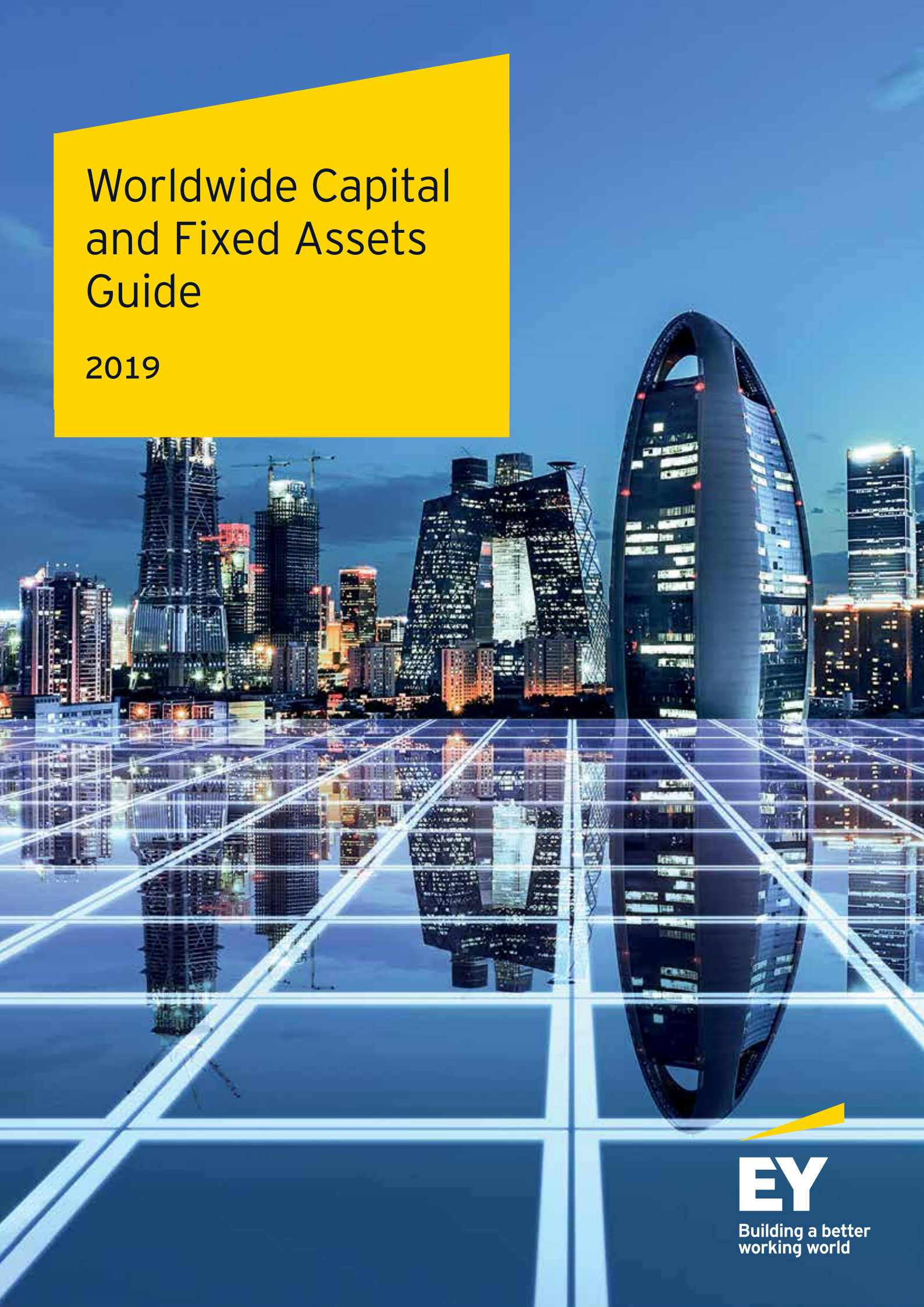


Worldwide Capital and Fixed Assets Guide

2019



EY

Building a better
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Preface

Capital expenditures represent one of the largest items on a company's balance sheet. This guide helps you to reference key tax factors needed to better understand the complex rules relating to tax relief on capital expenditure in 31 jurisdictions and territories.

The content is based on current information as of February 2019 unless otherwise indicated in the text of the chapter. The tax rules related to capital expenditures across the world are constantly being updated and refined. This guide is designed to provide an overview. To learn more or to discuss a particular situation, please contact one of the country representatives listed in the guide.

The *Worldwide Capital and Fixed Assets Guide* provides information on the regulations relating to fixed assets and depreciation in each jurisdiction, including sections on the types of tax depreciation, applicable depreciation rates, tax depreciation lives, qualifying and non-qualifying assets, availability of immediate deductions for repairs, depreciation and calculation methods, preferential and enhanced depreciation availability, accounting for disposals, how to submit a claim and relief for intangible assets.

For the reader's reference, the names and symbols of the foreign currencies that are mentioned in the guide are listed at the end of the publication.

This is the second publication of the *Worldwide Capital and Fixed Assets Guide*. For many years, the *Worldwide Corporate Tax Guide* has been published annually along with two companion guides on broad-based taxes: the *Worldwide Personal Tax Guide* and the *Worldwide VAT, GST and Sales Tax Guide*. In recent years, those three have been joined by additional tax guides on more specific topics, including the *Worldwide Estate and Inheritance Tax Guide*, the *Worldwide Transfer Pricing Reference Guide*, the *Global Oil and Gas Tax Guide*, the *Worldwide R&D Incentives Reference Guide* and the *Worldwide Cloud Computing Tax Guide*.

Each guide is the result of many hours of tax research. They are available free online along with timely Global Tax Alerts and other publications on ey.com or in the EY Global Tax Guides app for tablets.

You can also keep up with the latest updates at ey.com/GlobalTaxGuides.





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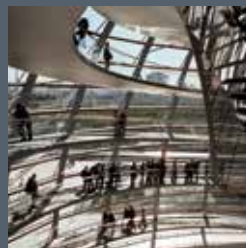
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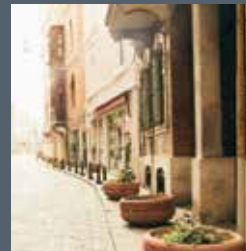
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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

Yes, with respect to movable property

Range of rates used

0%-100%

Depreciation method used to calculate tax deduction

Straight-line, although other methods can be used with supported technical reasons

1. Entitlement to claim

Legal ownership is required to entitle a claim to tax depreciation.

2. Allocation of tangible assets to tax depreciation lives and rates

Several tax opinions have expressed that if a movable asset is part of a building but does not constitute a sole unit with the building in terms of functionality, a different tax depreciation method applies (e.g., machinery and equipment).

The tax legislation only provides a 2% rate of tax depreciation per year for immovable property (except for land). Calculations must be performed on a quarterly basis.

For other assets, the tax legislation does not provide any lives or rates. In general terms, accounting criteria are followed to calculate tax depreciation. However, other criteria could be adopted if there are technical reasons that support such adoption.

In the General Instruction (SDG ASJ-AFIP) 7/2012, the tax authorities expressed that given the lack of particular rules, to calculate the tax depreciation of movable assets, it should be understood that the probable useful life refers to a reasonable estimation. In this regard, the concepts of obsolescence and efficient useful life should be considered when making the calculation.

2.1 Assets that qualify for tax depreciation

Specific fact patterns may determine different depreciation rates. The useful lives and depreciation rates indicated below are a general indicator.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	10 years (except for industrial plants, which may be regarded as buildings)	Straight-line method	10%	Other methods could be used, e.g., units of production depreciation method or units of time depreciation method, and other depreciation rates could be applied if supported by technical reasons.
Buildings	50 years	Straight-line method	2%	A higher rate could be applied if a lower useful life could be proved.
Furniture, fittings or fixtures	10 years	Straight-line method	10%	Other methods and rates could be used if supported by technical reasons.
Computer hardware	3 years	Straight-line method	33%	Other methods and rates could be used if supported by technical reasons.
Computer software	3 years	Straight-line method	33%	Other methods and rates could be used if supported by technical reasons.
Aircraft	5 years	Straight-line method	20%	Other methods and rates could be used if supported by technical reasons.

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Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Transport other than motor cars	5 years	Straight-line method	20%	Other methods and rates could be used if supported by technical reasons.
Motor cars	5 years	Straight-line method	20%	Other methods and rates could be used if supported by technical reasons.
Car parks	50 years	Straight-line method	2%	A higher rate could be applied if a lower useful life could be proved.
Office equipment (including office furniture and fixtures)	10 years	Straight-line method	10%	Other methods and rates could be used if supported by technical reasons.
Agricultural machinery and equipment	8 years	Straight-line method	13%	A higher rate could be applied if a lower useful life could be proved.

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	In general, costs would be added to the value of land. The specific case should be reviewed.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Preliminary costs (startup costs) can be deducted in the year in which they were incurred or amortized over a maximum term of five years, at the taxpayer's option.

Land remediation – removing asbestos, Japanese knotweed

According to some interpretations, if the cost is considerable, it should be added to the cost of the land. Otherwise, it could be added to the cost of the assets to be depreciated located on such land.

Own labor capitalized

Not deductible

2.4 Availability of immediate deductions for repairs

There are no rules that allow any asset to be written off in its entirety in the year of acquisition.

Nevertheless, a particular analysis of each case should be performed. If there is a reasonable justification, for example, based upon a professional opinion that may support the entire depreciation of the asset, the possibility to apply these criteria could be considered.

Argentina

Description	Detail
Repairs	Not considered an asset, in this regard, they are deducted in the fiscal year they are accrued.
Items of a revenue nature	N/A

The tax legislation provides for the concept of repairs and defines the concept of “improvements.”

In this regard, repairs that may involve the simple maintenance of the asset are considered as expenditures and, therefore, are deductible as expenses.

On the other hand, improvements are disbursements that do not qualify as ordinary repairs that involve the simple maintenance of the asset. They imply an increase in the value of the good by at least 20%. In addition, doctrine has expressed that, to qualify as improvement, this expense should increase the useful life of the asset.

Pursuant to income tax law, improvements are not deductible as expenses in the year of accrual. They would be capitalized and depreciated over the life of the asset.

Tax depreciation may differ from the accounting depreciation used in the financial statements.

3. Depreciation and calculation methods

Methods used	Straight-line is the preferred method, but the other methods can be used if supported by technical reasons.
Frequency	Daily, monthly or annual basis The tax legislation is only specific regarding the tax depreciation calculation for immovable property. For other assets, accounting criteria are followed or even other criteria could be adopted if there are technical reasons that support it. Therefore, tax depreciation could be calculated on a daily, monthly or annual basis, depending on the case.
Year of acquisition	The Income Tax Law (ITL) provides, in the case of immovable property only, that tax depreciation must be calculated on a quarterly basis. As no provisions are stated to calculate the tax depreciation for other assets, accounting criteria or any other criteria according to each case could be adopted. The most important consideration would be to keep homogeneous criteria.
Year of disposal	A balancing charge or allowance may arise to make the accurate adjustments to the capital assets; the residual tax value of the corresponding asset should be deducted from the sale price.
Ability to use different methods for different assets	It is not necessary, but as mentioned, the uniformity of the criteria adopted is preferable. In this regard, different methods may be used for different classes of assets, but within the same group of assets, it is preferable to apply the same method. However, each case should be analyzed on its own merits.
Ability to switch methods	Yes. The methods applied could be changed from one year to another if technical reasons justified the change, but authorization from the tax authorities must be obtained.

4. Preferential and enhanced depreciation availability

Commonly, the introduction of benefits for investments in certain industries is linked with the approval of the Annual Budget Law.

Asset used in	Comment on specific application and benefits available
Production of biofuels, oil and gas exploration, production of electric energy, production of bioethanol, employment of renewable energy sources for the obtainment of electric energy	<p>Law 25,924 states the corresponding quotas of tax depreciation. The use of this benefit is subject to the condition that the asset remains in the equity for three years from the start of its utilization.</p> <p>In addition, Law 27,191 provides accelerated depreciation benefits related to the purchase of new fixed assets or infrastructure services performed to develop projects based on the use of renewable energy sources.</p>
Mining	Law 24,196 provides the corresponding quotas of tax depreciation for each asset. The tax authorities and other corresponding authorities should be informed of the method of tax depreciation adopted.
Forestry	Law 25,080 provides the corresponding quotas of tax depreciation for each asset. In addition, it states that the tax depreciation of each fiscal year should not surpass the income arising from the development of forestry activities.
Production of biotechnology	<p>The accelerated tax depreciation may be performed from the moment the asset starts being utilized.</p> <p>The applicable depreciation rate should be analyzed in each specific case.</p>

5. Accounting for disposals

To make the accurate adjustments to the capital asset, the residual tax value of the corresponding asset should be deducted from the sale price. Please note that if the Argentine assets were revaluated according to the revaluation option, the new tax value of the assets will be considered (please find more details in Section 9).

In case of a disposal of an asset, it is considered the difference between the original cost of the asset and the accumulated tax depreciation.

There are no provisions in the tax legislation for the case that an asset is scrapped because it has no salable value. According to some interpretations, the residual tax value should be deducted in the fiscal year the asset is scrapped. It is furthermore advisable to possess supporting documents to prove the destruction of the assets, e.g., minutes drawn up by a notary public stating the destruction of the asset.

As per the tax treatment of the disposal pursuant to Argentine law, if gains arise from the disposal of a movable asset (by deducting the residual tax value from the sale price), the taxpayer would be subject in principle to pay the income tax. This should be analyzed in each specific case.

6. Making a claim

Deductions corresponding to tax asset depreciations should be claimed within the income tax return.

It is advisable to maintain supporting documents, such as a report with an expert's opinion that may back up the adopted tax depreciation criteria, to be shown to the tax authorities if necessary.

7. Intangible assets

Tax depreciation for purchases of intangible assets would only be available if they involve a right with a determined useful life.

Type of asset	Rates/lives
Trademarks	Will depend on the period of time for which the right of use was granted
Patents, copyright, design, know-how or similar item	Will depend on the period of time for which the right of use was granted
Goodwill	Not deductible
License or permit	Will depend on the period of time for which the right of use was granted

8. Adjustment for inflation

According to the provisions of the ITL, amended by Tax Reform Law 27,430 (hereinafter the Law), the depreciation of assets purchased and investments performed after 1 January 2018 would be adjusted on the basis of the percentage variations of the General Consumer Price Index published by the National Institute of Statistics and Census, according to the criteria to be established by the Tax Authorities. Such adjustment is not applicable to the depreciation of assets acquired or investments performed before 1 January 2018.

Note that according to laws in force, the inflation adjustment for tax purposes would be based on the Consumer Price Index (in Spanish, "Índice de Precios al Consumidor nivel general" or "IPC") and would only be triggered for tax years starting from 2018, 2019 and 2020 if the index exceeds 55%, 30% and 15%, respectively.

9. Tax revaluation

According to the Law, residents may opt to revalue, as an exception, the value of the assets that were affected with the generation of taxable income from Argentina, as from the fiscal period that ends after the entry into force of the Law (i.e., 29 December 2017).

In the event of applying the regime, the new tax value of the assets will be, with the option or choice of the taxpayer, that arising from a valuation carried out by an independent appraiser, or that determined by the application of the "revaluation factor," as established in the Law for each year or period of acquisition or construction of the asset, on the tax values originally determined.

In addition, a special tax will be applied on the difference between the value of all revalued assets and the determined tax value, at the close of the last fiscal period once the law enters into force.

However, taxpayers who opt for the special revaluation regime must resign the promotion of any judicial or administrative process by which they claim, for tax purposes, the application of adjustment procedures of any nature, and to desist from those that they would have started with that purpose.

Please note that the option to revalue the value of the assets has been extended until 2019. The exact date will vary between February and November depending on the fiscal year closing date.

10. Accounting revaluation

In relation to accounting matters, the Law proposes for the entities that must prepare financial statements, the possibility of revaluing the values of the assets recorded in their balance sheets and normalizing their equity. For that purpose, the methods available to practice the tax revaluation may be applied.

Tax depreciation for purchases of intangible assets would only be available if they involve a right with a determined useful life.

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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Capital allowances

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

0%-100%

Depreciation method used to calculate tax deduction

Straight-line/prime cost, double diminishing value (declining) method

1. Entitlement to claim

A taxpayer who “holds” the asset – typically the owner (legal owner or equitable) – may claim depreciation. A taxpayer who “holds” an asset may also be one of the following individuals or entities:

- ▶ A lessee who has the right to use a luxury car
- ▶ A lessor who has the right to recover an asset that is subject to a lease and is fixed to land
- ▶ A partnership asset, if held by the partnership and not the individual partners
- ▶ An entity that has the information can hold mining or prospecting information (mining information is geological, geophysical or technical information that relates to the presence, absence or extent of deposits of minerals in an area, or is likely to help in determining this); different subdivisions may apply
- ▶ Where it is a joint ownership of the assets (but not a partnership), each taxpayer is considered to hold assets jointly, and consequently, each taxpayer’s share of the asset is treated as a separate depreciating asset

Whether an asset (rather than its components) is a depreciating asset is a question of fact and degree, determined in light of all the circumstances. A “functionality test” is usually applied to identify a “unit of plant,” in that the function of the asset need only be separately identifiable, rather than be self-contained or isolated. This means that if assets comprise a number of parts, they may be depreciated separately. A fixture on land, whether removable or not, and any improvements to the land or fixtures are treated as separate depreciating assets.

2. Allocation of tangible assets to tax depreciation lives and rates

The decline in value of a depreciating asset is calculated on the basis of the effective life of the asset. Taxpayers may calculate either their own estimate of the effective life (self-assessed) of a depreciating asset or rely on the Commissioner’s published rates (see below). The choice must be made for the year in which the asset is first used. There are exceptions for which the taxpayer is obliged to work out depreciation using a prescribed statutory rate (e.g., buildings and structural improvements, certain intangible assets, capped-life assets).

Self-assessed effective life

The self-assessed effective life adopted must have regard to the total estimated period the asset can be used by any entity for the purposes of producing income, exploration or prospecting, mining site rehabilitation or environmental protection activities, or conducting R&D activities, depending on the asset’s expected use.

Commissioner’s determination of effective life

The Commissioner regularly publishes recommended effective lives for many depreciating assets that taxpayers may adopt, which can be found at ato.gov.au. The Commissioner’s current effective lives are included in TR2018/4 – income tax: effective life of depreciating assets (applicable from 1 July 2018) – and are generally updated annually. There is also a “statutory cap” to the effective lives of specific assets where the taxpayer has otherwise chosen the effective life determined by the Commissioner.

Australia

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	There is a wide range.	Prime cost (PC)/straight-line or diminishing value (DV)		<p>The rate varies depending upon the industry and the particular asset type. Refer to the tax determination for particular assets.</p> <p>Foundations for plant and machinery (integral to operation, but not incorporated into plant and machinery itself) – 40 years.</p>
Buildings	25 years or 40 years	PC	2.5% or 4%	<p>Buildings and foundations</p> <p>Construction expenditure (and not the acquisition cost) on buildings is typically deductible under the capital works provisions (Division 43).</p> <p>The deduction is at the rate of 2.5% or 4% depending on the date the work begins and the use of the building.</p> <p>Components such as air conditioning systems, lifts and escalators would be considered plant and depreciable at faster rates.</p> <p>Relief under plant, machinery and equipment rules would be available where the plant and building become so integrated that the building is treated as part of the plant. For example, a building would form an integral part of the plant when it is absolutely essential to support the working plant.</p> <p>Where the whole building is plant, concrete foundations or footings in which the uprights of the structure are embedded may also qualify as plant. The cost of excavating foundations may be part of the depreciable cost but not general site preparation.</p> <p>If only part of a building is plant, the cost of the building is apportioned between plant and capital works (Division 43). Indirect construction costs having a link to both the plant and non-plant building components may be allocated in proportion to direct costs.</p>
Improvement of nonresidential buildings	40 years	PC	2.5%	

Australia

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Construction of buildings		PC		
Hotel	25 years		4%	
Industrial	25 years		4%	
Other building (e.g., office premises)	40 years		2.5%	
Furniture, fittings or fixtures	10-50 years	PC/DV		
Computer hardware	4 years	PC/DV		
Computers, generally laptops	2-4 years	PC/DV		
Computer software (includes acquired software)	5 years (4 years for assets first used between 13 May 2008 and July 2015)	PC	In-house: Year 1 = 0% Year 2 = 30% Year 3 = 30% Year 4 = 30% Year 5 = 10% Acquired: prime cost	Expenditures on developing in-house software may be pooled. A separate software development pool must be created for each income year in which expenditure on such software is incurred. In-house software expenditures are those spent on developing software or on a right to use computer software that you acquire, develop or have another entity develop for use in your business. Acquired software must use the prime cost method and be depreciated over five years on a daily basis.
Aircraft – general use	8 or 10 years	PC/DV		If the plane or helicopter is used predominantly for agricultural spraying or agricultural dusting, then capped effective life of 8 years is applied. Otherwise, capped effective life of 10 years may apply.
Transport:		PC/DV		Lives quoted are the current lives set out in the Commissioner's list.
Motor cars (load of less than one tonne and less than nine passengers)	8 years			*Capped effective lives may also apply, depending on the gross vehicle mass (GVM) of the asset.
Buses	15 years (*7.5 years, if carries more than 9 people)			Note: the depreciable cost of motor cars is capped at AUD57,581 per car for the income year of 2018-19. The limit is indexed annually.
Taxis	4 years			
Light commercial	12 years (*7.5 years, may also apply if GVM less than 3.5 tonnes and carries more than 1 tonne)			
Motorcycle	7 years			
Trucks	15 years (*7.5 years if GVM less than 3.5 tonnes, other than certain trucks used in mining operations)			

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Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Car park assets	5-20 years (assets)	PC/DV		Car parks would typically be a structural improvement depreciated under Division 43 (2.5% PC).
Sealed car parks	40 years (buildings)	PC		
Office equipment		PC/DV		Lives quoted are the current lives set out in the Commissioner's list.
Chairs	10 years			
Desks	20 years			
Reception assets	10 years			
Screens	20 years			
Tables	10 years			
Workstations	20 years			
Printer/copier	5 years			
Whiteboards	10 years			
Land improvements	Varies depending on the types of improvements made	PC/DV		A land improvement can be a separate depreciating asset, depreciable over its effective life. Some land improvements may merely form part of the non-depreciable cost of the land.
Agricultural machinery and equipment	3-40 years	PC/DV		Effective life largely depends on the asset type and the agricultural sector where it is used.
Property used in R&D	N/A	N/A		Effective lives as noted above apply.

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land is specifically not depreciable. Any gain or loss is only recognized on disposal. Fixtures or land improvements may be depreciable.
Trading stock	This is specifically not depreciable for Australian tax purposes.
Goodwill	This is not depreciable for Australian tax purposes. Any gain or loss is recognized on disposal.
Telecommunications	Expenditures incurred on rights to use an international telecommunication system before 22 September 1999 and domestic telecommunication systems before 12 May 2004 do not qualify as being a depreciating asset. Therefore, any decline in value attributable to such expenditure was not deductible under the capital allowance provisions. In certain circumstances, a deduction may have been available for such expenditures under other provisions contained in the Tax Acts. This would be factually specific to the circumstances. Expenditures on rights to use international and domestic telecommunication systems incurred on and after these dates are intangible depreciating assets, and a depreciation deduction should be available for their decline in value.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Amounts paid to buy or create an asset (labor and materials) or to bring the asset to its current location and conditions are capitalized to the cost of the asset. This can include the following costs: incidental (stamp duty), site preparation, professional fees and testing asset functionality.

Land remediation, dismantling, restoration

When an entity uses an asset, it may incur a contractual, statutory or constructive obligation to dismantle and remove the item or restore the site to minimum standards at the end of an asset's life. These costs may only be deducted in the period when incurred, and not merely when the liability is provided for.

Own labor capitalized – work on developing software, for example, or carrying out work on property

Employee costs in relation to initial acquisition (including installation and construction) of an asset are generally capitalized. All other ongoing salaries are expensed if these are "revenue" in nature.

2.4 Availability of immediate deductions

In certain circumstances an expenditure that is capital in nature may be immediately deductible (see table below for qualifying expenditures).

Description	Detail
Assets below a certain value	<p>An immediate 100% deduction applies for depreciating assets costing AUD300 or less, subject to satisfying all the following conditions:</p> <ul style="list-style-type: none"> ▶ The asset was not part of a set of assets where the total cost exceeded AUD300. ▶ The total cost of the asset and any identical item started to be held in that year did not exceed AUD300. ▶ The asset was used for producing assessable income that is not income from carrying on a business. <p>For example, minor assets used to derive salaries and wages may be immediately deductible.</p> <p>In practice, the Australian Tax Office (ATO) also accepts that assets acquired by a business with a cost less than \$100, which have not been included in the asset register, to be revenue in nature and immediately deductible (as set out in PS LA 2003/8).</p>
Repairs	Repairs and maintenance of a non-capital nature are deducted as incurred.
Environmental protection activities (EPA)	An immediate deduction can be claimed for expenditures incurred for the sole or dominant purpose of carrying on EPA. These are activities undertaken to prevent, fight or remedy pollution or to treat, clean up, remove and store waste from earning activities.
Land care operations	The deduction is available as long as the land is used for either a primary production business or for carrying on a business for a taxable purpose from the use of rural land. The deduction may be claimed even when the taxpayer is the lessee of the land.
Exploring or prospecting	Capital expenditures for exploring or prospecting for minerals are immediately deductible. Note: the costs of mining rights and information acquired from a nongovernment third party are not immediately deductible but may be deducted over the shorter of 15 years or the life of the mine/permit.

An immediate deduction can be claimed for repairs to machinery, tools or premises used to produce assessable business income, provided the expenses are not capital in nature.

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“Repairs” is not defined but adopts its ordinary meaning. Taxation Ruling TR 97/23 discusses the meaning of “repair” and considers that repairs remedy or make good of defects. A repair involves restoration of the efficiency of function of the asset without changing its character. A repair merely replaces a part of something or corrects something that is already there and has become worn out or dilapidated. The treatment of repairs could be different for accounting and tax purposes.

The work may go beyond “repairs” if it (a) changes the character of the property or (b) does more than restore its efficiency of function.

An expenditure is considered capital where the expenditure is for work that is a renewal or reconstruction of the entirety of the asset. Here, “entirety” means that the asset is identified separately as a principal item of capital equipment or that it is an integral part, but only a part, of the entire premises and is capable of providing a useful function without regard to any other part of the premises or that it is a separate and distinct item of plant in itself from the thing or structure that it serves.

Small-business concessions

Small-businesses can access a range of concessions including payment and reporting options. From 1 July 2016, a small business tax concession is available to all businesses with turnover less than AUD10 million. This applies to sole traders, partnerships, companies or trusts.

Small-business concessions include simplified depreciation rules, as described below; accelerated depreciation for primary producers; deductions for professional expenses for startups; immediate deductions for prepaid expenses; lower company tax rate; simplified trading stock rules; and others.

An immediate write-off is available for depreciating assets costing less than AUD1,000 (low-cost assets) (this was reduced from AUD6,500, effective 1 January 2014) for small businesses. An immediate write-off is also available for assets acquired for less than AUD20,000 and installed ready for use after 7:30 p.m. (AEST) on 12 May 2015 and up until the end of 30 June 2019. Small businesses may also be eligible for other concessions. The Government announced on 29 January 2018 the intention to increase the threshold to AUD25,000 and extend this concession to 30 June 2020.

Simple pooling facility is available for other depreciating assets costing more than AUD1,000 (AUD20,000 for assets acquired 12 May 2015 through 30 June 2019). Buildings are specifically excluded from the pooling arrangements unless they would qualify for deduction under Division 40. The value of the pool is depreciated at a rate of 15% in the first year and then at 30% per year thereafter.

3. Depreciation and calculation methods

Methods used	Straight-line/prime cost, double diminishing value (declining) method
Frequency	Annually An annual calculation is required based on the days held and used. For example, diminishing value is calculated as opening written-down value (WDV) x (days held/365) x (2/effective life).
Year of acquisition	Where a depreciating asset is held and used for only part of the income year, the decline in value is calculated based on the number of days the asset is held and used or installed ready for use – i.e., cost x (days held/365).
Year of disposal	Assets continue to depreciate until disposal. When the asset is disposed of, any gain (or loss) on disposal is treated as assessable (or deductible).
Ability to use different methods for different assets	The choice of method is exercised on an asset-by-asset basis, and a different method can be used by identical assets.
Ability to switch methods	The choice of method for a particular asset applies for that income year and all later years in which the taxpayer claims a deduction in decline in value of that asset.

Taxpayers may use either of two methods to calculate the decline in value of a depreciating asset: **prime cost (straight-line)** or the **diminishing value (double diminishing)** method. The choice must be made before submitting the income tax return for the income year to which the choice relates. The choice is deemed to have been made from the taxpayer's capital allowances disclosures within the income tax return.

The choice is exercised on an asset-by-asset basis. The choice of straight-line or double diminishing cannot be changed once the choice is made (i.e., after submitting the income tax return for a particular year).

For a limited number of assets, however, no choice of method is available, and the taxpayer must use the prime cost method. This includes intangible depreciating assets, such as in-house software, intellectual property (IP), spectrum licenses and data-casting transmitter licenses.

Changing effective life

A taxpayer may choose to recalculate the effective life of a depreciating asset if the nature of use of the asset changes and those changed circumstances make the current estimate inaccurate. A taxpayer can only make a new estimate of the effective life after the end of the income year in which the taxpayer first started to use the asset.

A taxpayer is required to recalculate the effective life of a depreciating asset if:

- ▶ The asset's cost increases by at least 10% in an income year.
- ▶ The taxpayer either has self-assessed the effective life or has used the Commissioner's determination of effective life and adopted the straight-line method.

4. Preferential and enhanced depreciation availability

Tax depreciation method	Comment on specific application and benefits available
Primary producers	<p>A primary production business includes, <i>inter alia</i>, (a) cultivating plants, fungi seeds, etc.; (b) maintaining animals for sale; (c) manufacturing dairy produce from raw material produced; (d) catching fish, mollusks, etc.; (e) culturing pearls; (f) planting or tending trees; (g) felling trees; and (h) transporting trees.</p> <p>Primary producers may be entitled to concessional depreciation deductions:</p> <ul style="list-style-type: none"> ▶ Annual deductions over 10 years for the cost of telephone lines ▶ Accelerated write-off for new horticultural plants and grapevines ▶ Three-year write-off for expenditure on water facilities ▶ Outright deduction for land-care operations ▶ Special deduction for timber depletion and other timber industry concessions <p>Primary producers are entitled to immediately deduct the cost of fencing (except for stockyard, pen and portable fence) and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills incurred from 7:30 p.m. (AEST) on 12 May 2015.</p>
Exploration or prospecting expenditure	<p>Capital expenditure on exploration or prospecting for minerals (including petroleum) or quarry materials obtainable by "mining or quarrying operations" is deductible in the year in which it is incurred. Examples include transport, materials, labor and administrative costs incurred in carrying out exploration or prospecting activities.</p> <p>The cost of depreciating assets that are first used for exploration purposes is also immediately deductible (excluding the costs of mining rights and information acquired from a nongovernment third party).</p>

Australia

Tax depreciation method	Comment on specific application and benefits available
Project pools	<p>Certain mining project expenditures and transport expenditures or other capital project expenditures may be deductible over the estimated life of the project (called "project amounts"). The deduction is not limited to expenditures relating to mining projects and can include certain costs of infrastructure projects.</p> <p>Project amounts only include a capital expenditure that is not otherwise deductible and does not form part of the cost of a depreciating asset held by the taxpayer. That is, this covers those capital amounts that may not otherwise be deductible.</p> <p>Project amounts that are not mining capital expenditures and transport capital expenditures may also be deductible. Cost must be directly connected with a project and must be one of the following types of expenditures:</p> <ul style="list-style-type: none"> ▸ An amount to create or upgrade community facilities associated with the project ▸ An amount for site preparation costs for a depreciating asset ▸ An amount for feasibility studies for the project ▸ An amount for environmental assessments for the project ▸ An amount incurred to obtain information associated with the project ▸ An amount incurred to obtain a right to intellectual property ▸ An amount incurred for ornamental trees or shrubs <p>These amounts are deductible on a double diminishing value basis over the life of the project.</p>
Site rehabilitation expenditure	<p>An immediate deduction is available for current and capital expenditures on the rehabilitation of sites that have been used for "mining, quarrying or petroleum operations" (including exploration activities).</p> <p>"Rehabilitation" involves the restoration of the site to a reasonable approximation of its "pre-mining condition."</p> <p>An immediate write-off of capital expenditures incurred on "environmental protection activities" is also available for a broader range of expenditures (e.g., a preventive expenditure) than under the mine site rehabilitation measures.</p>
Environmental protection	<p>An expenditure, whether capital or revenue, that is incurred for the sole or dominant purpose of carrying on an environmental protection activity is deductible in the income year in which it was incurred. This immediate deduction is not available if environmental protection is only a residual or subsidiary purpose.</p>
Carbon sink forests	<p>An immediate deduction is available for capital expenditures on establishing trees in carbon sink forests in the 2007-08 income year and in later income years up to and including the 2011-12 income year.</p> <p>From 1 July 2012, a deduction may be claimed for a period of 14 years and 105 days at a write-off rate of 7%. The deduction is only available if the following conditions are met:</p> <ul style="list-style-type: none"> ▸ The primary and principal purpose for establishing the trees is carbon sequestration by the trees. ▸ The expenditure is not incurred under a managed investment scheme (MIS). ▸ The trees meet certain forest characteristics and adhere to certain environmental resource management guidelines.

5. Deductions for assets used in R&D

To encourage companies to conduct R&D activities in Australia, an entity is entitled to a tax offset, referred to as the “R&D tax incentive” for eligible R&D expenditures from 1 July 2011. The entity must satisfy both the R&D tax and depreciating assets provisions to obtain concessional deductions for assets which are used for conducting R&D activities.

For eligible activities, an entity may claim one of the following two types of R&D tax offsets:

1. If the R&D entity's aggregated turnover for the income year is **less than \$20 million**, the entity will be entitled to the **refundable tax offset** (currently at **43.5%**, resulting in a net uplift of up to 16% from the standard deductions).
2. If the R&D entity's aggregated turnover for the income year is **equal to or exceeds \$20 million**, the R&D entity will be entitled to a **nonrefundable tax offset** (currently at **38.5%**, resulting in a net uplift of up to 8.5% from the standard deductions). This may be used to reduce the current year tax liability or carried forward and utilized in a future income year.

The offset for notional R&D deductions is capped at AUD100 million.

To the extent the R&D tax offset is claimed in relation to depreciating assets used in R&D activities, a taxpayer may not be able to claim tax depreciation on these same assets.

6. Accounting for disposals

When a depreciable asset is disposed of, a “balancing adjustment event” occurs. The difference between the asset's tax written-down value on the date of disposal (i.e., cost less accumulated depreciation) and any proceeds received on disposal is recognized as assessable income or a deductible expense (as a revenue deduction). No additional tax deduction is claimed after the disposal. The proceeds received may be deemed to be equal to the market value of the asset at that time.

If an asset is scrapped, then provided a taxpayer stops using it, or having it installed ready for use, and the taxpayer expects to never use it again, this may give rise to a balancing adjustment event.

7. Making a claim

A claim for depreciation is made in the income tax return. The tax system is a self-assessment, where minimal disclosures are required in the income tax return for capital allowances. For the 30 June 2019 income year, these include tax depreciation disclosures, adjustable values of depreciating assets, information on disposal of depreciating assets and termination value of depreciating assets.

Record-keeping requirements

A taxpayer must keep the following information for a depreciating asset:

- ▶ The first¹ and second element of cost²
- ▶ The opening adjustable value for the income year
- ▶ Any adjustments made to cost or adjustable value

¹ The first element of cost is generally the amount paid to hold the asset. Market value substitution rules or other “deeming rules” may also apply.

² The second element of cost is amounts incurred after starting to hold the asset to bringing the asset to its present condition and location (e.g., capital improvements) and expenditures incurred that are reasonably attributable to the asset when a taxpayer stops holding this asset or will never use it again.

- ▶ The date the taxpayer started to hold the asset
- ▶ The rate or effective life used to work out the decline in value and any reduction for use of the asset for nontaxable purposes
- ▶ The adjustable value at the end of the income year
- ▶ Any recoupment of cost included in assessable income
- ▶ If a balancing adjustment event occurs, e.g., a disposal or scrapping, the date of the balancing adjustment event, termination value (i.e., proceeds), adjustable value at that time, the balancing adjustment amount, any reduction of the balancing adjustment amount and details of any rollover or balancing adjustment relief

The following must also be kept:

- ▶ Details of how the effective life of a depreciating asset was worked out if the Commissioner's effective life was not adopted
- ▶ If the taxpayer has recalculated the effective life of an asset, the income year of the recalculation, the recalculated effective life, the reason for the recalculation and details of how the recalculated life was worked out
- ▶ Original documents such as suppliers' invoices and receipts for expenditure on the depreciating asset

These documents are not required to be submitted to the ATO but must be retained for five years.

8. Intangible assets

Intellectual property (IP)

Depreciating assets include items of IP, such as a patent, a registered design or a copyright (or as licensee of any of these items). Trademarks are not depreciating assets.

The decline in value of such items is calculated over the statutory effective life using the prime cost method (refer to below).

Computer software

In-house software is computer software, or a right to use computer software, that is acquired or developed mainly for use in performing the functions for which it was developed. The expenditure on in-house software will be deducted in the following ways:

- ▶ The decline in value of acquired in-house software is determined using an effective life of five years (apply to expenditures incurred on or after 1 July 2015) and the prime cost method.
- ▶ An expenditure incurred in developing in-house software may be allocated to a software development pool (see below).
- ▶ If the above expenditure is not pooled, it can be capitalized into the cost of a resulting unit of in-house software, and its decline in value is determined using an effective life of five years and the prime cost method.

Software development pool

A taxpayer may choose to allocate to a software development pool expenditure incurred on developing in-house software if its intended use is strictly for a taxable purpose. Once an expenditure is allocated to a pool, all such expenditures in that year or a later year must be allocated to a software development pool. A deduction for an expenditure in a software development pool is not claimed in the income year in which it is incurred. Rather, a deduction is allowed at a 30% rate in each of the following three years and 10% in the final year (year five) (for expenditures incurred from 1 July 2015).

Other intangible assets

Type of asset	Rates/lives
Standard patent	20 years
Innovation patent	8 years
Petty patent	6 years
Registered design	15 years
Copyright (other than film copyright)	Shorter of 25 years from the acquisition of copyright or the period until copyright ends
License (not relating to copyright or in-house software)	License term
License relating to copyright (except film copyright)	Fewer than 25 years from when taxpayer became licensee, and the period until license ends
In-house software	5 years (from 1 July 2015)
Spectrum license	License term
Data-casting transmitter license	15 years
Telecommunications site access right	Term of the right

A film copyright (acquired on or after 1 July 2004) is specifically excluded from general treatment for ordinary copyright, and deductions for its decline in value are available on the basis of effective life, using either prime cost or diminishing value.

The effective life of an indefeasible right to use a telecommunications cable system is the effective life of the cable over which the right is granted. The taxpayer may self-assess such effective life, or the Commissioner can determine this.

An intangible asset (other than a copyright, a license related to a copyright and in-house software) acquired from a former holder of the asset is depreciable over the remaining number of years that are yet to elapse at the start of the year when the asset was acquired.

Effective life of intangible depreciating assets: mining, quarrying or prospecting rights

Type of asset	Rates/lives
A mining, quarrying or prospecting right relating to mining operations (except for obtaining petroleum or quarry materials)	The life of the mine or proposed mine or, if there is more than one, the life of the mine that has the longest life
A mining, quarrying or prospecting right relating to mining operations to obtain petroleum	The life of the petroleum field or proposed petroleum field, or, if there is more than one, the life of the petroleum field that has the longest life
A mining, quarrying or prospecting right relating to mining operations to obtain quarry materials	The life of the quarry or proposed quarry or, if there is more than one, the life of the quarry that has the longest estimated life

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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

4%-100%

Depreciation method used to calculate tax deduction

Straight-line method

1. Entitlement to claim

The taxpayer that owns and uses fixed assets is entitled to claim depreciation costs (proof of ownership, possession or effective use of the assets may be required).

2. Allocation of tangible assets to tax depreciation lives and rates

Segregation of assets is mandatory to control the depreciation individually, as different assets may have different rates, and taxpayers need to demonstrate that no asset has been overdepreciated (i.e., exceeding its purchase value).

The Brazilian Internal Revenue Service (IRS) is the authority responsible for publishing the useful life and the depreciation rates accepted for tax purposes. For accounting purposes, there is no consolidated table of assets and correspondent useful life; thus, it varies by industry.

