

Mémento pratique du contribuable 1963, p. 100.

Code général des impôts, article 39 et seq.

POSITION : October 1964.

*Ministerial Decrees of October 26, 1957
and March 5, 1958
Accelerated Depreciation for Exporters*

ASSETS SUBJECT TO THIS ALLOWANCE :

Fixed Assets of Industrial Concerns entitled to an export licence.

METHOD :

Industrial concerns entitled to an export licence can claim additional depreciation (over and above the normal depreciation of their fixed assets) amounting to one and one-half times such proportion of the normal depreciation agreed for the year under consideration as the export turnover (i.e. sales to countries outside the «franc» zone) bears to the total turnover of the business, excluding taxes.

REMARKS :

In principle this allowance does not apply to assets acquired or manufactured since January 1, 1960.

Its application has however been provisionally extended, at the taxpayer's option, in place of the reducing balance method, to assets acquired or manufactured between January 1, 1960 and January 1, 1965.

REFERENCES :

Mémento pratique du contribuable 1963, p. 101/102.
Décisions ministérielles des 26.10.1957 et 5.3.1958.

POSITION : October 1964.

BASIS OF DEPRECIATION :

Cost of Acquisition or of Production.

Changes in the value of money are not, in principle, taken into account, but, because of the inflation, the law formerly provided rates for revaluation, which are, however, less than the effective increase in the level of wholesale prices.

ASSETS SUBJECT TO THIS DEPRECIATION :

All assets invested in the business, which are subject to wear and tear over several years, including patents, preliminary expenses of companies, etc.

OBLIGATION TO PROVIDE FOR DEPRECIATION :

None.

Depreciation not provided can only be written off at the end of the normal period of amortisation.

METHOD :

Straight Line Method only.

WORKING LIFE - RATES :

The percentages for depreciation are calculated according to a table prepared by the Administration. These percentages constitute the maximum limit to which normal depreciation can be written off.

	Rate	Working Life
In principle :		
Industrial Buildings	5%	20 years
Installations and Machinery	10%	10 years

The information obtained with particular reference to normal depreciation generally written off in the steel industry is as follows :

Industry Group VII
Category I/a - Steel in general

Works intended for industry (buildings, permanent hydraulic works, roads and platforms, aqueducts and sewers, roofing and sheds)	3.5%
General Installations (installations for production, storage and distribution of power, maintenance workshops, junctions and rolling stock, transformers, parks for cars and fire engines, internal transport, loading, unloading, washing and weighing facilities)	8%
Large Installations and Machinery :	
Non-automatic	8%
Automatic	14%
Furnaces and Accessories	10%
Sundry Small Appliances (presses, models and laboratory fittings and equipment)	25%
Office Furniture and Machines	10%
Motor Vehicles	20%

REFERENCES :

Text of the Law on Direct Taxes decreed by the President of the Republic 29.1.1958. No. 645 (7.7.1958).

1962 edition, article 98 p. 197 et seq. published by Ministry of Finance.

Taxation in Western Europe, p. 166.

POSITION : October 1964.

*Law of January 11, 1951
to assist in facilitating the modernisation and renovation
of machinery and plant*

ASSETS SUBJECT TO THIS ALLOWANCE :

New Installations and Equipment or Renewals of portions of existing Installations and Equipment.

RATES :

For extensions, renewals, construction or reconstruction work put in hand since January 1, 1946, 40% of the cost of the new installations can be spread over the first 4 years and added to the normal rate of depreciation, without however exceeding 100% of the value of such new installations or 15% per annum.

The period taken for the depreciation of these assets is thus reduced by 40%.

REFERENCES :

Text of the Law on Direct Taxes.

Decree by President of the Republic 29.1.1958, No. 645 of 7.7.1958, 1962 edition, published by Ministry of Finance, page 197 et seq.

Taxation in Western Europe 1963, p. 166.

POSITION : October 1964.



BASIS OF DEPRECIATION :

Cost of Acquisition or of Production.

Single adjustment for currency depreciation under Article 9 of the law of 7.8.1959 in accordance with the coefficients laid down by that law.

ASSETS SUBJECT TO THIS DEPRECIATION :

All capital goods subject to commercial depreciation over several years including patents, preliminary expenses, etc.

