

# Depreciation Regulations Revisions to Depreciation Periods—Part 3

## Comparison of new depreciation schedule (Categories 13-16) and former schedule

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- 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 3\*) covers the new categories of ceramics and stoneware production equipment, steel industry equipment, non-ferrous metals production equipment, and metal products production equipment (categories 13-16) and the existing categories of production equipment for ceramics and stoneware, equipment for the steel industry, production equipment for non-ferrous metals, and production equipment for metal products.

\*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 (years)
13	Ceramics and stoneware production equipment	9

### Parts of Outgoing Schedule Probably Corresponding to New Schedule for Ceramics And Stoneware Production Equipment

Equipment type	Detailed categories	Depreciation periods (years)
<b>Shortened</b>		
Other ceramic product and stoneware production equipment	Other equipment	15
Plate glass production equipment (incl. polishing equipment)	Melting furnace	14
Plate glass production equipment (incl. polishing equipment)	Other equipment	14
Other glass product production equipment (incl. optical glass production equipment)	Melting furnace	13
Cement production equipment		13
Ceramic ware, clay, refractory, diatomite, processed clay, and enamel production equipment	Other equipment	12
Other carbon product production equipment	Other equipment	12
Cement product (incl. autoclaved lightweight concrete products) production equipment	Other equipment	12
Gypsum board production equipment	Other equipment	12
Enameled ironware production equipment	Other equipment	12
Asbestos cement and asbestos cement product production equipment		12
Rock wool (incl. slag fiber) and rock wool product production equipment		12
Stone products and imitation stone production equipment		12
Other ceramic product and stoneware production equipment	Tunnel kiln	12
Carbon fiber production equipment	Other equipment	10
Grinding and stone and coated abrasive production equipment	Other equipment	10
Other ceramic product and stoneware production equipment	Other kilns	10
<b>Unchanged</b>		
Other glass product production equipment (incl. optical glass production equipment)	Other equipment	9
Synthetic abrasive production equipment	Other equipment	9
Ready mixed concrete production equipment		9
<b>Lengthened</b>		
Ceramic ware, clay, refractory, diatomite, processed clay, and enamel production equipment	Other kilns	8
Grinding and stone and coated abrasive production equipment	Vulcanizing furnace	8
Lime and dolomite production equipment		8
Ceramic ware, clay, refractory, diatomite, processed clay, and enamel production equipment	Tunnel kiln	7
Grinding and stone and coated abrasive production equipment	Tunnel kiln	7
Cement product (incl. autoclaved lightweight concrete products) production equipment	Mobile production and installation equipment and vibration and compression molding equipment	7
Enameled ironware production equipment	Other kilns	7
Ceramic ware, clay, refractory, diatomite, processed clay, and enamel production equipment	Down-draft kilns, other kilns	5
Synthetic grinding material production equipment	Melting furnace	5
Grinding and stone and coated abrasive production equipment	Other firing furnaces	5
Gypsum board production equipment	Firing furnace	5
Carbon fiber production equipment	Graphitizing furnace	4
Other carbon fiber production equipment	Graphitizing furnace	4
Other glass product production equipment (incl. optical glass production equipment)	Crucibles and day tank furnaces	3
Ceramic ware, clay, refractory, diatomite, processed clay, and enamel production equipment	Down-draft kilns, salt kilns	3
Enameled ironware production equipment	Crucibles	3

**New Schedule**

No.	Application	Detailed categories	Depreciation periods (years)
14	Steel industry equipment	Coated steel and iron powder manufacturing equipment and steel scrap processing equipment	5
		Pure iron, crude iron, base metal, ferro-alloy, ferrous metal machine parts and tooling product, cast iron pipe production equipment	9
		Other equipment	14

**Parts of Outgoing Schedule Probably Corresponding to New Schedule for Steel Industry Equipment**

Equipment type	Detailed categories	Depreciation periods (years)
Iron making equipment		14
Pure iron and ferroalloy production equipment		10
Steelmaking equipment		14
Continuous-cast bloom manufacturing equipment		12
Steel hot-rolling equipment		14
Steel cold-rolling and cold pressure forming equipment		14
Steel pipe production equipment		14
Steel wiredrawing equipment (incl. drawing equipment) and shearing equipment for the wholesale steel industry and drawn steel and shearing industry equipment		11
Scrap processing equipment		7
Steel tempering equipment		12
Steel casting and pig iron casting equipment		10
Metal hot rolling equipment		10
Other steel industry equipment		15

**New Schedule**

No.	Application	Detailed categories	Depreciation periods (years)
15	Non-ferrous metals production equipment	Nuclear fuel material processing equipment	11

**Parts of Outgoing Schedule Probably Corresponding to New Schedule for Nuclear Fuel Material Processing Equipment**

Equipment type	Detailed categories	Depreciation periods (years)
Nuclear fuel material processing equipment		11

**New Schedule**

No.	Application	Detailed categories	Depreciation periods (years)
15	Non-ferrous metals production equipment	Other equipment	7

**Parts of Outgoing Schedule Probably Corresponding to New Schedule for Non-Ferrous Metals Production Equipment**

Equipment type	Detailed categories	Depreciation periods (years)
<b>Shortened</b>		
Aluminum smelting equipment		12
Other non-ferrous metal smelting equipment		12
Non-ferrous metal rolling, extrusion, and wiredrawing equipment		12
Nickel, tungsten, and molybdenum smelting equipment		10
Titanium ingot casting equipment		10
Non-ferrous metal casting industry equipment	Other equipment	10
Electric wire and cable production equipment		10
Copper, lead, and zinc production equipment		9
Non-ferrous metal casting industry equipment		8
Optical fiber production equipment	Die casting equipment	8
Metal powder and foil (excl. rolled products) production equipment		8
<b>Unchanged</b>		
Copper beryllium master alloys, magnesium, titanium, zirconium, tantalum, chrome, manganese, silicon, germanium, and rare earth metal smelting equipment		7

**New Schedule**

No.	Application	Detailed categories	Depreciation periods (years)
16	Metal products production equipment	Metal coating and engraving, foil beating and metal name plate production equipment	6
		Other equipment	10

**Parts of Outgoing Schedule Probably Corresponding to New Schedule for Metal Products Production Equipment**

Equipment type	Detailed categories	Depreciation periods (years)
Powder metallurgy product production equipment		10
Steel cable production equipment		13
Chain production equipment		12
Welding rod production equipment		11
Nail, rivet, and spring production equipment		12
Screw production equipment		10
Wire mesh production equipment		11
Other wire mesh and wire product production equipment		14
Needle and sewing machine needle production equipment		13
Extrusion tube and automatically metal can production equipment		11
Other metal container production equipment		14
Electroplated sheet production equipment		12
Other galvanizing and anodizing equipment		7
Metal coating equipment	Degreasing, cleaning, and water-wash paint booth equipment	7
	Other equipment	9
Synthetic resin coating, engraving, and aluminum foil equipment	Degreasing, cleaning, and water-wash paint booth equipment	7
	Other equipment	11
Hand tool, saw blade, and other blade (excl. those listed in other categories) production equipment		12
Agricultural tool production equipment		12
Metal dinnerware and razor blade production equipment		11
Metal furniture, door, and window and building metalwork production equipment	Galvanizing and anodizing equipment	7
	Welding equipment	10
	Other equipment	13
Steel structure production equipment		13
Press, welding, extraction, and other metal processing equipment	Galvanizing and anodizing equipment	7
	Other equipment	12
Other metal product production equipment		15