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment (general)	10 years	Annual	10%	The rate of depreciation may vary according to details and the Brazilian IRS ruling. The depreciation rate varies by industry. 3, 4, 5 or 10 years; 10%, 20%, 25% or 33%.
Automobiles	5 years	Annual	20%	The rate of depreciation may vary according to details and the Brazilian IRS ruling. The depreciation rate varies by industry. 4 or 5 years; 20% or 25%.
Buildings	25 years	Annual	4%	
Furniture, fittings or fixtures (general)	10 years	Annual	10%	The rate of depreciation may vary according to details and the Brazilian IRS ruling. The depreciation rate varies by industry. 5, 10 or 25 years; 4%, 10% or 20%.
Computer hardware	5 years	Annual	20%	
Computer software	5 years	Annual	20%	
Aircraft	10 years	Annual	10%	

Brazil

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Transportation other than automobiles or aircraft				The rate of depreciation may vary according to details of the asset and the Brazilian IRS rules. Depreciation will only be permitted if the asset is related to production or commercialization of goods and services. The depreciation rate varies by industry. 4, 5, 10 or 20 years; 5%, 10%, 20% or 25%.
Car parks				Parking buildings may apply for depreciation according to general building depreciation rules.
Office equipment (including office furniture and fixtures)	10 years	Annual	10%	
Qualified improvements in leasehold properties	1 year or more/less than 1 year	May vary	May vary	Improvements that enhance the useful life of the property in more than one year may be depreciated with the remaining value of the asset. Improvements that do not enhance the useful life in more than one year must be recognized as an expenditure in the period. Improvements in leasehold properties may be amortized if related to the manufacturing or commercialization of goods and services. The amortization rate varies as per the remaining years of the right or according to the period in which they will be enjoyed, if related to an intangible asset.
Machinery and equipment used for agricultural purposes	1 year	Annual	100%	Assets may be depreciated at 100% annual rate (accelerated depreciation).
Property used in R&D	No specific rate for R&D	No specific rate for R&D; it follows the regular asset depreciation.	No specific rate for R&D; it follows the regular asset depreciation.	Assets must be depreciated separately and might be subject to accelerated depreciation as a tax incentive in the first fiscal year.

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Long-term investment
Buildings rented or used for purposes other than manufacturing or commercialization of goods and services	Not an operational asset
Assets whose value usually increases over time (e.g., art/antiques)	Not an operational asset
Assets to which exhaustion quote applies	Exhaustion has the same tax and accounting impacts as depreciation. Exhaustion quotes are specific to the mining and forest assets' useful life, as these resources are exhausted, not depreciated. Although it is a different terminology, the principle is the same.

2.3 Noteworthy items

Pre-operational costs

Pre-operational costs and expenses must integrate into fixed-asset or intangible costs. If not related to fixed assets or intangibles, they must be written off as an expense. Intangibles might be subject to amortization.

Pre-operational expenditures, such as training programs, administrative and sales, cannot integrate into the value of intangibles; thus, they must be written off as expenses.

Leased assets

According to IRS Ordinance 1.700/2017, the deduction of depreciation, amortization, exhaustion and financial expenses generated for leased assets is prohibited for corporate income tax purposes.

However, any consideration paid or credited under the leasing contract may be deducted on the computation of corporate income tax.

Land remediation – removing asbestos

Depending on the specifics of the situation, the corresponding costs can be integrated to the fixed asset or written off as an expense.

Labor costs applied to software design

If the company is a service provider and develops specific software to improve the performance of its services, the corresponding labor costs can be integrated to the intangible value. Intangibles might be subject to amortization.

Other relevant matters

Repairs or improvements that do not enhance the useful life of an asset in more than one year must be written off as expenses in the same fiscal year.

Tax depreciation can differ from the accounting depreciation of the financial statements while not imposing restrictions. However, taxpayers might opt to use accounting over tax depreciation, if it is more tax beneficial.

2.4 Availability of immediate deductions for repairs

For tax purposes, it is possible to depreciate the following assets in the same year of acquisition:

- Fixed assets used in agricultural activity
- New machinery, equipment, apparatus and instruments used solely in activities of technological research and development (R&D incentive)

3. Depreciation and calculation methods

Methods used	The method referred to in tax legislation is the straight-line method. Nevertheless, there are different tax rates (not methods) related to specific regulations or based on expert reports (e.g., accelerated depreciation of machinery and industrial equipment used in two or three shifts).
Frequency	The depreciation rate is set on an annual basis. However, tax depreciation is calculated on a monthly basis.
Year of acquisition	The depreciation rate is calculated upon the acquisition date. However, if the asset is assembled and installed after the beginning of the tax year, the depreciation rate is apportioned to the remaining months of the tax year.
Year of disposal	N/A
Ability to use different methods for different assets	Both tax and accounting methods apply to different types of assets. For tax purposes, there must be an expert's report to support the case to use different depreciation rates from the ones set forth in the tax regulation. There are different methods only for accounting purposes.
Ability to switch methods	There are no different methods for tax purposes. Different rates may apply if there is an expert's report to validate the use of machinery and industrial equipment in two or three shifts (accelerated depreciation).

4. Preferential and enhanced depreciation availability

There are two kinds of accelerated depreciation set forth by tax law:

- ▶ Related to machinery and industrial equipment used in two or three daily production shifts
- ▶ Accelerated depreciation for very specific machinery, equipment and vehicles set forth by tax law

Specific legislation has created certain tax benefits related to accelerated depreciation for very specific years, regions and types of equipment.

Tax depreciation method	Comment on specific application and benefits available
Straight-line and accelerated depreciation	Agricultural machinery
Straight-line and accelerated depreciation	R&D – new machinery, equipment, apparatus and instruments, used solely for activities of technological research and development (R&D incentive)
Straight-line and accelerated depreciation	Fixed assets acquired or constructed by companies (e.g., public concessions)
Straight-line and accelerated depreciation	Vehicles for the transportation of goods, wagons and locomotives

5. Accounting for disposals

The residual value (i.e., the difference between the original cost of the asset and its depreciation) of an asset that is disposed must be considered to determine the capital gain. If the asset's sale price is higher than the residual amount, the capital gain is subject to corporate income tax. However, if it results in a capital loss, it is treated as a deductible expense for corporate income tax purposes.

Supporting documentation is necessary to prove the disposal of the asset (e.g., minutes drawn up by a notary public office).

6. Making a claim

Tax deductions corresponding to asset depreciation should be claimed when filing the income tax return.

Companies are required to keep supporting documentation to prove that the tax depreciation calculation is being done properly and separately by asset.

7. Intangible assets

Intangible assets are subject to amortization. There is specific legislation for every kind of intangible asset, such as goodwill, trademarks and licenses. The amortization rates of trademarks and licenses are related to the contracts/rights duration.

Goodwill is no longer subject to accounting amortization.

Type of asset	Rates/lives
Trademarks	Contingent on the contract/right duration
Patents, copyrights, design, know-how or similar items	Contingent on the contract/right duration
Goodwill	In-house goodwill is not deductible for tax purposes
Licenses or permits	Contingent on the contract/right duration
Other (please provide details)	N/A

The deductive expenditure of amortization is related to the contract period. Additionally, in-house trademarks, patents and copyrights are not deductible.

Canada



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Capital cost allowance (CCA)

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

4%-100%

Depreciation method used to calculate tax deduction

Declining-balance, straight-line

Note: the 21 November 2018 Federal Economic Update proposes to implement wide-ranging changes to tax depreciation rules in Canada for most classes of assets acquired on or after this date and through the end of 2027.

1. Entitlement to claim

Corporate and personal taxpayers, as well as partnerships that generate business or property income, are entitled to claim the CCA.

2. Allocation of tangible assets to tax depreciation lives and rates

Details and descriptions of various CCA classes (including applicable declining-balance depreciation rate or straight-line depreciation life) and the properties that qualify for them are listed in Schedule II of the Income Tax Regulations (Canada). Assets that are purchased solely in support of equipment may be considered part of that equipment and classified as such (e.g., heating, ventilation and air conditioning (HVAC); plumbing; electrical). This is not required but typically results in significantly more advantageous depreciation rates for the particular assets. In manufacturing and processing (M&P) situations, costs specifically related to the M&P activities and processes may be classified separately from the building.

New 2018 Federal Economic Update – tax depreciation/CCA measures

On 21 November 2018, Canada's Department of Finance introduced the Fall Economic Statement with three key CCA measures:

(1) *Full expensing for manufacturing and processing machinery and equipment*

The 2018 Fall Economic Statement proposes to allow for full expensing of M&P machinery and equipment by providing an enhanced first-year allowance for M&P machinery and equipment acquired after 20 November 2018 that becomes available for use before 2028. The enhanced first-year allowance will provide taxpayers with an immediate write-off of the full cost of M&P machinery and equipment if the property becomes available for use before 2024 (the half year-rule, discussed below, will not apply). The enhanced first-year allowance will be phased out as follows:

- For property that becomes available for use in 2024 and 2025, the enhanced first-year allowance is reduced to 75% of the cost of the M&P machinery and equipment.
- For property that becomes available for use in 2026 and 2027, the enhanced first-year allowance is reduced to 55% of the cost of the M&P machinery and equipment.

The enhanced first-year allowance is completely eliminated for property that becomes available for use after 2027. M&P machinery and equipment that becomes available for use after 2027 will be included in Class 43 and subject to a 30% CCA rate (subject to the half-year rule discussed below).

(2) *Full expensing for clean energy equipment*

The 2018 Fall Economic Statement proposes to allow for full expensing of clean energy equipment included in Class 43.1 or 43.2 on a temporary basis. As with the proposed rules for M&P machinery and equipment, these proposed rules provide an enhanced first-year allowance for clean energy equipment acquired after 20 November 2018 that becomes available for use before 2028. The enhanced first-year allowance will provide taxpayers with an immediate write-off of the full cost of clean energy equipment if that property becomes available for use before 2024 (the half-year rule, discussed below, will not apply). The enhanced first-year allowance will then be phased out in the same manner described above for M&P machinery and equipment.

Clean energy equipment that becomes available for use after 2027 will be included in Class 43.1 and subject to a 30% CCA rate.

(3) *Accelerated investment incentive (applies to most other properties including buildings)*

For essentially any property that is subject to the existing tax depreciation/CCA rules, excluding property subject to the full expensing measures discussed above, the 2018 Fall Economic Statement introduces an accelerated investment incentive to write off a larger share of the costs of newly acquired assets in the year the investment is made or the year the asset becomes available for use.

Canada

In general, the accelerated investment incentive has two elements:

- ▶ A 50% increase of the net capital cost addition to a class in respect of property acquired after 20 November 2018 that becomes available for use before 2024
- ▶ The suspension of the existing CCA half-year rule (discussed below) in respect of property acquired after 20 November 2018 that becomes available for use before 2028

Property that is eligible for this additional first-year allowance will be eligible for CCA of 150% of the standard CCA rate or deduction in the year that the property becomes available for use if acquired after 20 November 2018 and available for use before 2024. Properties acquired after 2023 and before 2028 will be eligible for 100% of the standard CCA rate or deduction in the year that the property becomes available for use.

This first-year enhanced allowance is not available where:

- ▶ The property was previously owned or acquired (before 21 November 2018) by the taxpayer or a person or partnership with which the taxpayer did not deal at arm's length
- ▶ The property was transferred to the taxpayer on a tax-deferred rollover basis

Overall, the new tax depreciation/CCA measures significantly accelerate tax depreciation in the first year of asset ownership; at the same time, other eligibility requirements for the asset class remain the same. If a property eligible for this proposed accelerated investment incentive is available for use in a short taxation year (see Section 3 for further details), the additional CCA claim will be calculated in accordance with the short taxation year rules and no further incentive is available for this property in future taxation years.

2.1 Assets that qualify for tax depreciation. Note: the applicable tax depreciation rates identified in the table below are the regular rates before considering the Federal Economic Update measures above.

Asset type	Useful life for tax	Type of tax depreciation method	First year tax depreciation rate under Federal Economic Update	Applicable tax depreciation rate – regular rate before Federal Economic Update	Comments
Plant, machinery and equipment (PME)	N/A	Declining-balance (DB)	30% DB – Class 8 (general equipment) 100% – Class 53 (M&P equipment)	Various – see comments	There are many CCA classes for PME, the most common of which are Class 8 (general equipment – 20% DB CCA rate) and Class 53 (M&P equipment – 50% DB CCA rate)
Automobiles	N/A	DB	45%	30%	Luxury passenger vehicles (those that cost more than CAD30,000 and are not used more than 90% for business) are limited to a maximum CAD30,000 addition to CCA Class 10.1 and must be placed in a separate class for each asset. Passenger vehicles costing less than CAD30,000 or used more than 90% for business are recorded in one class and depreciated at a rate of 30%.

Canada

Asset type	Useful life for tax	Type of tax depreciation method	First year tax depreciation rate under Federal Economic Update	Applicable tax depreciation rate – regular rate before Federal Economic Update	Comments
Buildings	N/A	DB	6%/9%/15%	4%/6%/10%	Buildings initially qualify for 4% DB CCA rate. Buildings with more than 90% nonresidential usage (by square footage) are depreciated at a 6% DB CCA rate; buildings with more than 90% M&P usage (by square footage) are depreciated at a 10% DB CCA rate. Corrugated metal buildings with no footings or base support below ground level are depreciated at a 10% DB CCA rate.
Furniture, fittings	N/A	DB	30%	20%	
Computer hardware	N/A	DB	82.5%	55%	
Computer software	N/A	DB	100%	55%/100% (half-year rule)	System software is depreciated at a 55% DB CCA rate. Application software is depreciated at a 100% DB CCA rate, but half-year rule is applicable (see later).
Aircraft	N/A	DB	37.5%	25%	Includes furniture and fittings attached to aircraft
Transport other than automobiles	N/A	DB	45% – general automotive equipment 60% – tractors for hauling freight	Various	Most automotive equipment is depreciated at a 30% DB CCA rate. Tractors designed for hauling freight are 40% DB CCA rate.
Car parking lots	N/A	DB	12%	8%	Surface-constructed parking lots are depreciated at an 8% DB CCA rate.
Office equipment (including office furniture and fixtures)	N/A	DB	30%	20%	
Land improvements	N/A	DB or immediate deduction	Various DB rates or expense	Various DB rates or expense	Landscaping is immediately deductible in the year incurred. Other land improvements incurred because of the installation of another asset (parking lot drainage, drainage for building, utility service trenching, etc.) would follow the classification of the asset that required the land improvement to be incurred.

Canada

Asset type	Useful life for tax	Type of tax depreciation method	First year tax depreciation rate under Federal Economic Update	Applicable tax depreciation rate – regular rate before Federal Economic Update	Comments
Qualified leasehold improvement property	Initial lease term plus first renewal period/option	Straight-line (SL) depreciation method	150% of standard straight-line depreciation	Initial lease term plus one renewal period	This applies to leasehold improvement costs incurred by a tenant.
Agricultural machinery and equipment	N/A	DB	30%/45%	20%/30%	Automotive agricultural equipment is 30% CCA rate. Most other equipment will be considered general equipment and have a 20% CCA rate.
Property used in R&D	N/A	DB or SL	Various	Various	No special rules apply for R&D equipment. Equipment type will dictate depreciation rate. If R&D activity supports M&P, the R&D property could be considered M&P property. Other equipment would follow classifications set out above.

2.2 Assets that do not qualify for tax depreciation

Type of asset	Explanation
Land	Land does not qualify, as it is not depreciable property. See also land improvements above.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

These fees are generally considered to be included in the capital cost of an asset put into use. If they relate to more than one asset, they would be allocated among the properties.

Land remediation – removing asbestos, Japanese knotweed

No specific treatment for these items is given in legislation. See general principles set out in the repair discussion below. If a taxpayer has owned land for a period of time and discovers it has become contaminated, and the taxpayer remediates the land (restoring it to its original “clean” state), the related remediation costs would be deductible. If the taxpayer acquires land that was already contaminated (known or unknown to the taxpayer) and he or she remediates the land, the related costs would be added to the cost of the property/land.

Own labor capitalized – work on developing software, for example, or carrying out work on property

When a taxpayer manufactures or produces a property for his or her own use, the capital cost of the property includes material, labor and overhead costs reasonably attributable to the property. The capital cost excludes any profit that might have been earned if the property had been sold.

2.4 Availability of immediate deductions

Description	Detail
Chinaware, cutlery or other tableware	100% DB CCA rate (not subject to half-year rule)
Kitchenware utensils costing less than CAD500	100% DB CCA rate (not subject to half-year rule)
Medical or dental instruments costing less than CAD500	100% DB CCA rate (not subject to half-year rule)
Linens	100% DB CCA rate (not subject to half-year rule)
Tools costing less than CAD500	100% DB CCA rate (not subject to half-year rule)
Uniforms	100% DB CCA rate (not subject to half-year rule)
Apparel or costumes used for the purpose of earning income	100% DB CCA rate (not subject to half-year rule)
M&P machinery and equipment acquired after 20 November 2018 and available for use before 2024 [proposed]	100% CCA rate in the year of acquisition (not subject to half-year rule)
Clean energy equipment in Class 43.1 or 43.2 acquired after 20 November 2018 and available for use before 2024 [proposed]	100% CCA rate in the year of acquisition (not subject to half-year rule)
Application software acquired before 2028 [proposed]	100% CCA rate in the year of acquisition (not subject to half-year rule)
Repairs and maintenance expenditures	Repairs and maintenance expenditures that restore an asset to its original condition and do not create an enduring benefit to the taxpayer – replacing a component part of a larger asset, etc. – can be immediately deductible for tax purposes.

No legislation details what a repair is; however, this has been addressed through much case law. There are also administrative positions that have been published by the Canada Revenue Agency (CRA). The courts have held that the determination of capital vs. expense is based on ordinary commercial principles and must be evaluated on a case-by-case basis. CRA's administrative guidelines with respect to the determination of what constitutes a capital or current (repair) expenditure are indicated in the following key factors/criteria:

- ▶ Enduring benefit – does the expenditure bring into existence an asset or advantage?
- ▶ Maintenance or betterment – does it result in more than the restoration of an asset to its original condition?
- ▶ Integral part or separate asset – is the expenditure a repair or an acquisition of a separate asset?

The CRA guidelines/administrative position have been developed from the extensive body of case law that addresses whether an expenditure is on account of capital or an immediately deductible repair.

There are different guidelines/criteria for repairs and maintenance for tax purposes (based on case law principles) and accounting purposes (based on accounting standards). Any differences are reconciled in the calculation of taxable income for a period. Case law also indicates that when evaluating an expenditure as capital or current in nature for tax purposes, the accounting treatment can be looked to as an interpretive aid and no more.

If a business adopts a capitalization threshold, such as an asset below CAD1,000, it will be expensed for accounting purposes. CRA would typically accept this practice for tax purposes provided it is aligned with the accounting treatment.

3. Depreciation and calculation methods

Methods used	Declining-balance, straight-line
Frequency	<p>Annually, CCA is calculated for each taxation year when the annual tax/partnership return is filed. For short taxation years, the depreciation/CCA claim is prorated on the number of days in the taxation year out of 365. For assets eligible for the proposed new enhanced first-year allowances discussed above in Section 2, the proration of this claim will also apply based on the number of days in the tax year out of 365, and no further incentive allowance will be available in the following tax year in respect of that property.</p> <p>Assets that are classified in the same CCA class are typically grouped together in one pool (other than specific classes, such as some automotive equipment, rental properties costing more than CAD50,000, 6%/10% buildings where the taxpayer files an election, etc.), and CCA is claimed on the entire pool of assets.</p>
Year of acquisition	In the year of acquisition, most properties are subject to a half-rate rule, i.e., 50% of the class regular CCA rate. Proposed Accelerated Investment Incentive properties, as noted above, generally have a first-year CCA rate of 150% of the regular/normal CCA rate, up to a maximum of 100%. CCA is only calculated on the assets remaining in the CCA class/pool at year-end, so in the year of disposal, no CCA is calculated on an asset that is disposed of.
Ability to use different methods for different assets	Yes. The method is laid out by tax legislation (regulations).
Ability to switch methods	Yes, misclassified property can be reclassified. Also, there are rules that allow classes to be combined when a certain property was acquired under one class, more additions were made under a new legislated class and assets are sold from both classes.

4. Preferential and enhanced depreciation availability

Type of asset	Comment on specific application and benefits available
M&P machinery and equipment	Depreciated on a three-year, straight-line basis (25%/50%/25%) for assets purchased before 2016. Assets purchased after 2015 and before 2026 will be depreciated on a 50% declining-balance basis. M&P machinery and equipment subject to the proposed tax depreciation/CCA measures discussed above that are acquired after 20 November 2018 and before 2024 are eligible for a 100% deduction in the year the property is available for use.
Energy-efficient assets, such as solar, wind, large-scale hydro, geothermal projects, etc.	Available to be depreciated at a 50% declining-balance rate if purchased after 22 February 2005 and before 2020. The 2018 federal budget extended this to 2025. As proposed, such clean energy equipment acquired after 20 November 2018 and available for use before 2024 is eligible for a 100% deduction in the year the property is available for use.
Computer hardware	Computer hardware (electronic data processing equipment) and peripheral equipment (ancillary data processing equipment) is depreciated at a 55% DB CCA rate. Under the proposed tax depreciation/CCA measures, such property will be eligible for an 82.5% deduction in the year the property is available for use.
Computer software	System software is depreciated at a 55% DB CCA rate. Application software is depreciated at a 100% DB CCA rate, but half-year rule is applicable. Under the proposed tax depreciation/CCA measures, system software will be eligible for an 82.5% deduction in the year the property is available for use and application software will be eligible for a 100% deduction in the year the property is available for use.

Investments in qualified M&P equipment in certain areas of the country are eligible for either a provincial or federal investment tax credit (typically 4%-15% of the cost of the asset). Various other investment tax credits are available provincially across the country (e.g., green-energy equipment in Manitoba; digital media tax credit in Nova Scotia, Ontario and Newfoundland). As well, Quebec has introduced "additional" or "super" tax depreciation/CCA in the last three years (2017 to 2019) – here additional tax depreciation/CCA is available for certain property acquired in Quebec and is in addition to regular tax depreciation/CCA (effectively 22% to 37.5% additional tax depreciation).

5. Accounting for disposals

As discussed above, most property/asset CCA classes are made up of pools of similar assets. When an asset is disposed of, the pool value is reduced by the lesser of the original cost of the asset or the proceeds of disposition, and CCA is calculated on the resulting net/adjusted pool balance.

If the last asset in a pool/class is disposed of, there is an income inclusion if the resulting pool balance is negative (called “recapture”) or an additional deduction if the resulting pool balance is positive (called a “terminal loss”) after deducting the lesser of the original cost or proceeds from the pool value.

No adjustments/deductions are available if a company scraps an asset for no value.

6. Making a claim

Depreciation/CCA claims are made by filling out Schedule 008 of the Corporation Income Tax or Partnership Return. This schedule calculates the current year CCA claim by factoring in opening pool balances, additions, disposals and adjustments. This amount is then deducted in calculating net income for tax purposes/taxable income elsewhere in the return.

Supporting documentation must be retained by the taxpayer for all tax returns filed (whether electronically or on paper) for a period of seven years after the end of the tax year, although there is no supporting documentation required to be sent along with the tax return when it is filed.

7. Intangible assets

- ▶ Unless specifically permitted to be deducted in Part I of the Income Tax Act (Canada), all amounts on account of capital are nondeductible. There are specific CCA classifications/deductions for some limited-life intangible assets as detailed in the table below.
- ▶ There is also a deduction available for eligible capital expenditures (ECEs), which are expenditures made with respect to a business, made on account of capital, for the purpose of gaining or producing income not otherwise deductible under a specific provision of the Income Tax Act (Canada) and not included in the cost of tangible, corporeal, intangible or incorporeal property of the taxpayer. Examples of ECEs include goodwill, customer lists, trademarks, farm quotas, franchises, concessions and licenses of indeterminate duration. Prior to 2017, ECEs were deducted by adding 75% of the capital cost of the ECE to a pool that was depreciated at a 7% declining-balance depreciation rate. Effective 1 January 2017, 100% of these expenditures are added to CCA Class 14.1 and deducted at a 5% declining-balance depreciation rate with transitional rules applying for the transfer of the pre-2017 ECE pool to the new Class 14.1. For ECEs acquired after 20 November 2018, the first year of CCA will be calculated using a 7.5% DB CCA rate. As well, for Class 14 property acquired after 20 November 2018 and before 2024, an additional 50% CCA deduction is available in the first year; for such property acquired after 2023 and before 2028, an additional 25% CCA deduction is available in the first year.

Type of asset	Rates/lives
Trademarks	CCA Class 14.1 – as noted above, 5% DB CCA rate.
Patents, copyrights, design, know-how or similar items	Patents are depreciated over the useful life of the asset (SL depreciation) – Class 14 (limited life). Patents may also be Class 44 property – 25% DB CCA rate.
Goodwill	CCA Class 14.1 – as noted above, 5% DB CCA rate.
Licenses or permits	Licenses are depreciated over the useful life of the asset (SL depreciation) – Class 14 (limited life).

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At a glance

This chapter relates to the mainland China tax jurisdiction

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

5.00%-33.33%

Does the tax treatment follow book/statutory accounting depreciation?

Straight-line method

1. Entitlement to claim

Legal owners or the lessee of a finance lease

2. Allocation of tangible assets to tax depreciation lives and rates

Accounting Standards for Business Enterprises No. 4 – fixed assets

The component parts of a fixed asset have different useful lives or provide economic benefits for the enterprise in different forms, and to which different depreciation rates or depreciation methods apply. As such, they are recognized as fixed assets on an individual component part basis.

The cost of a purchased fixed asset includes the purchase price, relevant taxes, freight, loading and unloading fees, professional service fees, and other disbursements that bring the fixed asset to the expected conditions for use and that may be attributed to the fixed asset.

If a payment is made for purchasing several fixed assets that are not priced separately, the price of each fixed asset shall be determined by allocating the payment according to the proportion of fair value of each fixed asset to the total cost of all assets acquired.

If a payment for a fixed asset is delayed beyond the normal credit conditions, and it is of financing nature in effect, the cost of the fixed asset shall be determined based on the current value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be recorded in the current profits and losses within the credit period, unless it shall be capitalized under Accounting Standards No. 17 – *Borrowing Costs*.

Unless otherwise prescribed in the regulations of the competent finance and taxation departments under the State Council, the minimum terms of calculating the depreciation of the fixed assets are as follows.

2.1 Assets that qualify for tax depreciation

Generally speaking, if the amount of accounting depreciation is less than the tax depreciation, the tax depreciation is limited to the amount of accounting depreciation calculated by asset.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Houses and buildings	20 years			
Airplanes, locomotives, ships, machines and other production facilities	10 years			
Apparatus, tools and furniture in connection with the production operation	5 years			
Transportation facilities other than airplanes, locomotives and ships	4 years			
Electronic equipment	3 years			
Land and buildings	20 years	Straight-line method	5%	Land is usually considered an intangible asset in form of land use right in China.
Plant, machinery and equipment	10 years	Straight-line method	10%	

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Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Motor cars	4 years	Straight-line method	25%	
Buildings	20 years	Straight-line method	5%	
Furniture, fittings or fixtures	5 years	Straight-line method	20%	
Computer hardware	3 years	Straight-line method	33.33%	
Computer software	10 years	Straight-line method	10%	
Aircraft	10 years	Straight-line method	10%	
Transport other than motor cars	4 or 10 years	Straight-line method	25% or 10%	Depending on the type of transportation facility
Car parks	20 years	Straight-line method	5%	Assuming it is a building
Office equipment (including office furniture and fixtures)	3 or 5 years	Straight-line method	33.33% or 20%	Depending on whether such office equipment could be considered as electronic equipment
Land improvements				Depending on accounting treatment; if treated as land cost, such improvement shall be amortized based on the remaining land-use term.
Qualified leaseholder improvement property	Based on remaining lease term	Straight-line method	Depends	The improvement shall have the effect of changing building structure or prolonging useful life.
Agricultural machinery and equipment	5 years	Straight-line method		
Property used in R&D		Straight-line method		May be qualified for super deduction (see below)

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Fixed assets, other than houses and buildings, that have not yet been used	
Fixed assets leased from other parties by means of operating lease	
Fixed assets leased to other parties by means of finance lease	
Fixed assets that have been depreciated in full but are still in use	
Fixed assets that are unrelated to business operating	

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Follow accounting treatment

Land remediation – removing asbestos, Japanese knotweed

Follow accounting treatment

Own labor capitalized – e.g., work on developing software or carrying out work on property

Follow accounting treatment

Accounting Standards for Business Enterprises No. 4 – Fixed Assets

According to Article 8, the cost of a purchased fixed asset includes the purchase price, relevant taxes, freight, loading and unloading fees, professional service fees and other disbursements that bring the fixed asset to the expected conditions for use and that may be attributed to the fixed asset.

If several fixed assets are purchased for a combined price, the price of each fixed asset will be determined by allocating the payment according to the proportion of fair value of each fixed asset to the total cost of all assets acquired.

If the payment for a fixed asset is delayed beyond the normal credit conditions (e.g., through a finance arrangement), the cost of the fixed asset will be determined by the basis of the current value of the purchase price. The difference between the actual payment and the current value of the purchase price will be recorded in the current profits and losses within the credit period, unless it is capitalized under Accounting Standards No. 17 – *Borrowing Costs*.

2.4 Availability of immediate deductions for repairs

According to Article 13, in the computation of taxable income, the following expenses incurred by an enterprise as long-term deferred expenses and computed in accordance with relevant provisions may be deducted:

- ▶ Reconstruction expenses for fixed assets that have been depreciated in full
- ▶ Reconstruction expenses for fixed assets leased from other parties
- ▶ Expenses for material repair of fixed assets are not necessary

According to Article 68, the expenditures arising from reconstructing the fixed assets mean the expenditures that the enterprise has paid for changing the structure of a house or building and extending the lifetime of a house or building.

Expenditures relating to owned assets will be amortized in stages as per the estimated lifetime of the fixed assets. Expenditures relating to leased assets will be amortized by stages as per the remaining lease term stipulated in the lease contract.

If the reconstruction of fixed assets extends their lifetime, besides being subject to the provisions of Item 1 and Item 2 of Article 13 of Enterprise Income Tax Law, their term of depreciation shall be extended.

According to Article 69, expenditures arising from overhauling fixed assets, as indicated in Item 3 of Article 13 of the Enterprise Income Tax Law, mean expenditures that meet the following conditions:

- ▶ A repair expenditure reaching 50% or more of the taxation basis of acquiring the fixed assets
- ▶ An extension of over two years of the lifetime of the overhauled fixed assets

The expenditure prescribed in Item 3 of Article 13 of the Enterprise Income Tax Law will be amortized by stages as per the remaining lifetime of the fixed assets.

The deductions will be consistent with the accounting treatments adopted in financial information, e.g., tax deduction cannot be taken for items that have been capitalized on book.

3. Depreciation and calculation methods

Methods used	Straight-line method, unit-of-production method, double-declining-balance method and sum-of-the-years-digits method could be eligible for qualified accelerated depreciation (see below)
Frequency	Monthly
Year of acquisition	The depreciation of fixed assets can be calculated from the month after the fixed assets are put into use.
Year of disposal	The calculation of the depreciation stops the month following when the fixed assets ceases to be used.
Ability to use different methods for different assets	Subject to qualified accelerated depreciation (see below)
Ability to switch methods	No

Law of China on Enterprise Income Tax

According to Article 32, where the fixed assets of enterprises require accelerated depreciation due to technology advancement, the years of depreciation may be shortened, or the accelerated depreciation method may be adopted.

Circular of the State Administration of Taxation on Issues Concerning the Treatment of Income Tax on Accelerated Depreciation of Enterprise Fixed Assets (Guoshuifa [2009] No. 81)

According to Article 1, in accordance with the relevant provisions of Article 32 of the Enterprise Income Tax Law and Article 98 of the Implementing Regulations, if the major or key fixed assets of an enterprise possessed and used for production and operation by the enterprise need to be depreciated in an accelerated rate due to the following reasons, it may curtail the term of depreciation or adopt a method for accelerated depreciation:

- ▶ Where the products are replaced and upgraded due to technological progress

Or

- ▶ Where the fixed assets are in a state of vibration and being exposed to a high degree of erosion

According to Article 5, where an enterprise needs to curtail the term of depreciation or adopt a method for accelerated depreciation for any of its fixed assets, it shall, within one month after acquiring such fixed asset, file with the competent tax authority in charge of it (hereinafter referred to as competent tax authority) for the record, and submit the following materials:

- ▶ Statement of reasons why the functional and estimated service life of the fixed asset is shorter than the minimum number of years prescribed in the Implementing Regulations for depreciation, plus certificates and explanations of relevant situations
- ▶ Explanations of the situations concerning the functions, usage and disposal of the old fixed asset replaced
- ▶ The method to be adopted for the accelerated depreciation of the fixed asset and the explanation for depreciation
- ▶ Other materials as required by the competent tax authority

The competent tax authority in charge of the enterprise shall, when conducting annual assessment on enterprise income tax, carry out on-site inspection on the service environment and conditions of the fixed assets that have been depreciated at an accelerated rate by the enterprise. For those that fail to meet the prescribed requirements for accelerated depreciation, the competent tax authority shall have the right to request the enterprise suspend the accelerated depreciation of such fixed asset.

Notice regarding the improvement of corporate income tax (CIT) policies on accelerated depreciation of fixed assets (Caishui [2014] No. 75)

- ▶ Accelerated depreciation treatments are applicable to six industries. Enterprises engaging in the following six industries may adopt a shortened depreciation life or accelerated depreciation methods for CIT purposes for fixed assets acquired on or after 1 January 2014:
 - ▶ Manufacturing of biopharmaceuticals
 - ▶ Manufacturing of special equipment

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- ▶ Manufacturing of transportation equipment for railway, shipping, aviation, aerospace and other conveying units
- ▶ Manufacturing of computers, telecommunication and other electronic equipment
- ▶ Manufacturing of instruments and meters
- ▶ Information transmission, software and information technology services

Small and micro-sized enterprises engaging in the above six industries can claim a deduction for CIT purposes all at once for devices and equipment with unit value not exceeding RMB1 million that are acquired on or after 1 January 2014 and used for research and development (R&D), as well as production and business operations. These enterprises would no longer be required to depreciate the aforesaid fixed assets over their useful lives. For those fixed assets with unit value exceeding RMB1 million, the above enterprises may adopt a shortened depreciation life or accelerated depreciation methods for CIT purposes.

- ▶ Accelerated depreciation treatments applicable to fixed assets with unit value not exceeding RMB5,000

Enterprises under various industries can claim a deduction for CIT purposes all at once for their fixed assets with unit value not exceeding RMB5,000. Enterprises would no longer be required to depreciate these fixed assets over their useful lives.

- ▶ Applicable minimum depreciation period and accelerated depreciation methods

For the above enterprises that can adopt a shortened depreciation life applicable to the six specific industries and R&D projects, the applicable minimum depreciation period shall not be shorter than 60% of the depreciation period stipulated in Article 60 of the Implementation Regulations on the CIT Law (CITLIR) as mentioned above. Enterprises that can adopt accelerated depreciation methods can adopt the double-declining-balance method and sum-of-years-digits method.

Notice regarding the further improvement of CIT policies on accelerated depreciation of fixed assets (Caishui [2015] No. 106)

Enterprises engaging in four key industries – textile, machinery, automobile and light – may adopt a shortened depreciation life or accelerated depreciation method for CIT purposes for fixed assets acquired on or after 1 January 2015.

Small and micro-sized enterprises engaging in the above four industries can claim a 100% up-front deduction with respect to depreciation for CIT purposes for devices and equipment with a unit value not exceeding RMB1 million that were acquired on or after 1 January 2015 and used for research and development (R&D), as well as production and business operations. These enterprises would no longer be required to depreciate the aforesaid fixed assets over their useful lives.

For fixed assets with a unit value exceeding RMB1 million, the above enterprises may choose to adopt a shortened depreciation life or apply an accelerated depreciation method for CIT purposes.

For eligible enterprises that choose to adopt a shortened depreciation life applicable to the four key industries mentioned above, the minimum depreciation period shall not be shorter than 60% of the depreciation period stipulated in CITLIR. Enterprises that choose to adopt accelerated depreciation methods can use either the double-declining-balance method or the sum-of-years-digits method.

Notice regarding CIT policies on deductions for equipment and devices (Caishui [2018] No. 54)

It is further prescribed in Circular 54 that, from 1 January 2018 to 31 December 2020, an enterprise may claim a CIT deduction all at once for any newly acquired device or equipment (except for real estate or constructions) if the unit value of the device or equipment does not exceed RMB5 million.

Where an enterprise acquires any newly acquired device or equipment with unit value exceeding RMB5 million, the taxpayers should still refer to Circular 75 and Caishui [2015] No. 106 (“Circular 106,” i.e., Notice regarding the further improvement of CIT policies on accelerated depreciation of fixed assets).

4. Preferential and enhanced depreciation availability

Investment in R&D equipment may be rewarded by an enhanced depreciation at 150% of the original cost.

If an enterprise is engaged in qualified R&D activities, it may qualify for a super-deduction (enhanced depreciation by increasing the calculation base) for devices and facilities used specifically for research and development activities.

“R&D activities” refer to activities with clearly defined purposes continuously and systematically carried out to obtain new science/technology knowledge, including:

- ▶ Applying new science/technology knowledge in an innovative manner

Or

- ▶ Improving current technologies, products/services or techniques substantially

The following industries are not eligible for the super deduction:

- ▶ Tobacco
- ▶ Accommodation and catering
- ▶ Wholesale and retail
- ▶ Real estate
- ▶ Leasing and commercial service
- ▶ Entertainment
- ▶ Other industries as specified by the Ministry of Finance (MOF) or State Administration of Taxation (SAT)

The following seven types of activities are excluded from applicable scope of the super deduction policy:

- ▶ Routine upgrades of products/services
- ▶ Simple application of R&D results, such as direct application of public techniques, materials, devices, products, services, knowledge, etc.
- ▶ Technical support to the customers after the commoditization
- ▶ Repeated or simple changes made to existing products, services, technologies, materials or processes
- ▶ Research on market, efficiency or management
- ▶ Regular quality control, test and analysis, repairs and maintenance
- ▶ Research on social sciences, arts or humanities

5. Accounting for disposals

Asset losses incurred by an enterprise due to normal abandonment and disposal of fixed assets reaching or exceeding the service life could be claimed as a deduction. A declaration is required to be made to the tax authority. A gain on disposal of an asset will be subject to corporate income tax as part of taxable income.

6. Making a claim

Tax depreciation is incorporated into the tax return. No special procedures are required for a deduction.

Form A105080 of annual CIT filing return shows the calculation for tax and accounting depreciations. For accelerated depreciation, Appendix 1 of quarterly CIT filing return shall be submitted. No other documentation is required by the tax authority. However, supporting documents such as invoices should be kept by management for further examination.

7. Intangible assets

Implementing regulations of the law of China on enterprise income tax

Amortized expenses calculated as per the straight-line method for intangible assets may be deducted. The term of amortization for the intangible assets shall be no less than 10 years.

For the intangible assets used as investment or transferred intangible assets, if the term of validity is prescribed by the relevant laws or the agreement/contract, the amortization may be calculated in stages based on the term of validity.

For purchased software, the term could be shortened to two years subject to specific application.

Type of asset	Rates/lives
Trademarks	10 years or actual term of validity
Patents, copyright, design, know-how or similar item	10 years or actual term of validity
Goodwill	Cannot be amortized
License or permit	10 years or actual term of validity
Other	Depends on the details

According to Article 65, the intangible assets indicated in Article 12 of the Enterprise Income Tax Law mean the nonmaterial and non-currency long-term assets that the enterprise has possessed for producing the commodities; providing labor service; leasing; or managing, including the patent right, the trademark privileges, the copyright, the land-use right, the non-patent technology and the credit.

Denmark



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

0%-100%

Depreciation method used to calculate tax deduction

Declining-balance, straight-line (acquisition cost)

1. Entitlement to claim

The legal owners are generally entitled to claim.

2. Allocation of tangible assets to tax depreciation lives and rates

Generally, companies are not required to break down assets. Taxpayers are required to specify buildings and leasehold improvements per asset and acquisition year. In addition, if a building is constructed or purchased, the company can distinguish between parts of the building and segregate these into the depreciation classes defined in the Tax Depreciation Act such as building, associated buildings, installations serving buildings and connection fees.

Depreciation classes for buildings used for commercial purposes:

Type of building	Yearly deduction percentage
Buildings	4% (straight-line)
Associated buildings	4% (straight-line)
Installations serving buildings	4% (straight-line)
Installations mainly serving commercial purposes qualify as operating equipment	25% (declining-balance)
Fees paid for connection to public and privately held facilities, e.g., water	20% (straight-line)

Depreciation classes for buildings used for non-commercial purposes:

Type of building	Yearly deduction percentage
A building cannot be depreciated if it is used for: <ul style="list-style-type: none"> ▸ Offices ▸ Accommodation (hotels are depreciable) ▸ Health care ▸ A business in the financial sector, such as banking, insurance, stockbroking, etc. 	0%
Installations serving buildings	0%
Installations serving commercial purposes	4% (straight-line) Possible increased rate (1/economic lifetime + 3%) if subject to a degree of wear and tear that makes it likely that the installations, despite a normal level of maintenance, will lose their economic value within 25 years of construction.
Fees paid for connection to public and privately held facilities, e.g., water	20% (straight-line)

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Depreciation classes for buildings partly used for commercial purposes:

Type of building	Yearly deduction percentage
Buildings ▶ Minimum usage for 25% commercial purpose or at least 300 square meters	4% (straight-line) Depreciation according to proportionate usage of total square meters Additions and disposals for depreciable square meters and not depreciable square meters are handled as separate balances.
Installations serving buildings	4% (straight-line) Depreciation according to proportionate usage for commercial purposes
Installations serving commercial purposes ▶ Depreciation according to proportionate usage for commercial purposes	4% (straight-line) Possible increased rate (1/economic lifetime + 3%) if subject to a degree of wear and tear that makes it likely that the installations, despite a normal level of maintenance, will lose their economic value within 25 years of construction.
Operating equipment	25% (declining-balance)
Fees paid for connection to public and privately held facilities, e.g., water	20% (straight-line) Depreciation according to proportionate usage for commercial purposes

2.1 Assets that qualify for tax depreciation

Asset type	Applicable tax depreciation rate	Comments
Infrastructure equipment	7% (declining-balance)	Transport, telecommunication, oil and gas, rail, etc.
Certain other fixed assets ("Visse faste anlæg")	15% (declining-balance)	Ships with a gross tonnage of more than 20 tons, airships, trains, etc.
Other operating equipment	25% (declining-balance)	
Leasing assets (for lessor)	Year 1: 0% Year 2: 50% (straight-line) Year 3: 25% (declining-balance)	

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land does not qualify because the value is not decreasing.