OBLIGATION TO PROVIDE FOR DEPRECIATION :

Yes, but, in the event of a deficit, depreciation not written off follows the procedure for carrying forward losses, namely for 2 years.

METHOD :

Straight Line, but the reducing balance method may be adopted if justified by economic circumstances.

WORKING LIFE - RATES :

The normal useful life of an asset is taken into account.

There is no official scale but rates admitted by the Luxembourg tax authorities are as follows :

Dwelling Houses	2%
Industrial Buildings	3%
Technical Machinery and Installations (Siemens Martin and Thomas Furnaces, Converters, Coke Ovens, etc.)	8%
General Plant and Equipment	16%

REFERENCES :

mémorial No. 35 of 11.8.1959, p. 854.

Code fiscal luxembourgeois, volume 2, section 1 (7).

POSITION : October 1964.

Amortisation of Mineral Reserves

ASSETS SUBJECT TO THIS DEPRECIATION :

Mines and Quarries.

RATES :

The rate is equal to the ratio between (on the one hand) the output of the mine or quarry as shown by the accounts and (on the other hand) the total reserves at the commencement of the year in question.

REFERENCE :

Code fiscal luxembourgeois, volume 2 section 1 (7).

POSITION : October 1964.

*Laws of August 7, 1959 and June 25, 1960
Extended by Law of May 20, 1961.*

These laws constitute measures to encourage renovations rather than to provide for depreciation allowances as such.

ASSETS SUBJECT TO THIS ALLOWANCE :

Capital expenditures on new plant and equipment for productive and social purposes in the Grand Duchy during the years 1959, 1960 and 1961.

RATES :

The business can deduct from its profits :

30% of the first slice of expenditure not exceeding 2 million francs for each of the years 1959, 1960 and 1961.

20% of the second slice of expenditure not exceeding 60 million francs.

10% of the third slice of expenditure exceeding 60 million francs.

The amount to be deducted in the first year is one-quarter of the expenditure in that year, the remainder being deducted at the rate of one-quarter in each of the next three succeeding years, irrespective of normal depreciation allowances.

REFERENCES :

Mémorial No. 35 of 11.8.1959 p. 856 et seq.

Mémorial No. 36 of 27.6.1960 p. 843

Mémorial A No. 18 of 20.5.1961 p. 264.

POSITION : October 1964.

Consolidating Law of June 2, 1962

This law aims at establishing and co-ordinating the measures for improving the general structure and regional balance of the national economy and for stimulating expansion.

It also constitutes a measure designed rather to encourage renovations than to provide for depreciation allowances as such.

Para. 1 of Article 6 relating to capital expenditure on productive and social services for re-enacts for business years ending in 1962, 1963 and 1964 the provisions of Article 12 of the law of 7.8.1959.

ASSETS SUBJECT TO THIS ALLOWANCE :

New capital expenditure on plant and productive material or expenditure of a social character. This new allowance is much more important than that granted by the law of 7.8.1959.

RATES :

The deduction is fixed in relation to expenditure in respect of each exploitation and tax year as follows :

30% for the first slice of expenditure
not exceeding 2 million francs

20% for the second slice of expenditure
exceeding 2 million but not exceeding 250 million francs

10% for the third slice of expenditure
exceeding 250 million francs (lux)
irrespective of normal depreciation allowances.

REFERENCES :

Loi-cadre 2.6.1962

Mémorial A, No. 31, 19.6.1962 p 492.

Grand Duchy Regulations of 31.7.1962 and 18.8.1962

Mémorial A, No. 50, 9.9.1962 p. 921 and 923

Code fiscal luxembourgeois, Vol. 2, Chapter 1 (4) p. 8a et seq.

POSITION : October 1964.

Consolidating Law of June 2, 1962

Para. 2 of Article 6 envisages a system of allowances in respect of complementary expenditure on capital assets for the years 1962, 1963 and 1964.

CATEGORY OF BUSINESS ASSETS SUBJECT TO ALLOWANCE :

All immovables subject to commercial depreciation such as buildings, machinery, material, equipment, tools, etc.

