

# Questions & Answers

**for Application of the Taxation System  
for Promoting Investment in the Reform  
of the Energy Supply and Demand Structures**



**The Agency for Natural Resources and Energy,  
The Ministry of Economy, Trade and Industry**



**The Energy Conservation Center, Japan**

# Summary of the Taxation System for Promoting Investments in the Reform of Energy Supply and Demand Structures (Taxation System for the Energy Reform)

If you purchase any energy conservation equipment or other items and offer the equipment or other items for use in your business within one (1) year after the purchase, you may select and receive any of the following tax incentives:

- (1) Tax credit that is equivalent to 7% of the reference purchase value (on which the calculation of the tax credit is based) and that applies only to the owners of smaller businesses and others, or
- (2) Special depreciation that is not greater than 30% of the reference purchase value, in addition to the normal depreciation of the equipment.

\* Requirements for the owners of smaller businesses and others

They shall be the juridical persons with capital of 100 million yen or less, except the affiliates and subsidiaries of large businesses, or those without any capital and with 1,000 employees or less, or otherwise the owners-managers of small businesses with 1,000 employees or less.

## List of Equipment items covered by the Taxation System for the Energy Reform

**Table 1: Manufacturing equipment and others using energy effectively**

(3 items are continuously and 1 item is newly covered.)

| Table | Section | No. | Type      | Name of equipment item                           | Details |
|-------|---------|-----|-----------|--|---------|
| 1     | 1       |     | New       | Intensive mixing flow defibering equipment       |         |
| 1     | 2       |     | Continued | High-performance dephosphorization furnaces      |         |
| 1     | 3       |     | Continued | High-performance machine assembling equipment    |         |
| 1     | 4       |     | Continued | Combined-cycle gas turbines for power generation |         |

**Table 2: Additional equipment and other items using energy effectively**

(16 items are continuously and 4 items are newly covered.)

| Table | Section | No. | Type      | Name of equipment item   | Details                                     |
|-------|---------|-----|-----------|--|---|
| 2     | 1       |     | Continued | Energy saving type crown control rolls   |   |
| 2     | 2       |     | Continued | Steel strip width controlling equipment  |   |
| 2     | 3       |     | Continued | High-efficiency motor-driven heat source machines                                |   |
| 2     | 4       | 1   | Continued | Industrial high-efficiency furnaces  | Material preheating type                    |
| 2     | 4       | 2   | Continued | Industrial high-efficiency furnaces  | Heat-insulated and reinforced type          |
| 2     | 5       |     | Continued | Industrial high-efficiency furnace waste heat recovery type combustion equipment |   |
| 2     | 6       |     | Continued | Servo-driven type presses  |   |
| 2     | 7       | 1   | Continued | Raw-material forming machines  | With frames                                 |
| 2     | 7       | 2   | Continued | Raw-material forming machines  | Without frame                               |
| 2     | 8       |     | Continued | 400V wiring & cabling equipment  |   |
| 2     | 9       | 1   | Continued | High-efficiency composite machine tools  | High-efficiency composite working machines  |
| 2     | 9       | 2   | Continued | High-efficiency composite machine tools  | High-efficiency composite grinding machines |
| 2     | 10      | 1   | Continued | High heat-insulation window equipment  | High heat-insulation window apparatuses     |
| 2     | 10      | 2   | Continued | High heat-insulation window equipment  | High heat-insulation window panes           |
| 2     | 11      |     | Continued | Steam supply and power generating equipment                                      |   |
| 2     | 12      |     | Continued | Energy regenerative type hybrid motor vehicles                                   |   |
| 2     | 13      | 1   | New       | Thermal storage refrigerant equipment for commodity distribution                 | In-car refrigerant equipment                |
| 2     | 13      | 2   | New       | Thermal storage refrigerant equipment for commodity distribution                 | Thermal storage refrigerant freezer         |
| 2     | 14      |     | New       | Externally powered in-car air-conditioning system                                |   |
| 2     | 15      |     | New       | Power feeding system for externally powered in-car air-conditioning              |   |

**Table 3: Electricity and gas demands harmonization equipment** (1 item is continuously covered.)

| Table | Section | No. | Type      | Name of equipment item | Details   |
|-------|---------|-----|-----------|------------------------|-----------|
| 3     |         |     | Continued | Gas cooling equipment  | Min. 34kW |

**Table 4: New-energy using equipment and others** (13 items are continuously and 2 items are newly covered.)

| Table | Section | No. | Type      | Name of equipment item                       | Details   |
|-------|---------|-----|-----------|--|---|
| 4     | 1       |     | Continued | Solar heat collecting and storage equipment  |   |
| 4     | 2       | 1   | Continued | Not-used energy using equipment              | Equipment using river or sea water as heat source                               |
| 4     | 2       | 2   | Continued | Not-used energy using equipment              | Equipment using intermediate water or sewage as heat source                     |
| 4     | 2       | 3   | Continued | Not-used energy using equipment              | Equipment using underground water as heat source                                |
| 4     | 2       | 4   | Continued | Not-used energy using equipment              | Supply and recovery conduits  |
| 4     | 2       | 5   | Continued | Not-used energy using equipment              | Equipment using snow or ice as heat source                                      |
| 4     | 3       | 1   | Continued | Biomass utilization equipment (name changed) | Boilers burning wastes from paper & pulp manufacturing processes (name changed) |
| 4     | 3       | 2   | Continued | Biomass utilization equipment (name changed) | Lignin burning boilers  |
| 4     | 3       | 3   | Continued | Biomass utilization equipment (name changed) | Power generation equipment using wooden biomass                                 |
| 4     | 3       | 4   | New       | Biomass utilization equipment                | Wood drying cogeneration equipment using wooden biomass                         |
| 4     | 3       | 5   | New       | Biomass utilization equipment                | Heating equipment using wooden biomass  |
| 4     | 3       | 6   | Continued | Biomass utilization equipment (name changed) | Methane gas manufacturing equipment using biomass (name changed)                |
| 4     | 3       | 7   | Continued | Biomass utilization equipment (name changed) | Biomass ethanol manufacturing equipment   |
| 4     | 4       |     | Continued | Wind power generation equipment              |   |
| 4     | 5       |     | Continued | Solar power generation equipment             |   |