2.3 Noteworthy items

None

2.4 Availability of immediate deductions

Description	Detail
Assets with life of less than three years	Equipment with a general life-span of less than three years, typically mobile phones, etc.
Assets below a certain value	Below standardized amount, currently DKK13,800
Repairs	Repairs to conserve the original condition
Software	

3. Depreciation and calculation methods

Methods used	Declining-balance, straight-line/prime cost
Frequency	Annually
Year of acquisition	Timing of the acquisition is not relevant for the level of depreciation.
Year of disposal	No depreciation is available if not held at year-end.
Ability to use different methods for different assets	Yes
Ability to switch methods	No

4. Preferential and enhanced depreciation availability

There is additional tax depreciation available for assets relating to R&D.

5. Accounting for disposals

There are specific rules to consider when disposing of an asset.

6. Making a claim

Depreciation is claimed on an annual basis to the tax authority through the income tax return.

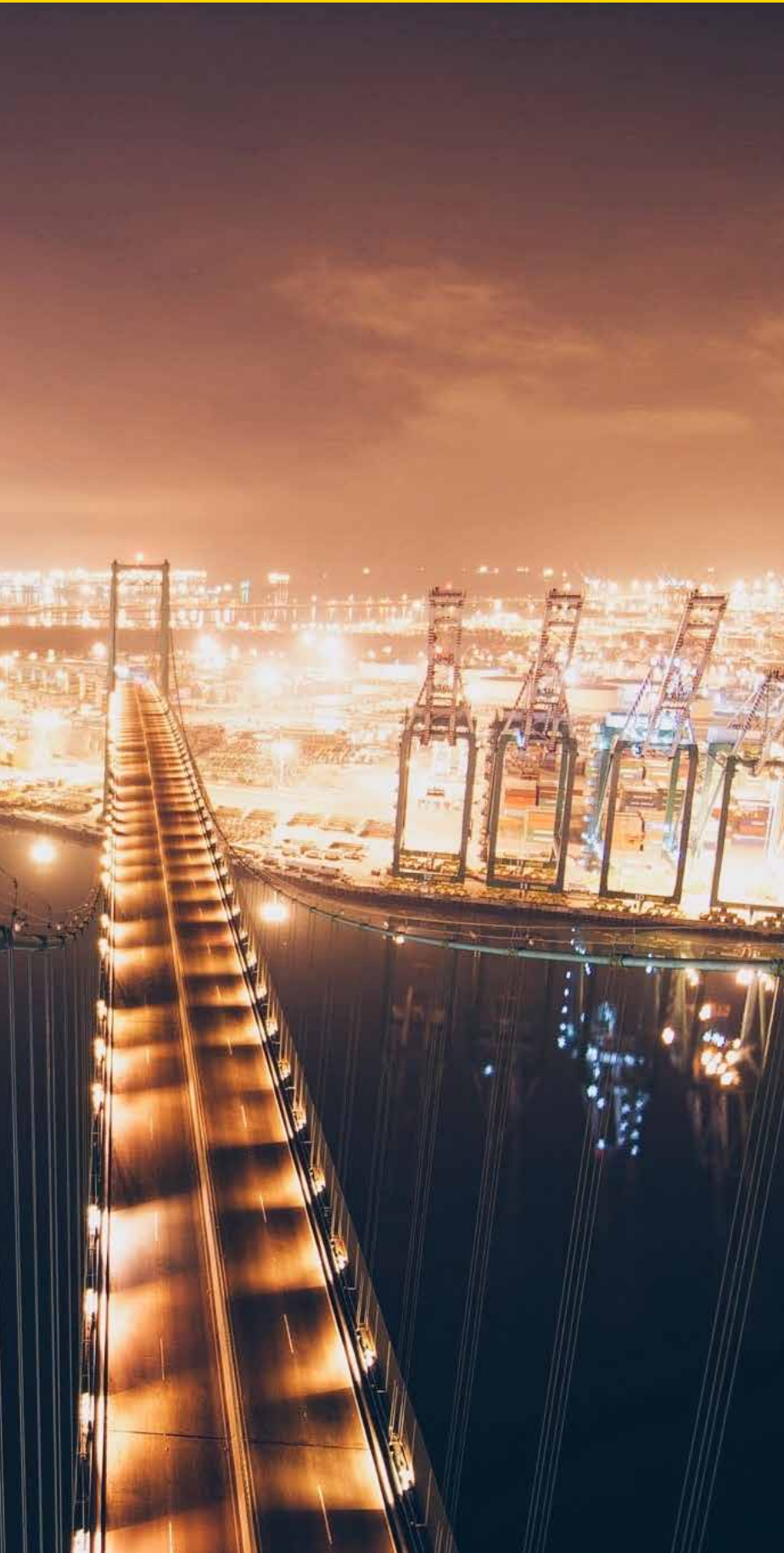
7. Intangible assets

Acquired intangible assets, including goodwill on activities, can be depreciated over seven years.

Acquired patents and know-how can be elected to be depreciated over seven years or immediately deducted in the year of acquisition.

Self-generated intangible assets, excluding development costs and goodwill generated from mergers, cannot be depreciated.

Finland



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

N/A

Does the tax treatment follow book/statutory accounting depreciation?

Not directly, but it is not possible to make larger depreciations in taxation than for accounting. However, some repairs can be deducted for tax purposes as annual costs, although costs would be activated in accounting.

Range of rates used

0%-25%

Depreciation method used to calculate tax deduction

Straight-line method, declining-balance method and depletion allowance method for extractable soil resource areas

1. Entitlement to claim

All companies and other entities subject to the Business Tax Act are entitled but not required to claim depreciation from their taxable business income for the financial year. Entities can apply changes afterward to their depreciation deductions if the depreciation method has been incorrect by submitting appeal to the Tax Administration. An appeal must be filed with the Tax Administration within five years from the beginning of the calendar year following the assessment. As of tax year 2018, the period to appeal is three years from the beginning of the calendar year following the assessment.

2. Allocation of tangible assets to tax depreciation lives and rates

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment		Declining-balance method	Maximum 25%	Can be deducted immediately if useful life of the asset is maximum three years or acquisition cost is maximum €850 (total maximum €2,500 per tax year)
Buildings		Declining-balance method	Maximum 7%: stores, warehouses, factories, agricultural buildings, power stations and other similar buildings Maximum 4%: residential buildings, offices and other similar buildings Maximum 20%: fuel and acid containers and other similar metal constructed storages or other structures Maximum 20% if building is used only for research activities aiming to promote business activities	
Furniture, fittings or fixtures		Declining-balance method	Maximum 25%	Can be deducted immediately if useful life of the asset is maximum three years or acquisition cost is maximum €850 (total maximum €2,500 per tax year); included in plant, machinery and equipment when depreciated
Computer hardware		Declining-balance method	Maximum 25%	Can be deducted immediately if useful life of the asset is maximum three years or acquisition cost is maximum €850 (in total maximum €2,500 per tax year). Computer hardware is included in plant, machinery and equipment when depreciated.

Finland

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Computer software	Maximum 10 years	Straight-line method		Can be deducted immediately if useful life of the asset is maximum three years
Aircraft		Declining-balance method	Maximum 25%	Included in plant, machinery and equipment
Transport other than motor cars		Declining-balance method	Maximum 25%	Included in plant, machinery and equipment
Motor cars		Declining-balance method	Maximum 25%	Included in plant, machinery and equipment
Car parks		Declining-balance method		Included in buildings Applicable tax depreciation rate is assessed based on case-specific factors.
Office equipment (including office furniture and fixtures)		Declining-balance method	Maximum 25%	Included in plant, machinery and equipment
Agricultural machinery and equipment		Declining-balance method	Maximum 25%	Included in plant, machinery and equipment

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Is classified as non-wearing fixed asset
Securities	Are classified as non-wearing fixed assets

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Expenses that will accumulate income for three or more years are activated and depreciated using the straight-line method for a maximum of 10 years.

Land remediation – removing asbestos, Japanese knotweed

Upgrading, alteration, extension, reforming and other similar costs are included in asset's residual value. Expenses from smaller repairs are deducted immediately.

Own labor capitalized

If own labor is used in upgrading, alteration, extension or reforming, costs are included in residual value. Otherwise, expenses are deducted immediately.

2.4 Availability of immediate deductions for repairs

Description	Detail
Repairs	If not upgrading, alteration, extension or reforming, repair costs are deducted immediately. Also, fairly big repair costs can be deducted in taxation immediately if requested by taxpayer even though they were activated in accounting.
Items of a revenue nature	If not upgrading, alteration, extension or reforming, repair costs are deducted immediately.

3. Depreciation and calculation methods

Methods used	Straight-line method, declining-balance method and depletion allowance method for soil resource areas
Frequency	Once per tax year. Tax year equals calendar year. If taxpayer's accounting period differs from tax year, the tax year is the accounting period or periods that have ended during that calendar year.
Year of acquisition	Asset starts to depreciate when it is put in use.
Year of disposal	When asset is put out of use
Ability to use different methods for different assets	The asset class determines the applicable depreciation method in taxation.
Ability to switch methods	The asset class determines the applicable depreciation method in taxation.

4. Preferential and enhanced depreciation availability

Asset used in	Comment on specific application and benefits available
Production of biofuels, oil and gas exploration, production of electric energy, production of bioethanol, employment of renewable energy sources for the obtainment of electric energy	No benefits
Mining	No benefits – depletion allowance method for depreciation of extractable soil resource areas
Forestry	Private investors and jointly owned forests both get preferential treatment. Corporations do not get preferential treatment.
Production of biotechnology	No benefits
Environmental investments	If considered as qualifying investments, they can be depreciated in four years.

5. Accounting for disposals

When an asset is disposed, its value is reduced to zero in the company's accounting. If disposing includes higher write-downs than maximum depreciation in taxation, the taxpayer must prove that the asset would not have had any resale or operating value to be able to deduct the write-down in taxation. If the asset were part of machinery and fixtures, the whole amount of this asset class's (movable assets) value should be zero to justify a write-down to zero in taxation.

6. Making a claim

Taxpayers can apply alterations afterward to their taxation by submitting an appeal to Tax Administration. An appeal must be filed within five years from the beginning of the calendar year following the assessment. As of tax year 2018, the period to appeal is three years from the beginning of the calendar year following the assessment.

7. Intangible assets

Type of asset	Rates/lives
Trademarks	Straight-line method in its useful life; in maximum 10 years
Patents, copyright, design, know-how or similar item	Straight-line method in its useful life; in maximum 10 years
Goodwill	Straight-line method in its useful life; in maximum 10 years
License or permit	Straight-line method in its useful life; in maximum 10 years

France



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

“Tax depreciation” or “depreciation for tax purposes”

Does the tax treatment follow book/statutory accounting depreciation?

Yes

Range of rates used

4%–50%

Depreciation method used to calculate tax deduction

Declining-balance (*amortissement dégressif*), straight-line, other accelerated or exceptional methods

1. Entitlement to claim

As a matter of principle, the taxpayer is entitled to claim depreciation on assets that are owned. In case of the lease of the asset, the legal owner (the lessor) is entitled to claim depreciation.

An asset can be depreciated from its entry into service/use under the straight-line method and from its acquisition/construction date under the declining-balance method.

2. Allocation of tangible assets to tax depreciation lives and rates

The depreciation of fixed assets must be carried out component by component if these components have different lifetimes or if they provide economic benefits to the owner over different time scales. In this situation, they have to be depreciated separately, according to the lifetime of each (e.g., heating system or roofing, which are both by nature and their use intended to be replaced at regular intervals).

The French tax authorities have provided – for informational purposes only – a list of the most commonly accepted depreciation rates for some assets (see below).

2.1 Assets that qualify for tax depreciation

The French tax authorities provide a list of the most commonly accepted depreciation rates for the most common asset types. This list is for informational purposes only.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	5-10 years	Straight-line basis	10%-20%	
Motor cars	4-5 years	Straight-line basis	20%-25%	
Industrial buildings	20 years	Straight-line basis	5%	
Furniture	5-10 years	Straight-line basis	10%-20%	
Computer hardware	3 years	Straight-line basis	33.33%	41.67% rate can be applied if declining-balance method is used.
Computer software	Life of the software	Straight-line basis	Depends on life of the software	
Office building	20-50 years	Straight-line basis	2%-5%	
Transport other than motor cars (<i>materiel roulant</i>)	4-5 years	Straight-line basis	20%-25%	
Tools/equipment	5-10 years	Straight-line basis	10%-20%	If used for scientific and technical research, tools/equipment may be depreciated on an accelerated declining-balance basis. The acceleration multiples in this case range from 1.5 to 2.5.

France

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Office equipment (including office furniture and fixtures)	5-10 years	Straight-line basis	10%-20%	To be immediately deducted as expenses if the acquisition price of the equipment does not exceed EUR500.
Property used in R&D (patents)	5 years	Straight-line basis	20%	

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land does not qualify for any tax depreciation because there is no foreseeable limit to the period during which the land will provide economic benefits to the company.
Goodwill (<i>Fond commercial</i>)	It is not subject to any decrease in value by the effect of time.
Leasehold right	It is not subject to any decrease in value by the effect of time.
Ongoing (<i>Fonds de commerce</i>)	In principle, it is not subject to any decrease in value by the effect of time.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

The preliminary cost (*frais d'établissement*) and in particular legal fees, notary fees and legal formalities expenses can either be immediately deducted for tax purposes or be amortized over a five-year period.

Removing asbestos

These may be amortized.

Own labor capitalized – work on developing software, for example, or carrying out work on property

These may be amortized.

2.4 Availability of immediate deductions for repairs

As a matter of principle, expenditures that are not aimed at replacing identified components, that are not the subject of a multiannual program of major maintenance, that do not result from compliance for security reasons or that are not specific spare parts of a fixed asset can be immediately deducted for tax purposes. Otherwise, the expenditures must be recorded as an asset and be amortized (e.g., carpentry works, masonry).

3. Depreciation and calculation methods

Methods used	Straight-line is the typical method. Declining-balance (<i>amortissement dégressif</i>) is allowed for certain types of new or recovered assets (e.g., handling equipment, central heating, plants). The assets must have a useful life in excess of three years.
Frequency	Annually
Year of acquisition	Straight-line depreciation is calculated proportionately in the year of acquisition, from the date the asset enters into use. The computation is based on the number of days in use. If the declining-balance method is used, depreciation is calculated from the first day of the month in which the asset was purchased.
Year of disposal	Depreciation is prorated in the year of disposal from the beginning of the financial period to the date of disposal. The calculation is based on the number of days. For declining-balance, depreciation is prorated from the beginning of the financial period to the beginning of the month of the disposals.
Ability to use different methods for different assets	The decision made by a company to depreciate an asset on a straight-line, declining-balance or exceptional method constitutes a binding management decision. As a result, after having made that choice, the company cannot ask to substitute one method for another. Depreciation is prorated in the year of disposal from the beginning of the financial period to the date of disposal. The calculation is based on the number of days.
Ability to switch methods	No

Declining-balance method rate

The constant rate of the declining balance is obtained by multiplying the straight-line rate by a coefficient that varies according to the depreciation duration. The coefficients are 1.25 for a depreciation duration of three or four years, 1.75 for a depreciation duration of five or six years and 2.25 for a depreciation duration longer than six years.

4. Preferential and enhanced depreciation availability

Equipment and tools mainly used for R&D operations may benefit from an accelerated depreciation. The depreciation is increased with reference to coefficients. The applicable coefficients are 1.5, 2 and 2.5, depending on the standard duration of amortization of the equipment or the tools for tax purposes. Equipment designed to save energy and equipment for the production of renewable energies can benefit from an accelerated depreciation. The applicable coefficients are 2, 2.5 and 3, depending on the standard duration of amortization of the equipment or the tools for tax purposes.

Investments in 3D printers between 1 October 2015 and 31 December 2017 by small and medium-sized companies (qualified as such according to EU law) may be depreciated on a two-year basis.

Small and medium-sized companies that built commercial or industrial real estate in specific urban zones before 1 January 2016 may depreciate the asset by 25% the first year after the construction is finished. The subscription to the capital of innovative small and medium-sized companies allows the depreciation of the shares on a five-year period.

Companies that purchase, lease or manufacture some goods that qualify for the declining-balance method (*amortissement dégressif*) can claim an additional special super-deduction on the original value of these goods. These goods must have been purchased, leased or manufactured between 15 April 2015 and 14 April 2017. The tax deduction is equal to 40% of the original value of the good and is allocated over the normal period of use. This deduction is applicable to goods acquired after 15 April 2017 with three conditions: the good has to be ordered before this date, the purchaser provides a 10% deposit at the date of the order and the good has to be acquired within 24 months of the order. The special deduction reduces the base of the corporate income tax (CIT).

Small and medium-sized companies that purchase, manufacture, order or rent specific goods in robotic and digital transformation between 1 January 2019 and 31 December 2020 can claim an additional special super-deduction on the original value of these goods. The tax deduction is equal to 40% of the original value of the good and is allocated over the normal period of use. This deduction is applicable to goods acquired after 31 December 2020 with three conditions: the good has to be ordered before this date, the purchaser provides a 10% deposit at the date of the order and the good has to be acquired within 24 months of the order. The special deduction reduces the base of the CIT.

Some sectorial super-deductions of 20% to 60% of the original value, depending on the goods, are available under certain conditions for investments in energy-efficient vessels or trucks made between 1 January 2019 and 31 December 2021. A sectorial super-deduction of 40% of the original value is also available made for investment in energy-efficient refrigerators acquired between 1 January 2019 and 31 December 2022.

5. Accounting for disposals

On disposal, the company must remove the asset from the balance sheet.

When preparing the computation, the capital gain should be equal to the difference between the sale price of the asset and the amount of its net book value. There are no specific consequences from an accounting standpoint if a loss arises.

In this case, no adjustment can be made if the asset is scrapped for no value.

6. Making a claim

From a practical standpoint, the decision regarding the choice of the depreciation method results from the statements made in the depreciation Form No. 2055 attached to the CIT return.

Supporting documentation is needed to book the asset in the balance sheet in order for it to be amortized later (for example, the purchase contract).

7. Intangible assets

Tax depreciation is available for purchases of software and patents.

Type of asset	Rates/lives
Trademarks	N/A
Patents, copyright, design, know-how or similar item	N/A, but by exception, patents may be amortized over a period of at least five years (since they will fall into the public domain).
Goodwill	N/A
License or permit	N/A

Germany



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Depreciation deduction for wear ("*Absetzung für Abnutzung*" or "*Abschreibung*")

Does the tax treatment follow book/statutory accounting depreciation?

Yes

Range of rates used

2%-100%

Depreciation method used to calculate tax deduction

Straight-line (prime cost)

1. Entitlement to claim

The legal owner (any natural or legal person) may generally claim depreciation.

When beneficial owners take ownership rights, benefits, obligations and risks of an asset from the legal owner (e.g., by renting or leasing), they are entitled to claim depreciation. Ownership conditions are not given equal weight and do not have to be completed at the same time. When all conditions are not completed by the balance sheet date, beneficial ownership is determined based on foreseeable risks and changes of the asset.

The German tax authorities have set out general guidelines on identifying who (legal or beneficial owner) is entitled to capitalize and depreciate the respective asset.

2. Allocation of tangible assets to tax depreciation lives and rates

Tax depreciation is based on accounting depreciation. Special tax rules are then applied and given priority. Assets are assessed on a "unit of use" basis. In other words, individual parts that are connected have to be allocated to that unit. When determining the depreciation amount for a building, the calculation is based on the total amount of acquisition costs or production costs of the whole building. The valuation of depreciation on individual parts, such as heating systems, windows or walls, is normally not permitted. However, using different useful lives for different parts is permitted in special cases – for example, where solar panels have been placed on the top of buildings or if a specific part of a building was built separately.

Guidelines are provided by the tax authorities.

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment*	See comments	Straight-line/depreciation according to performance	See comments	Depends on the industry in which the asset is used, such as use in shift work. Machine types within any particular industry denote its useful life. For example, packaging machines – 13 years, whereas office equipment (e.g., computers) – 3 years.
Motor cars*	6 years	Straight-line	16.7%	N/A
Buildings (general)*				
Buildings as business assets not used for residential purposes and built after 31 March 1985	33 years	Straight-line	3%	Regarding the useful life, several exemptions exist. This is not the complete list but serves as an indication of possible cases.
In all other cases, finished after 31 December 1924	50 years	Straight-line	2%	
In all other cases, finished prior to 1 January 1925	40 years	Straight-line	2.5%	
Useful life effective before 33, 40, 50 years		Straight-line		Varies in accordance to the respective useful life

Germany

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Fittings or fixtures*	8 years	Straight-line	12.5%	N/A
Computer hardware*	3 years	Straight-line	33%	N/A
Computer software*	3 years	Straight-line	33%	Only in the case of standard software. Depreciation periods for anything other than standard software have to be determined on a case-by-case basis (e.g., the useful life for business management software is typically 5 years).
Aircraft*	21 years	Straight-line	4.7%	N/A
Transport other than cars/trucks*		Straight-line		Depends on specific vehicle (e.g., campers – 8 years).
Cars/trucks*	6/9 years	Straight-line	16.7%/11.1%	N/A
Office equipment, including office furniture and fixtures*		Straight-line		Depends on the type of equipment (e.g., office furniture – 13 years).
Land improvements		N/A		
Qualified leaseholder improvement property/tenant fixtures		Straight-line		May be qualified as single-standing assets or parts of buildings. Hence, rules regarding buildings may apply, if the asset is qualified as part of a building for tax purposes.
Agricultural machinery and equipment*		Straight-line		Depends on the type of machine/equipment (e.g., tractor – 12 years).
Property used in R&D*		Straight-line		Depends on the type of property or contractual period (e.g., laboratory equipment – 13 years).

* Extraordinary depreciation is applicable besides the abovementioned depreciation method.

2.2 Assets that do not qualify for tax depreciation

Any type of asset capitalized on the balance sheet may be subject to tax depreciation (depreciation rules in generally accepted accounting principles (GAAP) may differ from tax depreciation rules), whether it is classified as tangible or intangible. Local GAAP and tax GAAP generally distinguish between “depreciable” and “not-depreciable” assets. Depreciable assets qualify for regular depreciation, which reflects the impairment of assets (e.g., due to use). Not-depreciable assets do not qualify for regular depreciation, but extraordinary depreciations due to impairments are possible. Both depreciable and not-depreciable assets can be depreciated in case of an extraordinary impairment (e.g., land does not qualify for a straight-line impairment but will be written off in case of impairment).

2.3 Noteworthy items

The treatment of the following expenditures depends on the individual case – the following comments cannot be seen as individually applicable.

Preliminary costs – architect fees, legal fees, planning

As far as they are related to the acquisition or manufacturing of assets, the expenditures must be capitalized and amortized at the same rate as the assets to which they relate.

Land remediation – removing asbestos

As far as they are related to the acquisition of properties, the expenditures must be capitalized together with the land, which will typically be treated as not depreciable. Not-depreciable assets will not be depreciated regularly. If the land is impaired, the expenditures would also be impaired pro rata.

Own labor capitalized – work on developing software, for example, or carrying out work on property

As far as they are related to the acquisition of software or similar, the expenditures must be capitalized. If the software or similar is not acquired, a capitalization of assets in general is prohibited.

If a building is purchased, the expenditures for repairs and modernization incurred within three years after acquisition have to be capitalized when the total amount of the expenditures (without value-added tax) exceeds 15% of the purchase price of the building.

2.4 Availability of immediate deductions for repairs and low-value assets

Description	Detail
Low-value assets	<p>Low-value assets with acquisition or production costs up to EUR800 (total net amount) can be written off entirely in the year of acquisition.</p> <p>Tangible assets between EUR250 and EUR1,000 (net amount) can be stated as a collective item to be depreciated on an annual basis over a period of five years.</p> <p>For example, for office chairs, a useful life of 13 years has to be considered. If the taxpayer purchases office chairs for EUR500 (net amount), he or she can accelerate the depreciation by depreciating totally within 5 years by opting for the pooling method.</p>
Repairs/maintenance costs	A repair is the re-enabling of the asset's functions or the maintaining of the asset's condition. For tax purposes, the expenditures for repairs and maintenance can generally be fully deducted, as long as the repair/maintenance does not lead to a significant improvement of the item to be repaired.

3. Depreciation and calculation methods

Methods used	Declining-balance method, ¹ straight-line/prime cost, performance-related disposals (in case of economic reasons).
Frequency	Generally, depreciation is calculated on a monthly basis for simplification purposes.
Year of acquisition	Depreciation is generally calculated on an exact monthly basis (<i>pro rata temporis</i>). For example, if an asset is acquired in mid-November, the depreciation will be 2/12 of the year amount (year amount is derived from the acquisition costs divided through the years of standard useful life). In asset pooling (acquisition costs EUR250–EUR1,000 (net amount)), the depreciation is calculated on a yearly basis. In the year of acquisition, the respective assets are written down with one-fifth of the acquisition costs.

¹ The declining method has no relevance at the moment. This method was applicable for selective fiscal years (e.g., for movable assets between 2009 and 2010).

Year of disposal	In the year of disposal of capitalized assets, the asset will be derecognized out with the tax book value without any further adjustment. In case of disposal of pooling assets, the company continues to write off until the end of the five-year period.
Ability to use different methods for different assets	No. Generally, each asset requires an individual assessment. When valuing similar current assets, the depreciation method has to be applied to all like-minded assets within one class. Furthermore, if the asset pooling is chosen for low-value assets, this method has to be applied across the board to all these assets purchased within this fiscal year.
Ability to switch methods	No. With regard to the change of valuation methods, the principle of consistency has to be ensured. A deviation is only permitted for a serious reason.

4. Preferential and enhanced depreciation availability

Under certain conditions, small companies (companies with business assets of less than EUR235,000 in the year of the deduction) can claim "investment deductions" of up to 40% of the estimated future investment, provided they are made within a three-year period. Such deductions have to be reversed upon investment. These types of businesses are also allowed to write off up to 20% in total of the effective investment costs in the year of the investment up to the following four years. The aforementioned "investment deductions" are only applicable for movable tangible assets.

5. Accounting for disposals

In the case of disposal, capitalized assets will be derecognized. Only pooling assets will be depreciated until they are written off (within the five-year period).

6. Making a claim

Depreciation must be reported in the profit and loss statement.

In general, and not just for claims, German bookkeeping documentation requirements apply. For example, in cases of extraordinary depreciation, additional documents or a valuation report may be required.

7. Intangible assets

Acquired intangible assets are generally depreciated. The depreciation period depends on the (standard) useful life, contract periods, etc. Goodwill that has been acquired is depreciated within a period of 15 years for tax purposes. Intangible assets that have not been acquired cannot be capitalized in the tax balance sheet and, therefore, are not subject to depreciation.

Type of asset	Rates/lives
Trademarks	Depends on useful life
Patents, copyright, design, know-how or similar item	Depends on terms of use, terms of contract, etc.
Goodwill	15 years
License or permit	Depends on terms of use, terms of contract, etc.

Greece



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation or depreciation for tax purposes

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

4%-100%

Depreciation method used to calculate tax deduction

Straight-line method

1. Entitlement to claim

As a rule, the taxpayer (generally an individual or legal person) may claim depreciation on assets that are owned. In the case of a finance lease, the lessee may claim tax depreciation on leased fixed assets.

Annual depreciation is obligatory, and it begins in the month following the month when the asset is put into use.

2. Allocation of tangible assets to tax depreciation lives and rates

Depreciation of fixed assets should be applied item by item. Therefore, companies have to distinguish between assets, such as parts of a building, and apply different rates to each part (e.g., furniture, computers). Depreciation is claimed by applying a specific depreciation rate on the acquisition or construction cost per asset class of a business.

The Greek authorities have released a detailed list, which includes the depreciation rate of each asset type (see below).

2.1 Assets that may qualify for tax depreciation

The tax depreciation rates per asset type are depicted in the below table.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Buildings, construction, industrial and special installations, warehouses, etc.	25 years	Straight-line method	4%	
Quarries and special mining land pieces, except for those used for ancillary mining activities	20 years	Straight-line method	5%	
Means of public transportation, including airplanes, trains, ships and vessels	20 years	Straight-line method	5%	
Machinery and equipment, except for computers and software	10 years	Straight-line method	10%	
Means of transportation for people	6, 25 years	Straight-line method	16%	
Means of transportation for goods (internal goods transportation)	8, 33 years	Straight-line method	12%	
PC equipment, principal and ancillary, and software	5 years	Straight-line method	20%	
Equipment used for research and development (R&D)	2, 5 years	Straight-line method	40%	
Other fixed assets*	10 years	Straight-line method	10%	

* Any asset that could not be included in the above table is subject to a 10% depreciation rate as "other fixed assets."

The aforementioned coefficients are increased by 100% in cases of costs related to energy efficiency or water saving. Note that airplanes, trains, ships and vessels, means of transportation for people and means of transportation for goods (internal goods transportation) are excluded.

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land, artwork, antiques, jewelry and other	The related assets are not subject to any wear or obsolescence over the years. In other words, these respective assets are not devalued over time.
Fixed assets under construction	Expenditures aggregated in fixed assets under construction accounts should be transferred to relevant fixed asset accounts once the construction is complete and the asset becomes ready for use.
Inactive assets/idle	The assets that are not used under the company's regular activity are characterized as inactive/idle assets for tax purposes. Therefore, said assets are not subject to any depreciation.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Any costs incurred by a company that are directly linked to the acquisition of an asset and are necessary for the asset to become usable should be included in the asset's value. Additionally, any development cost that is directly linked with a specific asset should be included in that asset's cost and, therefore, should be depreciated as per the tax rate provided for the asset.

2.4 Availability of immediate deductions for bonus depreciation property and for eligible tangible property repairs

Description	Detail
Low-value assets	Tangible assets worth EUR1-EUR1,500 can be depreciated one-off at the year of acquisition.
Repair/maintenance costs	The expenditure for repairs and maintenance can generally be fully deducted, as long as the repair/maintenance does not constitute the acquisition cost or lead to improvement of the item.

3. Depreciation and calculation methods

Methods used	Straight-line
Frequency	Annually
Year of acquisition	Straight-line depreciation is calculated proportionately in the year of acquisition, following the month when the asset is put into use.
Year of disposal	Depreciation is prorated in the year of disposal from the beginning of the financial period to the month of disposal. The calculation is based on the number of months.
Ability to use different methods for different assets	No
Ability to switch methods	No

4. Preferential and enhanced depreciation availability

New companies may postpone their assets' tax depreciation for the first three tax years of their operations. It should be noted that the related benefit is not mandatory.

5. Accounting for disposals

If a business asset (tangible or intangible) is disposed of, the difference between the disposal value and the tax book value is considered a taxable gain. If the proceeds are lower than the book value, the taxpayer will be taking a tax-deductible loss.

6. Making a claim

Depreciation should be reported in the tax balance sheet as well as in the tax fixed-asset register.

7. Intangible assets

Intangible assets are generally depreciated at the rate of 10%. In cases in which a different economic life is provided by the agreement concluded for the specific asset, the depreciation rate would be adjusted based on the lifetime of the intangible (once per lifetime of the asset as provided by the agreement).

Type of asset	Rates/lives
Intangibles	10% (10 years)

India



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

5%-40%

Depreciation method used to calculate tax deduction

Declining-balance, straight-line

1. Entitlement to claim

Generally, legal owners are entitled to claim depreciation subject to certain conditions, such as:

- ▶ The asset must be used for business
- ▶ The asset must be used during the year

However, in the case of a finance lease transaction, the lessor would be eligible to claim depreciation as long as the transaction is not re-characterized as a loan, and the lessor is accepted to be the person responsible for the risks and rewards of ownership.

2. Allocation of tangible assets to tax depreciation lives and rates

Accounting depreciation is not relevant for making a claim for tax depreciation.

Assets are classified as either tangible or intangible.

The classification is further divided into different categories. Accordingly, rates applicable to the relevant category shall be applied to claim depreciation.

2.1 Assets that qualify for tax depreciation - tangible asset

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	–	Declining-balance	15%	List of rates of depreciation is mentioned in Income Tax Rules, 1962, available at incometaxindia.gov.in .
Motor cars	–	Declining-balance	15%	–
Buildings - other than used for residential purpose		Declining-balance	10%	List of rates of depreciation is mentioned in Income Tax Rules, 1962, available at incometaxindia.gov.in .
Used for residential purpose			5%	
Furniture, fittings or fixtures	–	Declining-balance	10%	–
Computer hardware	–	Declining-balance	40%	–
Computer software	–	Declining-balance	40%	–
Aircraft	–	Declining-balance	40%	–
Transport other than motor cars	–	Declining-balance	Various rates	List of rates of depreciation is mentioned in Income Tax Rules, 1962, available at incometaxindia.gov.in .

India

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Car parks	–	Declining-balance	10%	Rate applicable for buildings
Office equipment (including office furniture and fixtures)	–	Declining-balance	10%	List of rates of depreciation is mentioned in Income Tax Rules, 1962, available at incometaxindia.gov.in .
Land improvements	–	–	–	Not eligible for depreciation unless the classification falls under any category mentioned in the Income Tax Rules, 1962, available at incometaxindia.gov.in .
Qualified leaseholder improvement property	–	–	–	Not eligible for depreciation unless the classification falls under any category mentioned in the Income Tax Rules, 1962, available at incometaxindia.gov.in .
Agricultural machinery and equipment	–	Declining-balance	Various rates	List of rates of depreciation is mentioned in Income Tax Rules, 1962, available at incometaxindia.gov.in .
Property used in R&D	–	–	–	Separate deduction is given on all capital expenditures (except land) in the form of expenditures in the year in which they are incurred (subject to fulfillment of certain conditions/approvals - refer to paragraph 4). However, if capital expenditure is not claimed, depreciation under normal provisions is available.
Ships	–	Declining-balance	20%	List of rates of depreciation is mentioned in Income Tax Rules, 1962, at incometaxindia.gov.in .

Assets of the same class and rate of depreciation are pooled together in a “block.” As a result, the individual identity of the asset is lost once it becomes part of the block.

If the asset is used for more than 180 days, depreciation at the prescribed rate can be claimed. However, if the asset is used for less than 180 days, the depreciation would be restricted to 50% of the prescribed rate.

2.2 Assets that qualify for tax depreciation - intangible asset

Depreciation is allowed on know-how, patents, copyrights, trademarks, licenses, franchises or any other business or commercial rights of similar nature. The depreciation rate on written-down value basis is 25%.

With respect to intangible assets, such as goodwill or customer databases, there is uncertainty about whether the same would fall under "any other business or commercial rights of similar nature" and could, therefore, be considered as an intangible asset for income tax. Hence, a detailed evaluation is required based on the facts of each case to determine whether an intangible asset exists.

2.3 Assets that do not qualify for tax depreciation

This includes any asset that does not fall under the categories mentioned in Sections 2.1 and 2.2 above (e.g., land). Assets acquired in cash exceeding INR10,000 shall not be eligible for depreciation with effect from 1 April 2018.

Types of assets	Explanation
Land	Land does not qualify, as it does not fall under any tangible asset subcategory.

2.4 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

It may be possible to add the expenditure to the cost of the asset. Depreciation is allowed at the rates applicable to the asset (except land) based on the category in which the asset is classified.

Furthermore, certain expenses, such as expenditures incurred on the preparation of a feasibility report or project report, incurred at the time of incorporation or extension of the undertaking, can be amortized over a period of five years, subject to certain conditions.

2.5 Availability of immediate deductions for repairs

Typically, expenses that do not alter the useful life of an asset or expenses that are incurred to maintain the working condition of the asset are considered as repairs and are deductible as revenue expenditures.

The treatment from a tax perspective could differ from the accounting treatment.

3. Depreciation and calculation methods

Methods used	Declining-balance (straight-line is available for undertakings engaged in the generation and/or distribution of power)
Frequency	Annually
Year of disposal	Assets sold during the year are not eligible for depreciation.
Ability to use different methods for different assets	Not applicable
Ability to switch methods	Not applicable
Whether depreciation is optional/mandatory	Mandatory

4. Preferential and enhanced depreciation availability

Particulars	Comment on specific application and benefits available
Investment allowance for setting up manufacturing unit in backward area	A deduction of 15% of the actual cost of such new asset will be allowed in the year in which the asset is installed where an assessee sets up an undertaking for manufacture or production of any article or thing on or after 1 April 2015 in any backward area notified by the Government of India in the states of Andhra Pradesh, Bihar, Telangana and West Bengal, and acquires and installs new machinery or plant (other than ships and aircraft) for the said undertaking during the period from 1 April 2015 to 31 March 2020.
Additional depreciation for setting up manufacturing unit in backward area	Where an assessee sets up an undertaking for manufacture or production of any article or thing on or after 1 April 2015 in any backward area notified by the Government of India in the states of Andhra Pradesh, Bihar, Telangana and West Bengal and acquires and installs new machinery or plant (other than ships and aircraft) for the said undertaking during the period 1 April 2015 to 31 March 2020, there is additional depreciation at the rate of 35% on the cost of the asset (available only in the first year). If the asset is used for less than 180 days, additional depreciation will be available at 17.5% in the first year, and the balance of 17.5% will be allowed in the next year.
Scientific expenditure on in-house approved research and development facility	A company engaged in the business of biotechnology or in any business of manufacture or production of any article or thing, not being an article or thing specified in the list of the Eleventh Schedule of the Income Tax Act, 1961, is eligible for deduction of specified revenue and capital expenditure on scientific research (except land) of 150%* until 31 March 2020 and 100% from 1 April 2020 onward.
Additional depreciation on asset used in the business of manufacture or production of any article or thing or in the business of generation, transmission or distribution of power	Additional depreciation at the rate of 20% on the cost of the asset in the first year. If the asset is used for less than 180 days, additional depreciation will be available at 10% in the first year and the balance of 10% will be allowed in the next year.

* Deduction on buildings is restricted to 100% of expenditure incurred.

5. Accounting for disposals

The sale value reduces the value of the "block of assets." If the asset block ceases to exist or the sale value exceeds the block value, a capital gain or loss is computed. There is no impact on previously claimed depreciation.

In undertakings in which depreciation is allowed on actual cost, a deduction is allowed in respect of the amount by which the sale price falls short of the written-down value of the asset. The difference should be actually written off in the books of accounts. Where the sale price is higher than the written-down value of the asset disposed of, the difference is chargeable as business income.

6. Making a claim

Generally, no separate books of accounts are maintained for income tax. Separate calculations are prepared to calculate tax depreciation; however, companies and assesseees having turnover of more than the specified amount are required to have a tax audit. In the tax audit report, the tax auditor must certify the depreciation computed by the assessee for income tax. Based on the tax audit report, a claim needs to be made in the return of income. The return of income provides for specific schedules where the depreciation details are to be filled in.

Documents justifying the ownership, the use in the business or profession, cost of acquisition and the date put to use must be maintained.

Ireland



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Capital allowances

Does the tax treatment follow book/statutory accounting depreciation?

Tangible assets – no (other than capitalized repairs)

Intangible assets – yes (for certain assets)

Range of rates used

0%-100%

Depreciation method used to calculate tax deduction

Straight-line basis

1. Entitlement to claim

Capital allowances are a form of tax relief that enable a taxpayer to write off the cost of qualifying assets against taxable profits over time at a predetermined rate. A taxpayer must satisfy the relevant criteria in the legislation to be eligible to make a claim. In the case of a taxpayer claiming capital allowances against taxable profits, capital allowances can be claimed if the taxpayer:

- ▶ Has incurred the expenditure and owns the plant
- ▶ Uses the plant for the purposes of the trade at the end of the taxpayer's accounting period
- ▶ Bears the economic burden of wear and tear on the machinery, plant, fixtures and fittings installed
- ▶ Holds the relevant interest in the property (leasehold or freehold)

2. Allocation of tangible assets to tax depreciation lives and rates

Claimants are required to break down assets into individual items to allow them to be categorized for capital allowances. It is necessary, therefore, to have a detailed cost breakdown of all capital expenditures incurred, particularly with respect to buildings.

All depreciation of tangible fixed assets is disallowed when calculating taxable profit. Ireland then provides a system of capital allowances to obtain tax relief on qualifying expenditures. The main type of capital allowance is known as plant and machinery allowances. There is no statutory definition of what constitutes plant for capital allowances purposes, nor is there an approved list of qualifying items of expenditure for capital allowances. Therefore, the capital allowances treatment on various assets has been discussed and agreed through years of case law, and this identification can be particularly complex as a result.

2.1 Assets that may qualify for tax depreciation

The writing-down allowances (WDAs) identified in the table below are calculated per year on a straight-line basis. Building works such as leasehold improvements should be analyzed so that allowances are allocated to the correct asset type.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment Furniture, fittings or fixtures Office equipment (including office furniture and fixtures)	8 years	Straight-line basis	12.5% per year WDA	Expenditure incurred on or after 4 December 2002 on plant and machinery, fixtures and fittings, etc., may be written off at 12.5% per annum on a straight-line basis over an eight-year period.
Industrial buildings - broadly defined and includes a mill, factory or other similar premises	25 years	Straight-line basis	4% per year WDA	Industrial building allowances (IBAs) are available on assets that meet the definition of an industrial building.