The term complementary expenditure is taken to mean the difference between the cost of acquisition or production during the tax year and the depreciation for that year increased by realisations during the year.

METHOD :

In this case there is an option but only for expenditure exceeding 250 million francs in each tax year (1962, 1963 and 1964) and also for each exploitation. The allowance aimed at in the first paragraph of Article 6 can thus be replaced, at the request of companies interested, by an amount equal to 20% of the complementary expenditure, without prejudice to normal depreciation allowances.

Whichever method is adopted (para. 1 or 2) the allowance relating to a particular tax year is deducted at the rate of one quarter thereof in that tax year and one-quarter in each of the next three tax years.

REFERENCES :

Loi-cadre of 2.6.1962.

Mémorial A, No. 31 of 19.6.1962 p. 492

Grand Duchy Regulations of 31.7.1962 and 18.8.1962

Mémorial A, No. 50 of 9.9.1962 p. 921 and 923

Code fiscal luxembourgeois, Vol. 2, Chapter 1 (4) p. 8a et seq.

POSITION : October 1964.

*Consolidating Law of June 2, 1962
Article 7 - Exploitation and new manufactures*

CATEGORY OF ASSETS SUBJECT TO THIS ALLOWANCE :

In connection with revenue and local tax matters a special supplementary allowance is made for expenditure on new projects or new manufactures, which are particularly designed to benefit the general structure or regional balance of the national economy and will stimulate expansion.

METHOD :

The installation of new plant etc. must be commenced in 1962, 1963 or 1964 and completed at latest during the year 1965. The tax reduction is given for the year in which the new projects are put into service or the new manufactures are commenced and for the seven subsequent business years.

RATE :

The reduction of tax is effected by exemption a quarter of the taxable profit emanating from the exploitation or new manufactures. The quarter which is exempt is calculated on the taxable profit before deducting the allowance under Article 6 in respect of new capital expenditure.

REMARKS :

As regards the introduction of a new manufacturing process by an existing concern, the profit to be taken into account, for the purpose of calculating the exemption of one-quarter, must not be more than 10% of the cost price of the assets used in the new manufacturing process.

When, in the same hypothetical case of a new manufacture, the net assets invested (as valued for personal property tax purposes) are greater than 300 million francs, the exemption must not further exceed 20% of the total profit arising from the exploitation.

REFERENCES :

Loi-cadre of 2.6.1962

Mémorial A, No. 31 of 19.6.1962, p. 492

Grand Duchy Regulations of 31.7.1962 and 18.8.1962.

Mémorial A, No. 50 of 9.9.1962 p. 921 and 923.

Code fiscal luxembourgeois, Vol. 2, Chapter 1 (4) p. 8 et seq.

POSITION : October 1964.

BASIS OF DEPRECIATION :

Cost of Acquisition or Production.

No adjustment for currency depreciation.

Businesses were allowed however in 1950 to double the book value of wasting fixed assets acquired before January 1, 1942. Likewise certain buildings having a life of less than 20 years could be re-valued to a limited extent.

ASSETS SUBJECT TO THIS DEPRECIATION :

All durable capital assets belonging to a business and having a limited working life.

OBLIGATION TO PROVIDE FOR DEPRECIATION :

Yes, but losses caused thereby can be set off up to 6 years.

METHOD :

All methods are authorised and recognised by law but depreciation must be provided systematically and consistently. A change of method can only be made in special circumstances and with the approval of the tax authorities.

WORKING LIFE :

In principle use may be made of fixed rates commencing from the date when the asset is first brought into service or (since 1950) when the order for it was placed. The business must decide which date to adopt and a change thereafter can only be made in special circumstances recognised by the tax authorities.

Average Working Life :

For Buildings 25 to 50 years

For Plant 10 to 15 years.

REFERENCES :

„Die steuerliche Abschreibung im In- und Ausland“ - Institut Finanzen und Steuern - Heft 37, pages 29 and 35.

Beknopte Belastinggids (Smeets en Meihuizen) 1964, p. 16a and ff.

Taxation in Western Europe 1963, p. 189.

POSITION : October 1964.

