International taxation of cross-border leasing income
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APPENDIX 2

SPECIAL AND ACCELERATED DEPRECIATION IN JAPAN*

A. Buildings

Increased initial depreciation

Increased initial depreciation is granted at the end of the first accounting period in which the building is constructed. The qualifying buildings and applicable rates are as follows (Art. 45 STML):

1. buildings for stores and shops jointly operated by retailers: 8%;
2. factory buildings used in areas designated as underdeveloped areas or industrial development areas in farm villages: 8%;
3. factory buildings in coal mining regions, unpopulated areas or severely depressed local industrial areas: 8%;
4. factory buildings in industrial development areas in Okinawa: 20%;
5. factory buildings used in the Free Trade Zone in Okinawa: 25%;
6. buildings acquired by a designated association which accumulates:
   - reserves for structural improvement project of small and medium-sized enterprises;
   - reserves for promotion of small and medium-sized enterprises as subcontractors; or
   - reserves for promotion of traditional craft industries: 8% or 15%;
7. buildings acquired by small and medium-sized enterprises according to the special programme under the Law on Extraordinary Measures to provide research and development in respect of technology for small and medium-sized enterprises: 8%.

Accelerated depreciation

The qualifying buildings and the applicable rates for accelerated depreciation are as follows:

1. facilities for specified fireproof warehouses used for trade purposes and for grain silos: 20% of ordinary depreciation for the first five years (Art. 48 STML);

* Source: International Bureau of Fiscal Documentation, Taxes and Investment in Asia and the Pacific.
2. buildings of a corporation whose work force at the end of the accounting period consists for at least 50% of handicapped persons: 24% (32% for factory buildings) of ordinary depreciation for the first five years (Art. 46-2 STML; Art. 6-7 STNLEO);
3. new houses built for rent: 47% or 50% of ordinary depreciation for the first five years (65% or 70% if the useful life of the houses is 45 years or more) (Art. 47 STML); and
4. buildings constructed under the Law Concerning Redevelopment of Metropolitan Areas: 20% of ordinary depreciation for the first five years.

B. Machinery, plant and equipment

*Increased initial depreciation*

The amount of increased initial depreciation depends on the type of machinery or equipment, whether it is used in underdeveloped areas, and whether it is acquired by small or medium-sized enterprises. The qualifying assets and applicable rates are as follows:

1. qualifying new machinery and equipment designated by the Minister of Finance:
   - certain machinery and equipment put into business use for saving energy: 30% (Art. 10 STML);
   - certain anti-pollution machinery or production facilities as designated by the Minister of Finance: 20% (Art. 11 STML);
   - certain machinery or other equipment designated by the Minister of Finance as necessary for industrial water service which will be put into business use instead of using natural underground water located in certain areas designated by the Industrial Water Service Law: 15%;
   - certain machines and other facilities used to reclaim scrapped materials for the purpose of efficient utilization of resources, as designated by the Minister of Finance: 14%;
   - steel vessels weighing at least 300 tons gross: 12%;
   - labour-efficient ocean liners: 18%; and
   - designated aircraft with 120 tons or more maximum take-off weight and initially placed in service on scheduled commercial flights: 9%;
2. machinery and equipment which cost more than JPY 19 million and used in the following designated areas:
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- industrial development areas in Okinawa: 34% (20% for factory buildings); and
- Free Trade Zone in Okinawa: 50% (25% for factory buildings);

3. machinery and equipment which cost more than JPY 23 million and used in the following designated areas:
   - coal mining regions and depopulated areas: 12% (6% for factory buildings);
   - solitary islands: 14% (8% for factory buildings); and
   - peninsular areas: 14% (7% for factory buildings);

4. machinery and equipment which cost more than JPY 19 million and used in underdeveloped areas or industrial development areas in farm villages: 12% (6% for factory buildings);

5. machinery and equipment acquired by small or medium-sized enterprises (as defined), the price of which is more than JPY 23 million: 11% (Art. 12-2 STML);

6. machinery and equipment acquired by small and medium-sized enterprises according to the special programme under the Law on Extraordinary Measures to promote resource and development of technology for small and medium-sized enterprises: 30% (Art. 11-2 STML);

7. machinery and equipment for prevention of earthquake disaster under the Large-scale Earthquake Countermeasures Act: 11%;

8. machinery and equipment used for “high-technology businesses established in technologies areas” under certain conditions (e.g. the total acquisition cost of assets must be above JPY 1 billion): 12% to 30%;

9. machinery and equipment for medical use which is acquired by medical corporations and whose price is more than JPY 4 million: 14% (Art. 12-2(2) STML); and

10. the acquisition costs of communication and information-related equipment (including personal computers, digital copy machinery, fax machines, digital switchboards and digital telephone equipment) that is acquired between 1 April 1999 and 31 March 2000, and is less than JPY 1 million in value, are fully deductible during the accounting period of acquisition.

Accelerated depreciation

The qualifying assets and applicable rates of accelerated depreciation are as follows:

1. machinery and equipment of commercial or industrial cooperatives and textile companies which implement an approved plan for promotion of the rationalization of small and medium-sized enterprises or the plan
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for the structural improvement of the textile industry: 20% of ordinary depreciation for the first five years (Art. 13-2(1) STML);

2. machinery and equipment of a corporation whose work force at the end of the accounting period consists for at least 25% of handicapped persons: 14% of ordinary depreciation (19% for buildings) for the first five years (Art. 13 STML); and

3. machinery and equipment, factories and warehouses acquired on or before 31 March 1995 by companies with capital participation by a foreign company authorized under the Temporary Law for the Promotion of Imports and Domestic Investments: 20% of ordinary depreciation for five years (Art. 10-5(1) STML).