Ireland

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Energy-efficient equipment	1 year	Straight-line basis	100% year one	The equipment must be approved and listed by the Minister for Communications, Energy and Natural Resources. Accelerated capital allowances of 100% of the capital expenditure incurred can be claimed for the year in which the equipment is provided and used.
Motor cars	8 years	Straight-line basis	<p>The rate of depreciation depends on the CO2 emissions of the car. The maximum qualifying cost of motor vehicles purchased on or after 1 January 2007 is €24,000.</p> <p>Cars with CO2 emission levels in Category A/B/C below will benefit from capital allowances at the current car value threshold under the existing scheme of €24,000, regardless of the cost of the car.</p> <p>Cars in Category D/E will receive allowances subject to a car cost limit of €12,000 or 50% of the cost of the car, if lower.</p> <p>Cars in Category F/G will not qualify for capital allowances.</p> <p>Category A vehicles: 0-120g/km Category B/C vehicles: 121-155g/km Category D/E vehicles: 156-190g/km Category F/G vehicles: 191g/km</p>	Since 1 January 2007, a car (new or secondhand) costing more than €24,000 gets an annual 12.5% wear-and-tear allowance as if the car's purchase price were €24,000. An electric car gets a 100% allowance in year one, but remains subject to the €24,000 limit.
Computer hardware and software	8 years	Straight-line basis	12.5% per year WDA	
Aircraft	8 years	Straight-line basis	12.5% per year WDA	

2.2 Assets that do not qualify for tax depreciation

Asset type	Explanation
Land	All costs relating to land
Dwellings	Usually no capital allowances if the expenditure is on a dwelling

2.3 Noteworthy items

Energy-efficient equipment

Accelerated capital allowances provide 100% tax relief in the first year and are available to companies for expenditure on certain energy-efficient equipment. The equipment must meet the following criteria:

- ▶ The equipment must be listed on the Sustainability Energy Authority of Ireland (SEAI) product register, and in the accounting period it is first provided.
- ▶ The equipment is not leased, let or hired to any person.
- ▶ The equipment was purchased new for use in a trade.
- ▶ Expenditure on a class of technology from the SEAI product register must exceed certain minimum thresholds.

Preliminary costs – architect fees, legal fees, planning

Preliminaries and professional fees should be attached with the asset to which they directly relate and may be assessed for capital allowances as long as they relate to plant and machinery. If the fees relate to a number of assets as part of a scheme of works, it is reasonable to apportion the costs over both qualifying and non-qualifying assets to which the fee relates.

Fees in respect of obtaining a legal interest in the property could be deemed to be too far removed from plant and machinery and are not likely to qualify for capital allowances.

Own labor capitalized

The treatment of such costs according to Irish Revenue is that “costs attributable to a person’s own labor where the person carries out work themselves” are non-allowable in computing expenditures qualifying for IBAs. However, capitalized labor costs relating to plant & machinery can be apportioned over both qualifying and non-qualifying assets to which the fee relates.

2.4 Availability of immediate deductions for repairs

The general position is that:

- ▶ The cost of a repair is normally an allowable expenditure.
- ▶ The cost of replacing an asset is a capital expenditure and is allowable as a deduction provided the nearest modern equivalent is used as the replacement.

A deduction for expenditures on repairs is given when the cost of the repair is deducted in the profit and loss account in line with generally accepted accounting practice (GAAP) (whether that is Irish GAAP or International Accounting Standards (IAS)). As a result, if a repair is capitalized for accounting purposes, the tax deduction will generally be given in line with the accounting depreciation charge over the life of the asset.

Repairs do not include the cost of replacing the entirety of an asset or of making an improvement to an existing asset. There is a body of case law and tax authority guidance around this subject. There is a concept of nearest modern equivalent for tax purposes when considering whether an asset has been improved. It is necessary to consider whether the asset’s character has changed because of the work in determining whether expenditure is a repair.

3. Depreciation and calculation methods

Methods used	Straight-line basis
Frequency	WDAs calculated annually
Year of acquisition	Full capital allowances available; WDAs calculated as per balance at year-end
Year of disposal	Disposal proceeds deducted from capital allowances claimed; a balancing adjustment may occur in the year of disposal

4. Accounting for disposals

When an asset is disposed of, a balancing charge or allowance (that is, an adjustment to the quantum of the allowances made) may arise in a chargeable period where any of the following events occurs in relation to any machinery or plant in respect of which capital allowances have been obtained by a person carrying on a trade:

- ▶ The machinery or plant ceases to belong to the person, whether on a sale or otherwise.
- ▶ The machinery or plant ceases to be used for the purposes of the trade.
- ▶ The trade permanently ceases.
- ▶ In the case of machinery or plant consisting of a specified intangible asset, computer software or the right to use or otherwise deal with computer software, the granting to another person of a right to use or otherwise deal with all or part of the software concerned.

A balancing allowance arises where the tax written-down value in respect of the machinery or plant is less than the sale, insurance, salvage or compensation moneys received for the machinery or plant.

A balancing charge arises when the amount of the sale, insurance, salvage or compensation moneys received exceed the unused capital allowances remaining in respect of the machinery or plant, except (other than where the machinery or plant is disposed of to a connected person) when the amount of those moneys is less than €2,000. A balancing charge is a way of ensuring that a business does not claim more tax relief than it was entitled to on the purchase of a business asset and effectively claws back any overclaimed capital allowances. The balancing charge works in the opposite way to a capital allowance and increases the amount of profit on which tax is due.

Special apportionment rules apply when the balancing event arises as a result of granting a right to use or otherwise deal with all or part of machinery or plant that consists of computer software or the right to use or otherwise deal with computer software.

5. Making a claim

A claim is made in a person's/company's tax return that operates on a system of self-assessment. A claim can be made, amended and withdrawn in most cases within two years of the end of the accounting period. There are occasions in which a claim could be made after this point; however, this will depend on the specific circumstances.

A claim should provide sufficient supporting information to substantiate the tax relief claimed and enable Irish Revenue to determine whether this has been calculated correctly. Should insufficient supporting information be provided, the window in which Irish Revenue could formally inquire into the tax computation could be extended.

6. Intangible assets

A company may claim capital allowances for capital expenditures incurred on specified intangible assets against the income from "relevant activities" of a company. Examples of specified intangible assets include patents, registered designs, copyrights, inventions, trademarks, as well as goodwill directly attributable to these assets. Intangible assets are treated as plant and machinery for capital allowances purposes. The normal wear-and-tear rules apply. A company may claim the amount of amortization or any impairment charged in the Statement of Comprehensive Income in each accounting period. Alternatively, a company may elect to claim capital allowances over a fixed write-down period of 15 years at:

- ▶ 7% per annum of qualifying expenditure
- ▶ 2% in the final year

Finance Act 2017 introduced a cap on the amount of relief that may be claimed in an accounting period. This cap applies to claims in respect of capital expenditures on specified intangible assets on or after 11 October 2017. The level of deduction cannot exceed 80% of the trading income of the relevant trade for the accounting period.

Italy



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

Yes, up to specific rates provided by the tax law

Range of rates used

1%-50%

Depreciation method used to calculate tax deduction

Straight-line (prime cost)

1. Entitlement to claim

In general, the person entitled to claim accounting and tax depreciation is the legal owner of the asset. This rule also applies for financial lease agreements and rentals. Tax rules follow the abovementioned accounting approach.

2. Allocation of tangible assets to tax depreciation lives and rates

For assets that consist of several items, the taxpayer will have to determine the cost of each component. Assets with different useful estimated lives must be recorded and tracked individually.

For buildings, certain items (e.g., heating, telecommunications and alarm systems) can be closed as separate assets and depreciated accordingly.

Italian generally accepted accounting principles (GAAP) do not provide a comprehensive table of assets and the lives/rates to be applied. Indeed, from a tax perspective, tangible assets must be depreciated using specific rates provided by ministerial decree issued on 31 December 1988. In the case of intangible assets, the tax law in force provides a specific useful life to calculate the maximum depreciation quota of each fiscal year (see Article 103, Italian Tax Code).

2.1 Assets that qualify for tax depreciation

Italian GAAP does not set out a comprehensive table of assets and rates to be applied. Special rates are set out by ministerial decree, however, and this ministerial decree is generally followed for accounting purposes. The ministerial decree determines the depreciation quota that applies across 22 groups of industries.

The ministerial decree issued on 31 December 1988 defines rates to be applied for determining the yearly tax depreciation quota of tangible assets and is divided into 22 groups of industries, following divided subcategories. For instance, the Group 4, Subpart 4, related to the oil and gas industry (exploration and production sector), provides the following rates:

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Buildings	18.18 years	Straight-line method	5.5%	The applicable rate may vary based on the industry in which the company performs its activity.
Lightweight construction	10 years	Straight-line method	10%	The applicable rate may vary based on the industry in which the company performs its activity.
Generic plants	12.5 years	Straight-line method	8%	The applicable rate may vary based on the industry in which the company performs its activity.
Wells	6.67 years	Straight-line method	15%	The applicable rate may vary based on the industry in which the company performs its activity.
Specific plants	4 years	Straight-line method	25%	The applicable rate may vary based on the industry in which the company performs its activity.

Italy

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Sensors and recorders for geophysical surveys	4 years	Straight-line method	25%	The applicable rate may vary based on the industry in which the company performs its activity.
Equipment and small tools	2.86 years	Straight-line method	35%	The applicable rate may vary based on the industry in which the company performs its activity.
Plants for the processing and purification of water, harmful fumes, etc., through the use of chemical reagents	6.67 years	Straight-line method	15%	The applicable rate may vary based on the industry in which the company performs its activity.
Furniture and office machinery	8.33 years	Straight-line method	12%	The applicable rate may vary based on the industry in which the company performs its activity.
Electrical and electronic office equipment, including computers and telephone systems	5 years	Straight-line method	20%	The applicable rate may vary based on the industry in which the company performs its activity.
Transport vehicles (e.g., general heavy vehicles, forklifts, vehicles for internal transport)	5 years	Straight-line method	20%	The applicable rate may vary based on the industry in which the company performs its activity.
Cars, vehicles and similar	4 years	Straight-line method	25%	The applicable rate may vary based on the industry in which the company performs its activity.

Tax depreciation cannot exceed the accounting depreciation. Any excess of tax depreciation can be recovered only at the end of the accounting depreciation life.

A tax incentive introduced by Law No. 208 of December 2015 (the Italian Budget Law for 2016) states that the depreciable base of certain plants, machinery and equipment (excluding those with depreciation rates lower than 6.5%) purchased between 15 October 2015 and 31 December 2016 is equal to 140% of the acquisition cost (super-depreciation). This provision has been extended by Law No. 232 of 11 December 2016 (the Italian Budget Law for 2017), entered into force on 1 January 2017, to qualifying tangible assets, except certain vehicles not exclusively used for the business of the company, purchased or acquired through a financial lease between 1 January 2017 and 30 June 2018. Law No. 205 of 27 December 2017 (the Italian Budget Law for 2018), entered into force on 1 January 2018, has extended the abovementioned provision with reference to assets purchased between 1 January 2018 and 30 June 2019. The depreciable base for assets purchased between 1 January 2018 and 30 June 2019 is equal to 130% of the acquisition cost, instead of 140%. With specific reference to purchases in the period from 1 January 2019 to 30 June 2019, the super-depreciation could be recognized to the extent that the relevant purchase order was accepted by the seller and at least 20% of the purchase price was paid by 31 December 2018.

The Italian Law Decree No. 34 of 30 April 2019 (so-called Decreto Crescita), entered into force on 1 May 2019, has extended the super-depreciation provision with reference to assets purchased between 1 April 2019 and 31 December 2019, for investments up to EUR 2.5 million. The depreciable base for the qualifying assets is equal to 130% of the acquisition cost. With specific reference to purchases in the period from 1 January 2020 to 30 June 2020, the super-depreciation could be recognized to the extent that (i) the relevant purchase order was accepted by the seller and (ii) at least 20% of the purchase price was paid by 31 December 2019. Please note that, until the Law Decree is converted into Law, the above-mentioned provisions could be further amended by the Italian Parliament.

Italy

In addition, the Italian Budget Law for 2017 introduced a tax incentive (hyper-depreciation) with reference to the purchase of tangible assets linked to digital and technological transformation processes promoted by the Italian Government within its Industry Plan 4.0. In particular, the depreciable base cost of certain tangible assets purchased between 1 January 2017 and 30 June 2018 is equal to 250% of the relevant acquisition cost (qualifying assets are specifically listed in annex A to the Italian Budget Law for 2017). For taxpayers benefiting from this latter incentive, the depreciable base of certain eligible intangible assets, specifically listed in annex B, is also equal to 140% of the relevant acquisition cost. The Italian Budget Law extended this provision for 2018. The depreciable base cost of certain tangible assets purchased between 1 January 2018 and 31 December 2019 is equal to 250% of the relevant acquisition cost. For taxpayers benefiting from this latter incentive, the depreciable base of certain intangible assets is also equal to 140% of the relevant acquisition cost.

The Italian Budget Law for 2019 has further extended the abovementioned provision with reference to assets purchased between 1 January 2019 and 31 December 2020. For taxpayers benefiting from this latter incentive, the Italian Budget Law for 2019 has further extended also the incentive based on which the depreciable base of certain intangible assets is equal to 140% of the relevant acquisition cost.

With specific reference to purchases from 1 January 2020 to 31 December 2020, the hyper-depreciation can be recognized to the extent that the relevant purchase order must be accepted by the seller and at least 20% of the purchase price must be paid by 31 December 2019.

The depreciable base cost for 2019 of the above tangible assets (specifically listed in annex A to the Italian Budget Law for 2017) is equal to:

- ▶ 270% of the relevant acquisition cost, for investments up to €2.5 million
- ▶ 200% of the relevant acquisition cost, for investments from €2.5 million to €10 million
- ▶ 150% of the relevant acquisition cost for investments from €10 million to €20 million

No additional depreciation is provided for investments over €20 million.

Furthermore, the Italian Budget Law for 2019 provides that costs incurred for fees paid to have access, through cloud computing solutions, to certain eligible intangible assets (specifically listed in annex B to the Italian Budget Law for 2017) fall under the 140% benefit, within the limit of the quota of the fee related to each fiscal year in which the tax incentive is in force.

2.2 Assets that do not qualify for tax depreciation

Type of assets	Explanation
Land	<p>Under Italian tax rules, land cannot be depreciated either for accounting or for tax purposes. Land is deemed to have an undefined useful life.</p> <p>If the historical cost (i.e., the purchase cost) of the building includes the value of the land, accounting and tax depreciation must be adjusted to identify the depreciation quota virtually attributable to land. The mentioned adjustment is equal to a lump-sum reduction of 20% or 30% of the accounting depreciation.</p>

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

These represent costs that can be directly computed, increasing the historical cost of the related asset, and consequently depreciated for the useful life period of the principal item. Ancillary costs can be defined as the whole of costs sustained by the purchaser to make the asset available and ready for use.

For tax purposes, ancillary costs follow the same approach described for accounting purposes. Indeed, they increase the historical cost of the related asset and consequently are subject to the depreciation process. Such costs can be deducted under the ordinary rules related to the depreciation process (using depreciation rates provided by the tax law).

Land remediation

Such costs are generally accounted for in profit and loss (P&L) as provisions for future risks and charges. The annual accrual of the mentioned provisions cannot be deducted for corporate income tax (CIT) purposes; thus, the deductibility is postponed to the fiscal year in which the costs are actually sustained.

Own labor capitalized

Own labor can be capitalized if it refers to internal realization of assets (e.g., in the case of patents, buildings, machines). In this case, it can be depreciated for the useful-life period of the principal item (both from an accounting and tax standpoint). Such costs can be deducted under the ordinary rules related to the depreciation process (using depreciation rates provided by the tax law).

2.4 Availability of immediate deductions for repairs

Accounting rules state that an item meeting the requirements provided for in the law for being capitalized (long-lasting use, constituting a relevant part of the business organization of the enterprise) can be depreciated in a period equal to its useful life. Therefore, full depreciation of the asset in the year of acquisition is allowed, providing that its useful life is equal to one year.

Italian tax law provides that in the case of assets whose unit cost is not higher than €516.46, the full depreciation of the acquisition cost in the year of purchase shall be allowed in the fiscal year during which such costs have been incurred. The mentioned rule is not mandatory.

Under Italian legislation, repair expenses can be classified into two categories: routine maintenance and improvements.

Routine maintenance cannot be accounted for as an increase in the historical cost of the item, but it is recognized in the P&L of the financial year in which it is sustained.

Improvements represent costs that trigger a significant and tangible increase in productivity or useful life of the asset. Such costs must be accounted for as an increase of the historical cost and, therefore, they must be capitalized.

From a tax perspective, routine maintenance recognized in the P&L of the financial year in which it is sustained can be deducted for CIT purposes only up to 5% of the value of fixed tangible assets, according to the record of depreciable assets at the beginning of the financial year. Any excess can be deducted in equal quotas in the following five fiscal years.

Maintenance expenses in connection with a contract with third parties providing periodic maintenance of the company's assets are fully deductible, and the value of the asset is not taken into account in determining the above limit.

Improvements accounted for as an increase of the historical cost and, therefore, capitalized can be deducted for CIT purposes applying the general tax rules provided above.

3. Depreciation and calculation methods

Methods used	Straight-line/prime cost
Frequency	The depreciation is calculated on an annual basis.
Year of acquisition	Accounting depreciation starts when the asset is available and ready for use. The yearly quota is computed using a pro rata time. The term "ready for use" means that the asset is properly working and is, from a juridical point of view, at the disposal of the purchaser. For tax purposes, instead, the depreciation starts from the fiscal year during which the asset enters operation. The tax rate for the first year of depreciation is reduced by 50%.
Year of disposal	In the year of disposal, accounting and tax depreciation is calculated following the ordinary rules described above.
Ability to use different methods for different assets	From an accounting perspective, the same method and depreciation rates must be used for the same class of assets.
Ability to switch methods	Italian GAAP n. 29 allows, respecting certain conditions, a change in accounting criteria. From a tax perspective, the only available depreciation method is the straight-line approach.

4. Preferential and enhanced depreciation availability

Enhanced/accelerated depreciation methods are allowed from an accounting standpoint, while they are not allowed for tax purposes.

For investments in new business assets made between 25 June 2014 and 30 June 2015, companies may benefit from a tax credit equal to 15% of the incurred expenses exceeding an adjusted average of investments in the same kind of assets sustained during the previous five fiscal years (i.e., 2009-13). The tax credit applies only for investment in qualified assets and equipment specifically identified by the law. Companies incorporated less than five years may benefit from such tax credit by comparison with any qualifying investment carried out as of the year of incorporation.

Qualified assets mainly include plants and equipment included in a specific measure issued by the Director of the Revenue Agency in November 2007.

The tax credit is to be used in three equal installments to offset payments of taxes, liabilities and social securities. The tax credit was available starting from 1 January of the second fiscal year after the year of the investment. Therefore, the mentioned tax credit is no longer available (since it was related to investments that occurred between 25 June 2014 and 30 June 2015). However, the same can be revoked if the qualifying assets are disposed of or transferred outside of Italy within the fourth fiscal year following the one in which the tax return declaring the tax credit was filed (for companies with fiscal year equal to the calendar year, the final deadline expires in 2020).

5. Accounting for disposals

In case of disposal, the company will recognize a capital gain or loss in the P&L of the financial year in which the operation takes place, comparing the historical cost of the asset (including the depreciation quota computed until the date in which the asset is removed from the production process) and the consideration received.

From a bookkeeping perspective, the asset is written off from the accounting ledgers. In principle, no adjustments should be made to the capital asset and previously claimed depreciations.

From a tax perspective, capital gains are taxed and capital losses can be deducted in the year in which the disposal takes place.

In case of the scrap of an asset, the company will recognize a capital loss equal to the residual historical cost of the asset (including the depreciation quota computed until the date in which the asset is removed from the production process) in the P&L of the financial year in which the operation takes place.

From a bookkeeping perspective, the asset is written off from the accounting ledgers. In principle, no adjustments should be made to the capital asset and previously claimed depreciations.

In case of the scrap of the assets previously booked, the company must be able to be compliant with specific provisions (e.g., communications to be filed with the relevant tax authorities) concerning the documental proof to overcome the legal "presumption of sale" for CIT and value-added tax purposes.

6. Making a claim

No specific claim is required for implementing the depreciation process. Compulsory rules are provided by the law with reference to bookkeeping procedures.

Among the required documentation, accounting ledgers related to the depreciation are the asset book and the book of inventories. However, all the relevant accounting documents (e.g., purchase invoices, agreements) related to the enterprise must be stored for at least 10 years, or for a longer period of time, depending on the statute of limitation provided by tax law.

7. Intangible assets

Tax depreciation is available for intangible assets.

From an accounting perspective, the depreciation starts when the asset is ready for use or when it starts to produce its benefits for the entity. Under Italian law, the depreciation period for goodwill is related to its useful life or for a maximum 10-year period. Goodwill can be capitalized only if a price was paid for it and with the formal authorization of the internal auditors committee. The depreciation of goodwill must be properly documented in the explanatory notes of the financial statements.

From a tax perspective, tax law expressly identifies a defined useful life for each category of intangible asset, determining the minimum statutory length of the tax depreciation process.

Type of asset	Rates/lives
Trademarks	Costs for purchased trademarks can be deducted in at least 18 years in equal installments. Longer length of the amortization process is allowed.
Patents, copyright, design, know-how or similar item	Costs for patents, copyright, design and know-how can be deducted in at least two years in equal installments. A longer length of the amortization process is allowed.
Goodwill	Goodwill may be capitalized and depreciated for tax purposes only if a price was paid for it (e.g., goodwill arising from mergers cannot be deducted). Costs for goodwill can be deducted in at least 18 years in equal installments. A longer length of the amortization process is allowed.
License or permit	Licenses and permits can be deducted for a period equal to their contractual duration.

Japan



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Depreciation

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

1.3%-100%

Depreciation method used to calculate tax deduction

Declining-balance, straight-line/prime cost, units of production, straight-line for over lease periods

1. Entitlement to claim

Economic owners, including finance leasing holders under certain conditions, are entitled to claim depreciation when they capitalize the asset in the books of account.

2. Allocation of tangible assets to tax depreciation lives and rates

Companies are required to break down assets by the following categories for Japanese tax purposes: buildings, building improvements, other structures, machinery, equipment, vessels, aircraft and vehicles.

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Buildings and building improvements	3-50 years	Straight-line	2%-33.4%	
Car parks	10-50 years	Declining-balance Straight-line	9.1%-100% 4.6%-50%	For items regarded as buildings, only the straight-line method may be used.
Other structures (e.g., dam, tunnel, bridge, railway)	3-80 years	Straight-line	1.3%-33.4%	
Plant, machinery and equipment	2-22 years	Declining-balance Straight-line	9.1%-100% 4.6%-50%	For items regarded as buildings, only the straight-line method may be used.
Property used in R&D	4-7 years	Declining-balance Straight-line	28.6%-50% 14.3%-25%	
Agricultural machinery and equipment	7 years	Declining-balance Straight-line	28.6% 14.3%	
Furniture, fittings or fixtures	2-20 years	Declining-balance Straight-line	10%-100% 5%-50%	
Office equipment (including office furniture and fixtures)	2-20 years	Declining-balance Straight-line	10%-100% 5%-50%	
Computer hardware	4 or 5 years	Declining-balance Straight-line	40% or 50% 20% or 25%	
Computer software	3 or 5 years	Straight-line	20% or 33.4%	
Motor cars	3-6 years	Declining-balance Straight-line	33.3%-66.7% 16.7%-33.4%	
Aircraft	5, 8 or 10 years	Declining-balance Straight-line	20%, 25% or 40% 10%, 12.5% or 20%	
Vessel	4-15 years	Declining-balance Straight-line	13.3%-50% 6.7%-25%	
Other transportation (e.g., train)	2-20 years	Declining-balance Straight-line	10%-100% 5%-50%	

Japan

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Art object	8 or 15 years	Declining-balance Straight-line	13.3% or 25% 6.7% or 12.5%	If the acquisition cost is JPY1m or more, the art object cannot be recognized as a tax depreciation expense.
Finance lease asset	Lease periods	Straight-line method over the lease periods	Depends on lease periods	
Land improvements	N/A	N/A	N/A	

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land does not qualify because the value of land (theoretically) does not decrease over time.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Add the expenditure to the acquisition costs of the fixed asset.

Own labor capitalized – work on developing software, for example, or carrying out work on property

Add the expenditure to the acquisition cost of the fixed asset.

2.4 Availability of immediate deductions for repairs

Description	Detail
Assets below a certain value	Assets with a value of less than JPY100,000 need to be included in the expenses.
Repairs	Repairs are ordinarily included in the current expenses.

Repair expenses are ordinarily included in the current expenses. However, repairs that extend the useful life or enhance the value of the property are included in the acquisition cost. The following expenses are treated as repair expenses:

- ▶ Expenses for the restoration of an asset damaged by a disaster
- ▶ A small amount of expenses (under JPY200,000 per year) for short-term (within three years) periodic maintenance
- ▶ Expenses amounting to less than JPY600,000 or 10% of the acquisition cost of the asset, unless such expenses are clearly recognized as capital expenditure

3. Depreciation and calculation methods

Methods used	Declining-balance, straight-line/prime cost, units of production, replacement
Frequency	Annually Depreciation is calculated on annual basis due in conjunction with the annual tax return.
Year of acquisition	Depreciation is calculated from the (full) month in which the asset has been used for the business for the first time (i.e., acquisition alone is not sufficient) and then if held at year-end.
Year of disposal	In case of disposal depreciation, in principle, it is only possible if the asset is held and disposed of at year-end.
Ability to use different methods for different assets	Different methods can be applied to the same assets by each business place if the business place meets certain requirements (e.g., the company has two factories in different places). In that case, the company can select different methods, factory by factory, for the same category of assets.
Ability to switch methods	Yes, an application must be filed with the National Tax Agency (NTA) with jurisdiction over the individual or corporation to change the depreciation method before the beginning of the tax year for which the change is to be effective. Once changed, individuals and corporations cannot change the depreciation method again for three years unless there are extraordinary circumstances, such as a corporate merger.

4. Preferential and enhanced depreciation availability

There are some important special depreciation regimes to note.

Asset used in	Comment on specific application and benefits available
Machinery, etc., for enhancement of high energy-saving	30% special depreciation
Building improvement, machinery and equipment for enhancement of disaster countermeasure acquired by small and medium-sized corporations	20% special depreciation
Machinery, etc., acquired by small and medium-sized corporations	30% special depreciation
Machinery, etc., acquired in a National Strategic Economic Growth Area	45% special depreciation (buildings and other structures – 23%)
Management improvement equipment acquired by small and medium-sized corporations	30% special depreciation
Equipment for enhancement of business productivity for small and medium-sized corporations	Immediate depreciation
Building, etc., specifically in the local operation reinforcement plan under the Local Revitalization Act	25% or 15% special depreciation
Software and machines, devices or equipment acquired with the software, of which the total cost of acquisition is JPY50 million or more. This does not include assets for use in R&D.	30% special depreciation

In many cases, tax credits are provided as tax incentives in certain time periods instead of special depreciation.

5. Accounting for disposals

No adjustments are made when a company disposes of an asset.

6. Making a claim

A claim is made in the tax return.

Corporations should attach Schedule 16 (the form of computing depreciation) to the tax return.

7. Intangible assets

The following intangible assets are also amortized:

- ▶ Goodwill
- ▶ Patents
- ▶ Trademark
- ▶ Utility model rights (industrial property rights)
- ▶ Design model rights
- ▶ Rights regarding mining, fishing, water use, use of railway property, use of electrical or gas supply facilities, and use of heat supply, water supply or telegraph or telephone facilities, etc.

Type of asset	Rates/lives
Goodwill	20%/5 years
Patents	12.5%/8 years
Trademark	10%/10 years
Utility model rights	20%/5 years
Design rights	14.3%/7 years

Kuwait



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

4.0%-33.3%

Depreciation method used to calculate tax deduction

Straight-line

1. Entitlement to claim

Only legal owners are entitled to claim depreciation.

2. Allocation of tangible assets to tax depreciation lives and rates

Tax legislation sets out the rates that apply. Different classes of assets can be treated separately. For example, elevators in a building can be treated as plant and machinery.

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment		Straight-line method	20%-25%	Depreciation rate for drilling equipment is 25%.
Motor cars		Straight-line method	20%	
Buildings		Straight-line method	4%	Prefabricated building rate is 15%.
Furniture, fittings or fixtures		Straight-line method	15%	
Computer hardware		Straight-line method	33.3%	
Computer software		Straight-line method	25%	
Aircraft		Straight-line method		The law does not specify a depreciation rate. The tax authorities may apply the rate applicable for plant, machinery and equipment.
Transport other than motor cars		Straight-line method	15%-20%	Trucks and lorries are 15%, and cars and buses are 20%.
Car parks				The law does not specify a depreciation rate.
Office equipment (including office furniture and fixtures)		Straight-line method	15%	
Land improvements				The law does not specify a depreciation rate.
Qualified leaseholder improvement property				The law does not specify a depreciation rate.
Agricultural machinery and equipment				The law does not specify a depreciation rate.
Property used in R&D				The law does not specify a depreciation rate.

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Excluded by Kuwait tax law

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Costs and expenses prior to signing a contract are not considered expenses since they are attributable to the head office. Consequently, there is no relief for these costs.

Costs and expenses prior to operations and after signing a contract are treated as incorporation expenses and are allowed as deductions in the year they are incurred.

Land remediation – removing asbestos, Japanese knotweed

No specific provisions apply.

Own labor capitalized – work on developing software, for example, or carrying out work on property

No specific provisions apply.

2.4 Availability of immediate deductions for repairs

There are no specific provisions in the Kuwait tax law to determine what a repair is. If an expense is capitalized as per accounting standards, it can be depreciated over the useful life of the asset and should not be treated as an expense for tax purposes.

3. Depreciation and calculation methods

Methods used	Straight-line
Frequency	Daily
Year of acquisition	The depreciation charge is calculated based on the carrying cost of the asset from the date of acquisition.
Year of disposal	Depreciation can be calculated until the disposal date.
Ability to use different methods for different assets	No
Ability to switch methods	N/A

4. Preferential and enhanced depreciation availability

There are no specific provisions to grant enhanced deductions for assets.

5. Accounting for disposals

Any capital gain will be charged to tax, while capital loss is allowed as a deduction. However, sufficient supporting documents for disposals are to be provided to substantiate the profit/loss. In case insufficient supporting documents are submitted to the tax authorities, a capital gain shall be estimated, regardless of the type of disposal.

Specific cases should be consulted with the tax authorities.

6. Intangible assets

There are no specific provisions for tax relief for intangible assets. As a result, expenditure on intangibles does not attract any tax relief.

Malaysia



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Capital allowances

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

3%–100%

Depreciation method used to calculate tax deduction

Straight-line

1. Entitlement to claim

A taxpayer is entitled to claim capital allowance if:

- ▶ Capital expenditure is incurred in the basis period.
- ▶ The taxpayer is the owner of the asset at the end of the basis period.
- ▶ The asset is used for the business.

For assets acquired by hire-purchase, the amount paid as the down payment and the capital portion of each instalment payment would qualify for capital allowance claims as and when the relevant amounts are incurred.

2. Allocation of tangible assets to tax depreciation lives and rates

The taxpayer must identify what costs are incurred on different assets.

Generally, rates of capital allowances are as follows.

A. Capital allowances rates for plant

Standard rates

Types of assets	Initial allowance (IA)	Annual allowance (AA)
Heavy machinery and motor vehicles ¹	20%	20%
Computer and information and communication technology (ICT) equipment ²	20%	20%
Plant and machinery (general)	20%	14%
Others	20%	10%
Small-value assets ³	0%	100%

B. Industrial building allowance (IBA)

A building is an industrial building if it is used for business purposes and it is used as a:

- ▶ Factory
- ▶ Dock, wharf, jetty or other similar building
- ▶ Warehouse, if the business consists or mainly consists of the hire of storage space to the public
- ▶ Building used for the business of a water or electricity undertaking that supplies water or electricity for consumption by the public

¹ Qualifying expenditure on private motor vehicles is restricted to MYR50,000. However, if the vehicle is new and the total cost does not exceed MYR150,000, the qualifying expenditure will be restricted to MYR100,000.

² An accelerated rate of 20% initial allowance and 20% annual allowance is given for expenditure incurred on the purchase of ICT equipment and computer software packages. Parliament Budget 2018 proposed that a rate of 20% initial allowance and 20% annual allowance also be given for the development of customized software consisting of consultation fee, licensing fee and incidental fee related to software development, effective from the year of assessment 2018.

³ Small-value assets refer to assets in which the value of each does not exceed MYR1,300 and the total value of such assets for each year of assessment does not exceed MYR13,000. However, such limit is not applicable to a company that is resident and incorporated in Malaysia with paid-up ordinary share capital of MYR2.5 million or less at the beginning of the basis period of the year of assessment and is not otherwise related directly or indirectly to another company that has a paid-up capital of more than MYR2.5 million (a small and medium enterprise, or SME).

Malaysia

- ▶ Building used for the business of a telecommunication undertaking, which provides telecommunication services to the public
- ▶ Building used in connection with the working of a farm
- ▶ Building used in connection with the working of a mine

A taxpayer is entitled to claim the following IBA for the year of assessment in which the taxpayer incurs the capital expenditure for an industrial building:

Types of assets	Initial allowance	Annual allowance
Industrial buildings	10%	3%

Other types of buildings that do not fall within the above can also be deemed industrial buildings. In certain cases, conditions must be met for such structures to be considered industrial buildings and all provisions that apply to industrial buildings generally also apply to them. The IBA rates for these special buildings may differ from the above. The rates are summarized below:

Types of assets	Initial allowance	Annual allowance
Buildings used for welfare/living accommodation of employees of a farm	10%	3%
Constructed buildings used as living accommodation of employees (employee does not include a director, an individual having control of that business or an individual who is a member of the management, administrative or clerical staff)	40%	3%
Buildings (constructed or purchased) used for living accommodation of employees for manufacturing, hotel or tourism business*	0%	10%
Buildings used for a childcare center provided by employer*	0%	10%
Buildings used as a childcare center or kindergarten registered with the relevant authority	0%	10%
Approved buildings for a school or an educational institution*	0%	10%
Buildings for industrial, technical or vocational training*	0%	10%
Approved licensed private hospitals, maternity homes and nursing homes*	10%	3%
Buildings used for approved research*	10%	3%
Buildings used for storage of goods for import and export*	0%	10%
Buildings used for an approved service project*	10%	3%

Malaysia

Types of assets	Initial allowance	Annual allowance
Public roads and ancillary structures recoverable through toll collection, buildings constructed on a build-lease-transfer basis, buildings constructed under approved privatization projects	10%	6%
Buildings used for registered hotels*	10%	3%
Airports (buildings, runway or ancillary structures)*	10%	3%
Approved motor racing circuits*	10%	3%
Approved buildings used as senior centers	0%	10%
Approved buildings used for BioNexus status companies	0%	10%
Approved buildings in Cyberjaya Flagship Zone	0%	10%
Commercial buildings (constructed or purchased) used for specific businesses by Tun Razak Exchange marquee status company	0%	10%

* With effect from the year of assessment 2016, taxpayers who own such a building and operate the relevant business in that building are entitled to claim industrial building allowances. If part of the building is used for letting property and it is not more than one-tenth of the floor area of the whole building, the whole building qualifies as an industrial building. However, if it is more than one-tenth of the floor area of the whole building, that part of the building that is let out will not be treated as an industrial building for claiming the industrial building allowance.

C. Agriculture allowances

When a taxpayer has incurred a capital expenditure on a qualifying agriculture expenditure, the taxpayer is entitled to an agriculture allowance as follows:

Types of qualifying agriculture expenditures	Rates
Clearing and preparation of land	50%
Planting (but not replanting) of crops on land cleared for planting	50%
Construction of a road or bridge on a farm	50%
Building used as living accommodation or welfare for employee of a farm	20%
Any other building on a farm	10%

D. Forest allowances

When a person (which includes a company, a body of persons, a limited liability partnership and a corporation sole) who has a concession or license to extract timber has incurred a capital expenditure on the construction of certain roads or buildings in a forest, such person is entitled to a forest allowance as follows:

Types of qualifying forest expenditures	Rates
Road or building	10%
Building used as living accommodation or for the welfare of employee	20%

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Heavy machinery	4 years	Straight-line	IA=20%; AA=20%	
Plant and machinery	6 years	Straight-line	IA=20%; AA=14%	
Motor vehicle (licensed for commercial transportation of goods or passengers)	4 years	Straight-line	IA=20%; AA=20%	Must be licensed by appropriate authority
Motor vehicle	4 years	Straight-line	IA=20%; AA=20%	Qualifying expenditure on a private motor vehicle is restricted to MYR50,000. However, if the vehicle is new and the total cost does not exceed MYR150,000, the qualifying expenditure will be restricted to MYR100,000.
Buildings (industrial buildings)	30 years	Straight-line	IA=10%; AA=3%	See Section 2B for further details.
Furniture, fittings or fixtures	8 years	Straight-line	IA=20%; AA=10%	
Computer hardware	4 years	Straight-line	IA=20%; AA=20%	This accelerated capital allowance (ACA) rate applies if certain conditions have been met. See Section 2A for further details.
Computer software	4 years	Straight-line	IA=20%; AA=20%	
Aircraft	4 years	Straight-line	IA=20%; AA=20%	
Transport other than motor vehicle	4 years	Straight-line	IA=20%; AA=20%	
Car parks	6 years	Straight-line	IA=20%; AA=14%	Generally, car parks are not eligible for capital allowances. However, in a Malaysian tax case, the Court of Appeal held that car park buildings may qualify as plant under certain circumstances.
Office equipment (including office furniture and fixtures)	8 years	Straight-line	IA=20%; AA=10%	
Agricultural machinery and equipment	2 years	Straight-line	IA=20%; AA=40%	This rate applies if certain conditions have been met.
Building used for research	30 years	Straight-line	IA=10%; AA=3%	Research must be approved by the Minister of Finance.

2.2 Assets that do not qualify for tax depreciation

Generally, building structures will not qualify for capital allowance claims unless they are industrial buildings. Industrial buildings are specifically defined in Income Tax Act 1967 (the Act). See Section 2B for further details.

2.3 Noteworthy items

Land remediation, dismantling, restoration

With effect from year of assessment 2009, the cost of dismantling and removing plant and machinery and restoring the site on which the plant and machinery is located can be claimed as a capital allowance on that cost and is part of the residual expenditure in computing the balancing adjustments (i.e., balancing allowance and balancing charge). To qualify for this, the requirement to dismantle and restore the site must be pursuant to a written law/agreement and the asset that has been dismantled must not be used for any business of the person (which includes a company, a body of persons, a limited liability partnership and a corporation sole).

Own labor capitalized

Capital allowance can be claimed on labor costs incurred in connection with the provision and installation of qualifying plant and machinery. Labor costs incurred by the company's own employees would qualify as a revenue deduction.

2.4 Availability of immediate deductions for repairs

Description	Detail
Assets with a life of less than two years	To claim as revenue expenditure on a replacement basis
Assets not exceeding MYR1,300 each and not exceeding a total value of MYR13,000	To claim AA=100%. However, such a limit is not applicable to SMEs (see Section 2A).

The expenses incurred for repair of premises, plant and machinery, or fixtures employed in the production of gross income are tax-deductible. Generally, repairs are activities undertaken merely to maintain assets in good and efficient operating condition. Thus, the objective of a repair is to preserve the asset rather than to alter or improve it.

Tax deductions for repairs are given on an incurred basis and are not limited by reference to turnover or depreciation in the financial statements.

3. Capital allowance calculation methods

Methods used	Straight-line/prime cost
Frequency	Annually
Year of acquisition	A capital allowance is calculated starting from the year of acquisition. If the expenditure is incurred and the asset is put into use (and other conditions, if relevant, are met) at any time during the basis period for a year of assessment, a full capital allowance claim is available for that year – no apportionment is necessary. If an asset is acquired before the commencement of business, it is deemed to be acquired (and capital allowances will start to be claimed) on the date that business commences.
Year of disposal	A balancing allowance or balancing charge adjustment is made in the year of disposal.
Ability to use different methods for different assets	No
Ability to switch methods	N/A

4. Availability of accelerated capital allowance (ACA)

To encourage modernization, selected business and purchasers of selected equipment and certain categories of plant and machinery may qualify for higher rates of capital allowances (i.e., ACA). In Malaysia, various types of ACAs are granted under separate tax gazette orders. Conditions stipulated in the respective order must be met by the taxpayer for the ACA to be claimed on the capital expenditure.

Types of assets	Initial allowance	Annual allowance
Machinery and equipment determined by the Minister of Finance used in agriculture sector	20%	40%
Prescribed equipment and facility for collecting wastes	40%	20%
Imported prescribed heavy machinery used in construction, plantation and timber industries	10%	10%
Machinery and plant (other than imported heavy machinery) used in:		
Building and construction	30%	20%/14% ⁴
Timber and tin mining	60%	20%/14% ⁴
Unless election made in writing	20%	20%/14% ⁴
Molds for industrialized building system	40%	20%
Natural gas for bus transport and buses using natural gas	40%	20%
Qualifying plant expenditure used to control the quality of electric power	20%	40%
Plant and machinery used for recycling wastes	40%	20%
Plant and machinery used for qualifying project in respect of a promoted activity	40%	20%
Renovation cost incurred on building located in Tun Razak Exchange ⁵	20%	40%
Qualifying plant expenditure incurred for carrying out petroleum operation ⁶	25%	15%

5. Accounting for disposals

When a company disposes of an asset, the disposal price or the market value of the asset (whichever is higher) will be used to calculate a balancing allowance (BA) or balancing charge (BC). BA arises when the tax written-down value exceeds the disposal price/market value (as the case may be). The BA is an additional allowance that is available to the taxpayer. BC arises when the disposal price exceeds the tax written-down value – a BC will increase taxable income.