*Tax Revision Law 1950
Re Accelerated Depreciation*

ASSETS SUBJECT TO THIS ALLOWANCE :

All business assets having a limited working life, i.e. all durable capital goods except stocks, personal cars and office equipment.

RATES :

From 30.4.1960 up to 33 $\frac{1}{3}$ % of the original cost at the rate of 8 $\frac{1}{3}$ % (for buildings 6%) per annum commencing if desired from the date on which the order is placed. This depreciation method is no longer permitted as from 31st January 1964 on.

REFERENCES :

„Die steuerliche Abschreibung im In- und Ausland“ - Institut Finanzen und Steuern - Heft 37, pages 29 and 35.

Beknopte Belastinggids (Smeets en Meihuizen) 1964, p. 16a and ff.
Taxation in Western Europe 1963, p. 189.

POSITION : October 1964.

*Tax Law of December 24, 1953
supplemented by decrees of 19.5.1958 and 29.4.1960*

NOTE :

These provisions relate to Investment Allowances and not to Depreciation as such.

NATURE OF ASSETS AFFECTED :

Assets having a limited working life, e.g. Machinery, Mechanical Installations, also Works Buildings having an investment value for tax purposes of more than Fl. 3,000 per tax year.

RATES :

4% per annum for 5 years making a total of 20%. This is based on cost of acquisition or production and can be effective from date of order. These amounts can be deducted from taxable profit and are in addition to normal depreciation.

By a law of 31.7.1957 (Nr. 188) the operation of this allowance was temporarily suspended from 5.11.1956 until 31.12.1958 in view of the state of the economy at the time. It was subsequently re-introduced for ships and aircraft engaged in international traffic with effect from 1.1.1958.

By a decree of 19.5.1958 it was re-introduced for other capital assets acquired between 21.5.1958 and 31.12.1958 but in this case the rate was lowered to 4% per annum and applied for only 4 years making a total of 16%.

By a law of 31.12.1958 the allowance for these assets was altered to 8% per annum for 2 years (total 16%) with effect from 1.1.1959.

By a decree of 30.4.1960 the allowance from 30.4.1960 became 5% per annum for 2 years (total 10%) except for ships and aircraft engaged principally in international traffic, for which it became 8% per annum for 2 years (total 16%).

By a law of 21.12.1961 the allowance for ships and aircraft was reduced to 5% per annum for 2 years (total 10%) with effect from 1.1.1962.

Ministry decrees concerning the changing or cancelling of the foregoing investment allowances and accelerated depreciation, require, even when only retrospective, the ratification of parliament.

REFERENCES :

„Die steuerliche Abschreibung im In- und Ausland“ - Institut der Finanzen und Steuern, Bonn, vol. 37, page 31.

Erlass vom 19.5.1958 (No. 5162 of 19.5.1958)

Nederlandse Staatscourant (No. 95 of 20.5.1958, page 31).

Beknopte Belastinggids (Smeets en Meihuizen) 1964, page 28 et seq.

Taxation in Western Europe 1963, p. 188.

POSITION : October 1964.

Capital Allowances

BASIS OF DEPRECIATION :

For buildings and plant, original purchase price or own cost of construction or manufacture. For mineral deposits overseas, the cost to the first U.K. purchaser, otherwise cost to the present owner.

There are no adjustments for changes in the value of money.

RANGE OF DEPRECIABLE ASSETS :

Industrial buildings, plant and machinery (including vehicles and ships), capital expenditure on scientific research, patents, mines and mineral deposits.

WHETHER ANNUAL DEPRECIATION COMPULSORY :

Yes.

The tax authorities permit capital allowances to be aggregated with trading losses and set off against taxable profits of future years without limitation as to time.

METHOD OF COMPUTATION :

1. Straight line method for :

Industrial buildings

Capital expenditure on patents

2. Straight line or reducing balance method for :

Plant

Machinery

Vehicles

Ships

BALANCING ALLOWANCES OR CHARGES :

The amount of allowance or charge is the difference between the net proceeds of sale or demolition and the balance (if any) of the original cost unallowed or over-allowed after writing off all initial and annual depreciation allowances but not investment allowances.

RATES OF DEPRECIATION/PERIOD OF WRITE OFF :

For industrial buildings the rate is 4% per annum.

