

Depreciation Regulations Revisions to Depreciation Periods—Part 1

Comparison of new depreciation schedule (Categories 1-7) and former schedule

Japanese report: 21 Feb 08

Legal and Tax Research Dept
Takuma Torige

- Extensive FY08 tax reforms reclassify depreciable assets, particularly machinery and equipment, broadly according to the actual number of years they are used.
- This report compares Schedule 2 (useful lives of machinery and equipment, hereafter the new schedule), which lists useful lives for depreciable assets under broad categories, with the outgoing schedule according fields of application specified in the new schedule.
- This report (Part 1*) covers the new categories of foodstuff production equipment, beverage, cigarette, and feed production equipment, textile industry equipment, lumber and wooden product (excluding furniture) production equipment, furniture and fitting production equipment, pulp, paper, and paper product production equipment, printing and related industry production equipment (categories 1-7) and the existing categories of production equipment for foodstuffs, production equipment for the textile industry, production equipment for lumber and wooden products, production equipment for pulp, paper, and paper products, and production equipment for printing and related industries.

*The report is published in four parts.

IMPORTANT DISCLOSURES, INCLUDING ANY REQUIRED RESEARCH CERTIFICATIONS, ARE PROVIDED ON THE LAST TWO PAGES OF THIS REPORT.

Introduction

We have consistently highlighted problems in the outgoing depreciation standards, including generally overly long depreciation periods, overly narrow and numerous asset categories, and that while there existed a scheme of accelerated depreciation, the application process was complicated and imposed a considerable administrative burden.

For example, Japanese depreciation regulations specify 390 categories (for machinery and equipment), creating problems in assigning new technologies and products to categories. Examples of simple systems overseas—with the US using 48 categories and Korea using 26—make a strong case for a thorough overhaul of the Japanese system.

The extensive FY08 tax reforms reclassify depreciable assets, particularly machinery and equipment, broadly according to the actual number of years they are used.

The revised provisions will apply for fiscal years beginning 1 April 2008 or later and will also apply to existing depreciable assets. The revisions relating to depreciation periods have been made at a governmental/ministerial level, so even without any amendments to taxation law, they could be proclaimed and come into effect at end-March 2008.

The revisions create 55 broad categories for machinery and equipment (104 including intermediate and detailed categories for Japanese industry). They also group assets according to their actual period of usage. The changes mark the first comprehensive overhaul of depreciation periods since 1964.

The charts below compare the new schedule, which lists depreciation periods for depreciable assets under broad categories, with the outgoing schedule according fields of application specified in the new schedule.

Our comparison follows the categories used in a circular issued by the administration. At this point, it is not yet clear how the new schedule's applications and detailed categories will correspond with the outgoing schedule's equipment type and detailed categories.

Where the new schedule does not list detailed categories, we have assumed the new schedule's applications correspond to the outgoing schedule's equipment type and detailed categories. We have therefore listed applications and depreciation periods for the new schedule and equipment type, detailed categories, and depreciation periods for the outgoing regulations. In listings for the outgoing schedule, we have grouped asset categories according to whether their depreciation periods will be shorter, unchanged, or longer under the new schedule.

Where the new schedule contains detailed categories, we have not grouped the asset categories as above because the correspondence between the new and outgoing schedules is unclear.

Entries covered in this report are shaded below.

Circular on Dealing with the Application of Depreciation Periods (for reference)

Production equipment for foodstuffs	Schedule 2, Sections 1–36-2
Production equipment for the textile industry	Schedule 2, Sections 37–57
Production equipment for lumber and wooden products	Schedule 2, Sections 58–63
Production equipment for pulp, paper, and paper products	Schedule 2, Sections 64–73
Production equipment for printing and related industries	Schedule 2, Sections 74–80
Equipment for the chemical industry	Schedule 2, Sections 81–180
Production equipment for rubber products	Schedule 2, Sections 186–190
Production equipment for ceramics and stoneware	Schedule 2, Sections 194–210
Equipment for the steel industry	Schedule 2, Sections 211–222
Production equipment for non-ferrous metals	Schedule 2, Sections 223–232
Production equipment for metal products	Schedule 2, Sections 233–252
Equipment for the machine industry	Schedule 2, Sections 253–295
Other equipment	Schedule 2, Sections 296–369

New Schedule

No.	Application	Depreciation periods
1	Foodstuff production equipment	10 years

Parts of Outgoing Schedule Probably Corresponding To New Schedule For Foodstuff Production Equipment

Equipment type	Detailed categories	Depreciation periods (years)
Shortened		
Flavor and soy sauce (incl. <i>dashi</i> stock) production equipment	Concrete broth tanks	25
Other agricultural product processing equipment	Coarse starch tanks	25
Wheat flour production equipment		13
Sugar refining equipment		13
Other agricultural product processing equipment	Other equipment	12
Unchanged		
Grain cleaning equipment		10
Corn starch production equipment		10
Other dried noodle, raw noodle, and enriched rice production equipment		10
Sugar production equipment		10
Starch syrup, glucose, and caramel production equipment		10
Lengthened		
Meat and poultry processing equipment		9
Milk processing equipment and fermented milk, lactobacillus beverage, and other dairy product production equipment (incl. milk collection equipment)		9
Other fruit and vegetable processing equipment	Other equipment	9
Flavor and soy sauce (incl. <i>dashi</i> stock) production equipment	Other equipment	9
Other seasoning production equipment		9
Other pulse processing equipment		9
Macaroni and instant noodle production equipment		9
Bread and confectionary production equipment		9
Egg processing equipment and mayonnaise production equipment		8
Seafood paste, <i>tsukudani</i> , agar and other marine food product production equipment		8
Tomato processing and production equipment		8
Canning and bottling equipment		8
Vinegar and sauce production equipment		8
Tofu, konjac, and dry gluten production equipment		8
Pickling equipment		7
Synthetic seasoning production equipment		7
Other fruit and vegetable processing equipment	Incl. greenhouse banana ripening equipment	6