⁴ Depending on whether the machinery or plant is heavy machinery (20%) or not (14%).

⁵ Effective from 1 January 2014 to 31 December 2020

⁶ Effective from the years of assessment 2010 to 2024

If a disposal takes place within two years of the date of acquisition of the assets, a balancing charge equal to any allowance claimed must be made.

Different rules apply for transfers between parties that have control over one another or that are both controlled by another party.

If a company scraps an asset for no value (and assuming there is, in fact, no market value for the asset), BA can be claimed if there is still a tax written-down value for the asset. However, if the asset has been scrapped within two years of the date of acquisition of the asset, a balancing charge equal to any allowance claimed may apply.

6. Making a claim

Capital allowance claims should be submitted in the income tax return form. All the supporting documents are to be kept by the claimant for tax audit purposes.

Documentation required will be a fixed asset register, sales and purchase agreements of the assets, statements of account, invoices, receipts for services rendered for installation, stamp duty, expenditure in improving the asset and evidence that the asset is in use for the business.

7. Intangible assets

Generally, intangible assets do not qualify for capital allowance except for computer software (subject to certain conditions being met).

Mexico



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

3%-100%

Depreciation method used to calculate tax deduction

Straight-line (prime cost)

1. Entitlement to claim

All taxpayers who legally own a fixed asset or incur the investment, such as preoperative expenses, are entitled to claim depreciation.

2. Allocation of tangible assets to tax depreciation lives and rates

Varied lives/rates can be applied to different assets depending on the limits and percentages mentioned in tax law. Although it is not required to do so, it is possible to separate parts of a building.

2.1 Assets that qualify for tax depreciation

Tax legislation provides a complete list of rates that may be applied to assets.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Machinery and equipment (M&E) for energy generation from renewable sources	1 year	Straight-line	3%-100%	M&E must be used and functioning for a minimum 5-year period from the immediate year after the deduction.
M&E Please note the tax legislation also establishes other percentages to depreciate other machinery and equipment according to the industry in which the asset is used.	2-33 years	Straight-line	25% 35% 16% 8%	Construction industry; agriculture, livestock, forestry and fishing activities Machinery and equipment used directly for research on new products or developing technology in Mexico Air transport; transmission of communications services provided by telegraphs and by radio and television stations Manufacturing of motor vehicles and parts thereof; construction of railways and ships; manufacture of metal products, machinery, and professional and scientific instruments; processing of food and beverages, etc.
Other M&E			3%-50%	Percentage applicable to other M&E not specified in this document (depending on each industry)
Motor cars	4 years	Straight-line	25%	Limit of US\$10,000 on traditional motor cars and limit of US\$15,000 on electric automobiles
Bicycles, electric bicycles and motorcycles	4 years	Straight-line	25%	
Buildings	10-20 years	Straight-line	5% or 10%	10% on historical buildings
Furniture, fittings or fixtures	10 years	Straight-line	10%	
Computer hardware	3 years	Straight-line	30%	

Mexico

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Computer software	3 years	Straight-line	30%	
Aircraft	4-10 years	Straight-line	10% or 25%	
Transport, other than motor cars	15 years (ships)	Straight-line	6%	
Car parks	20 years	Straight-line	5%	Car parks are considered as buildings.
Office equipment (including office furniture and fixtures)	10 years	Straight-line	10%	
Qualified leaseholder improvement property	20 years	Straight-line	5%	Qualified leaseholder improvement property is considered to be part of the building and is subject to the same depreciation rate.
Agricultural M&E	4 years	Straight-line	25% (if applicable)	
M&E used in research and development (R&D)	2.8 years	Straight-line	35%	M&E used for R&D purposes
Preoperative expenses	10 years	Straight-line	10%	
Technical assistance	1 or 7 years	Straight-line	100% or 15%	When the benefit is obtained in one year, the depreciation can be taken at the rate of 100%, as long as detailed analysis is provided. If, however, the benefit is taken after one year, then the depreciated rate shall be taken at 15% per year.
Deferred expenses Intangible assets represented by goods or rights that make it possible to reduce operating costs, improve quality or acceptance of a product, or use or enjoy a good for a limited time that is shorter than the duration of the activity of the legal entity; deferred expenses are also intangible assets that make it possible to exploit public property or provide a public service under concession.	7 years	Straight-line	15%	Detailed analysis is required to qualify the asset as a deferred expense.
Deferred charges Deferred charges are those that meet the aforementioned requirements, except those regarding the exploration of public property or the provision of a public service under concession. The benefit of the charges is for unlimited time that will depend on the duration of the legal entity's activity.	20 years	Straight-line	5%	Detailed analysis is required to qualify the asset as a deferred charge.

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	The value of this kind of asset increases every year for inflationary restatement.
Goodwill	Goodwill is not deductible in Mexico.
Purchase price allocation (PPA)	PPA is not deductible in Mexico for tax purposes. However, when shareholders sell their shares, the cost of the shares sold is subject to being deducted until such shares are alienated.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

If these costs are strictly necessary for the operation of entities and if certain tax formalities are met, then entities can claim the deduction of the full amount paid in the corresponding tax year. These concepts require specific analysis in order to determine deductibility, as there could be different interpretations from case to case.

Land remediation – removing asbestos, Japanese knotweed

The deduction can be fully claimed in the year that the expense is incurred if it is strictly necessary for the operation of the corresponding entity and certain tax formalities are met (case-by-case analysis is required).

Own labor capitalized – work on developing software, for example, or carrying out work on property

Case-by-case analysis is required, as much of the initial investments could be treated as yearly expenses not subject to capitalization.

Tax incentives in new fixed assets in the Northern Border Region (NBR)

On 31 December 2018, the president of the United Mexican States issued a tax incentive decree published in the Official Gazette for the NBR that states that taxpayers who receive income exclusively in the NBR may apply a tax credit equivalent to one-third of the income tax generated in such region during the year or the advanced payments, against the tax caused during the same year or its estimated payments.

To apply this incentive, taxpayers must prove that they have their tax domicile in the NBR for at least 18 months. If that entity is starting its activities in the NBR, it can also apply such benefit, but it must comply with specific requirements to prove that the envisioned activities will be carried out using new fixed assets, and their annual income attributable to that region represents at least 90% of their total annual income, among other requirements.

The decree also clarifies what a new fixed asset means, commenting that it has to be used for the first time in Mexico, or, if it has already been used in Mexico, the taxpayer must acquire the fixed asset from a person who is not a related party of the taxpayer.

It is important to note that this tax incentive decree is only active for two years since published and cannot be applied by hydrocarbon contractors.

2.4 Availability of immediate deductions for repairs

Mexican income tax law states that repairs of and adaptations to facilities shall be considered investments, provided they entail additions or improvements to the fixed asset. Income tax law establishes that repairs or adaptations that entail additions or improvements to fixed assets are deemed to be those that increase the productivity or the useful life thereof, as well as those that allow such assets to be used in a different manner.

Mexican income tax law states that expenses for conservation, maintenance and repair made to keep facilities in good operating condition are not to be considered as investments. If such expenses are capitalized for accounting purposes, it would be considered a non-book tax deduction in the year (case-by-case analysis is required).

3. Depreciation and calculation methods

Methods used	Straight-line (prime cost)
Frequency	Annually. Depreciation should be added with inflationary adjustment.
Year of acquisition	Depreciation is calculated from the date of acquisition of the corresponding asset and for complete months on an annual basis (tax year). The deduction can be restated by inflation from the acquisition date to the last month of the half of the period in which the asset was used in the year (e.g., if the asset was used the whole year, the inflationary restatement should be from the acquisition date to June of the year in which it will be deducted).
Year of disposal	It depends on the use and full life of the asset (applicable depreciation rate) for tax purposes.
Ability to use different methods for different assets	Only the straight-line method can be used.
Ability to switch methods	No; however, the taxpayer can use lower rates than the top limit rates established for each kind of asset. Any change should be made for at least a five-year period.

4. Preferential and enhanced depreciation availability

The depreciation rate for energy generation machinery and equipment from renewable sources or cogeneration systems of efficient electricity is 100%.

The depreciation rate for adaptations and improvements to facilitate the use of installations to people with different physical capabilities is 100%.

The contractors, according to the Mexican Law of Hydrocarbons, will be subject to different rates for machinery and equipment as follows:

Type of assets	Rates
Original amount of the investments made for exploration, secondary and improved recovery, and non-capitalizable maintenance	100%
Original amount of the investments made for the development and exploitation of oil or natural gas deposits, in each year	25%
Original amount of the investments made in storage and transport infrastructure essential for the execution of the contract, such as pipelines, gas pipelines, terminals, transport or storage tanks necessary to take the contractual production to the points of delivery, measurement or inspection determined in each contract, in each fiscal year	10%

A contractor, for purposes of the Mexican Law of Hydrocarbons, is Petróleos Mexicanos, or any other production company of the state or company that signs with the National Hydrocarbons Commission an agreement for exploration and extraction, either individually or in consortium or association in participation.

The depreciation rate for R&D purposes regarding M&E is 35%.

Mexico has not introduced any bonus provisions for investments during any specific time periods.

5. Accounting for disposals

When an asset is disposed of only because it is no longer required to generate income or it is obsolete, it can be deducted in one year for the remaining tax basis.

6. Making a claim

Claims are self-assessed.

Working papers must be prepared with the tax calculation of the tax depreciation from the date of the acquisition of the assets until the last month of the tax year in which the deduction is carried out. A statement should also be included to show the depreciation has been shared with the tax authorities.

7. Intangible assets

Maximum rates apply according to the type of asset and specific analysis that is required to determine the type of the intangible asset. In the case of royalties, they can be amortized at 100% in one year if the benefit is obtained in one year. However, if the benefit is obtained in more than one year, it should be amortized at 15% annually, and a deeper analysis is required to determine if the idea qualifies as a royalty for tax purposes.

Type of asset	Rates/lives
Trademarks	5% or 15% (further analysis is required).
Patents, copyright, design, know-how or similar item	5% or 15% for patents and copyright (further analysis is required). 15% for know-how (further analysis is required). 10% for design of products and services that qualify as pre-operative expenses.
Goodwill	Nondeductible
License or permit	If we are considering "License or Permits" as the intangible assets that make it possible to exploit public property or provide a public service under concession, the rate would be determined in accordance with the number of years for which the concession was granted.
Other (please provide details)	N/A

Netherlands



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

In principle, yes; however, adjustments need to be made with respect to the following:

- ▶ Goodwill
- ▶ Minimum depreciation period
- ▶ Buildings
- ▶ Low-cost assets
- ▶ Production costs relating to immaterial assets

Depreciation method used to calculate tax deduction

Various depreciation methods may be followed, if in accordance with the "sound business" practice concept.

1. Entitlement to claim

Every taxpayer with business activities and every company subject to corporate income tax is entitled to claim tax depreciation.

A taxpayer with business assets may depreciate such assets if the value of the assets diminishes over time. Business assets are assets that are:

- Part of the fixed assets of the company
- Used within the conduct of business of the company

2. Allocation of tangible assets to tax depreciation lives and rates

For tax purposes, a business asset and all of its constituent parts are deemed to be one single asset and are depreciated as such. However, when calculating annual depreciation, in some cases, the different useful lives of separate parts may be taken into account.

General rule – all assets

Assets that make up more than one component/item should be capitalized as one asset if these components/items together form a separate functioning asset for the company (functional analysis). This should be assessed on the basis of the function and the place of that asset within the business of the company.

Separate business assets of low value (i.e., below EUR450) are depreciated in the year of purchase for the full-cost price amount.

Specific rules – buildings

All assets (e.g. plumbing) that are integral and inseparable parts of a building should be depreciated together with that building as one asset (subject to the limitations applicable to buildings).

2.1 Assets that qualify for tax depreciation

Dutch tax law maximizes depreciation for business assets to at most 20% of the cost price per year (at most 10% for goodwill), taking into account residual value, meaning that the minimum period for depreciation is 5 years (10 years for goodwill). Taxpayers may not depreciate business assets across a period of less than five years. However, if certain conditions are met – if the value of the asset has decreased permanently, for example – a business asset could be impaired to its lower “business value.”

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Tangible business assets	Useful life, with a minimum of five years	Under the “sound business” practice concept, various depreciation methods may be followed, provided that the method is in accordance with sound business practice and is consistently applied.	Depreciation is maximized to 20% of historical cost per year.	If certain conditions are met – if the value of the asset has decreased permanently, for example – a business asset could be impaired to its lower “business value.”

Specific rules for buildings

Depreciation of a building is only allowed if the tax book value of a building is higher than a defined minimum value (*bodemwaarde*), whereby the tax book value may not drop below the *bodemwaarde*. The *bodemwaarde* has been determined at:

- ▶ 50% of the WOZ value (i.e., market-assessed value) for buildings owned by a taxpayer who is a natural person and in use (for 30% or more) by the company or a related party
- ▶ 100% of the WOZ value for other buildings. This includes:
 - (i) Buildings held as an investment (i.e., buildings that are rented or leased (for 70% or more) to non-related parties
 - (ii) Buildings owned by taxpayers that are subject to corporate income tax and in use by that taxpayer or a related party (for 30% or more)

With respect to the latter subcategory, note the following: The Dutch Government set the *bodemwaarde* for buildings in own use at 100% of the WOZ value as of 1 January 2019. This is a measure to broaden the Dutch corporate income tax base. In practice, this measure limits the depreciation potential of buildings in own use for Dutch corporate income tax purposes. A temporary relief, however, is provided for buildings which:

- ▶ Could have been depreciated before 1 January 2019
- ▶ The taxpayer was not able to depreciate for three full years as a result of the new rules (in essence, this applies to buildings acquired after 1 January 2016)

For these cases, the depreciation may still take place for Dutch corporate income tax purposes until three full years of depreciation have been deducted.

The WOZ value is determined (annually) by the administration of the municipality in which the building is located and should approximate the estimated fair market value.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Buildings in own use and owned by a taxpayer who is a natural person	Useful life	Sound business-practice concept	Various, but subject to a restriction that the tax book value may not drop below the <i>bodemwaarde</i> of 50% of the WOZ value	
Buildings held as an investment or in own use and owned by a corporate income taxpayer	Useful life	Sound business-practice concept	Various, but subject to a restriction that the tax book value may not drop below the <i>bodemwaarde</i> of 100% of the WOZ value	

Specific rules for selected tangible assets

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Building improvements	Not depreciable, immediately deductible (exceptions may apply, see below)			
▶ Maintenance cost		N/A	N/A	Provisions for maintenance costs are, in principle, allowed.
▶ Improvement cost	N/A	N/A	N/A	Further analysis is required as to whether the building improvements are subject to wear and tear.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Qualified leaseholder improvement	Useful life, with a minimum of five years	Sound business practice concept	At most, 20% of the cost price per year	
Agricultural machinery and equipment	Specific rules are applicable; however, in general, useful life for tax is at least five years	Sound business practice concept	Specific rules are applicable; however, in general, at most, 20% of the cost price per year	

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Business assets not subject to wear and tear, such as land, are not depreciable. However, if land is purchased to extract valuable minerals, etc., then depreciation is possible.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Fees/costs should be capitalized if they are directly connected to an investment in an asset – i.e., when incurred in connection with the acquisition or improvement of an identifiable asset of the business (e.g., premises or plant). The general rule is that the tax book value of the fixed asset equals the cost price of the asset plus the costs related to the acquisition (or manufacturing).

Lease improvement

A “lease improvement” is also considered an asset.

Own labor capitalized – work on developing software, for example, or carrying out work on property

If an asset is manufactured or created in-house, all direct expenses and costs (*voortbrengingskosten*) should be capitalized, including in-house salary and wage costs. The taxpayer should also capitalize a part of the overhead costs, although no clear guidelines are provided on how the allocation should take place.

Production costs relating to intangible fixed assets (e.g., the development costs for software) may be depreciated at once in the financial year in which these costs are incurred.

2.4 Availability of immediate deductions

Description	Detail
Assets below a certain value	An asset with a value below EUR450 is fully depreciated in the year of purchase, unless the asset is part of a “complex of assets.”
Repairs	Maintenance or repair costs are, in principle, immediately tax deductible in the year that they occur.
Production costs of self-produced intangible assets	Yes

In the case of expenses whereby both repairs and improvement expenses are incurred, taxpayers should, in principle, be able to split the expenses between maintenance and improvements. However, should the expenses be considered for the purposes of a radical improvement, a split between repair and improvement should not be made and all expenses should be capitalized as improvement costs. Whether there is a radical improvement should be considered (objectively) from the perspective of the asset, and it should be assessed whether in essence a new asset has been created.

If there are no radical improvements, it is relevant to make a proper distinction between repair and improvement, as the tax treatment is significantly different. Repair costs should, in principle, be deductible for tax purposes, while improvement costs should be capitalized. The distinction is as follows:

- ▶ Repair costs are costs incurred to restore an asset to its usable condition and repair deterioration (i.e., bring a business asset back to its original state).
- ▶ Improvement costs are costs incurred to make a material change to the asset, relating to the structure, nature or volume. Further, it should be considered an improvement if the expenditure leads to an increase in the overall performance of the asset.

When reviewing whether the costs should be qualified as repair or improvement, taxpayers should review:

- ▶ The nature of the activities
- ▶ The condition of the asset at time of the creation or after any subsequent change

Furthermore, we note that repair costs related to a newly acquired business asset are not tax deductible to the extent that the repair costs are connected to a deterioration of the business asset in the period prior to the acquisition. Those costs are capitalized instead.

3. Depreciation and calculation methods

Methods used	Declining-balance, straight-line/prime cost, other
Frequency	Annually
Year of acquisition	Depreciation is applied from the date the asset comes into use. A business asset is only depreciated during the period the asset is used for business activities. Example: a machine is ordered on 1 May, delivered on 1 July and used as per that date. Depreciation then is 6/12 of the normal annual depreciation (assuming that the financial year is a calendar year).
Year of disposal	Depreciation is only available for the months during the period the asset is used for business activities.
Ability to use different methods for different assets	There is a choice of method that can apply for different business assets. For every single business asset, taxpayers may assess what they think is the optimal method of depreciation. The taxpayers are free in their choice, provided that the depreciation method chosen is in accordance with the sound business principle. However, in some cases, similar assets are aggregated into one single asset.
Ability to switch methods	In principle, a change of depreciation scheme is permitted (e.g., commercial depreciation has changed) if it is not aimed at realizing an incidental tax benefit. A taxpayer must pursue consistent behavior in tax accounting. The transition from one depreciation method to another depreciation method is a system change that goes against this consistent behavior. Nevertheless, a transition to another depreciation method is permitted if this new method is in line with the sound business principle and the transition is not motivated by gaining an incidental tax advantage.

4. Preferential and enhanced depreciation availability

Dutch tax law provides for various facilities:

Accelerated depreciation of several specific assets

Accelerated depreciation applies to:

- ▶ Investments in assets that are in the interest of the protection of the environment in the Netherlands and that appear on the so-called VAMIL (*Vervroegde Afschrijving Milieu-investeringen*) list
- ▶ Seagoing vessels
- ▶ Assets that are a part of the fixed assets of a startup (not available for companies subject to corporate income tax)

Accelerated depreciation of qualifying assets is available if certain conditions are met. Restrictions may apply.

Investment allowances

The investment allowances include:

- ▶ Small-scale investment allowance
- ▶ Energy investment allowance (EIA: *energie-investeringsaftrek*)
- ▶ Environmental investment allowance (MIA: *milieu-investeringsaftrek*)

These allowances are calculated as a percentage of the amount of an investment in a business asset and may be deducted in the year of investment. The EIA and MIA are available for investments in not previously used business assets that have been designated as investments that are important for efficient use of energy or designated as investments that are important for protecting the Netherlands environment.

Research and development facility

The WBSO (R&D tax credit) provides for a payroll tax benefit for R&D costs and expenditures.

5. Accounting for disposals

If a tangible or intangible business asset is disposed of, the difference between the disposal value (the proceeds) and the tax book value is considered a taxable gain. If the proceeds are lower than the book value, the taxpayer will be taking a tax-deductible loss.

The taxation of the gain may be deferred by creating a “reinvestment” reserve. The reinvestment reserve is not obligatory and subject to strict rules. For example:

- ▶ The reserves can only be formed if and as long as the taxpayer has the intention to reinvest the proceeds in new assets. If the divested asset is not depreciable (e.g., land) or is usually depreciated over a period of more than 10 years (e.g., buildings), it is required that the new asset have the same economic function as the divested asset.
- ▶ The required reinvestment should not occur later than three years after the year in which the reserve was formed. If no reinvestment occurred within the three-year period, the original gain will be added to the taxable profit and taxed at the ordinary rate.
- ▶ The (proportional) tax book value of the new asset may not be lower than the (proportional) tax book value of the divested asset for which the reinvestment reserve was created.

In some cases, previous investment allowances are required to be undone by adding a disinvestment addition to the taxable profit of the year of disposal of the asset.

If an asset is scrapped, the tax asset value may be reduced to zero.

6. Making a claim

The claim for depreciation and devaluation is made within the corporate income tax return.

For some tax facilities, additional procedures need to be followed. An application needs to be filed with the *Rijksdienst voor Ondernemend Nederland* (RVO, a special government agency) if a taxpayer would like to apply for:

- ▶ Accelerated depreciation
- ▶ EIA
- ▶ MIA
- ▶ Research and development payroll tax credit (WBSO)

7. Intangible assets

For tax purposes, a business asset (intangible or tangible) is considered to be present if this asset is considered to be part of the fixed assets of the company, is used within the conduct of business of the company and fulfills an independent role with the company. Dutch tax law caps depreciation at 20% per year (10% for goodwill), taking into account residual value, meaning that the minimum period for depreciation is 5 years (10 years for goodwill).

Type of asset	Rates/lives
Trademarks	No guidelines, case-by-case analysis
Patents, copyright, design, know-how or similar item	No guidelines, case-by-case analysis
Goodwill	<p>Depreciation of goodwill is only allowed if the goodwill has been acquired from another party. Self-created goodwill cannot be capitalized and depreciated.</p> <p>Goodwill included in the acquisition price of shares forms part of the fiscal cost price value of the shares and cannot be depreciated for Dutch tax purposes.</p> <p>Dutch tax law restricts depreciation for goodwill to 10% of the cost price per year, meaning that the minimum period for depreciation for goodwill is at least 10 years.</p>
License or permit	No guidelines, case-by-case analysis

Nigeria

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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Capital allowances

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

10%-95%

Depreciation method used to calculate tax deduction

Declining-balance and straight-line methods



1. Entitlement to claim

Legal owners of assets are entitled to claim tax depreciation or capital allowances once the assets are put to use. They are considered as an entity taxable under the tax legislation and have incurred qualifying capital expenditures under the law.

However, for a finance lease, lessees can claim capital allowances on assets reported in their books.

2. Allocation of tangible assets to tax depreciation lives and rates

The legislation below regulates tax depreciation in Nigeria:

- ▶ The Companies Income Tax Act, Cap C21 LFN 2004 as amended (CITA)
- ▶ The Petroleum Profit Tax Act, Cap P13 LFN 2004 (PPTA)

2.1 Assets that qualify for tax depreciation

Under CITA, the following rates apply:

Asset type	Useful life for tax	Initial allowance*	Annual allowance**	Comments
Building expenditure (industrial and non-industrial)	10 years	15%	10%	
Plant and machinery:				
Agricultural production	4 years	95%	0%	
Others	4 years	50%	25%	
Motor vehicles:				
Public transportation	1 year	95%	0%	
Others	4 years	50%	25%	
Housing estate	4 years	50%	25%	
Ranching and plantations	2 years	30%	50%	
Mining	1 year	95%	0%	
Plantation equipment	1 year	95%	0%	
Furniture and fittings	5 years	25%	20%	
Research and development	1 year	95%	0%	

*Initial allowance – this is a one-off allowance granted only in the first year based on applicable rates. It applies to all items of qualifying expenditure.

**Annual allowance – this is granted yearly based on applicable rates. It is computed on the residue of qualifying expenditure, after deduction of initial allowance, on a straight-line basis. An amount of NGN10 per item is retained in the books for tax purposes until the asset is disposed of.

Nigeria

Under the PPTA, the following rates apply:

Asset type	Useful life for tax	Initial allowance*	Annual allowance**	Comments
Plant, machinery and fixtures	5 years	N/A	20%	In the last year, 19% is claimed as annual allowance, while 1% is retained in the books as residue until the asset is disposed of.
Pipelines and storage tanks	5 years	N/A	20%	In the last year, 19% is claimed as annual allowance, while 1% is retained in the books as residue until the asset is disposed of.
Buildings, structures or works of a permanent nature	5 years	N/A	20%	In the last year, 19% is claimed as annual allowance, while 1% is retained in the books as residue until the asset is disposed of.
Drilling expenditure	5 years	N/A	20%	In the last year, 19% is claimed as annual allowance, while 1% is retained in the books as residue until the asset is disposed of.

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land is not depreciated because land is assumed to have an unlimited useful life and does not depreciate in value.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

All expenses (not capital in nature) that are wholly, reasonably, exclusively and necessarily (WREN) incurred for the purpose of the business are usually allowed for tax purposes. Therefore, preliminary costs (e.g., architect fees, legal fees) are allowed for income tax purposes so long as they meet the WREN test.

Land remediation – removing asbestos

In addition to the comment in the preceding paragraph, costs incurred for restoration or abandonment purposes are, for petroleum profit tax purposes, treated as allowable expenses so long as they are wholly, exclusively and necessarily (WEN) incurred for the purpose of the business operations. In addition, in order for these expenses to be treated as tax deductible, they must represent actual cash flows (payments) and not accrual or provisions.

Own labor capitalized – work on developing software, for example, or carrying out work on property

For CITA purposes, this is classified as a qualifying capital expenditure (QCE); thus, capital allowance is granted. Please refer to our comments in Section 7 below.

2.4 Availability of immediate deductions for repairs

- ▶ Repairs are not defined in the tax acts; however, the case law definition may be considered.
- ▶ In line with Section 24 of CITA, repairs that are WREN incurred by a business in generating profits are granted full tax deductions. Where, however, such repairs alter the useful life or significantly improve the output of the QCE, they will be treated as capital cost, and for tax purposes, be taken as additions to the QCE.
- ▶ Section 10 of the PPTA allows tax deductions for repair expenses that are WEN incurred in connection with the petroleum operation business.

3. Depreciation and calculation methods

Methods used	In line with the applicable accounting standards, depreciation methods include (but are not limited to) straight-line and declining-balance.
Frequency	Depreciation is usually calculated on an annual basis. However, the accounting standards require certain conditions be met should a company's management consider a change in the depreciation policy. One such condition is that the change must be retrospectively applied.
Year of acquisition	Capital allowance is claimable in the first year the asset is put into use.
Year of disposal	Balancing adjustment arises when an asset is disposed of. Capital allowance cannot be claimed in the year of disposal.
Ability to use different methods for different assets	Different depreciation methods can be applied to different classes of assets. However, for tax purposes, a uniform capital allowance rate applies to assets within the same class.
Ability to switch methods	Yes, this is possible, as noted above.

4. Preferential and enhanced depreciation availability

An initial allowance may be claimed in the first year of an asset's use, while the balance is amortized as annual allowance over the tax life of the asset.

Tax legislation in Nigeria grants investment allowances on qualifying expenditures made to incentivize the growth of business and industry sectors (e.g., oil and gas), and the rates are as specified in the tax legislations. These allowances are in no way connected to the capital allowances granted in lieu of accounting depreciation.

Investment allowance

The tax laws grant an investment allowance of 10% only in the first year that an item of plant and machinery is put to use. This allowance is to encourage companies that invest in plant and machinery. The allowance is in addition to 100% of the cost of the qualifying asset that is claimed through initial and annual allowances.

Petroleum Investment Allowance

The Petroleum Investment Allowance is granted to oil exploration and production (E&P) companies in the first year when they incur QCE for the purpose of operations. The rates depend on the fiscal regime (contract form) under which the E&P company operates. The following rates apply to companies in joint venture operations.

- ▶ Onshore operations – 5%
- ▶ Operations in areas up to 100 meters deep – 10%
- ▶ Operations in areas between 101 meters and 200 meters deep – 15%
- ▶ Operations in areas more than 200 meters deep – 20%

Investment Tax Credit and Investment Tax Allowance

A company engaged in petroleum operations in the deep offshore and inland basin pursuant to a Production Sharing Contract (PSC) executed in 1993 is allowed an Investment Tax Credit (ITC) at the rate of 50% of the qualifying expenditure in accordance with the terms of the PSC for the accounting period in which that asset was first used for the purpose of its petroleum operations. Similarly, a company that has executed a PSC after 1 July 1998 is entitled to an Investment Tax Allowance (ITA) at a flat rate of 50% of qualifying expenditures in the accounting year in which the relevant asset is first used in the business.

5. Accounting for disposals

The tax acts require a balancing adjustment to be calculated and incorporated in the tax computations (i.e., a balancing charge or allowance). This adjustment arises when an asset is disposed of. It represents the difference between the sales proceeds and the tax written-down value (TWDV) of the asset (cost of the asset less the total of initial and annual allowances claimed to date on the asset). If the consideration is higher than the TWDV, there is a balancing charge, which represents additional income liable to tax. However, the amount taxable will be restricted to the actual capital allowances (initial plus annual only) claimed to date on the asset. On the other hand, if the consideration is less, there will be a balancing allowance, which qualifies as a tax deduction.

This treatment also applies when an asset is scrapped.

6. Making a claim

A claim is made when a taxable entity puts to use an asset that represents a qualifying capital expenditure in a given year. The fixed asset must be used for a trade or business and must be in use at the end of the period for which the tax is being computed. The amount of capital allowances claimable in any year of assessment is restricted to 66.67% of assessable profits (accounting profits after adjustment for tax items) for companies, other than those involved in agricultural and manufacturing businesses. Any capital allowance that cannot be recovered from the assessable profit in the year of acquisition can be carried forward indefinitely.

Under the PPTA, the capital allowance relief that can be claimed is the aggregate capital allowance for the relevant tax year. This, however, is subject to a limitation. Capital allowance relief is limited to the lower of either the aggregate capital allowance computed for the tax year or a sum equal to 85% of the assessable profits of the accounting period, less 170% of the total amount of the deduction allowed as Petroleum Investment Allowance for that period.

Unrelieved capital allowances may be carried forward until they are relieved.

In accordance with the provisions of the Industrial Inspectorate Act (Cap 180 LFN 2004), a company is required to support fixed assets acquired by it with a fixed assets acceptance certificate issued by the Industrial Inspectorate Division (IID) of the Federal Ministry of Industry, Trade and Investment.

The IID issues a Certificate of Acceptance for Fixed Assets (CAFA) for qualifying assets worth NGN500,000 and above.

The Federal Inland Revenue Service (FIRS) is empowered to withdraw capital allowances claimed on such fixed assets if there are no acceptance certificates to support them. If the capital allowances already claimed are withdrawn by the FIRS, it may result in additional tax liabilities (including penalty and interest charges) for the relevant years.

Although the relevance of this certificate has been questioned in several quarters, the FIRS may request that companies still provide copies of the CAFA. In the absence of the CAFA, it is our view that other purchase-supporting documents will suffice in the event of a tax audit or investigation by the FIRS. If neither of these documents is available, the capital allowance already claimed on the qualifying assets may be withdrawn. Also, the Financial Reporting Council of Nigeria (FRCN) has published rules that prohibit the recognition of transactions in the financial statements of a company if such transactions require regulatory approvals that have not been obtained. CAFA falls into this category of transactions and hypothetically means that a company may not be able to recognize its noncurrent assets in the financial statements unless CAFA has been granted for the relevant financial periods.

In January 2019, Nigeria's president signed a new Executive Order (007) (the Order) which permits companies in the private sector to fund the construction of major road projects across the six geopolitical zones of the country. The Order is pursuant to the Federal Government's "Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme" (the Scheme), aimed at sourcing alternative funding for infrastructure, including road and electricity projects.

Nigeria

According to the president, companies that engage in this Scheme will get tax credit and reductions against future tax obligations in return for their effort.

Hotel tourist income

Twenty-five percent of the income derived by a hotel, in internationally convertible currencies, from tourists using the services of such a hotel, are exempted from any form of tax, provided that such income is paid into a Reserve Fund, to be utilized within five years in the building or expansion of new hotels, conference centers and other new facilities that promote tourism development.

Rural investment allowance

Where a company provides for its trade or business, infrastructural facilities like electricity, water or tarred roads, which must be at least 20 kilometers from such facilities provided by the Government, such company will be entitled to claim both the Initial Allowance on such expenditure and a further Rural Investment Allowance, whose rate is graduated based on the scale of the facilities provided. Where no public facilities exist, a 100% Rural Investment Allowance will be permitted by the tax authorities on such rural infrastructural expenditure(s). A Rural Investment Allowance cannot be carried forward.

7. Intangible assets

The expenditure on an intangible asset is allowable for tax purposes. This is to the extent that it is considered to be WREN incurred for the purpose of carrying out the business of the company. Opinions, however, differ on the appropriate treatment for tax purposes. Thus, while the differing opinions agree that the expenditure is deductible for tax purposes, it is considered as a capital item in one instance and a revenue item in another instance. We have considered each of these below:

a. Revenue expenditure

If the item qualifies as revenue expenditure, the cost should be expensed based on the useful life of the asset. Thus, in this instance, the annual amortization by the company would be allowed for tax purposes.

b. Qualifying capital expenditure

If the item qualifies as capital expenditure, the company will be able to claim 95% of the cost of acquisition of the asset as a once-and-for-all capital allowance in the year of acquisition. The balance of 5% will, however, be retained in the books until disposal of the asset.

For companies liable to tax under the PPTA, any expenditure (tangible and intangible) directly incurred in connection with the drilling of an exploration well and the following two appraisal wells in the same field may be expensed. Subsequent intangible expenditures may be capitalized and capital allowance claimed on them.

Type of asset	Rates/lives
Trademarks	Initial allowance annual allowance 50:25 (4 years)
Patents, copyright, design, know-how or similar item	Initial allowance annual allowance 50:25 (4 years)
Goodwill	N/A
License or permit	Initial allowance annual allowance 50:25 (4 years)

Norway



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation (*skattemessig avskrivning*)

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

0%-30%

Depreciation method used to calculate tax deduction

Declining-balance, straight-line, residual value

1. Entitlement to claim

The legal owners are generally entitled to claim. Certain leasing/renting arrangements could qualify; however, case-by-case assessments are necessary.

2. Allocation of tangible assets to tax depreciation lives and rates

A depreciation obligation exists for all assets with a useful economic life of at least three years and a value of at least NOK15,000.

Generally, breaking down assets is not required, given that the asset represents one functional and physical unit.

Special rules apply to buildings. Depreciable buildings are subdivided as follows – allocation depends on a case-by-case assessment:

Type of building	Yearly deduction percentage
Buildings and plant, hotels, lodging houses, catering premises, etc.	4%
Office buildings	2%
Permanent technical installations in buildings	10%
Buildings of such simple construction that they must be assumed to have an economic life of not more than 20 years from construction. The same applies to installations with economic lives of not more than 20 years when new.	10%
Livestock buildings in agriculture and forestry	6%

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plants, including technical ancillary and supplementary installations in industrial facilities		Declining-balance method	4%	
Machinery and equipment		Declining-balance method	20%	
Buildings		Declining-balance method	2%-4% (6%, 10%)	See above
Furniture, fittings and fixtures		Declining-balance method	20%	
Computer hardware and machines for office use		Declining-balance method	30%	
Computer software		Declining-balance method/straight-line (if stand-alone)	20%-30% – linear over life-span	Together with the computer/machinery or stand-alone as an intangible asset
Ships, vessels, rigs		Declining-balance method	14%	
Aircraft, helicopters		Declining-balance method	12%	

Norway

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Heavy goods vehicles, lorries, buses, vans and taxis		Declining-balance method	24% (30%)	The higher rate is applicable for full electric vans acquired 20 December 2016 or later.
Passenger cars		Declining-balance method	20%	
Lessee's improvement on the rented asset		Declining-balance method/straight-line	0%-30%	Depends on who becomes the owner of the improvement; follows the ordinary rules for the improved asset if lessee is the owner (declining-balance method)
Dams, tunnels, penstocks and power stations that belong to a power generation facility		Straight-line	1.5%	Annual depreciation over 67 years
Machinery at power stations, generators, pipes, insulation in shafts/tunnels, hatches, grates, etc.		Straight-line	2.5%	Annual depreciation over 40 years
Facilities for the transmission and distribution of electricity and electrotechnical equipment in power enterprises, and such fixed assets used in other business activities		Declining-balance method	5%	
Investments in fixed assets used in extractive (i.e., upstream) activities that are subject to special oil taxation; mainly investments on the Norwegian continental shelf		Straight-line	16.67%	Annual depreciation over six years
Wind turbines, internal grids and concrete foundation for wind turbines		Straight-line	20%	Annual depreciation over five years (temporary rules for assets acquired between 18 June 2015 and 1 January 2022)

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Is considered not to have a decreasing value
Artwork, etc.	Is considered not to have a decreasing value
Apartments, living quarters, houses intended for living, etc.	Is considered not to have a decreasing value, even if it is a part of a business activity (such as renting); workmen's houses, "hotels," etc. can be depreciated, however – case-by-case-assessment
Shares/equity	No loss incurred before realization (and no tax deduction for company shareholders due to exemption method)

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Costs could be directly deductible if connected to business activity and incurred in an early phase of an asset acquisition. If incurred in a later phase (especially if the target asset has been identified), these costs should normally be capitalized together with the asset.

R&D costs

Costs for own research and development relating to specific projects that may become or have become fixed assets must be capitalized together with the relevant fixed asset.

Land remediation – removing asbestos, etc.

No special rules apply. Treatment depends on the specific conditions and situation in general.

Own labor capitalized

The fair market value of one's own labor should normally be included as taxable income and the same value should be capitalized on the tax cost basis of the asset(s).

2.4 Availability of immediate deductions

Description	Detail
Asset with life of less than three years	Equipment with a general economic life-span of less than three years
Asset with a value of less than NOK15,000	Standardized amount
Repairs	Repairs to conserve the original conditions, including simulated necessary repairs in an upgrade

3. Depreciation and calculation methods

Methods used	Declining-balance, straight-line, residual value
Frequency	Annually
Year of acquisition	Depreciation is calculated for the whole year if held at year-end (some modifications for intangibles – time-limited rights).
Year of disposal	No depreciation is available if not held at year-end (some modifications because some assets are depreciated jointly).
Ability to use different methods for different assets	No
Ability to switch methods	No

4. Preferential and enhanced depreciation availability

- ▶ Only repairs and maintenance expenses can be fully deducted immediately.
- ▶ An additional 22% uplift applies against the special oil tax for upstream activities.

5. Accounting for disposals

Several of the minor assets with high depreciation rates are depreciated jointly in groups. These groups are:

- ▶ Office equipment, etc.
- ▶ Acquired goodwill
- ▶ Heavy-goods vehicles, lorries, buses, vans, taxis and vehicles for the transport of disabled persons
- ▶ Passenger cars, tractors, machinery, tools, instruments, furnishings, etc.

If an asset belonging to one of these groups is disposed of, the disposal compensation (if any) reduces the value of the depreciation group (and, therefore, future depreciations).

If the value becomes negative, there is a taxable income. Each year's taxable income will equal the negative residual value multiplied with the depreciation rate for the group.

For the following asset types, a separate asset balance must be recorded for each fixed asset:

- ▶ Ships, vessels, rigs, etc.
- ▶ Aircraft, helicopters
- ▶ Facilities for the transmission and distribution of electricity and electrotechnical equipment in power enterprises, and such fixed assets used in other business activities
- ▶ Buildings and plant, hotels, lodging houses, catering premises, etc. Plant shall include, *inter alia*, technical ancillary and supplementary installations in industrial facilities, including sewage treatment plant, compressed air plant, cooling systems and similar.
- ▶ Office buildings

If such an asset is disposed of, the compensation (if any) reduces the value of the separate asset balance. Gains and losses are transferred to a gain and loss account.*

For the following assets, there is one joint group for permanent technical installations per building:

- ▶ Permanent technical installations in buildings, including heating plant, refrigeration and freezing facilities, electrical installations, sanitary installations, elevator installations

6. Making a claim

Depreciation is claimed on an annual basis to the tax authority through the income tax return.

7. Intangible assets

Acquired goodwill (i.e., the residual amount when acquiring a business) can be depreciated by 20% in accordance with the declining-balance method. Self-developed goodwill cannot be depreciated.

Intangible assets with an unlimited economic life-span cannot be depreciated, except if there is an obvious reduction of value.

Intangible assets with a limited economic life-span can be depreciated with identical annual amounts over the life-span of the asset. Higher annual deductions are only granted if the reduction in value is obviously taking place more rapidly.

Type of asset	Rates/lives
Trademarks	Case-by-case assessment
Patents, copyright, design, know-how or similar item	Case-by-case assessment
Goodwill – acquired	20% declining-balance method
License or permit	Case-by-case assessment

* If the gain and loss account is positive, no less than 20% of the balance should be recognized as income. If the balance is negative, up to 20% shall be recognized as a deduction.

Portugal



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

Yes

Range of rates used

1.00%-33.33%

Depreciation method used to calculate tax deduction

Straight-line/prime cost, diminishing (declining) method

1. Entitlement to claim

Legal owners are entitled to claim depreciation.