Capital expenditure on scientific research is written off in full in the first year.

Patents are written off in equal instalments over the life of the patent or over 17 years whichever is less.

Plant and Machinery - Until the Finance Act 1963, the rate for plant or machinery was that which (ignoring the initial and investment allowances - see below) would write off 90% of the original cost over the normal working life. This rate was then multiplied by 5/4. In practice, customary rates were applied to a wide range of machinery; but any taxpayer who felt the customary rates to be inappropriate in the circumstances of his business could negotiate an adjustment.

For plant and machinery acquired up to November 5, 1962, the rates determined by the old method still apply.

Typical agreed rates under the reducing balance method, which is employed in the majority of cases and where the old method still applies (acquisitions up to November 5, 1962) are :

Non-specialist machinery and plant	7½%
Boilers and shafting	5%
High speed precision plant	12½%
Ships	10%
Motor vehicles	20%

The above agreed rates are multiplied by 5/4 before applying them in calculating the annual allowance to be granted.

For the Iron and Steel Industry the agreed rates, where the old method applies, are :

Blast Furnaces other than electric furnaces	5/4 ths of 7½% = 9,375%
Machinery or plant generally in regard to iron and steel manufacture	5/4 ths of 7½% = 9,375%
Electric Furnaces	5/4 ths of 12½% = 15,625%
Coke ovens	5/4 ths of 12½% = 15,625%

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RATES OF DEPRECIATION/PERIOD OF WRITE OFF (Cont'd).

For new plant and machinery acquired after November 5, 1962, the Finance Act 1963 provides that the existing rate shall be increased as follows :

Existing rate	(Reducing balance method)	New rate
Up to and including 15%		15%
From 16% to 20%		20%
From 21% to 25%		25%
Over 25%		unchanged

Rates for the straight line method are correspondingly increased.

The Finance Act 1963 further lays down that, when the rate for an existing class of machinery is redetermined, or when the rate for a new class of machinery is determined, this is to be done on the following basis:

Expected life	Rate for reducing balance basis	Rate for straight line basis
18 years or more	15%	6 $\frac{1}{4}$ %
14 to 18 years	20%	8 $\frac{1}{2}$ %
Less than 14 years	25%	11 $\frac{1}{4}$ %

It may be noted that the maximum rate in the above table is 25% (or 11 $\frac{1}{4}$ % on the straight line basis); when higher rates come to be redetermined, they will therefore be reduced to 25%.

In estimating the expected working life of an asset, multi-shift working and other abnormal usage is taken into account.

REFERENCE :

Taxation in Western Europe 1963, pp. 268 - 270.

POSITION : October 1964.

Investment Allowances

RANGE OF DEPRECIABLE ASSETS :

New Assets (as distinct from second-hand assets).

RATES :

	Exp. up to 5.11.1962	Exp. after 4.11.1962
Industrial buildings	10%	15%
New machinery and plant	20%	30%
Mining works	20%	30%
Heat insulation and fuel saving equipment	20%	30%
Scientific research (in addition the whole of the expenditure is written off in the first year)	20%	30%
New ships	40%	40%

The investment allowance is not deductible from cost in calculating the written down value for the purposes of subsequent depreciation. Thus, in the case of qualifying plant it is possible to claim allowances totalling 130% of cost (and in the case of industrial buildings 115% of costs) over the working life of the asset.

Introduced in 1954, the investment allowance was suspended in respect of Expenditure incurred between 17.2.1956 and 7.4.1959, when the allowance was restored. The suspension did not apply to contracts entered into prior to 18.2.1956 or to a selected range of capital expenditure viz., expenditure on new ships, scientific research, the installation of insulation against loss of heat in existing industrial buildings, and the addition of certain approved devices to existing plant and machinery to promote fuel economy.

REFERENCE :

Taxation in Western Europe 1962, p. 235.

Taxation in Western Europe 1963, p. 271.

POSITION : October 1964.

Initial Allowances

RANGE OF DEPRECIABLE ASSETS :

For industrial buildings and plant and machinery and initial allowance is granted in the first year in addition to the annual wear and tear allowance.