New Schedule

No.	Application	Depreciation periods
2	Beverage, cigarette, and feed production equipment	10 years

Parts of Outgoing Schedule Probably Corresponding to New Schedule for Beverage, Cigarette, and Feed Production Equipment

Equipment type	Detailed categories	Depreciation periods (years)
Shortened		
Other foodstuff production equipment		16
Beer and fermented low-malt beer		14
Refrigeration, ice-making, and cold-storage equipment		13
Sake, <i>mirin</i> , and wine production equipment	Other equipment	12
Other beverage production equipment		12
Vegetable and animal fat and oil production equipment and refining equipment (incl. margarine and linter production and processing equipment)		12
Unchanged		
Reconstituted tea production equipment		10
Soft drink production equipment		10
Other alcoholic beverage production equipment		10
Other feed production equipment		10
Lengthened		
Yeast, enzyme, shiitake mycelia, malt, mold production equipment (excl. those used in pharmaceutical production)		9
Fermented feed and probiotic feed production equipment		9
Unprocessed tea production equipment		8
Cigarette production equipment		8
Refrigeration, ice-making, and cold-storage equipment		3

New Schedule

No.	Application	Detailed categories	Depreciation periods
3	Production equipment for the textile industry	Carbon fiber production equipment Graphitization furnace Other equipment Other equipment	3 years 7 years 7 years

Parts of Outgoing Schedule Probably Corresponding to New Schedule for Production Equipment for the Textile Industry

Equipment type	Detailed categories	Depreciation periods (years)
Raw silk production equipment	Automatic silk reeling machine Other equipment	7 10
Cocoon drying equipment		13
Spinning machines		10
Synthetic fiber and bulky yarn production equipment		8
Yarn spinning and thread (excl. that listed in the previous entry) production equipment		11
Textile equipment		10
Knitted fabric, knitted glove and sock production equipment		10
Dyeing and finishing equipment	Compression electrodes Other equipment	3 7
Scouring, carbonizing, wool, lapping, spinning, reclaimed wool topping, cotton mill, and recycled cotton equipment		10
Warping and sizing equipment		10
Nonwoven fabric production equipment		9
Felt and felt product production equipment		10
Rope, net, and cord production equipment		10
Lace production equipment	Raschel lace equipment Other equipment	12 14
Coated fabric production equipment		14
Fiber and paper sanitary product production equipment		9
Sewn product production equipment		7
Other fiber product production equipment		15

New Schedule

No.	Application	Depreciation periods
4	Lumber and wooden product (excl. furniture) production equipment	8 years

Parts of Outgoing Schedule Probably Corresponding to New Schedule for Lumber and Wooden Product (excl. Furniture) Production Equipment

Equipment type	Detailed categories	Depreciation periods (years)
Shortened		
Timber preservation equipment		13
Timber milling equipment	Other equipment	12
Other timber production equipment		10
Solid wood and plywood production equipment		9
Unchanged		
Timber milling equipment	Automatic milling feeders	8
Woodchip production equipment		8
Lengthened		
Portable forest, logging, and extraction equipment	Other equipment Powered logging equipment	6 3

New Schedule

No.	Application	Depreciation periods
5	Furniture and fitting production equipment	11 years

New Schedule

No.	Application	Depreciation periods
6	Pulp, paper, and paper product production equipment	12 years

Parts of Outgoing Schedule Probably Corresponding to New Schedule for Pulp, Paper, and Paper Product Production Equipment

Equipment type	Detailed categories	Depreciation periods (years)
Shortened		
Fourdrinier machines		14
Fourdrinier machines		14
Fiberboard production equipment		13
Unchanged		
Pulp production equipment		12
Tubular and single-leaf paper production equipment		12
Vulcanized fiber and finished paper production equipment		12
Corrugated board, corrugated box, and paperboard containers		12
Lengthened		
Other paper product production equipment		10
Sheet-fed resin application equipment		9
Cellophane production equipment		9
Handmade Japanese paper production equipment		7

New Schedule

No.	Application	Detailed categories	Depreciation periods
7	Printing and related industry production equipment	Digital printing system equipment	4 years
		Bookbinding equipment	7 years
		Newspaper equipment	
		Monotype, photographic, and reporting equipment	3 years
		Other equipment	10 years
		Other equipment	10 years

Parts of Outgoing Schedule Probably Corresponding to New Schedule for Printing and Related Industry Production Equipment

Equipment type	Detailed categories	Depreciation periods (years)
Daily newspaper printing equipment	Monotype, photographic, and reporting equipment	5
	Other equipment	11
Printing equipment		10
Type casting equipment		11
Metal plate and other specialty printing equipment		11
Bookbinding equipment		10
Phototype equipment		7
Duplication equipment		6