2. Allocation of tangible assets to tax depreciation lives and rates

In Portugal, the rate applicable to each asset is established by the Portuguese tax legislation and depends on the type of asset and sector of activity (proxy for the intensity of use).

The Portuguese tax legislation provides a comprehensive table of assets and the applicable rates. The tables can be found in Decreto Regulamentar No. 25/2009. Please note that the table below applies to nonspecific sectors of activity. There are other depreciation rates for specific assets of various industries.

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	Plant – 20 years Machinery and equipment – 5-8 years	Generally, depreciation and amortization are calculated using the straight-line method, taking into account periods of minimum and maximum useful life of the asset, as well as the industry in which the asset is used and the conditions of its use.	Plant – 5% Machinery and equipment – 12.5%-20%	N/A
Motor cars	4 years	Same method as above	25%	N/A
Buildings	10 years	Same method as above	10%	N/A
Furniture, fittings or TV fixtures	8 years	Same method as above	12.5%	N/A
Computer hardware	3 years	Same method as above	33.33%	N/A
Computer software	3 years	Same method as above	33.33%	N/A
Aircraft	5 years	Same method as above	20%	N/A
Transport other than motor cars	Motorcycles – 4 years	Same method as above	Motorcycles – 25%	N/A
Car parks	20 years	Same method as above	5%	N/A
Office equipment (including office furniture and fixtures)	8 years	Same method as above	12.5%	N/A
Land improvements	Flooring – 20 years Seals – 12 years Walls – 20 years	Same method as above	Flooring – 5% Seals – 8.33% Walls – 5%	N/A
Qualified leaseholder improvement property	N/A	N/A	N/A	N/A

Portugal

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Agricultural machinery and equipment	6-20 years	Same method as above	5%-16.66%	N/A
Property used in R&D	Depends on the amount of time of the exclusive use of the property	Same method as above	N/A	N/A

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land does not qualify, as it is not considered to be a production asset. However, when land is used for exploitation purposes, it may be possible to qualify for tax depreciation, considering only the part subject to exploitation.
Intangible assets	Intangible assets that may be used indefinitely are not subject to depreciation.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

May be added to the costs of the asset and depreciated accordingly

Land remediation – removing asbestos, Japanese knotweed

N/A

Own labor capitalized – work on developing software, for example, or carrying out work on property

Development projects, such as intangible assets, may be subject to depreciation at a rate of 33.33%.

2.4 Availability of immediate deductions for repairs

Assets below EUR1,000 may be written off in the year of acquisition, unless the asset forms part of a bigger asset that should be regarded as the entirety.

The Portuguese tax legislation only allows significant repairs or improvements to be depreciated if the repairs or improvements increase the future economic benefits of the assets.

3. Depreciation and calculation methods

Methods used	Straight-line/prime cost, diminishing (declining) method
Frequency	Annually or monthly
Year of acquisition	As noted above, it is possible to choose a monthly basis in the year of acquisition or disposal.
Year of disposal	Depreciation may be claimed on a monthly basis in the year of disposal.
Ability to use different methods for different assets	<p>The Portuguese legislation allows two different methods that may be applied to all assets: straight-line/prime cost and double-diminishing (declining) method. These methods may be applied to the assets, but it is not required that the company use the same method for all assets.</p> <p>When considering an individual asset, the depreciation method should be the same for its entire life cycle. However, if there is a sound economic change in the asset's use, the methodology and the rate of depreciation may be changed. In this case, the company must obtain the tax administration's authorization.</p>
Ability to switch methods	The Portuguese legislation allows the use of different methods in different years. However, the company must justify the reason for the change and ask for permission from the Portuguese tax authorities if the method to be used is different from the two methods allowed by Portuguese tax legislation.

4. Preferential and enhanced depreciation availability and tax credits

4.1 General allowances

Depreciation in Portugal depends on the number of shifts per day the company is in operation. Only assets subject to more intensive use are eligible for accelerated depreciation. This rule is not applicable to buildings and other assets that, because of their nature, are always subject to intensive use.

4.2. Bonus provision and tax credits

a) Special tax regime to support investment (RFAI)

This is a tax credit that is granted to companies that invest in fixed assets. The tax credit can be obtained for years 2013 to 2020.

Form of funding

If there are insufficient profits in any year to use the credit, it can be carried forward for up to 10 years.

Funding quota

Twenty-five percent of the eligible capital expenditure regarding the investment amount of EUR15 million and 10% regarding the investment amount exceeding EUR15 million, up to a limit of 50% of the tax liability.

Assessment basis

All fixed assets with the exception of land – except when used to operate mining concessions, mineral waters and spring waters, quarries, clay pits and sand pits in mining projects; construction, acquisition, repair and expansion of any buildings, factories or those used for administrative activities; light passenger or mixed vehicles; furniture and accent pieces or decoration, except hotel equipment for tourist operations; social equipment, except equipment that the company is required to have by law; other capital goods not directly and indiscernibly associated with the company's production; investment in intangible assets, consisting of expenditures on technology transfers, in particular through the acquisition of patent rights, licenses, know-how or technical knowledge not protected by patent

Main funding conditions

Companies must be established in Portugal and have no debts to tax authorities or social security; taxable income cannot be determined by indirect methods; and job creation is necessary.

Productive investment must be considered an initial investment project. To be considered an initial investment project, the investment project must be related to:

- ▶ Creation of a new establishment
- ▶ Productive capacity increase in an existing establishment
- ▶ Diversification of the production of an existing establishment by producing products that were not produced in that establishment
- ▶ Fundamental change of the global production process of an existing establishment

Main funding obligations

Maintain the funded assets for a period of five years in the company, and create and maintain jobs within the same period.

Application process

The incentive does not require any formal application. The estimated tax credit is directly included in the corporate income tax return. However, the beneficiaries need to prepare a defensive file that will be presented in case of inspection.

b) Productive investment tax benefit

This is a tax credit granted to investment projects that are relevant to the strategic development of the Portuguese economy. The projects should be relevant for reducing regional disparities, encourage the creation or maintenance of jobs, and contribute to driving Portugal's technological innovation and scientific research. This tax credit must be granted through a contractual agreement settled between the company and the Portuguese Government and must be presented through an application process. Only investment projects of more than EUR3 million are eligible.

Form of funding

If there are insufficient profits in any year to use the credit, the credit can be carried forward for up to 10 years.

Funding quota

Base rate of 10% of the eligible capital expenditure that can be increased up to 25%, depending on the location of the investment and the number of jobs created by the investment project, up to a limit of the maximum between 50% of the tax liability or 25% of the tax credit.

Application process

The incentive is attributed through a formal application process prior to the start of the investment project.

Assessment basis

All fixed assets, with the exception of:

- ▶ Land, except when used to operate mining concessions, mineral waters and spring waters, quarries, clay pits and sand pits in mining projects
- ▶ Construction, acquisition, repair and expansion of any buildings, except factories or those used for administrative activities
- ▶ Light passenger or mixed vehicles
- ▶ Furniture and accent pieces or decoration, except hotel equipment for tourist operations
- ▶ Social equipment
- ▶ Other capital goods not directly and indiscernibly associated with the company's production

Or

- ▶ Investment in intangible assets, consisting of expenditures on technology transfers, in particular through the acquisition of patent rights, licenses, know-how or technical knowledge not protected by patent

Main funding conditions

Companies must be established in Portugal, have no debts to tax authorities or social security, have taxable income that cannot be determined by indirect methods, and create jobs.

Productive investment must be considered an initial investment project. To be considered an initial investment project, the investment project must be related to:

- ▶ Creation of a new establishment
- ▶ Productive capacity increase of an existing establishment
- ▶ Diversification of the production of an existing establishment by producing products that were not produced in that establishment
- ▶ Fundamental change of the global production process of an existing establishment

Main funding obligations

Maintain the funded assets for a period of five years in the company; create and maintain jobs.

5. Accounting for disposals

When a company disposes of an asset and performs a sale, a capital gain or loss is realized. Regarding the depreciation that has been tax-deductible, there is no adjustment, and the depreciation is considered in the capital gain or loss computation. However, for assets that have been depreciated using depreciation rates below the minimum (for tax purposes), the computation of the capital gain or loss must take into account the minimum depreciation rate.

If a company has scraps as an asset, the dismantling or destruction of the asset is accepted as an expense for tax purposes of the net value of the assets without having to request prior acceptance from the tax authorities, if the tax dossier includes:

- ▶ Dismantling, decommissioning, abandonment or destruction of goods, signed by two witnesses, proving the facts leading to the occurrence
- ▶ Itemized list of goods scrapped
- ▶ Copy of the notice sent to the local tax office, with a minimum of 15 days' notice, communicating the location, date and hour of the scrap

6. Making a claim

Claims are normally made in a written document (i.e., not a part of the formal tax return document) that is presented to the tax authorities.

7. Intangible assets

Intangible assets are amortizable when subject to depreciation, especially because they have a limited time period. Tax depreciation is available for the following intangible assets:

- ▶ Expenditure on development projects
- ▶ Elements of industrial property (such as patents, trademarks, licenses, processes, designs or other similar rights), acquired against payment whose use is recognized for a limited time

Type of asset	Rates/lives
Trademarks	The depreciation rate is determined by the time period during which the exclusive use takes place.
Patents, copyright, design, know-how or similar item	The depreciation rate is determined by the time period during which the exclusive use takes place.
Goodwill	Tax depreciation is not available for goodwill.
License or permit	The depreciation rate is determined by the time period during which the exclusive use takes place.
Development projects	Subject to a depreciation rate of 33.33%

Russia



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tangible assets – tax depreciation
Intangible assets – tax amortization

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

Declining-balance – 0.7%-14.3%
Straight-line – 0.1%-7.7%

Depreciation method used to calculate tax deduction

Declining-balance (in Russian tax law – nonlinear method), straight-line (prime cost) (in Russian tax law – linear method)

1. Entitlement to claim

Only legal owners of the asset are entitled to claim tax depreciation. The exception to this rule is for lessees in respect of inseparable improvements of property made by lessee with consent of lessor.

2. Allocation of tangible assets to tax depreciation lives and rates

For tax purposes, assets qualify for depreciation groups/write-off periods based on whether they are permanent or movable assets. While permanent structures may qualify for building allowances, movable assets (e.g., heating systems, partition walls, air conditioners) may qualify for shorter write-off periods.

2.1 Assets that qualify for tax depreciation

According to the Tax Code of the Russian Federation (the Tax Code), all depreciable assets should be classified under 10 depreciation groups that have different useful-life periods. A government decree establishes useful-life periods for each depreciation group and contains a detailed description of assets included in each group. The useful-life periods for groups are as follows:

- ▶ Group 1 – 1-2 years
- ▶ Group 2 – 2-3 years
- ▶ Group 3 – 3-5 years
- ▶ Group 4 – 5-7 years
- ▶ Group 5 – 7-10 years
- ▶ Group 6 – 10-15 years
- ▶ Group 7 – 15-20 years
- ▶ Group 8 – 20-25 years
- ▶ Group 9 – 25-30 years
- ▶ Group 10 – 30 years and more

Taxpayers have the right to apply for either a linear or nonlinear method. However, a declining-balance method cannot be applied to assets of groups 8-10, such as buildings, transmission equipment, intangible assets, nor to fixed assets used only in activities related to the extraction of hydrocarbons at a new offshore field of hydrocarbons.

Linear is calculated as:

Monthly depreciation = initial value of asset x 1/n, where n is the useful-life period of an asset in months

Russia

Nonlinear depreciation is calculated as:

Monthly depreciation = $B \times K/100$, where B is the aggregated balance value of assets of one depreciation group and K is the depreciation rate, which equals:

Depreciation group	Asset description	Monthly depreciation rate for nonlinear method
Group 1	Machines and equipment	14.3
Group 2	Machines and equipment Transport vehicles Perennial plantings Production and household equipment	8.8
Group 3	Structures and transfer mechanisms Machines and equipment Transport vehicles Production and household equipment	5.6
Group 4	Buildings Structures and transfer mechanisms Machines and equipment Production and household equipment Draught animals Perennial plantings Transport vehicles	3.8
Group 5	Buildings Machines and equipment Structures and transfer mechanisms Transport vehicles Production and household equipment Fixed assets not included in other headings	2.7
Group 6	Structures and transfer mechanisms Housing Machines and equipment Transport vehicles Production and household equipment Perennial plantings	1.8
Group 7	Buildings Structures and transfer mechanisms Machines and equipment Transport vehicles Perennial plantings Fixed assets not included in other headings	1.3
Group 8	Buildings Structures and transfer mechanisms Machines and equipment Transport vehicles Production and household equipment	1.0
Group 9	Buildings Structures and transfer mechanisms Machines and equipment Transport vehicles	0.8
Group 10	Buildings Structures and transfer mechanisms Housing Machines and equipment Transport vehicles Perennial plantings	0.7

Russia

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	1-30 years and more: Useful-life periods are very diverse, ranging from 1 to more than 30 years, depending on nature, complexity and durability of assets. For example: Assembly lines, hammers, engines – 1-2 years Oilfield equipment – 2-3 years Pipelines, diesel generator – 3-5 years Well for exploratory drilling – 5-7 years Metalworking machines – 7-10 years	Linear or nonlinear (if useful life is more than 20 years, only linear is possible)	See comments above	
Motor cars	Passenger cars – 3-5 years Trucks – 7-10/5-7/3-5 years Specialized vehicles – 7-10/5-7/2-3 years	Linear or nonlinear	See comments above	
Buildings	Wooden buildings, frame constructions (except residential buildings) – 15-20 years Building from concrete, bricks, armored concrete (except residential buildings) – 20-25 years Residential buildings – 30+ years	Linear or nonlinear (if useful life is more than 20 years, only linear method is possible)	See comments above	
Furniture, fittings or fixtures	5-7 years	Linear or nonlinear	See comments above	
Computer hardware	2-3 years	Linear or nonlinear	See comments above	
Computer software	Not less than 2 years (if classified as intangible asset)	Linear or nonlinear	See comments above	
Aircraft	10-15 years	Linear or nonlinear	See comments above	
Transport other than motor cars	7-30 years	Linear or nonlinear (if useful life is more than 20 years, only linear method is possible)	See comments above	
Office equipment	5-7 years	Linear or nonlinear	See comments above	
Land improvements	7-10 years	Linear or nonlinear	See comments above	
Qualified leaseholder improvement	Depends on useful-life period of property and duration of lease agreement	Linear or nonlinear	See comments above	
Agricultural machinery and equipment	2-10 years	Linear or nonlinear	See comments above	
Property used in R&D	7-10 years	Linear or nonlinear	See comments above	

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land, natural resources (water, mineral resources, etc.)	Disallowed (non-depreciable asset) – according to Article 256 of the Tax Code, these types of assets do not qualify for tax depreciation.
Artworks, books, items of cultural value	Disallowed (non-depreciable asset) – according to Article 256 of the Tax Code, these types of assets do not qualify for tax depreciation.
Objects of urban landscaping; land improvements constructed with government/municipal financing	Disallowed (non-depreciable asset) – according to Article 256 of the Tax Code, these types of assets do not qualify for tax depreciation.
Certain categories of property of noncommercial and budget organizations	Disallowed (non-depreciable asset) – according to Article 256 of the Tax Code, these types of assets do not qualify for tax depreciation.
Inventories, construction-in-progress, securities and derivatives (forwards, futures, options)	Disallowed (non-depreciable asset) – according to Article 256 of the Tax Code, these types of assets do not qualify for tax depreciation.
Intellectual property ownership rights if the contract concerning the acquisition of the abovementioned rights stipulates that the payment shall be made by periodical installments within the whole term of the contract's validity	Disallowed (non-depreciable asset) – according to Article 256 of the Tax Code, these types of assets do not qualify for tax depreciation.
Property acquired/created at the expense of budgetary funds (except for property gained as a result of privatization)	Disallowed (non-depreciable asset) – according to Article 256 of the Tax Code, these types of assets do not qualify for tax depreciation.
Assets in respect to which a taxpayer used a right for investment tax deduction	Disallowed (non-depreciable asset) – according to Article 256 of the Tax Code, these types of assets do not qualify for tax depreciation. This provision is effective until 1 January 2018.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

One-off deduction as current period expenses

Land remediation – removing asbestos

Special tax treatment:

- ▶ Expenses on land remediation that are associated with development of natural resources are recognized evenly during the two-year period
- ▶ Expenses on land remediation not associated with resources development are subject to one-off deduction

Rights in the plots of land

Expenses associated with the acquisition of a right in the plots of land are recognized at the taxpayer's choice:

- ▶ As expenses of an accounting (tax) period on an even basis over a period which is to be determined by the taxpayer independently and must not be less than five years

Or

- ▶ As expenses of an accounting (tax) period to the extent of an amount not exceeding 30% of the tax base of the preceding tax period until the entire amount of the expenses in question has been fully recognized

Own labor capitalized – work on developing software, for example, or carrying out work on property

- ▶ Capitalized on the value of assets

2.4 Availability of immediate deductions for repairs

Description	Detail
Assets below a certain value with minimum 12-month useful life	Assets with value below RUR100,000 since 2016, according to the Federal Law of 08.06.2015 No. 150 FZ, are not recognized as fixed assets and are written off at the moment of purchase/putting into production.
Repairs	See comments on repairs below

Russian tax legislation differentiates between current repairs and capital repairs. Current repairs are written off in the period in which they are incurred, while capital repairs are capitalized in the cost of fixed assets and are written off as depreciated.

Current repairs are repairs that neither improve the technical characteristics of assets nor lead to lengthening the useful life of assets.

Capital repairs that improve technical characteristics or lead to lengthening of useful-life period should be capitalized in the value of fixed assets.

Taxpayers are also allowed to create a provision (reserve) for repair expenses.

However, if the taxpayer creates a provision (reserve) for repair expenses, the amount of the provision (reserve) cannot exceed the average amount of repair expenses during the past three years. Where a taxpayer accumulates resources for the purpose of carrying out especially complex and expensive types of capital repairs to fixed assets over more than one tax period, the maximum amount of allocations to the reserve against future expenses for the repair of fixed assets may be increased by the amount of allocations for the financing of those repairs insofar as they fall in the tax period in question in accordance with the schedule for the performance of those types of repairs, provided that the same or similar repairs were not carried out in previous tax periods.

3. Depreciation and calculation methods

Methods used	Special coefficient up to two is applied to depreciation rate (accelerated deduction of depreciation).
Frequency	Depreciation is calculated and recognized on a monthly basis.
Year of acquisition	<p>Capital allowances can only be claimed from the date the asset is brought into use, not from the acquisition date.</p> <p>Capital allowances in the form of tax depreciation are claimed starting from the month after the asset was brought into use according to the depreciation rate and depreciation method.</p> <p>Taxpayers also have the right to apply a depreciation premium (a one-off deduction of 30% or 10% of the fixed asset's value); the depreciation premium is applied voluntarily by the taxpayer. The depreciation premium can be claimed as a one-off deduction of 30% or 10% (depending on the depreciation group) of the initial value of the asset in the month after putting the asset into use.</p> <p>The amount of capital allowances percentage is:</p> <ul style="list-style-type: none"> ▶ 30% for assets belonging to depreciation groups 3-7 ▶ 10% for assets belonging to depreciation groups 1-2 and 8-10
Year of disposal	Tax depreciation is calculated and recognized until the month when the asset is disposed of. The remaining value of the fixed asset is recognized as expense on the sale of the asset.
Ability to use different methods for different assets	The same method should be applied to all assets except when the company applies the nonlinear method, which should be applied to all assets except for assets belonging to depreciation groups 8-10. Taxpayers may also elect to change the method from the linear to nonlinear method or vice versa. Proper records must be kept.

Ability to switch methods

Taxpayers have the right to change depreciation method. Change from the nonlinear to linear method is allowed once within five years. The new method of depreciation must be applied at the beginning of the new tax period (one calendar year). Taxpayers need to establish depreciation methods in tax accounting policy for the respective tax period.

4. Preferential and enhanced depreciation availability

Tax depreciation method	Comment on specific application and benefits available
Assets used in research and development	<p>Depreciation of assets used in R&D activities meeting the criteria in the Decree of the Government:</p> <p>Depreciation expenditure 100% + 50% additional (i.e., super allowance of 150%)</p> <p>Examples of R&D activities qualifying for this allowance: development of nanotechnology information telecommunication systems, biosciences, environmental conservancy, transport and space systems, development of energy-efficient and nuclear technologies and fixed assets used only in R&D activities (special coefficient up to three)</p>
Energy-efficient assets (excluding buildings)	<p>Special coefficient up to two is applied to depreciation rate (accelerated deduction of depreciation)</p> <p>Examples of assets qualifying for this allowance: oil pumps, oil filters, various oil refinery equipment, turbines, furnaces, railway engines, heating equipment</p>
<p>Industry-specific</p> <ul style="list-style-type: none"> ▸ Agricultural ▸ Oil and gas 	<p>Special coefficient up to two is applied to depreciation rate (accelerated deduction of depreciation)</p> <p>Assets owned by agricultural organizations (poultry farms, animal production units, greenhouse complexes, fur production plants)</p> <p>Special coefficient up to three is applied to depreciation rate (accelerated deduction of depreciation)</p> <p>Fixed assets used by holders of oilfield development licenses for production of hydrocarbons from new subsea oil and gas fields</p>
Fixed assets owned by residents of industrial production and tourism and recreation special economic zones	Special coefficient up to two is applied to depreciation rate (accelerated deduction of depreciation).
Assets used in harsh environments or in intensive shifts working arrangement	<p>Special coefficient up to two is applied to depreciation rate (accelerated deduction of depreciation), except for:</p> <ul style="list-style-type: none"> ▸ Fixed assets put into operation after 31 December 2013 ▸ Fixed assets belonging to groups 1-3 of taxpayers using nonlinear method
Financial leasing agreement	Special coefficient up to three is applied to depreciation rate of leased fixed assets, except for fixed assets belonging to groups 1-3.
Assets used in water supply and water disposal	Special coefficient up to three is applied to depreciation rate of assets specified by the Government. This provision is effective until 1 January 2023 and applied to assets put into operation after 1 January 2018.
Investment tax deduction	<p>One-off deduction of up to 90% of investment expenditure (expenses on certain fixed assets stated by law and on the extension, refitting, reconstruction, modernization and retooling of such assets) from the regional portion of profits tax and the remaining 10% from the federal portion.</p> <p>There is an upper limit on the regional part of investment tax deduction equal to the difference between tax payable to the regional budget when calculated at the standard rate and tax payable to the regional budget when calculated based on a rate of 5%. However, the federal portion of profits tax may be reduced to zero.</p> <p>The usage of the deduction is restricted for certain groups of taxpayers (e.g., to taxpayers that already enjoy particular tax preferences).</p>

5. Accounting for disposals

The company recognizes income from disposal of an asset (income from sale) and cost of an asset (its balance value). The company does not make any changes to previously claimed depreciation.

If the company recognizes a loss on the sale of an asset, such loss should be recognized evenly during the remaining period of useful life of an asset. For example, if the loss from the sale of an asset is RUR10 million and the remaining useful life period of this asset is five years, the loss will be recognized partially as RUR2 million during each of the five years.

If an asset is scrapped, no changes to previously claimed depreciation are made. The remaining balance value of the asset is recognized as other expenses for tax purposes in the period of asset disposal (liquidation).

6. Making a claim

Capital allowances are claimed as part of the profits tax return.

In Russia, there are two ways of making a claim. Generally, taxpayers should submit interim profits tax returns after the first, second and third quarters of the tax year. The Tax Code also allows the taxpayer to change the general approach and submit interim profits tax returns monthly from the beginning of a new tax year based on notification of the tax authority until the end of a current year. The final profits tax return is submitted no later than 28 March of the year following the reporting year. Selected approaches should be recognized in the profits tax base and profits tax return.

The company should establish the depreciation method, application of depreciation premium, special coefficients for depreciation and categories of assets in its tax accounting policy that is updated on a yearly basis.

Taxpayers are also obliged to maintain tax depreciation registers and primary documentation that should be submitted with tax authorities during tax audits upon request.

7. Intangible assets

Intangible assets are depreciated with linear or nonlinear methods (selected by a taxpayer, except for intangible assets from groups 8-10, for which, according to the Tax Code, the linear method is used). Russian tax law establishes the following criteria for recognition of intangible assets:

- ▶ Intangible assets must have the capability to gain income.
- ▶ The company must have properly executed documentation for intangible assets (i.e., patent, contract or certificate).

Type of asset	Rates/lives
Trademarks	The useful-life period (and corresponding depreciation rate) should be determined by the taxpayer depending on the period of license/patent/certificate for trademark. If determination of the useful-life period is not possible, the useful-life period should be set as 10 years.
Patents, copyright, design, know-how or similar item	The useful-life period (and depreciation rate) is determined by the taxpayer but cannot be less than two years.
Goodwill	Russian legislation does not recognize goodwill as an intangible asset.
License or permit	This depends on the type of license: <ul style="list-style-type: none"> ▶ Licenses on development of natural resources are written off during a two-year period as expenses on resource development. ▶ Other licenses are depreciated similarly to patents/copyrights.

Saudi Arabia

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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

5%–25%

Depreciation method used to calculate tax deduction

Declining-balance



1. Entitlement to claim

All taxpayers are entitled to claim tax depreciation.

2. Allocation of tangible assets to tax depreciation lives and rates

Saudi tax law specifies five categories for capital assets as follows:

Serial number	Category	Depreciation rate
1	Fixed buildings	5%
2	Industrial and agricultural movable buildings	10%
3	Factories, plant, machinery, computer hardware and application programs (computer software), and equipment, including passenger cars and cargo vehicles	25%
4	Expenses for geological surveying, drilling, exploration and other preliminary work to extract natural resources and develop their fields	20%
5	All other tangible and intangible assets of depreciable nature not included in previous categories, such as furniture, planes, ships and trains, and goodwill	10%

Where land and buildings are purchased, a reasonable amount must be apportioned between the building and the land.

2.1 Assets that qualify for tax depreciation

Asset type	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	Declining-balance	25%	
Passenger and cargo vehicles	Declining-balance	25%	
Buildings	Declining-balance	5%	For industrial and agricultural movable buildings, the depreciation rate is 10%.
Furniture, fittings or fixtures	Declining-balance	10%	
Computer hardware	Declining-balance	25%	
Computer software	Declining-balance	25%	
Aircraft	Declining-balance	10%	
Transport other than motor cars	Declining-balance	25%	Passenger and cargo vehicles at 25%; ships and trains at 10%.
Car parks			The law does not specify the depreciation rate. Documents need to be reviewed to determine the tax depreciation rate.
Office equipment	Declining-balance	25%	
Office furniture and fixtures	Declining-balance	10%	

Asset type	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Land improvements			The law does not specify the depreciation rate. Documents need to be reviewed to determine the tax depreciation rate.
Qualified leaseholder improvement property	Declining-balance	10%	Leasehold improvements are subject to depreciation at 10%.
Agricultural machinery and equipment	Declining-balance	25%	
Property used in R&D	Declining-balance		No special treatment. The law does not specify the depreciation rate. Documents need to be reviewed to determine the tax depreciation rate.
Geological survey, drilling, etc.	Declining method	20%	
Build, own, operate and transfer (BOOT) contracts assets	Amortized based on duration of contract	Amortized based on duration of contract	

2.2 Assets that do not qualify for tax depreciation

The tax legislation provides a comprehensive table of assets and rates that must be applied.

Types of assets	Explanation
Land	Specifically excluded from the law

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

N/A

Land remediation – removing asbestos, Japanese knotweed

N/A

Own labor capitalized – work on developing software, for example, or carrying out work on property

N/A

2.4 Availability of immediate deductions for repairs

Deductions for repairs and maintenance with respect to fixed assets are limited to 4% of the relevant asset category's closing balance; the excess must be disallowed and capitalized in the tax pool for tax purposes.

3. Depreciation and calculation methods

Methods used	Declining-balance; contractual period for BOOT assets
Frequency	Annually, 50% of the cost in year of acquisition, and the remaining 50% in the following year except BOOT assets

Year of acquisition	In the year of acquisition, 50% of the value of an asset is added to the relevant category. The remainder is added to the asset category in the subsequent year.
Year of disposal	Sale proceeds from disposal reduce the balance of an asset category. The proceeds are split 50/50 in the year disposed of and the subsequent year. Accounting profit or loss arising from disposal of fixed assets is disallowed for tax purposes.
Ability to use different methods for different assets	There is no choice of depreciation method. The same method should be applied for all fixed assets.
Ability to switch methods	No

4. Preferential and enhanced depreciation availability

There are no particular incentives to reward investment in capital expenditure.

5. Accounting for write-offs or transfers

Tax depreciation would continue on any scrapped fixed assets written off with certain conditions. However, accounting losses arising from the write-off of fixed assets would be disallowed for tax purposes.

No gain or loss arises upon transfer of assets between group companies provided the following criteria are met:

- The companies are wholly owned, directly or indirectly, within the same group.
- The asset should not be disposed of to a company outside the group within two years from the date of transfer.

6. Making a claim

A specific exhibit must be attached to the tax return to make a claim. The taxpayer must retain acquisition invoices, disposal invoices and other relevant documents.

7. Intangible assets

There is no guidance issued on what constitutes an intangible asset, and therefore the treatment will likely follow Saudi accounting guidelines.

8. Depreciation for zakat purpose

The Saudi tax department has recently issued new Zakat Implementing Regulations. According to these regulations, Saudi-registered companies wholly owned by Saudi, Bahraini, Emirati, Kuwaiti, Qatari and Omani nationals are required to use the straight-line method for calculating depreciation for zakat purposes. Under this method, the zakat payers are allowed to claim depreciation calculated using the accounting depreciation rates.

The limitation of deductibility of the repairs and maintenance expense discussed in Section 2.4 above is not applicable for calculating depreciation for zakat purposes.

Moreover, fixed assets are allowed to be deducted from the zakat base according to the net book value of the fixed assets reported in the audited financial statements.

Singapore



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Capital allowances

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

Varying rates, up to 100%

Depreciation method used to calculate tax deduction

Straight-line

1. Entitlement to claim

A person (includes a company, body of persons) carrying on a trade, profession or business who incurs capital expenditure on the provision of machinery or plant for the purpose of that trade, profession or business is entitled to claim capital allowance on the machinery or plant.

2. Allocation of tangible assets to tax depreciation lives and rates

Capital allowances can be claimed on plant or machinery. The parts of a building that are plant or machinery are eligible for capital allowance claims.

2.1 Assets that qualify for tax depreciation

Singapore's tax legislation provides a prescribed list of assets where a capital allowance claim is granted on a straight-line basis and is calculated by reference to the number of years of working life.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	Three years or applicable number of years of working life, depending on nature of asset	Straight-line See also note 1, below table	See note 1	
Motor cars	Three years or applicable number of years of working life, depending on nature of asset	Straight-line See also note 1	See note 1	This generally applies to commercial vehicles.
Buildings	N/A	N/A	N/A	No claim for buildings unless a tax incentive (land intensification allowance) is applied for and granted.
Furniture, fittings or fixtures	Three years or applicable number of years of working life, depending on nature of asset	Straight-line See also note 1	See note 1	
Computer hardware	One year or three years or the applicable number of years of working life	Straight-line See also note 1	See note 1	
Computer software	One year or three years or the applicable number of years of working life	Straight-line See also note 1	See note 1	
Aircraft	Three years or the applicable number of years of working life	Straight-line See also note 1	See note 1	For companies with an aircraft leasing scheme, the useful life of the aircraft may be extended up to 20 years.

Singapore

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Transport other than motor cars	Three years or applicable number of years of working life, depending on nature of asset	Straight-line See also note 1	See note 1	
Office equipment	Three years or applicable number of years of working life, depending on nature of asset	Straight-line See also note 1	See note 1	
Qualified leaseholder improvement property	The useful life will depend on the nature of the asset. For example, if it is office equipment, capital allowance will be claimed over three years or the applicable number of years of working life.	Straight-line See also note 1	See note 1	Capital allowance on plant or machinery will be granted to the person (lessor or lessee, depending on the type of lease) who incurred the capital expenditure.
Agricultural machinery and equipment	Three years or applicable number of years of working life, depending on nature of asset	Straight-line See also note 1	See note 1	
Property used in R&D	The useful life will depend on the nature of the asset. For example, if it is office furniture, capital allowance will be claimed over three years or the applicable number of years of working life.	Straight-line See also note 1	See note 1	

Note 1: Capital allowance claim based on number of years of working life:

- ▶ Initial allowance of 20% of qualifying cost incurred
- ▶ Annual allowance computed (if the asset is in use at the end of the basis period) as follows:
 - ▶ (Qualifying cost minus initial allowance) divided by working life

Accelerated capital allowance claim (i.e., written off over one or three years):

- ▶ Straight-line basis over one or three years on the qualifying cost incurred

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land, car parks, improvements	Land does not qualify.
Motor vehicle (private cars)	Capital allowance for private cars (with certain exceptions) is specifically prohibited under the Singapore Income Tax Act.
General electrical fittings, lightings, sanitary fittings, etc.	They are considered as being integral to and forming part of the building or structure.*

Please note that the above are some examples of assets that do not qualify for capital allowance claims.

* These expenditures may qualify for a tax deduction on qualifying renovation or refurbishment expenditure, subject to certain conditions and expenditure cap.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

The architect fees, legal fees and planning costs in respect of a building do not qualify for capital allowances.

Land remediation – removing asbestos, Japanese knotweed

Not applicable

Own labor capitalized – work on developing software, for example, or carrying out work on property

Generally, the capitalized labor cost for the development of software qualifies for capital allowance over one year (i.e., 100% over one year).

2.4 Availability of immediate deductions for repairs

Tax deduction is claimable on any expenses incurred for repair of premises, plant, machinery or fixtures employed in acquiring the income or for the renewal, repair or alteration of any implement, utensil or article so employed, provided that no deduction shall be made for the cost of renewal of any plant, machinery or fixture, which is subject to capital allowance claims, or for the cost of reconstruction or rebuilding of any premises, buildings, structures or works of a permanent nature.

In this regard, repairs and replacements with no element of improvement should qualify for tax deduction. The costs of repairs and replacements are immediately written off when they are incurred.

3. Depreciation and calculation methods

Methods used	Straight-line
Frequency	Capital allowance is calculated on an annual basis (for the whole year) for the year of assessment notwithstanding that the asset may be acquired for less than 12-month period in a tax year.
Year of acquisition	Capital allowance is calculated for the whole year in the year of acquisition.
Year of disposal	A balancing allowance or charge may arise.
Ability to use different methods for different assets	Capital allowance may be claimed based on the number of years of working life or over one or three years (accelerated capital allowance claim).
Ability to switch methods	N/A

4. Preferential and enhanced depreciation availability

Accelerated capital allowances

Accelerated capital allowance (i.e. 100% over one year) may be claimed on certain assets (see table below).

Enhanced capital allowances

Companies may apply for the investment allowance incentive, subject to conditions wherein allowances of up to 100% of qualifying equipment cost may be granted on top of the normal capital allowance. This is a discretionary tax incentive and requires the taxpayer to go through an application process.

Asset used in	Comment on specific application and benefits available
All industries	Computer or other prescribed automation equipment and certain equipment (generator, robot, efficient pollution control, etc.) qualify for accelerated capital allowance (i.e., 100% over one year).

Description	Detail
Asset with cost not exceeding SGD5,000 individually	Accelerated capital allowance (i.e., 100% over one year), subject to a cap of SGD30,000 for any year of assessment

5. Accounting for disposals

The disposal will trigger a balancing adjustment event. A balancing allowance (a deduction) or charge (a taxable item) may arise.

In the event that an asset is scrapped, a deductible balancing allowance (equal to the tax written-down value) will arise if the capital allowance on the asset has not been fully claimed. If the capital allowance has been fully claimed, no adjustments will be made.

6. Making a claim

The claim for capital allowance is made in the income tax return filed with the tax authorities. Supporting documents are required to be maintained to substantiate the claims.

7. Intangible assets

Writing-down allowance is available on capital expenditure incurred by a company from 1 November 2003 to the last day of the basis period for year of assessment 2025 in acquiring intellectual property rights (IPRs) for use in its trade or business. The transferee must acquire the legal and economic ownership of the IPRs from the transferor, except for cases where approval of waiver from legal ownership has been granted. For qualifying IPRs acquired, the company may elect to claim writing-down allowances over 5, 10 or 15 years.

IPRs are defined as patents, trademarks, copyrights, registered designs, geographical indications, layout design of integrated circuits, trade secrets or information with commercial value, and plant variety.

Type of asset	Rates/lives
Trademarks	See above
Patents, copyright, design, know-how or similar item	See above
Goodwill	N/A
License or permit	Fee is tax-deductible if incurred for renewal.

South Africa



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation is known as wear and tear allowances, capital allowances or depreciation.

Does the tax treatment follow book/statutory accounting depreciation?

No

Range of rates used

2%-100%

Depreciation method used to calculate tax deduction

Declining-balance and straight-line

1. Entitlement to claim

Generally, only legal owners of the asset are entitled to claim depreciation, with the exception of:

- ▶ Section 11(g) – leasehold improvements: improvements made by a lessee in terms of a contractual agreement may qualify for deduction.
- ▶ Section 12N – when the Government or certain exempt entities own the land or building, capital allowances would be allowed on land or building improvements.
- ▶ Section 13 – buildings used in the process of manufacture: improvements made to a building that is leased and used wholly or mainly in the course of the taxpayer’s trade (being a process of manufacture) may qualify for a deduction if the improvement does not fall within the scope of Section 11(g).

2. Allocation of tangible assets to tax depreciation lives and rates

For tax purposes, assets qualify for different sections/write-off periods depending on whether they are permanent or movable. While permanent structures may qualify for building allowances (e.g., Sections 13, 13quin), movable assets (such as heating systems, partition walls, air conditioners, etc.) may qualify for shorter write-off periods in terms of Section 11(e). Furthermore, Section 12C allows for a specific write-off period for assets used in the process of manufacture. Sections 37B and 37C allow for deductions relating to environmental conservation, maintenance and expenditure.

2.1 Assets that qualify for tax depreciation

Useful life and depreciation rates indicated below are a general indication. Specific fact patterns may determine different depreciation rates.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Land	Disallowed	Disallowed	Disallowed	
Plant, machinery and equipment (used in the process of manufacture)	4-5 years	Straight-line method	40%/20%/20%/20% (new, unused and not apportioned) 20%/20%/20%/20%/20% (not new and unused plant and machinery, not apportioned)	Only applicable for assets used in manufacturing. Lists of processes of manufacture, processes similar to a process of manufacture and processes not regarded as processes of manufacture are detailed in the Income Tax Practice Note 42, which can be found on the South African Revenue Service website (sars.gov.za).
Other plant, machinery and equipment (non-manufacturing)	3-6 years	Straight-line method or diminishing-value method	16.66%-33.33%	Apportioned daily With reference to Interpretation Note 47, the useful life will be dependent on the underlying asset.
Motor cars (passenger vehicles)	5 years	Straight-line method or diminishing-value method	20% per year	Apportioned daily

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Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Buildings and improvements:				
Manufacturing	50/20 years	Straight-line method	2%/5% per year	Not apportioned
Urban development zones	4/5/7/11 years	Straight-line method	8%-25% per year	Not apportioned
Residential buildings	50 years	Straight-line method	2% per year and additional 10% once off	Not apportioned
Residential units	20/10 years	Straight-line method	5%/10% per year	Not apportioned
Low-cost residential units	10 years	Straight-line method	10% per year	Not apportioned
Commercial	20 years	Straight-line method	5% per year	Not apportioned
Hotels	50/20/5 years	Straight-line method	2%/5%/20% per year	Not apportioned
Furniture, fittings or fixtures	6 years	Straight-line method or diminishing-value method	16.66% per year	Apportioned daily
Computer hardware:				
Mainframe/servers	5 years	Straight-line method or diminishing-value method	20% per year	Apportioned daily
Personal	3 years		33.33% per year	Apportioned daily
Computer software:				
Purchased	3 years	Straight-line method or diminishing-value method	33.33% per year	Apportioned daily
Personal computers	2 years		50% per year	Apportioned daily
Self-developed	1 year		100% over one year	Apportioned daily
Aircraft:				
Light passenger	4 years	Straight-line method or diminishing-value method	25% per year	Apportioned daily
Commercial helicopters	4 years		25% per year	Apportioned daily
Aircraft and ships	4/5 years		40%/20%/20%/20% (new and unused) 20%/20%/20%/20%/20% (not new and unused)	Not apportioned
Office equipment:				
Electronic	3 years	Straight-line method or diminishing-value method	33.33% per year	Apportioned daily
Mechanical	5 years		20% per year	Apportioned daily
Qualified leasehold improvement property:				
Lease premiums	Lease premium/number of years of lease contract (limited to 25 years)	Straight-line method	Over the term of the lease limited to 25 years	Apportioned monthly
Lessee: leasehold improvements	Stipulated value in contract/number of years of lease contract (limited to 25 years)	Straight-line method	Over the term of the lease limited to 25 years	Apportioned monthly
Farming and agricultural machinery and equipment:				
Buildings (erection, extension, addition or improvement)	1 year	Straight-line method	100%	Not apportioned
Movable assets	3 years	Straight-line method	50%/30%/20%	Not apportioned

South Africa

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Property used in R&D: Buildings	20 years	Straight-line method	5% per year	Not apportioned
Machinery and plant	3 years	Straight-line method	50%/30%/20%	Not apportioned; this was previously claimed under Section 11D but must be claimed under Section 12C going forward.
R&D expenditure	1 year	Straight-line method	150% of qualifying expenditure	Claimed in the year incurred; claiming this super deduction requires preapproval from the Department of Science and Technology.
Deductions for environmental expenditure: Environment treatment and recycling asset (owned by taxpayer)	4 years	Straight-line method	40%/20%/20%/20%	Utilized in the course of trade that is ancillary to any process of manufacture.
Environmental waste disposal asset	20 years	Straight-line method	5% per year	Must be required by law to protect environment.
Buildings in urban development zones: Erection of new building	11 years	Straight-line method	20% in year 1 + 8% per year for 10 years	If the building is purchased from a developer, 55% of the purchase price will be deemed to be the cost to be used to calculate the allowances.
Erection of new low-cost residential unit	7 years	Straight-line method	25% in year 1 + 13% in years 2-6 + 10% in year 7	If the building is improved by a developer, 30% of the purchase price will be deemed to be the cost to be used to calculate the allowances.
Improvements	5 years	Straight-line method	20% per year	
Improvement to low-cost residential unit	4 years	Straight-line method	25% per year	
Assets used in production of renewable energy: Wind power	3 years	Straight-line method	50%/30%/20%	Not apportioned
Photovoltaic solar energy of: ▸ More than 1 megawatt	3 years	Straight-line method	50%/30%/20%	Not apportioned
▸ Not exceeding 1 megawatt	1 year	Straight-line method	100%	Not apportioned
Concentrated solar energy	3 years	Straight-line method	50%/30%/20%	Not apportioned
Hydropower to produce electricity of not more than 30 megawatts	3 years	Straight-line method	50%/30%/20%	Not apportioned
Biomass composed of organic wastes, landfill gas or plant material	3 years	Straight-line method	50%/30%/20%	Not apportioned
Assets used in production of biodiesel or bioethanol	3 years	Straight-line method	50%/30%/20%	Not apportioned

Mining assets and expenditure have separate sections in the South African Income Tax Act (Sections 15 and 36). For tax purposes, expenditure incurred on mining assets may be fully deducted in the year the expense is incurred, subject to certain requirements, such as limitation of deductions to taxable income.