RATES :

	Exp. before 15.4.1958	Exp. after 14.4.1958
Industrial buildings	10%	15%
Plant and Machinery	20%	30%

If the Investment Allowance (buildings 15%, new plant 30%, mining works 30%) is also given, the initial allowance is reduced to 5% for buildings, 10% for new plant and 20% for mining works. For second hand plant as well as for motor-cars the initial allowance is 30%.

Since April 15, 1953, this allowance is granted in the year of assessment for the basis year in which the asset was acquired (i.e. as distinct from taking the asset into use which is the test for annual allowance).

The initial allowance is deducted from the cost of the asset in calculating the written down value for the calculation of depreciation in subsequent years.

REFERENCE :

Taxation in Western Europe 1963, p. 271.

POSITION : October 1964.

RANGE OF DEPRECIABLE ASSETS :

Industrial buildings, plant and machinery.

METHOD OF COMPUTATION :

Depreciation may be computed under four methods which are :

- a) straight line method
- b) declining balance method
- c) sum of the years-digits method
- d) any other «consistent method» may be used by a taxpayer if total allowances in the first two-thirds of useful life do not exceed the allowances under the declining balance method.

RATES :

Example : Assume that a newly acquired asset costing \$ 100,000 has an estimated useful life of 10 years and a negligible salvage value.

Year	Straight-line 10%		Double-declining- balance 20%		Sum-of-the digits	
	Annual Charge	Cumulative	Annual charge	Cumulative	Annual Charge	Cumu- lative
1	\$ 10,000	10,000	20,000	20,000	18,182	18,182
2	\$ 10,000	20,000	16,000	36,000	16,364	34,546
3	\$ 10,000	30,000	12,800	48,800	14,545	49,091
4	\$ 10,000	40,000	10,240	59,040	12,727	61,818
5	\$ 10,000	50,000	8,192	67,232	10,909	72,727
6	\$ 10,000	60,000	6,554	73,786	9,091	81,818
7	\$ 10,000	70,000	5,243	79,029	7,273	89,091
8	\$ 10,000	80,000	4,194	83,223	5,455	94,546
9	\$ 10,000	90,000	3,355	86,578	3,636	98,182
10	\$ 10,000	100,000	2,684	89,262	1,818	100,000

REFERENCE :

1964 - US Master Tax Guide, p. 341 - 348.

POSITION : October 1964.

RANGE OF DEPRECIABLE ASSETS :

Ordinary depreciation of assets, charged as cost, is made in accordance with their service life and also with the depreciation rate stipulated in the general tax law.

METHOD OF COMPUTATION :

Generally, the Japanese steel industry adopts the declining-balance method for indirect depreciation of tangible fixed assets, and the straight-line method for direct depreciation of intangible fixed assets. The straight line method is sometimes adopted for tangible fixed assets.

PERIOD OF WRITE OFF :

The service life of equipment relating to the iron and steel industry is as follows :

Blast furnace and its related equipment	17 years
Open hearth furnace and its related equipment	18 years
Electric furnace	12 - 16 years
Rod and wire mill	18 years
Top-blown converter and its related equipment	15 years
Semi-finished steel rolling equipment	18 years
Equipment for the production of ordinary steel bars and plates	18 years
Equipment for the production of cold rolled sheets	16 years

REFERENCE :

«*Outline of Japanese Tax 1961*», Tax Bureau, Ministry of Finance, pp. 69 - 72.

Fuji Steel, Financial Report, 2nd half of 1962, p. 24.

POSITION : October 1964.

RANGE OF DEPRECIABLE ASSETS :

Special depreciation is applied to certain important machinery and equipment so that they can be depreciated at a rate higher than their ordinary legal depreciation rate.

RATES :

It is permitted to depreciate one-fourth of the acquisition price of each designated item in the fiscal year of its acquisition, in addition to its ordinary depreciation.

REMARKS :

The Japanese method, moreover, of dealing with special depreciation account is to provide it from the net income. It is therefore not included in the cost of sales account, but is given as a deduction from the net income.

REFERENCE :

«Outline of Japanese Tax 1961», Tax Bureau, Ministry of Finance, p. 69 - 72.

Fuji Steel, Financial Report, 2nd half of 1962, p. 24.

POSITION : October 1964.

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