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land does not qualify.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Legal fees require analysis to determine whether they are capital or revenue in nature. If capital, the fees can be allocated to the cost of the asset and capital allowances claimed.

Own labor capitalized – work on developing software, for example, or carrying out work on property

Own labor is included in the cost of the asset/capitalized to the asset's cost; the capital allowances claimed are based on the asset classification.

2.4 Availability of immediate deductions for repairs, mining assets or small assets

Description	Detail
Assets below a certain value	Small items less than ZAR7,000 can be written off in full in the year acquired and brought into use (subject to certain requirements).
Repairs	See explanation below.
Mining assets	Certain mining assets may qualify for a 100% deduction in the year acquired, subject to certain requirements.

Repairs and maintenance vs improvements

Section 11(d) provides a deduction with regard to repairs and maintenance on property actually incurred for purposes of the taxpayer's trade.

Improvements will be disallowed as an expense, and therefore capitalized to the asset's cost and be written off over the same write-off period as the asset.

3. Depreciation and calculation methods

Methods used	Declining-balance, straight-line or 40/20/20/20
Frequency	<p>Section 11(e): with IN47 – general wear and tear allowances – daily basis</p> <p>Section 12B: assets used for farming, production of renewable energy and production of biofuels – annually</p> <p>Section 12C: assets used by manufacturers or hotel keepers, assets used for storage and packing of agricultural products, and for aircraft and ships, and machinery or plant used for research and development – annually</p> <p>Section 13: buildings – annually</p> <p>Section 37B and 37C: environmental expenditure, conservation and maintenance – annually</p>

Year of acquisition	Capital allowances can only be claimed from the date the asset is brought into use and not from the acquisition date. Depending on the type of asset (and section applicable), the allowance can be apportioned daily or be claimed as a percentage for the year.
Year of disposal	Depending on the type of asset (and section applicable), the allowance can be apportioned daily or be claimed as a percentage for the year.
Ability to use different methods for different assets	The taxpayer may elect either the straight-line or diminishing-value method to write off certain assets. The taxpayer may also elect to change the method from straight-line or diminishing-value method without notifying the tax authorities. Proper records must be kept in either case.
Ability to switch methods	See above.

4. Preferential and enhanced depreciation availability

There are numerous incentives available to companies that invest in capital projects during a certain time period (mainly manufacturing entities). These incentives may be cash grants or additional/accelerated allowances.

4.1. Tax allowance incentives

Small business corporations (Section 12E)

A “small business corporation” is:

- ▶ Any close corporation or cooperative or any private company as defined in Section 1 of the Companies Act in which all holders of the shares of the entity are natural persons
- ▶ A corporation with gross income for the year that does not exceed ZAR20 million
- ▶ One in which none of the shareholders or members hold any shares or any interest in the equity of any other company at any time during the year of assessment, other than:
 - ▶ A listed company
 - ▶ Any portfolio in a collective investment scheme
 - ▶ A body corporate or share block company
 - ▶ Less than 5% of the interest in a primary savings cooperative bank or primary savings and loan cooperative bank
 - ▶ Any friendly society
 - ▶ Less than 5% of the interest in a social or consumer cooperative or a burial society
 - ▶ A venture capital company
 - ▶ A dormant company, close corporation or cooperative
 - ▶ A company, close corporation or cooperative in the process of liquidation, windup or deregistration
- ▶ One with investment income plus income from rendering a personal service that does not exceed more than 20% of the total of all receipts and accruals of a revenue nature and all capital gains
- ▶ A company that is not a personal service provider as defined

Manufacturing assets are 100% deductible in the year that the assets are brought into use.

Non-manufacturing assets are written off over three years (50/30/20) or written off in terms of the allowances provided for in Section 11(e), depending on which one provides the most favorable deduction.

Buildings in special economic zones (Section 12S, read with Section 12R)

A special economic zone, or SEZ, is a zone as defined by the Special Economic Zones Act by the Minister of Finance.

South Africa

A qualifying company, as defined in Section 12R, will be allowed to receive a 10%-per-year capital allowance on the cost of any new and unused building or any new and unused improvements to buildings owned by the qualifying company, and those buildings or improvements are wholly and mainly used in the production of income within an SEZ in the course of the qualifying company's trade, other than the provision of residential accommodation.

Pipelines, transmission lines and railway lines (Section 12D)

This relates to expenditure actually incurred on acquisition of or improvements to pipelines, transmission lines or railway lines by the legal owner, or a taxpayer that is not the owner, if the improvement to be effected is one as set out in Section 12N, that is new and unused and brought into use for the first time. Allowances can be claimed as follows:

- ▶ 10% per year for pipelines used for transportation of natural oil
- ▶ 6.67% (10% as from 1 April 2019) on any line or cable used for the transmission of electronic communications
- ▶ 5% annually for all other affected assets

Industrial policy project additional investment and additional training allowance (Section 12I)

Additional investment allowance

In addition to the allowances already available to manufacturing entities in other sections of the act, an additional allowance may be deducted by applying the following percentages to the cost of any new and unused manufacturing assets (hereinafter referred to as assets) used in an industrial policy project (hereinafter referred to as project):

- ▶ 55% of qualifying assets or a maximum of ZAR900 million investment allowance in the case of any greenfield project with a preferred status (100% if located in an SEZ)
- ▶ 35% of qualifying assets or a maximum of ZAR550 million investment allowance in the case of any other greenfield project (75% if located in an SEZ)
- ▶ 55% of qualifying assets or a maximum of ZAR550 million investment allowance in the case of any brownfield project with a preferred status
- ▶ 35% of qualifying assets or a maximum of ZAR350 million investment allowance in the case of any other brownfield project

Additional training allowance

In the furtherance of an industrial policy project, an allowance limited to ZAR36,000 may be claimed for the cost of training provided to employees. This allowance may not exceed ZAR30 million (for an industrial policy project with preferred status) and ZAR20 million (for any other industrial policy project) within the six-year period from the date of approval.

4.2. Cash grant incentives

A number of cash incentives are administered by the Department of Trade and Industry, and these incentives typically tend to be industry-specific. Such cash incentives include, but are not limited to, the following:

Critical Infrastructure Programme (CIP) - cash grant

- ▶ The CIP offers a minimum grant of 10% to a maximum of 30% of the total qualifying bulk infrastructural development costs, up to a maximum of ZAR50 million.
- ▶ For projects that alleviate water and/or electricity dependency on the national grid (investment that is less dependent on national grid), the CIP will also offer a minimum grant of 10% to a maximum of 50%, up to a maximum of ZAR50 million.
- ▶ The applicant company must be at least a level 8 B-BBEE contributor in terms of the Codes of Good Practice for B-BBEE. Should the applicant company not be at least a level 8 B-BBEE contributor, a grace period of 15 months after date of submission of the application is given for it to comply.

- ▶ The project must coincide with an investment project (defined fixed investment, expansion or sustain/refurbishment for the existing fixed investment).

Infrastructure that should be considered:

- ▶ Electricity lines and substations
- ▶ Cogeneration/renewable energy (not part of Renewable Energy Independent Power Producer Procurement Programme (REIPPPP))
- ▶ Tar roads
- ▶ Bridges
- ▶ Water systems/reservoirs or purification
- ▶ Railway
- ▶ Infrastructure that alleviates water and/or electricity dependency on national grids

Agro-processing support scheme

The five key focus areas of agro-processing/beneficiation operation are as follows:

- ▶ Food and beverage value addition and processing (particularly black winemakers)
- ▶ Furniture manufacturing
- ▶ Fiber processing
- ▶ Feed production
- ▶ Fertilizer production

Qualifying projects:

- ▶ New and existing agro-processing/beneficiation projects

This can involve a wide range of processing or beneficiation activities of post-harvest that result in value addition and/or enhanced:

- ▶ Storage life, such as cleaning, sorting, grading and waxing
- ▶ Controlled ripening
- ▶ Labeling
- ▶ Packing and packaging
- ▶ Warehousing
- ▶ Canning
- ▶ Freezing, freeze drying
- ▶ Wood carving
- ▶ Extrusion
- ▶ Synthesizing
- ▶ Polymerization
- ▶ Various levels of processing that change agricultural product form. The forestry value chain may also include sawing, pulping, peeling and preservation.

Benefits:

Approved applicants can qualify for:

- ▶ A 20% to 30% cost-sharing grant to a maximum of ZAR20 million
- ▶ An additional 10% grant for projects that meet all economic benefit criteria

The grant is available over a two-year investment period.

The minimum amount of investment size to qualify for the grant is ZAR1 million (historical cost of assets less than ZAR10 million) or ZAR10 million (historical cost of assets greater than ZAR10 million).

The grant will offer support on a cost-sharing basis toward qualifying assets, including machinery and equipment, commercial vehicles, buildings and improved costs.

The grant will lead to the ability to claim between 20% and 30% of investment spent on qualifying assets and investment cost (capped at ZAR20 million).

Automotive Investment Scheme (AIS)

The purpose of AIS is to grow and develop the automotive sector through investment in new and/or replacement models and components that will increase plant production volumes, sustain employment and/or strengthen the automotive value chain. The grant is available to light motor vehicle manufacturers and component manufacturers, deemed component manufacturers or tooling companies.

This represents a cash grant of 20% plus an additional 5% to 10% (if the project significantly contributes to the development of the automotive sector) of the cost of assets required to establish a new production facility or to expand an existing production facility.

Film and television production

1. Foreign Film and Television Production and Post-Production Incentive

Foreign-owned qualifying productions with a minimum of qualifying South African production expenditure (QSAPE) of ZAR12 million and above may qualify for a grant equal to 20% of QSAPE.

In instances in which the shooting location is in South Africa and post-production with qualifying South African post-production expenditure (QSAPPE) of ZAR1.5 million occurs in South Africa, the incentive will be calculated on 22.5% of QSAPPE (additional 2.5%).

Where post-production occurs outside of South Africa for a minimum number of two weeks, the incentive is calculated as follows:

- ▶ The incentive is calculated at 22.5% of QSAPPE for foreign post-production with QSAPPE of ZAR1.5 million.
- ▶ The incentive is calculated at 25% of QSAPPE for a foreign post-production with QSAPPE of ZAR3 million and above.

If 100% of post-production is conducted in South Africa, the minimum requirement for the number of weeks will be waived.

If shooting on location in South Africa and conducting post-production with a QSAPPE of ZAR3 million and above in South Africa, the incentive will be calculated as 25% of QSAPE and QSAPPE (an additional 5% will be added).

2. South African Film and Television Production and Co-Production Incentive

The incentive is available to qualifying South African productions and official treaty co-productions with a total production of ZAR2.5 million and above. The incentive is calculated as 35% of the first ZAR6 million of QSAPE and 25% of the QSAPE on amounts above ZAR6 million.

Other incentives

Tax depreciation method	Comment on specific application and benefits available
R&D tax incentive	Section 12C and Section 11D: <ul style="list-style-type: none"> ▶ Capital assets 50%/30%/20% allowance or 40%/20%/20%/20% or 20% per year over five years ▶ Expenditure 100% + 50% additional (i.e., super allowance of 150%)
Assets used in farming or production of renewable energy (Section 12B)	A write-off period of 50%/30%/20% is allowed for the cost of and improvements to the following assets: <ul style="list-style-type: none"> ▶ Assets acquired for use in farming operations ▶ Assets acquired for use in the production of biodiesel or bioethanol ▶ Assets acquired for use in the generation of electricity from wind, solar power, hydropower and biomass
Energy-efficiency savings (Section 12L)	Section 12L provides for an energy-efficiency savings deduction of ZAR0.95 per kilowatt hour or kilowatt hour equivalent. Taxpayers can deduct all forms of energy-efficiency savings resulting from activities in the production of income, provided they have a certificate issued by an institution, board or body, such as the Minister of Finance, Minister of Energy or Minister of Trade & Industry, all of which will prescribe these regulations.

5. Accounting for disposals

Recoupments (Section 8(4)) are triggered if the proceeds (below original cost price) received on disposal exceed the tax value of the asset. Tax recoupment is included in the taxable income of the taxpayer.

The tax-scraping allowance will be allowed and deducted from taxable income of the taxpayer if the proceeds received on disposal are less than the tax value of the asset. This will only relate to assets in which the write-off period is less than 10 years and the asset is a moveable asset. Immovable assets – generally buildings – are excluded from claiming a tax-scraping allowance.

Capital gains arise if the proceeds exceed the cost.

6. Making a claim

In South Africa, other than for an individual, submission of an annual tax return must be completed within 12 months from the financial year-end. Wear and tear and capital allowances are claimed as part of the income tax returns.

In practice, the tax authority can request that the taxpayer provide supporting documentation, such as audited annual financial statements and supporting schedules of amounts being claimed on the return.

7. Intangible assets

Type of asset	Rates/lives
Trademarks, patents, copyright, design	Section 11(gB) provides a full deduction of expenditure actually incurred for the registration or renewal of registration for trademarks, patents, copyright or designs.
Patents, copyright, design, know-how or similar items	Section 11(gC) provides a 5%-10% allowance per year in respect of expenditure actually incurred to acquire an invention, patent, design, copyright or other similar property.
Goodwill	No tax deduction is allowed for purchased goodwill.
License or permit	Section 11(gD) provides an allowance for expenditure incurred with regards to government business licenses for the provision of certain products or services over the lesser of the term of the license or 30 years.

South Korea



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

In principle, yes. Although special rules may be applied in certain circumstances, accounting depreciation is tax deductible provided it is within the maximum allowable limit computed based on the useful life/depreciation method reported to the tax office.

Range of rates used

Generally, 2.5% to 25.0%

Depreciation method used to calculate tax deduction

Declining-balance, straight-line, units of production

1. Entitlement to claim

Legal owners are entitled to claim depreciation/amortization on assets. In the case of finance leases, the lessee is entitled to claim depreciation/amortization on the leased assets.

2. Allocation of tangible assets to tax depreciation lives and rates

In general, corporations may depreciate tangible fixed assets using the straight-line, declining-balance or unit-of-production (output) depreciation methods. However, buildings and structures must be depreciated using the straight-line method. Intangible assets must be amortized using the straight-line method with a few exceptions for which another depreciation method may apply (e.g., unit-of-production depreciation method may also be used for amortization of mining rights).

A corporation can elect to use one of the depreciation methods and useful lives specified in the tax laws and notify the tax office of its choice in its first annual income tax return. If it does not elect a particular depreciation method or useful life, it must use the depreciation method or useful life applicable to the respective class of asset as designated in the tax laws.

The depreciation methods and standard useful lives for the purpose of calculating the tax depreciation of each respective class of asset are laid out below. In general, useful lives of assets can be selected within the range of standard useful life \pm 25% as prescribed in the tax laws.

The following are standard useful lives and methods of depreciation for fixed assets, including fixtures and furniture (Appendix 5 to the Enforcement Regulations to the Corporate Income Tax Law).

Asset type	Standard useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate
Vehicles and transportation vehicles (excluding vehicles used in transportation, machinery and consumer products lease businesses), tools and equipment	5 years	Straight-line method or declining-balance method	20%/45.1%
Ships and aircraft (excluding ships and aircraft used in fishing, transportation, machinery and consumer products lease businesses)	12 years	Straight-line method or declining-balance method	8.3%/22.1%
Buildings and structures made of bricks, blocks, concrete, adobe, mud wall, wood, wooden mortar, etc. (including attached fixtures)	20 years	Straight-line method	5%
Buildings and structures made of steel frame, reinforced concrete, stone, brick, etc. (including attached fixtures)	40 years	Straight-line method	2.5%

South Korea

The following are standard useful lives and methods of depreciation for fixed assets deployed in specific industries (Appendix 6 to the Enforcement Regulations to the Corporate Income Tax Law). For the manufacturing industry, a more specified level of industry should be considered to determine the standard useful life for tax implications.

Industries	Subcategory of manufacturing	Standard useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate
Manufacturing Educational service	Manufacture of leather, luggage and footwear Manufacture of pesticides and other agricultural chemical products	4 years	Straight-line method or declining-balance method	25%/52.8%
Agriculture, forestry and fishing Mining Manufacturing Sewage, garbage disposal treatment, raw material recycling and environmental restoration Construction Wholesale and retail Transportation Publishing, graphics, broadcasting and information services Finance and insurance Lease (excluding real estate) Professional, scientific and technological services Business facility management and business support services Public administration, national defense and social security Public health and social welfare services Arts, sports and leisure-related services Association and organization, repair and other individual services Employment within family and other uncategorized self-consumption activities International and foreign bodies	Printing and reproduction of recorded media Manufacture of pharmaceuticals, medicinal chemicals and botanical products	5 years	Straight-line method or declining-balance method	20%/45.1%
Manufacturing Mailing services	Manufacture of electronic components, computer, radio, television and communication equipment and apparatuses	6 years	Straight-line method or declining-balance method	16.6%/39.4%

South Korea

Industries	Subcategory of manufacturing	Standard useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate
Manufacturing, construction and transportation industries Lodging and restaurant services Real estate and lease Association and organization, repair and other individual services	Manufacture of magnetic and optical medium Manufacture of apparel, clothing accessories and fur articles Manufacture of rawhides and tanning and dressing of leather Manufacture of chemicals and chemical products (except pharmaceuticals, medicinal chemicals)	8 years	Straight-line method or declining-balance method	12.5%/31.3%
Agriculture, forestry and fishing Mining Manufacturing	Manufacture of food/beverages Manufacture of textiles, except apparel Manufacture of wooden and paper products Manufacture of rubber, plastic and mineral products Manufacture of electronic coils, transformers and other inductors Manufacture of matches Manufacture of basic metal products Manufacture of other transport equipment Manufacture of furniture Manufacture of electrical equipment and machinery Other manufacturing	10 years	Straight-line method or declining-balance method	10%/25.9%

South Korea

Industries	Subcategory of manufacturing	Standard useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate
Manufacturing Transportation	Manufacture of tobacco products Manufacture of motor vehicles, trailers and semitrailers	12 years	Straight-line method or declining-balance method	8.3%/22.1%
Manufacturing	Manufacture of coke, hard-coal and lignite fuel briquettes and refined petroleum products	14 years	Straight-line method or declining-balance method	7.1%/19.3%
Electricity, gas and steam		16 years	Straight-line method or declining-balance method	6.2%/17.1%
Waterworks		20 years	Straight-line method or declining-balance method	5%/14%

2.1 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land is excluded from fixed assets for depreciation purposes.
Assets not used for business	While assets not used for business do not qualify for tax depreciation, idle facilities do.
Assets under construction	Assets under construction are not subject to depreciation.
Assets whose values do not decline over time	Examples include antiques and fine art pieces.

2.2 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Incidental costs related to the acquisition of fixed assets are subject to depreciation, as they are included in the acquisition costs of the related assets.

Land remediation

Costs in relation to land remediation are not included in acquisition costs of assets and, hence, are not subject to depreciation.

Capitalization of labor – personnel expenses incurred to develop or improve products, process, systems, etc., prior to commercial production or use

Payroll and other payroll-related costs of employees directly involved in the development are included in development costs and are subject to depreciation/amortization.

2.3 Availability of immediate deductions for repairs

If a corporation deducts expenses incurred for the acquisition of fixed assets or expenditures that should be capitalized, these are deemed asset acquisitions and will also be subject to tax depreciation.

“Capital expenditures” refer to repair costs spent in order to extend the useful life of depreciable assets of a corporation or to raise the real value of the relevant assets. Capital expenditures shall include the following:

- ▶ Restructuring to change the original use
- ▶ Installation of elevators or cooling/heating equipment
- ▶ Installation of evacuation facilities in a building, etc.
- ▶ Restoration of buildings, machinery, facilities and equipment damaged or destroyed by a disaster or accident to the extent that they cannot be used for their original purposes
- ▶ Other improvements, expansions or installations that are similar in nature to those listed in the above

However, if a corporation incurs any of the following repair costs, the repair costs may be expended in the business year in which they occur:

- ▶ If the amount expended as repair costs for each asset is less than KRW3 million
- ▶ If the amount expended as repair costs for each asset is less than 5/100 of financial book value as at the end date of the immediately preceding business year
- ▶ If repair costs are periodically expended with intervals of less than three years

Furthermore, acquisition costs of depreciable assets that amount to not more than KRW1 million per unit may be expended as a periodic expense unless the assets are acquired in high volume or are used for the commencement or expansion of business.

3. Depreciation and calculation methods

Methods used	Declining-balance, straight-line, unit-of-production methods
Frequency	Monthly If the business year is less than one year, the depreciation amount allowed under the Korean tax laws is the amount calculated by multiplying the allowed depreciation amount by the number of months in the relevant business year and dividing it by 12. In such cases, the number of months shall be calculated by the calendar, and the remaining number of days less than one month shall be deemed as one month.
Year of acquisition	The depreciation of fixed assets can be calculated from the month in which the fixed assets are put into use.
Year of disposal	The depreciation is calculated until the month preceding the month in which the fixed assets are written off or sold.
Ability to use different methods for different assets	The identical method must be applied to the same class of assets.
Ability to switch methods of conditions set by the Korean tax laws	Provided certain conditions prescribed under the Korean tax laws are met, depreciation methods may be changed after obtaining approval from the head of the district tax office.

4. Preferential and enhanced depreciation availability

In any of the following cases, a corporation may apply a useful life that is within a range of plus or minus 50% of the standard useful life upon obtaining an approval from the regional tax office (for fifth and sixth items below, a range of plus or minus 25% of the standard useful life may apply).

1. If the degree of corrosion, wear and tear or damage of the assets is considerable due to the nature of the business
2. For corporations that have been in business for at least three consecutive years, if the rate of operation of production for the relevant business year is considerably higher than the average rate of operation for the preceding three business years
3. If accelerated depreciation of existing production facilities is required on the grounds of the development, distribution, etc., of new production technology and new products

4. If operations are suspended or the rate of operation of production facilities is reduced due to changes in economic conditions
5. Where the change in useful life is made subsequent to the first year of adoption of the international accounting standards
6. If the standard useful life of the depreciable asset is changed in the tax laws

Upon acquiring used assets (i.e., assets that are left with less than 50% of the standard useful life prescribed in the tax law), the company may elect to use a useful life for the used assets that can be shortened to 50% of the standard useful life by filing an application to the district tax office.

Furthermore, under the revised 2018 tax reform bill, if a Korean corporation acquires the following fixed assets until December 31, 2019, accelerated depreciation where a Korean corporation may apply a useful life that is within a range of plus or minus 50% of the standard useful life is granted as reward for investment:

1. Small and medium-sized companies with average yearly revenue of less than KRW300 billion for the most recent three years: business-purpose fixed assets, such as machinery, tools, furniture and equipment
2. Large companies: R&D expenditures and facilities for commercialization of the new growth engine sector technologies

5. Accounting for disposals

The difference between the selling price and the book value of the fixed asset (including intangible asset) is recognized as a gain or loss upon disposal.

6. Special depreciation rules for business cars

Business cars

Business cars refer to all vehicles that are subject to individual consumption tax and may be used for both business-related and nonbusiness-related purposes.

Tax treatment and tax deductibility of business-use vehicles

The newly amended Korean tax law requires taxpayers to maintain the operation records of a business-use car to deduct expenses related to the business-use car, which include depreciation expense, rental expense, fuel, insurance, repairs, property tax, toll fees and interest expense on the financial lease obligation. In the absence of the operation records, taxpayers shall be allowed to deduct the actual expenses incurred related to the business use of the car or KRW10 million, whichever is less. This newly amended provision for business-use vehicles (see above) does not apply to the vehicles used for transportation business, car sales and lease business, security business, etc.

Annual depreciation limits

The allowable depreciation per year is limited to the depreciation expense multiplied by the business-use percentage, which shall not exceed KRW8 million per vehicle. The depreciation expense exceeding the limit can be carried forward to subsequent tax years and be deducted when depreciation expenses multiplied by the business-use percentage is less than the tax limit of KRW8 million.

Loss from the disposal of business-use vehicles

Loss from the disposal of business-use vehicles is subject to a deductibility limit, which is KRW8 million per year per vehicle.

7. Making a claim

Tax depreciation is incorporated into the annual corporate income tax return.

8. Intangible assets

The following are standard useful lives and method of depreciation for intangible assets (see Appendix 3 to the Enforcement Regulations to the Corporate Income Tax Law).

Type of asset	Rates/lives
Trademarks	5 years
Patents, copyrights, design, know-how or similar items	Patents (7 years); copyright (depending on the term of copyright); design (5 years); know-how (5 years)
Goodwill	5 years
License or permit	5 years (if treated as goodwill)
Other (please provide details)	Useful life of 10 years: Fishing rights, gathering rights under the Submarine Mineral Resources Development Act (unit-of-production method may be used), toll road management rights, irrigation rights, electricity and gas provision facility usage rights, industrial waterworks usage rights, waterworks usage rights and heating provision facility management rights Useful life of 20 years: Mining rights (unit-of-production method may be used), telephone and telegraph exclusive-use facility rights, exclusive rail line usage rights, sewage treatment and disposal plant management rights, and waterworks facility management rights Useful life of 50 years: Dam usage rights

Spain



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation or amortization

Does the tax treatment follow book/statutory accounting depreciation?

Yes, for tax purposes, accounting depreciation is tax deductible provided it is within the maximum allowable limit set by Spain's corporate income tax (CIT) regulations.

Range of rates used

0%-50%

Depreciation method used to calculate tax deduction

Straight-line/prime cost, sum-of-the-years'-digits method, double-diminishing (declining) method – constant percentage, a depreciation plan approved by the Spanish tax authority or accelerated depreciation in certain industries (e.g., mining)

1. Entitlement to claim

Taxpayers who have registered the assets in their balance sheet are entitled to claim depreciation.

2. Allocation of tangible assets to tax depreciation lives and rates

Tax depreciation should be applied element by element, i.e., companies are required to distinguish between parts of the building and apply different lives/rates to each part (furniture, air conditioning units, etc.). However, elements that are similar in nature or used in the same way may be depreciated together if it is possible to know the accumulated depreciation of each element at all times.

Maximum depreciation rates for tax purposes are fixed by law. The rates vary depending on the industry. Spanish tax reform has amended the table of assets and the lives/rates.

2.1 Assets that qualify for tax depreciation

Useful life and depreciation rates noted below are a general indication. Specific fact patterns may determine different depreciation rates.

Asset type	Maximum useful life for tax	Type of tax depreciation method	Maximum applicable tax depreciation rate	Comments
Plant, machinery and equipment	14-40 years	To be chosen by the taxpayer	5%-15%	It depends on the specific kind of asset.
Motor cars	14 years	To be chosen by the taxpayer	16%	
Buildings	68-100 years	Sum-of-the-years'-digits method and constant percentage method (see definitions below) cannot be applied.	2%-3%	It depends on whether the building is used for warehousing or administrative purposes.
Furniture, fittings or fixtures	4-20 years	Sum-of-the-years'-digits method and constant percentage method cannot be applied.	10%-50%	It depends on the specific kind of asset.
Computer hardware	8 years	To be chosen by the taxpayer	25%	
Computer software	6 years	To be chosen by the taxpayer	33%	
Aircraft	20 years	To be chosen by the taxpayer	10%	
Transport other than motor cars	10-25 years	To be chosen by the taxpayer	8%-20%	It depends on the specific kind of asset.
Car parks	100 years	To be chosen by the taxpayer	2%	
Office equipment	20 years	Sum-of-the-years'-digits method and constant percentage method cannot be applied.	10%	It depends on the specific type of asset.

Spain

Asset type	Maximum useful life for tax	Type of tax depreciation method	Maximum applicable tax depreciation rate	Comments
Land improvements	N/A	N/A	0%	
Qualified leaseholder improvement property	N/A	N/A	0%	
Agricultural machinery and equipment	18 years	To be chosen by the taxpayer	12%	
Property used in R&D				Accelerated depreciation allowed

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	The purchase price of undeveloped land shall include land preparation costs, such as enclosures, excavation, purification and drainage, demolition when required for new building construction, inspection costs and plans drawn up prior to the purchase and, where applicable, the initial estimate of the present value of existing obligations associated with land restoration. Land typically has an indefinite life and is, therefore, not depreciated. However, when the initial value includes restoration costs, in compliance with the property, plant and equipment standards, this portion of the land shall be depreciated over the period in which it generates economic benefits as a result of having incurred these costs.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Such costs are deductible for CIT purposes.

Land remediation – removing asbestos, knotweed

It should increase the acquisition value of land, but not the deductible value for CIT purposes.

Own labor capitalized – work on developing software, for example, or carrying out work on property

Qualifying R&D capitalized expenses would be deductible for CIT purposes under the free depreciation regime.

2.4 Availability of immediate deductions for repairs

Generally speaking, an item of property, plant and equipment shall be considered impaired when its carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset, less costs to sell and its value in use. The expense derived from write-offs will not be deductible for CIT purposes.

Spanish regulations distinguish between repairs and improvements. The Spanish General Accounting Plan defines repairs as amounts relating to the upkeep of assets to be registered as an expense, which would be deductible for CIT purposes.

However, costs incurred to renovate, expand or improve items of property, plant and equipment that increase capacity, productivity or extend the useful life of the asset shall be capitalized as part of the cost of the related asset. Therefore, improvements would be tax depreciated according to the pending useful years, and the depreciation method applies to the linked asset.

For fiscal years 2013 and 2014, for entities with revenue exceeding EUR10 million, a temporary restriction has applied to the amortization or depreciation for tax purposes of fixed, intangible and real estate assets. Under this restriction, the tax-deductible expense was limited to 70% of the maximum depreciation or amortization amount, according to CIT regulations.

Depreciation expenses may be taken on a straight-line basis over a period of 10 years (or, if the taxpayer so chooses, the asset's useful life) starting from 2015.

3. Depreciation and calculation methods

Methods used	Straight-line/prime cost, sum-of-the-years'-digits method, double-diminishing (declining) method – constant percentage, a depreciation plan approved by the Spanish tax authority or accelerated depreciation in certain industries (e.g., mining)
Frequency	<p>Annually</p> <p>Depreciation is calculated on an ongoing basis. For instance, ongoing depreciation will have to be taken into consideration for filing the payments on account for CIT purposes.</p> <p>Listed below are definitions of the abovementioned methods:</p> <ul style="list-style-type: none"> ▶ Straight-line method: results from the application of linear amortization rates in the officially approved amortization schedules and may be used for any depreciable asset. Companies may use higher rates if they can demonstrate that the actual depreciation is more than what the law allows. Additionally, the mentioned rates may be higher for assets used in more than a single shift worked and for secondhand assets that the company acquired. ▶ The sum-of-the-years'-digits method may be used for all assets except building, furniture and household goods. ▶ The constant percentage method is determined by weighting the linear amortization rate obtained from the amortization period that is officially approved in the amortization schedules by the following rates: <ul style="list-style-type: none"> ▶ 1.5 weighting – should the asset have a useful life shorter than five years ▶ 2 weighting – should the asset have a useful life equal to or more than five years and less than eight years ▶ 2.5 weighting – should the asset have a useful life of at least eight years ▶ A tax authority-approved depreciation plan: on request, tax authorities may grant approval for accelerated depreciation if the company presents a plan specifying the assets, the date and price of the acquisition, the depreciation rates and the annual depreciation allowance desired, and supporting evidence for the granting of such a plan.
Year of acquisition	Generally speaking, depreciation is calculated from the time the asset has been brought into operating conditions or purchase. In the year of acquisition, the annual tax depreciation would be proportionally calculated.
Year of disposal	In the year of disposal, the annual tax depreciation would be proportionally calculated. If an asset is owned for only part of the year, the depreciation is calculated in proportion to the number of months it belonged to the taxpayer.
Ability to use different methods for different assets	The method has to be chosen for each element during its useful life and not by each class of assets.
Ability to switch methods	Under certain conditions, the method may be changed. It has to be justified in the annual account as an exceptional measure. Depending on the cause that required the change, it may impact the previously submitted CIT form. If this is the case, an amendment should be requested or submitted.

4. Preferential and enhanced depreciation availability

Tangible and intangible fixed assets of certain companies (e.g., small and medium-sized companies, labor-limited companies, mining companies, priority-exploitation companies (*explotaciones asociativas prioritarias*)) can be depreciated under an accelerated depreciation regime.

For financial lease contracts, under certain conditions, tax depreciation shall not be higher than the result of applying twice the officially approved linear amortization rate corresponding to such asset. In addition, small and medium-sized companies may apply the coefficient of 1.5 to the specific tax depreciation for financial lease contracts.

Type of asset	Comment on specific application and benefits available
Tangible and intangible fixed assets of workers for incorporated companies and labor-limited liability companies	The assets assigned to the performance of these activities and acquired within the first five years of their qualification can be depreciated under a free depreciation regime.
Assets used in R&D	Tangible and intangible assets, excluding buildings, assigned to development and investigation activities can be amortized under a free depreciation regime.
Buildings assigned to R&D	They can be amortized, in equal parts, for a period of 10 years, if assigned to development and investigation activities.
Industry-specific	Assets used by mining companies
Intangible assets	If it is not possible to make a reliable estimate of an asset's useful life period, the amortization rate for accounting purposes is set at 5%.

In addition, effective from 1 January 2015, new fixed assets can be freely depreciated on an annual basis if their unit cost is below EUR300, with an overall cap of EUR25,000.

5. Accounting for disposals

When a company disposes of an asset for value, any difference between the accounting depreciation and the tax depreciation should be taken into consideration when calculating the tax benefit or loss to be included in the annual tax return. When a company scraps an asset for no value, the tax treatment would be the same, but the price-level adjustment would not be applicable.

6. Making a claim

Tax depreciation is claimed in the CIT return.

Companies must be able to prove the acquisition value with the acquisition contract. In addition, the depreciation could be done by any means allowed by the law.

7. Intangible assets

Generally, intangible assets may be amortized according to their useful life. If the useful life cannot be determined, intangible assets may be amortized with a limit of 5% annually.

Type of asset	Rates/lives
Trademarks	5%
Patents, copyright, design, know-how or similar item	5% for intangible asset with limited useful life (e.g., patents, copyright)
Goodwill	5%
License or permit	5%

Sweden



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation (*skattemässig avskrivning*)

Does the tax treatment follow book/statutory accounting depreciation?

Only for machinery and equipment when the 30% declining or 20% straight-line method is used

Range of rates used

0%-30%

Depreciation method used to calculate tax deduction

Declining-balance, straight-line (prime cost), residual value

1. Entitlement to claim

The legal owners are generally entitled to claim.

2. Allocation of tangible assets to tax depreciation lives and rates

Generally, companies are not required to break down assets. Special rules apply to buildings: if a building is constructed or purchased, the company is allowed to distinguish between parts of the building and segregate these into the depreciation classes defined in the Income Tax Act such as building, building equipment, connection fees, land equipment and land improvements. The annual depreciation of the building is determined by the economic lifetime.

Buildings are subdivided as follows:

Type of building	Yearly deduction percentage
Detached houses	2%
Rental buildings	
Car parks, malls, hotels and restaurant buildings	3%
Stands/kiosks	5%
Other rental buildings	2%
Farm buildings	
Greenhouses, silos, refrigerating buildings	5%
Other buildings	4%
Power plant buildings	
Thermal power generation buildings	4%
Hydroelectric power buildings	2%
Industrial buildings	
Industrial buildings that are not set up for specific use	4%
Other industrial buildings that have only a limited usefulness for any purpose other than that for which they are used; for example, gas stations, cold stores, dairies, slaughterhouses, sawmills and brickworks	5%
Special buildings	3%
Other buildings	
Treat as industrial buildings	

2.1 Assets that qualify for tax depreciation

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	5 years or 20-50 years depending on category	As equipment or building	30% declining/20% straight-line or 25% residual value; 2%-5% annually	
Motor cars	Classified as machinery/equipment	Equipment	30% declining/20% straight-line or 25% residual value	

Sweden

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Buildings	20-50 years		2%-5% annually	
Furniture, fittings or fixtures	Classified as machinery/equipment	Equipment	30% declining/20% straight-line or 25% residual value	
Computer hardware	Classified as machinery/equipment	Equipment	30% declining/20% straight-line or 25% residual value	
Computer software	Classified as machinery/equipment	Equipment	30% declining/20% straight-line or 25% residual value	
Aircraft	Classified as machinery/equipment	Equipment	30% declining/20% straight-line or 25% residual value	
Transport other than motor cars	Classified as machinery/equipment	Equipment	30% declining/20% straight-line or 25% residual value	
Car parks	20 years		5% annually	
Office equipment (including office furniture and fixtures)	Classified as machinery/equipment	Equipment	30% declining/20% straight-line or 25% residual value	
Land improvements	20 years		5% annually	
Qualified leaseholder improvement property	20 years			
Agricultural machinery and equipment	Classified as machinery/equipment	Equipment	30% declining/20% straight-line or 25% residual value	

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land does not qualify because the value is not decreasing.
Artwork, etc.	Tax depreciation is not allowed for assets that can be assumed to have a permanent value.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Deduction for preliminary costs can be made if the cost is considered to be an expense that can be allocated to a particular period according to generally accepted accounting principles.

Land remediation – removing asbestos, Japanese knotweed

No general rules can be applied. Treatment depends on the specific conditions and situations in general.

Requirements for declining depreciation of 30% or a straight-line depreciation claim of 20%

To make a declining depreciation claim of 30% or a straight-line depreciation claim of 20% per year, the bookkeeping must conform with generally accepted accounting standards, and the depreciation must be in line with the tax treatment. Deductions for depreciation of own labor capitalized can be made if accepted according to generally accepted accounting principles.

2.4 Availability of immediate deductions

Description	Detail
Assets with life of less than three years	Equipment with a general life-span of less than three years, typically mobile phones, etc.
Assets below a certain value	Below standardized amount, currently approximately SEK22,000
Repairs	Repairs to conserve or restore to the original condition
"Extended repairs" on buildings	Changes that are considered "normal" within the business carried out by the owner of the building and that should not constitute a significant change to the building
Assets that are acquired and disposed of in the same year	
Buildings for short-term use	Typically nonpermanent buildings, an example being temporary huts used at construction sites

- ▶ Legislation distinguishes between repairs and value-added improvements. Unlike repairs that can be written off immediately, improvements that qualify as value-added improvements are added to the asset's depreciable amount.
- ▶ Added improvements can, however, be considered as extended repairs. Extended repairs are changes in a building that are considered minor changes and are "normal" for the taxpayer doing the investment.

3. Depreciation and calculation methods

Methods used	Reducing balance, straight-line/prime cost, residual value
Frequency	Annually
Year of acquisition	Depreciation of the asset if held at year-end is calculated, starting from date of use or purchase of the building and in case of land improvements, starting from date of use. Parts of the building qualifying as equipment can be depreciated as of the start of the financial year.
Year of disposal	No depreciation is available if not held at year-end.
Ability to use different methods for different assets	See below
Ability to switch methods	Generally, only one method can be applied. Different methods can, however, be used in different years for machinery, equipment and intangible assets, i.e., it is optional to use declining-basis or straight-line between years and it is possible to change methods throughout the life-span of an asset.

4. Preferential and enhanced depreciation availability

Assets connected to repairs and maintenance can be fully deducted immediately. That also includes refurbishment that is considered extended repairs. Extended repairs are changes in a building that are considered minor changes and are “normal” for the taxpayer doing the investment.

5. Accounting for disposals

The residual value of a building is written off immediately when doing a disposal. This is not applicable for equipment.

6. Making a claim

Depreciation is claimed on an annual basis to the tax authority through the income tax return.

7. Intangible assets

Acquired intangible assets, including goodwill, can be depreciated by the same methods as for machinery and equipment: on a straight-line basis at 20% of cost annually, on a declining-balance basis at 30% of book value from previous year or by the “residual tax value” method. Only one method can be used at the same time on the same type of asset. Intangible assets without a time limitation cannot be depreciated at all.

Self-generated intangible assets and goodwill generated from mergers are depreciated in accordance with generally accepted accounting standards. They cannot be depreciated with the abovementioned rates of 20% or 30%. Self-generated goodwill is not treated as an asset on the balance sheet and can never be depreciated.

Type of asset	Rates
Trademarks	30% declining/20% straight-line or 25% residual value
Patents, copyright, design, know-how or similar item	30% declining/20% straight-line or 25% residual value
Goodwill	30% declining/20% straight-line or 25% residual value
License or permit	30% declining/20% straight-line or 25% residual value
Other	30% declining/20% straight-line or 25% residual value

Turkey



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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation

Does the tax treatment follow book/statutory accounting depreciation?

Yes

Range of rates used

1%-50%

Depreciation method used to calculate tax deduction

Straight-line, double-diminishing (declining), depreciation in mines or extraordinary depreciation

1. Entitlement to claim

As a general rule, legal owners of assets are entitled to claim depreciation.

However, if one or more of the following conditions is met, those who lease assets are also entitled to claim depreciation for these assets. In such cases, the subject asset is recorded as right in legal books, but for depreciation purposes, economical useful life determined for the asset leased is considered:

- ▶ Transferring ownership of the asset to the lessee at the end of leasing period
- ▶ Providing the lessee with a right allowing it to purchase the asset with a value that is less than its market price at the end of leasing period
- ▶ Setting a leasing period that is longer than 80% of the economical useful life of the asset
- ▶ Adding the sum of present values of lease payments to be made under leasing agreement being higher than 90% of the market price of the asset

2. Allocation of tangible assets to tax depreciation lives and rates

Granted the authority by Tax Procedure Code, the Ministry of Finance determines economical useful lives that should be considered while calculating depreciation based on the nature of asset and sector in which the asset subject to depreciation is used.

The Ministry of Finance has released a very detailed list that is approximately 730 lines and includes economical useful lives for assets used in different sectors. In the event that an asset for which depreciation is claimed is not covered in this list, the taxpayer is required to ask the Ministry of Finance officially to determine the specific economical useful life for this asset.

2.1 Assets that qualify for tax depreciation

The table below lists corresponding assets for which single economical useful life is determined by the Ministry of Finance.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate
Plant, machinery and equipment	By reference to complex listing		
Motor cars	Five years	Straight-line or double-declining method	20%
Aircraft	Six years	Straight-line or double-declining method	16.66%
Car parks	15 years (40 years for multistory-parking buildings)	Straight-line or double-declining method	6.66% (2.5% for multistory-parking buildings)
Land improvements	15 years (8 years for roads)	Straight-line or double-declining method	6.66% (12.5% for roads)
Qualified leaseholder improvement property	Leasing period would be useful life (in case no leasing period is set, five years)	Straight-line method	In case economical useful life is five years, 20%

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Vacant land	Vacant land does not qualify for tax depreciation because it is stipulated so in the Tax Procedure Code (assets that are not subject to wear and tear or devaluation are not covered in depreciation application). Conversely, orchards formed in agriculture businesses, as well as lands on which buildings, roads or canals are established (the subject portion of the land that would be included in the cost of the building, road or canal and for which depreciation is claimed) qualify for tax depreciation.
Fixed assets under construction	Expenditures made for a fixed asset are to be followed up in fixed asset under construction accounts and not subjected to depreciation until the construction of the relevant asset is completed and the asset becomes ready for use. Expenditures aggregated in fixed asset under construction accounts should be capitalized in (transferred to) relevant fixed asset accounts once the construction is completed and the asset becomes ready for use. The term of depreciation shall begin in the year when the construction is completed and the capitalization is realized.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Expenditures incurred for making an asset ready to be used should be included in the cost of this asset in addition to acquisition value and subjected to depreciation. For example, customs duties, transportation and assembly expenses for machinery and equipment are expenses that should be included in the cost of the integral parts and accessories of immovable, installations and machinery, ships and other means of conveyance.

For constructed or manufactured assets, their building and production expenses shall serve as their acquisition value.

Taxpayers shall be free to include the expenses incurred in connection with notary public, court, valuation, commission, brokerage and real estate transfer and special consumption taxes in the cost value to be subjected to depreciation or to treat them directly as general expenses.

Land remediation – removing asbestos, Japanese knotweed

Expenditures arising from the demolition of an existing building upon its acquisition and the leveling of its plot (land remediation) should be included in the cost of the immovable, in addition to the purchase price. Therefore, if a new building is constructed on this land, the mentioned expenditures should be added to the cost value of the new building that shall be subject to depreciation.

Own labor capitalized – work on developing software, for example, or carrying out work on property

The cost of manufactured assets shall include the following elements:

- ▶ The cost of primary and raw materials used for creating the manufactured asset
- ▶ The cost of labor involved in the production of an asset
- ▶ The portion of general production expenses corresponding to the asset
- ▶ Any other expenses related to establishment of the asset

2.4 Availability of immediate deductions for repairs

Description	Detail
Assets with life less than a certain period	Assets with life of more than one year and subject to wear and tear or devaluation should be redeemed through depreciation. Assets with life of less than one year can be treated directly as expense. Economical useful lives are determined by the Ministry of Finance.
Assets below a certain value	This value/limit is set as TRY1,000 for 2018. This limit is considered collectively for assets constituting unity and integrity from economical and technical aspects.
Repairs	Regular maintenance, repair and cleaning expenses shall be regarded directly as expense.

- ▶ Regular repair refers to repair that does not enhance assets and increase their economical values continuously.
- ▶ Other than regular maintenance, repair and cleaning expenses, expenses incurred to enhance assets or continuously increase their economic values shall be added to the cost of these assets and redeemed through depreciation.
- ▶ For example, expenses incurred to increase the speed of a ship, to expand or modify its passenger and cargo storage capacity at the time of its acquisition, thus enhancing its economic value, or to replace the engine or body of a land transportation motor vehicle or to incorporate a new component that it did not have at the time of its acquisition are expenses that must be included in the cost.

3. Depreciation and calculation methods

Methods used	Straight-line method, double-diminishing (declining) method, depreciation in mines or extraordinary depreciation
Frequency	Annually
Year of acquisition	Depreciation application regarding an asset is initiated with the capitalization of this asset. Except for passenger cars, even if an asset is capitalized on the last day of a year, depreciation calculated for the whole year of acquisition can be claimed in that year. Depreciation for passenger cars has specific rules.
Year of disposal	No depreciation is calculated for the year of disposal.
Ability to use different methods for different assets	Different methods can be applied to different assets without limitation. The same method must be applied for all assets that create unity and integrity from economical and technical aspects.
Ability to switch methods	It is not possible to switch from the straight-line method to another method once this method has been initiated. However, it is possible to shift from the double-declining method to the straight-line method. The new method shall be taken into account as from the period related to the tax return containing this statement. In case of switching from the double-declining method to the straight-line method, the portion of value that has not been depreciated yet shall be depreciated in equal portions by being divided by the remaining term of depreciation.

4. Preferential and enhanced depreciation availability

R&D and innovation expenditures

The following expenses are considered within the scope of R&D/design and innovation activities:

- ▶ Raw material and supplies expenses
- ▶ Depreciation
- ▶ Personnel expenses (i.e., salaries and wages)
- ▶ General expenses
- ▶ Benefits and services obtained from the outside (cannot exceed 20% of total R&D and innovation expenses)
- ▶ Taxes, duties and charges that are directly related to R&D activities
- ▶ All R&D and innovation expenditures incurred in "R&D or design centers" or in projects supported/approved by The Scientific and Technological Research Council of Turkey (TUBITAK):
 - ▶ If the R&D center achieves at least a 20% increase compared with the previous year in any one of the indicators below:
 - ▶ Ratio of the R&D or design expenditure to the total turnover
 - ▶ Number of national or international patents registered
 - ▶ Number of projects supported internationally

Turkey

- ▶ Ratio of the number of researchers with graduate degrees to the total number of R&D personnel
 - ▶ Ratio of the number of total researchers to the total R&D personnel
 - ▶ Ratio of the turnover generated from new products derived from R&D activities to the total turnover
- ▶ Half of the increase of the R&D and innovation expenses of the current year (compared with the previous year) is also considered within the scope of the R&D reduction.

The above cases shall be treated as deduction in the determination of taxable corporate profit. R&D deduction amounts that may not be deducted due to insufficient income are carried forward to subsequent fiscal periods. Expenditures in the scope of R&D and innovation activities shall also be depreciated through amortization by being capitalized under the Tax Procedures Code. (The depreciation rate is 20%.) In total, 200% of the relevant expenditures would be treated as deduction from the corporate tax base (100% as R&D deduction and the other 100% through depreciation).

Under the Law, "R&D center" is described as the units within equity companies, the legal or business headquarters of which are located in Turkey, including the establishments of nonresident entities in Turkey that:

- ▶ Are organized in a separate unit and located within a single campus or physical space
- ▶ Perform R&D activities in Turkey
- ▶ Have adequate R&D management and technological assets, human resources, intellectual property, project and information resources management capability and capacity
- ▶ Have eligible projects with the subject, duration, budget and personnel needs defined
- ▶ Employ at least 15 (30 for determined sectors) full-time R&D personnel who possess sufficient R&D experience and skills

Under the Law, design activities have been included in the scope of the incentives and support for R&D activities. The number of minimum full-time equivalent personnel that can be employed at design centers is 10.

Corporate tax reduction for investments with incentive certificate (All the investments with incentive certificates do not qualify for this application. Investment sectors and regions are mainly considered in determination of whether an investment qualifies for this application.)

The Corporate Tax Law sets the corporate tax rate as 20% (corporate tax rate is increased to 22% for periods 2018-20). The reduced corporate tax application is an arrangement that ensures application of the corporate tax at a rate lower than 20% (22% for periods 2018-20) to gains from investments with incentive certificate.

A tax reduction shall be applied until the tax amount waived by the state reaches the investment contribution amount provided to the investment.

In expanding investments, where the gains derived can be determined by being followed in separate accounts in the framework of the integrity of the business, the reduced rate is applied to these gains. If the gains cannot be separately determined, the gains subject to a reduced rate shall be determined by proportioning the expanding investment amount to the total fixed asset amount registered in the company's assets at the end of the period (including amounts pertaining to ongoing investments). The term "gains" refers to business profits derived by the investor, as stated in the opinions provided by the Ministry of Finance.

5. Accounting for disposals

The only way specified in the legislation to dispose of assets from the legal records is to sell them.

If depreciable economic assets are sold, the difference between the amount collected and their value registered in the inventory register shall be transferred to the profit and loss account. The value of assets for which depreciation has been set aside is the amount remaining after the deduction of the depreciation set aside. Upon the realization of the sale, both capital asset and aggregated depreciation (previously claimed depreciation) accounts regarding the asset sold are eliminated from the legal records.

Transfer and barter are in the nature of sale.

If renewal of the economic assets sold is deemed necessary due to the nature of business or if the managers of the enterprise have decided and taken action on this issue, the profit derived from the sale may be retained for a maximum of three years in a provisional account in liabilities to cover the renewal expenses. Profits that have not been used during this term due to any reason shall be added to the tax base of the third year. If the business is terminated or transferred or the enterprise is liquidated before three years, these profits shall be added to the tax base of that year.

The profit used in the acquisition of new assets in the scope of the principles above shall be deducted from the depreciation to be set aside on new assets according to the provisions of this law. After this deduction is completed, depreciation shall continue for the assets that have not been amortized.

Scrapping an asset for no value is not allowed by the legislation. Instead, if an asset is sold as scrap, explanations made above for disposing of an asset for value can be taken into account.

6. Making a claim

Depreciation claimed for each year should be booked in aggregated depreciation/depletion accounts and the relevant expense accounts.

The cost of assets that constitute basis for depreciation should be substantiated with necessary documents and tables.

Lists, including detailed information for each asset subject to depreciation, may be requested by the tax authority to verify the accuracy of the depreciation calculated by the taxpayer.

7. Intangible assets

Intangible assets shall be redeemed through depreciation, again by considering economical useful lives set by the Ministry of Finance.

Type of asset	Rates/lives
Trademarks	6.66%/15 years
Patents, copyright, design, know-how or similar item	6.66%/15 years
Goodwill	20%/5 years (only straight-line method is applicable)
License or permit	6.66%/15 years

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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Capital allowances

Does the tax treatment follow book/statutory accounting depreciation?

Tangible assets – no (other than capitalized repairs)

Intangible assets – yes (for certain assets)

Range of rates used

0%-150%

Depreciation method used to calculate tax deduction

Straight-line and reducing-balance – depending on the type of expenditure incurred

1. Entitlement to claim

In principle, capital allowances are available when a person (sole trader, partnership or body corporate) carrying on a business activity incurs qualifying capital expenditures.

Generally, a person must legally own an asset to claim allowances. However, a number of “deemed” ownership rules allow entitlement to allowances under arrangements, such as leases, service agreements, hire purchase and contribution agreements. If expenditure has been incurred on an asset that becomes part of the land or property (a fixture), it is necessary for the person to have an interest in the relevant land prior to the asset being installed.

2. Allocation of tangible assets to tax depreciation lives and rates

Claimants are required to break down assets into individual items to allow them to be categorized for capital allowances. It is necessary, therefore, to have a detailed cost breakdown of all capital expenditure incurred, particularly with respect to buildings.

All depreciation of tangible fixed assets is disallowed when calculating taxable profit. The UK then provides a system of capital allowances to obtain tax relief on qualifying expenditure. The main type of capital allowance is known as plant and machinery allowances. There is no statutory definition of what constitutes plant for capital allowances purposes. Therefore, the capital allowances treatment on various assets has been discussed and agreed on in many test cases, and this identification can be particularly complex as a result. Expenditure that does not qualify for plant and machinery allowances may qualify for other relief, such as the Structure and Building Allowances (SBAs).

2.1 Assets that may qualify for tax depreciation

The writing-down allowances (WDAs) or first-year allowances (FYAs) identified in the table below are calculated per year on a reducing-balance basis. Building works such as leasehold improvements, construction projects, fit-outs and refurbishments should be analyzed so that allowances are allocated to the correct asset type.

Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment Furniture, fittings or fixtures Office equipment (including office furniture and fixtures)	N/A	Reducing-balance	18% per year WDA – main pool 8% per year WDA (6% per year WDA from 1 April 2019) – special rate pool	Main pool allowances are available on most types of assets within this category. The lower rate of relief applies to integral features or items of plant that are expected to last more than 25 years. Types of integral features include electrical systems, HVAC, water installations and elevators.
Structures and buildings (from 29 October 2018)	N/A	Straight-line	2% per annum	The relief will be available for all nonresidential structures and buildings. There are certain exceptions to expenditure which can be classified as SBAs.

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Asset type	Useful life for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Motor cars	N/A	Reducing-balance	The rate of depreciation depends on the CO2 emissions of the car. 100% per year FYA – enhanced capital allowances – 0-50 g/km 18% per year WDA – main pool – 51 – 109 g/km 8% per year WDA (6% per year WDA from 1 April 2019) – special rate pool – above 110 g/km from 1 April 2018	
Computer hardware and software	N/A	Reducing-balance	18% per year WDA – main pool	
Aircraft	N/A	Reducing-balance	18% per year WDA – main pool 8% per year WDA (6% per year WDA from 1 April 2019) – special rate pool	The rate of relief depends on the type of aircraft acquired and its associated usage.
Commercial vehicles and agricultural machinery and equipment	N/A	Reducing-balance	18% per year WDA – main pool	

2.2 Assets that do not qualify for tax depreciation

Asset type	Explanation
Land	All costs relating to land (unless it qualifies for land remediation relief)
Dwellings	Usually no capital allowances if the expenditure is on a dwelling
Buildings and structures (prior to 29 October 2018)	A building (which includes floors, walls, ceilings, doors, etc.) does not normally qualify, as it is the setting in which a business carries on its qualifying activity, rather than the apparatus with which it carries on its qualifying activity. There are some exceptions to this, such as a facility where R&D is carried out, or the majority of expenditures are incurred after 29 October 2018. The definition of a building includes structural external works (such as car parks, roads and hard landscaping). Various structures, including tunnels, bridges and dams.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

Preliminaries and professional fees should be connected with the asset to which they directly relate and may be assessed for capital allowances as long as they relate to plant and machinery. If the fees relate to a number of assets as part of a scheme of works, it is reasonable to apportion the costs over both qualifying and non-qualifying assets to which the fee relates.

Fees in respect of obtaining a legal interest in the property could be deemed to be too far removed from plant and machinery and are not likely to qualify for capital allowances.

Own labor capitalized

The treatment of such costs will typically follow the “treatment of the asset” that has been created as a result of the labor effort.

2.4 Availability of immediate deductions for repairs

The general position is that:

- ▶ The cost of a repair is normally allowable expenditure.
- ▶ The cost of replacing an asset or of making a significant improvement to an asset is capital expenditure and not allowable as a deduction.

A deduction for expenditure on repairs is given when the cost of the repair is deducted in the profit and loss account in line with generally accepted accounting practice (whether UK GAAP or International Accounting Standards (IAS)). As a result, if a repair is capitalized for accounting purposes, the tax deduction will be given in line with the accounting depreciation charge over the life of the asset.

Repairs do not include the cost of replacing the entirety of an asset or of making an improvement to an existing asset. There is a body of case law and tax authority guidance around this subject. There is a concept of nearest modern equivalent for tax purposes when considering whether an asset has been improved. It is necessary to consider whether the asset’s character has changed because of the work in determining whether expenditure is a repair.

3. Depreciation and calculation methods

Methods used	Reducing-balance
Frequency	Writing down allowances calculated annually (WDAs)
Year of acquisition	Full capital allowances available; WDAs calculated as per balance of relevant pool at year-end
Year of disposal	Disposal proceeds deducted from relevant pool; a balancing adjustment may occur in the year of disposal Clawback of expenditure treated as qualifying for SBAs through reduction in the associated base cost for chargeable gains purposes
Ability to use different methods for different assets	Not applicable
Ability to switch methods	Not applicable

4. Preferential and enhanced depreciation availability

Investments in certain asset types are rewarded with preferential and enhanced depreciation. The rates are set out below. In order to encourage investment in certain areas, loss-making businesses may also have the opportunity for a payable credit in respect of unrelieved losses created by these enhanced reliefs (subject to a maximum). This applies to loss-making businesses that have incurred expenditure on energy-saving or water-efficient assets (up to 31 March 2020) or on the remediation of contaminated or derelict land.

United Kingdom

Tax depreciation method	Description of relief	Specific application and benefits available
Annual investment allowance (AIA)	100% first-year allowance up to specified limit	<p>An annual first-year allowance is given to most companies and individuals (but not partnerships with corporate members) for a given amount of expenditure on plant and machinery per year. The rates of relief are:</p> <p>1 January 2016 to 31 December 2018 – GBP200,000</p> <p>1 January 2019 to 31 December 2020 – GBP1 million</p> <p>From 1 January 2021– GBP200,000</p> <p>The AIA should be time-apportioned for short and long chargeable periods. The annual investment allowance operates on a group basis and allows companies within a group to allocate the allowance between group companies as they see fit. The AIA should be allocated against assets attracting the lowest rate of tax relief first.</p> <p>The AIA cannot be used against assets acquired from a connected party or on cars.</p>
Assets used in R&D	100% allowance	<p>Qualifying expenditure includes capital expenditure on carrying out development (R&D or providing facilities for R&D or research development allowances (RDAs)) but does not include acquiring R&D rights or rights arising out of R&D.</p>
Energy/water-efficient assets (enhanced capital allowances or ECAs) – expenditures up to 31 March 2020	100% first-year allowances	<p>Listed technologies (such as boilers, motors and air conditioning) must appear on either the Energy Technology Product List or the Water Technology List published by the Department of Energy and Climate Change (DECC) on the date the expenditure was incurred.</p> <p>Criteria-based technologies (such as lighting and pipe-work insulation) must meet certain performance criteria to qualify. The technologies, product list and qualifying criteria change on an annual basis.</p> <p>A loss-making company may surrender any relieved loss created by ECAs. This payable cash tax credit is calculated at two-thirds of the prevailing UK corporation tax rate at the time the expenditure is incurred. For example, if the prevailing corporation tax rate is 19%, the payable tax credit will be equal to 12.67% of the loss created, subject to the same restrictions.</p> <p>This relief for energy/water-efficient assets will end on 31 March 2020.</p>
Electric car charging points	100% first-year allowances	<p>Expenditure on the provision of electric car charging points will qualify for an immediate full deduction on the qualifying expenditure incurred in the year of acquisition. This relief is available for expenditure up to 31 March 2023.</p>
Plant and machinery in designated assisted areas	100% first-year allowances	<p>Expenditure on plant and machinery in locations designated as assisted areas (Enterprise Zones) and that have elected preferential capital allowances treatment qualify.</p> <p>Expenditure must be incurred between 1 April 2012 and 31 March 2020. There are a number of restrictions on how the plant on which allowances have been claimed can be used in the future.</p>
Short-life asset	Balancing adjustment for any remaining tax relief in year of disposal	<p>The short-life asset (SLA) legislation lets a taxpayer write off the cost of an asset over the life of the asset (up to eight years). It does this by putting the expenditure in a single asset pool and having a balancing adjustment when the asset is disposed of or scrapped.</p> <p>An asset is only a short-life asset if the taxpayer elects to treat it as one. Some assets are excluded from SLA treatment. If it turns out that the asset is not a short-life asset, the expenditure in the SLA pool is transferred to the main pool at the end of eight years.</p>

Tax depreciation method	Description of relief	Specific application and benefits available
Land remediation relief	150% deduction for capital expenditure	<p>Examples can include remediation of asbestos, hydrocarbons and renovation of derelict land.</p> <p>Subject to certain restrictions, 150% of the qualifying expenditure can be deducted for tax purposes. The person incurring the expenditure must not be connected to the original contaminator. The contamination must have arisen as a result of an industrial activity.</p> <p>A 24% payable cash tax credit may also be available if land remediation causes a taxable loss, subject to restrictions.</p>

5. Accounting for disposals

When an asset is disposed of, the company is required to bring in a disposal value that is deducted from the remaining unrelieved balance of the relevant pool (with the exception of the Structure and Buildings Allowances). The maximum amount that can be deducted from the relevant pool is limited to the original cost of the asset. Capital allowances may then continue to be claimed on any remaining expenditure within the pools.

If that disposal value brings the balance of that pool below zero, then a balancing charge will be realized in the year of disposal for the excess. If an asset is in a single asset pool (e.g., a short-life asset election has been made), a balancing allowance or charge will be available in the year of disposal, depending on the disposal value received.

When calculating the disposal value, a number of restrictions will apply if the disposal is to a connected party or is undervalued.

If the asset disposed of relates to the sale of a fixture to a third party, then the buyer and seller must enter into an election to agree on the value of the capital allowances to be transferred between the parties. The election must state what assets are being transferred and the value attributed to each capital allowances pool.

Where the asset which has been disposed of was subject to a claim for SBAs, the allowances claimed in a prior period will be deducted from the "base cost" when undertaking the calculation for chargeable gains purposes. The remaining value of the SBAs may be passed onto the buyer to claim the unrelieved expenditure over the remaining 50-year life of the asset.

6. Making a claim

A claim is made in a person's tax return that operates on a system of self-assessment. A claim can be made, amended and withdrawn in most cases within two years of the end of the accounting period. There are a number of occasions in which a claim could be made after this point; however, this will depend on the specific circumstances.

A claim should provide sufficient supporting information to substantiate the tax relief claimed and enable Her Majesty's Revenue and Customs (HMRC) to determine whether this has been calculated correctly. Should insufficient supporting information be provided, the window in which HMRC could formally inquire into the tax computation could be extended.

7. Intangible assets

Effective 1 April 2002, relief is given for expenditure on certain intangible fixed assets (excluding goodwill) on the basis of amortization shown in the accounts or (on election) at a fixed rate of 4% per year.

With respect to goodwill, from 8 July 2015, tax relief on the amortization of goodwill will no longer be received. If there is a disposal, on or after 8 July 2015, of goodwill that is subject to the new rules, any additional relief due for the qualifying expenditure will be allowed as a non-trading deduction. From 1 April 2019, tax relief for acquired goodwill that has a strong connection to acquired intellectual property (IP) will have its tax relief reinstated.

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Further changes to the regime for receiving tax relief for intangible assets have been consulted upon and, therefore, further changes to the intangible regime may be announced and implemented with minimal notice. We recommend that advice be sought prior to expenditures being incurred, in case the tax treatment outlined within this Section has changed.

It is also possible to select software to be treated as eligible for plant and machinery allowances.

Type of asset	Rates/lives
Trademarks	<p>Provided an asset is an intangible asset for accounting purposes and held for use on a continuing basis in the course of the company's activities, it should constitute an intangible fixed asset. The corporate intangible assets regime links the tax treatment to that applied in the accounts of the company in question. Under these general rules, sums written off as intangible fixed assets are usually deductible as long as their treatment is compliant with the relevant accounting standard.</p> <p>Alternatively, a company may make an election for fixed-rate deductions in respect of a particular intangible fixed asset, regardless of its accounting treatment, and this is given at 4% per year.</p>
Patents, copyright, design, know-how or similar item	Capital allowances are potentially available at 25% WDA per year on a reducing basis.
Goodwill	<p>If goodwill is acquired from an unconnected party or created by a business between 1 April 2002 and 7 July 2015, tax relief is available in line with the amortization charged to the income statement or an election can be made for tax relief to be received at 4% per year.</p> <p>As outlined above, from 8 July 2015, goodwill acquired from an unconnected third party or created by a business already in existence before 1 April 2002 is a chargeable gains asset. No UK tax depreciation is allowable, and tax relief for the expenditure incurred is only given on the disposal of the old goodwill.</p> <p>From 1 April 2019, acquired goodwill that has a strong connection to acquired IP will have its tax relief reinstated in line with other intangible assets.</p>
License or permit	The general rules for the corporate intangible assets regime as detailed above are followed.

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At a glance

Terminology used by jurisdiction to describe the recovery of capital and fixed assets

Tax depreciation is referred to as “tax depreciation” in the United States. Specifically, Section 167(a) of the Internal Revenue Code (IRC) provides that there shall be allowed as a depreciation deduction a reasonable allowance for the exhaustion and wear and tear of property used in a trade or business or of property held for the production of income.

The terms “depreciation” and “amortization” generally are used interchangeably, although amortization often (but not exclusively) is used to refer to the recovery of basis related to eligible intangible assets.

Does the tax treatment follow book/statutory accounting depreciation?

No, there is no book and tax conformity requirement for federal income tax purposes.

Range of rates used

0%-200%

Depreciation method used to calculate tax deduction

Declining-balance (e.g., 200% double-declining-balance method) or straight-line

1. Entitlement to claim

Taxpayers must own (i.e., possess the benefit and burdens of ownership, pursuant to a facts and circumstances determination) the property to be allowed a depreciation deduction for federal income tax purposes.

2. Allocation of tangible assets to tax depreciation lives and rates

For federal income tax purposes, if a taxpayer is allowed a depreciation deduction, the deduction is generally computed using the “applicable depreciation method, recovery period and convention.” The method, convention and recovery period used to depreciate tangible property depends on the type of property in question and whether such property is eligible to be depreciated under the general depreciation system (GDS), which generally results in accelerated depreciation deductions, or is required to be depreciated under the alternative depreciation system (ADS) under Section 168(g), which generally results in slower recovery of basis. Most property is eligible to be depreciated under the GDS; however, certain property such as foreign use property is required to use the ADS. Taxpayers also have the option to elect into ADS if they desire.

Generally, an asset is not broken down into components for purposes of computing tax depreciation. There are special rules, however. For example, when a building is acquired, it is common to identify property items within the building that are separate assets from the building and that may be required to be depreciated differently. For example, identifying furniture and fixtures that are tangible personal property as opposed to the building, which is real property, is prevalent.

Revenue Procedure 87-56 generally provides the recovery period and class lives for tangible personal property. Sections 168(c) and (e) also provide guidance in determining the appropriate recovery period of tangible personal property as well as tangible real property. Section 168(b) provides rules for determining the appropriate depreciation method. Section 168(d) provides rules for determining the appropriate placed in service and disposition convention.

2.1 Assets that qualify for tax depreciation

Asset type	Recovery period for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Plant, machinery and equipment	Varies, see Rev. Proc. 87-56	Varies, the general rule is the 200% declining-balance (200% DB) method under Section 168(b)	The allowance is determined based on the method, recovery period and convention.	The recovery periods and methods will vary depending on what the property is used for and whether the property is subject to the ADS or GDS of Section 168.
Automobiles	Generally, five years	Generally, 200% DB	The allowance is determined based on the method, recovery period and convention; however, see depreciation limitations for luxury automobiles pursuant to IRC Section 280F.	Assumes the use of GDS
Buildings	Generally, 39 years for nonresidential real property, 27.5 years for residential rental property and 15 years for qualified leasehold improvement property, qualified retail improvement property and qualified restaurant property (see below)	Straight-line	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS

United States

Asset type	Recovery period for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Residential rental property	27.5 years	Straight-line	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS and that property meets requirements to be treated as residential rental property pursuant to IRC Section 168(e)(2)(A)
Qualified leasehold improvement property (QLHI)	15 years	Straight-line	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS and that property meets requirements to be treated as QLHI pursuant to IRC Section 168(e)(6). Repealed for property placed in service after 31 December 2017.
Qualified retail improvement property (QRIP)	15 years	Straight-line	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS and that property meets requirements to be treated as QRIP pursuant to IRC Section 168(e)(8). Repealed for property placed in service after 31 December 2017.
Qualified restaurant property (QRP)	15 years	Straight-line	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS and that property meets requirements to be treated as QRP pursuant to IRC Section 168(e)(7). Repealed for property placed in service after 31 December 2017.
Furniture, fittings or fixtures	Generally, seven years for office location furniture, fixtures and equipment (see below); five years if for retail use assets that are not in an office location	Generally, 200% DB	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS and that assets fall under Asset Class 00.11 of Rev. Proc. 87-56 (or Asset Class 57.0 for retail assets that are non-office location assets, such as store shelving)
Computer hardware	Generally, five years	Generally, 200% DB	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS and assets that fit in Asset Class 00.12 of Rev. Proc. 87-56
Computer software	Generally, 36 months	Generally, straight-line	The allowance is determined based on the method and recovery period.	Assumes the software is purchased and is not subject to Section 197. Eligible self-developed software may be currently expensed.
Aircraft	Generally, five years for aircraft not used in commercial or contract carrying of passengers	Generally, 200% DB	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS
Transport other than motor cars	Varies	Varies depending on recovery period	The allowance is determined based on the method, recovery period and convention.	Need to determine which asset class under Rev. Proc. 87-56 applies
Car parks/parking garages	Generally, 39 years; however, in certain cases, parking lots may qualify as land improvements (see below)	Generally, straight-line	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS. This property normally is classified as nonresidential real property.

United States

Asset type	Recovery period for tax	Type of tax depreciation method	Applicable tax depreciation rate	Comments
Office equipment (including office furniture and fixtures)	Generally, seven years	Generally, 200% DB	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS and that the assets fall under Asset Class 00.11 of Rev. Proc. 87-56 because they are office location tangible personal property
Land improvements	Generally, 15 years	Generally, 150% DB	The allowance is determined based on the method, recovery period and convention.	Assumes the use of GDS and that the assets fall under Asset Class 00.3 of Rev. Proc. 87-56
Property used in R&D	Varies depending on type of property and use	Varies	The allowance is determined based on the method, recovery period and convention.	It is necessary to determine which asset class the assets fall under; however, generally, personal property used in R&D activities is eligible for a five-year recovery period and the 200% DB method (see IRC Section 168(e)(3)(B)(v)).

2.2 Assets that do not qualify for tax depreciation

Types of assets	Explanation
Land	Land does not qualify because it is not subject to wear and tear, to decay or decline from natural causes to exhaustion, and to obsolescence. In contrast, land improvements with a determinable useful life (such as parking lots and fences) are depreciable.

2.3 Noteworthy items

Preliminary costs – architect fees, legal fees, planning

The origin of the costs will ultimately dictate tax treatment. However, costs incurred that directly benefit or that are incurred by reason of the production of property must be capitalized to the basis of such property under Section 263A. These costs may include preproduction costs.

Land remediation – remediation activities

A detailed analysis of the costs at issue must be performed to ascertain the proper tax treatment of land remediation costs. For instance, if a new depreciable asset is created from the remediation activities, such costs must be capitalized and depreciated.

Own labor capitalized – carrying out work on tangible property

Generally, internal labor is not required to be capitalized for tangible property acquired. See Treas. Reg. Section 1.263(a)-2. However, internal labor is required to be capitalized to property produced for sale or used in a taxpayer's business under Section 263A.

2.4 Availability of immediate deductions for bonus depreciation property and for eligible tangible property repairs

Description	Detail
<p>Bonus depreciation under Section 168(k)</p>	<p>Generally, eligible property includes MACRS property with a recovery period of 20 years or less and certain computer software (although certain other property may qualify as well, depending on the date acquired and placed in service). Property is generally treated as acquired no later than the date on which the taxpayer enters into a written binding contract to acquire such property.</p> <p>Property acquired prior to 28 September 2017</p> <p>For eligible property acquired prior to 28 September 2017 and placed in service between 1 January 2016 and 31 December 2017, the bonus depreciation allowance is equal to 50% of the adjusted basis of the eligible property. There is a phase-down of the allowance to 40% for property placed in service during calendar year 2018 and to 30% for property placed in service during calendar year 2019. Special bonus depreciation rules exist for certain long-production-period property and certain aircraft.</p> <p>*As it pertains to property placed in service before calendar year 2016, the bonus depreciation rates and rules vary (i.e., the above rules should not be relied upon).</p> <p>Property acquired after 27 September 2017</p> <p>For eligible property acquired after 27 September 2017 and placed in service after 27 September 2017 and before 1 January 2023, the bonus depreciation allowance is equal to 100% of the adjusted basis of the eligible property. There is a phase-down of the allowance to 80% for property placed in service during calendar year 2023, 60% for property placed in service during calendar year 2024, 40% for property placed in service during calendar year 2025 and 20% for property placed in service during calendar year 2026. Special bonus depreciation rules exist for certain long-production-period property and certain aircraft.</p>
<p>De minimis safe harbor election</p>	<p>The de minimis safe harbor election allows taxpayers to follow their book capitalization thresholds and deduct amounts up to USD5,000 (USD2,500 if the taxpayer does not have an applicable financial statement) that are paid to acquire, produce or improve tangible property, provided certain requirements are met. The de minimis safe harbor election is an annual, irrevocable election made by attaching a statement to the timely filed (including extensions) federal tax return. See Treas. Reg. Section 1.263(a)-1(f) for more details.</p>
<p>Eligible repairs</p>	<p>Eligible repair expenditures for tangible property are deductible in the tax year incurred under Treas. Reg. Section 1.162-4. Note the determination as to whether an expenditure is eligible to be deducted as a repair is made by applying the improvement rules under Treas. Reg. Section 1.263(a)-3 (see below for additional details).</p>

Treas. Reg. Section 1.263(a)-3 sets forth the rules to determine whether an amount paid to repair, maintain or improve a unit of property is required to be capitalized and depreciated or may be deducted in the year incurred. An expenditure can generally be currently deducted if it does not result in a betterment to, the restoration of or a change in use of the underlying unit of property (assuming other provisions of the IRC, such as Section 263A relating to inventoriable costs, do not apply).

If a taxpayer applies the de minimis safe harbor election described in Treas. Reg. Section 1.263(a)-1(f), the amount must be expensed for book purposes for a taxpayer to follow such treatment for federal income tax purposes (in addition to certain other requirements of the safe harbor). Otherwise, treatment of costs for financial statement purposes alone would not govern the treatment of costs for federal income tax purposes. The relevant case law and regulatory tax principles, including the clear reflection of income doctrine, would determine the treatment of non-safe-harbor de minimis amounts deducted for federal income tax purposes.

3. Depreciation and calculation methods

Methods used	Includes, but is not limited to, 200% DB and 150% DB and straight-line
Frequency	Annually over the asset's proscribed recovery period Depreciation is generally computed for each "tax year" of a taxpayer. A tax year may be less than 12 months (short tax year); Rev. Proc. 89-15 provides guidance for computing depreciation related to property placed in service in a short tax year.
Year placed in service	Generally, the depreciation deduction in the year property is placed in service (i.e., the year it is ready and available for its intended use in the taxpayer's trade or business) is computed by applying the appropriate convention, depreciation method and recovery period. Generally, the appropriate convention is the half-year convention (unless the mid-quarter, mid-month convention or full-month convention applies), which assumes that the asset is placed in service halfway through the taxpayer's tax year. Through applying such convention, the depreciation deduction is computed as if the tax year is a full tax year and then the amount is reduced by 50%. If the half-year convention is applied in the year of acquisition, it is also applied in the year of disposition in the same manner. Other conventions include the mid-month convention (assume placed in service in the middle of the month acquired), mid-quarter (assume placed in service in the middle of the quarter acquired) and full month (assume placed in service on the first day of the month acquired) for certain types of property. See Section 168(d) (for tangible property) and Sections 167 and 197 (for intangible property) and the underlying regulations, which provide the rules for determining the appropriate convention.
Year of disposal	A disposition occurs when ownership of an asset is transferred or when the asset is permanently withdrawn from use either in the taxpayer's business or in the production of income. A disposition includes a sale, exchange, retirement, physical abandonment or destruction of an asset. A disposition also occurs when an asset is transferred to a supplies, scrap or similar account, or when a portion of an asset is disposed of in certain circumstances (e.g., casualty event or an elective partial disposition).
Ability to use different methods for different assets	Elections can be made to depreciate property differently from the general rule. For instance, taxpayers can elect for property that is required to be depreciated using the 200% DB method to depreciate it using the straight-line method.
Ability to switch methods	Generally, once a method is established for an asset, it must be used until the asset is retired, unless a change in accounting method is obtained for eligible method changes (e.g., a change from an improper to a proper recovery period). Another exception would be if the use of the property changes during the recovery period (e.g., the property is moved outside of the US).

4. Preferential and enhanced depreciation availability

The general rule of depreciating personal property under the GDS under Section 168 provides for accelerated depreciation, i.e., the general rule is a 200% declining-balance method (twice that of straight-line). Certain personal property with longer recovery periods or that are subject to the ADS are required to use slower depreciation recovery rates.

Tax depreciation method	Comment on specific application and benefits available
Personal property with a recovery period of less than 15 years	Generally, 200% DB under GDS
Personal property with a recovery period of 15 years or more	Generally, 150% DB under GDS

5. Accounting for disposals

When an asset is disposed of for value, the adjusted basis of the asset (commonly referred to as the net tax value of the asset) is recognized as an offset to proceeds received in the tax year of disposal. The IRS issued regulations under IRC Section 168 related to full and partial dispositions of tangible property that generally are effective for tax years beginning in 2014; partial disposition deductions are elective in certain cases.

6. Making a claim

Depreciation deductions are claimed on federal Form 4562 of a taxpayer's federal income tax return.

We suggest that detailed records be kept supporting the depreciation deductions claimed on a taxpayer's federal income tax returns, including documentation of the cost of acquisition.

7. Intangible assets

If intangible assets are subject to Section 197 of the IRC, costs incurred to acquire such intangible assets are recovered ratably over a period of 15 years, beginning in the month acquired. If intangible assets are subject to Section 167, the assets are generally recovered ratably (with certain exceptions, such as the income forecast method under Section 167(g)), but the period of recovery varies depending on the type of intangible asset.

Generally, for an intangible asset not subject to Section 197 to be eligible for amortization under Reg. Section 1.167(a)-3, a taxpayer must establish that: (1) the intangible property has an ascertainable cost basis and also (2) that such property has a limited useful life, the duration of which can be ascertained with reasonable accuracy. See also Section 167(f) and Treas. Reg. Section 1.167(a)-14, relating to intangible assets.

Type of asset	Rates
Trademarks	15 years under Section 197
Patents, copyright, design, know-how or similar item	15 years under Section 197 or, if excluded from Section 197, see, generally, Section 167(f) and Treas. Reg. Section 1.167(a)-3 and 1.167(a)-14
Goodwill	15 years under Section 197
License or permit	15 years under Section 197 or, if excluded from Section 197, see Section 167(f) and Treas. Reg. Section 1.167(a)-3 and Section 1.167(a)-14
Films, videotapes and other property specified in Section 168(g)	Generally, an "income forecast method" is utilized, whereby the recovery of basis through amortization is calculated based on an income-based computation. The principal alternative method is the straight-line method.

Foreign currencies

The following list sets forth the names and currency codes for the currencies of countries discussed in this guide.

Jurisdiction	Currency	Currency code
Argentina	Peso	ARS
Australia	Dollar	AUD
Brazil	Real	BRL
Canada	Dollar	CAD
China (mainland)	Yuan Renminbi	CNY
Denmark	Danish Krone	DKK
Finland	Euro	EUR
France	Euro	EUR
Germany	Euro	EUR
Greece	Euro	EUR
India	Rupee	INR
Ireland	Euro	EUR
Italy	Euro	EUR
Japan	Yen	JPY
Kuwait	Dinar	KWD
Malaysia	Ringgit	MYR
Mexico	Peso	MXN
Netherlands	Euro	EUR
Nigeria	Naira	NGN
Norway	Norwegian Krone	NOK
Portugal	Euro	EUR
Russia	Ruble	RUR
Saudi Arabia	Riyal	SAR
Singapore	Dollar	SGD
South Africa	Rand	ZAR
South Korea	Won	KRW
Spain	Euro	EUR
Sweden	Swedish Krona	SEK
Turkey	Lira	TRY
United Kingdom	Pound	GBP
United States	Dollar	USD



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