**Table 5: Equipment and others using other energy resources alternative to petroleum** (14 items are continuously and 1 item is newly covered.)

| Table | Section | No. | Type      | Name of equipment item   | Details   |
|-------|---------|-----|-----------|--|---|
| 5     | 1       | 1   | Continued | Local gas - natural gas conversion equipment   | Natural gas shipping conduits                                       |
| 5     | 1       | 2   | Continued | Local gas - natural gas conversion equipment   | Natural gas receiving conduits                                      |
| 5     | 1       | 3   | Continued | Local gas - natural gas conversion equipment   | Liquefied natural gas storage equipment                             |
| 5     | 1       | 4   | Continued | Local gas - natural gas conversion equipment   | Heat value changing equipment                                       |
| 5     | 2       |     | Continued | Multi-type liquefied natural gas storage equipment   |   |
| 5     | 3       | 1   | Continued | Equipment using natural gas  | Industrial furnaces using natural gas                               |
| 5     | 3       | 2   | Continued | Equipment using natural gas  | Boilers using natural gas   |
| 5     | 4       |     | Continued | Natural-gas forklifts  |   |
| 5     | 5       |     | Continued | Waste utilization equipment (name changed, category moved from Table 4 to Table 5)                   | Heat generated in the form of hot water or steam from burning waste |
| 5     | 6       |     | Continued | Natural gas-fueled motor vehicles (category moved from Table 4 to Table 5)                           |   |
| 5     | 7       |     | Continued | Fuel supply equipment for natural gas-fueled motor vehicles (category moved from Table 4 to Table 5) |   |
| 5     | 8       |     | Continued | Fuel cell-powered motor vehicles (category moved from Table 4 to Table 5)                            |   |
| 5     | 9       |     | Continued | Fuel supply equipment for fuel cell-powered motor vehicles (category moved from Table 4 to Table 5)  |   |
| 5     | 10      |     | New       | Electric-powered vehicles  |   |
| 5     | 11      |     | Continued | Fuel cell equipment (category moved from Table 4 to Table 5)   |   |

**Table 6: Equipment for Rational Use of Energy** (26 items are newly covered.)\*1

| Table | Section | No. | Type | Name of equipment item                                  | Details   |
|-------|---------|-----|------|---|---|
| 6     | 1       | 1   | New  | High heat-insulation window equipment                   | High heat-insulation window apparatuses                         |
| 6     | 1       | 2   | New  | High heat-insulation window equipment                   | High heat-insulation window panes                               |
| 6     | 2       | 1   | New  | High-efficiency air-conditioning equipment              | Absorption water cooler and water heater                        |
| 6     | 2       | 2   | New  | High-efficiency air-conditioning equipment              | Absorption chiller  |
| 6     | 2       | 3   | New  | High-efficiency air-conditioning equipment              | Air-cooled heat pump chilling unit                              |
| 6     | 2       | 4   | New  | High-efficiency air-conditioning equipment              | Water-cooled heat pump chilling unit                            |
| 6     | 2       | 5   | New  | High-efficiency air-conditioning equipment              | Regenerative air-conditioning equipment                         |
| 6     | 2       | 6   | New  | High-efficiency air-conditioning equipment              | Boiler  |
| 6     | 2       | 7   | New  | High-efficiency air-conditioning equipment              | Indirect vacuum-sealed water heater                             |
| 6     | 2       | 8   | New  | High-efficiency air-conditioning equipment              | Heat-source power cogeneration equipment                        |
| 6     | 2       | 9   | New  | High-efficiency air-conditioning equipment              | Integrated chiller air conditioning system                      |
| 6     | 2       | 10  | New  | High-efficiency air-conditioning equipment              | Ice storage heating built-in chiller air conditioning equipment |
| 6     | 2       | 11  | New  | High-efficiency air-conditioning equipment              | Gas-engine heat pump air conditioning equipment                 |
| 6     | 2       | 12  | New  | High-efficiency air-conditioning equipment              | Air handling unit   |
| 6     | 2       | 13  | New  | High-efficiency air-conditioning equipment              | Total heat exchanger built-in air conditioning equipment        |
| 6     | 2       | 14  | New  | High-efficiency air-conditioning equipment              | Fan coil unit   |
| 6     | 3       | 1   | New  | High-efficiency mechanical ventilation equipment        | Total heat exchanger/ventilation unit                           |
| 6     | 3       | 2   | New  | High-efficiency mechanical ventilation equipment        | Air blower  |
| 6     | 4       | 1   | New  | Lighting equipment                                      | High frequency wave lighting-only fluorescent lamp system       |
| 6     | 4       | 2   | New  | Lighting equipment                                      | Light-emitting diode lighting equipment                         |
| 6     | 5       | 1   | New  | Hot-water supply equipment                              | Heat pump water heater  |
| 6     | 5       | 2   | New  | Hot-water supply equipment                              | Latent heat collecting water heater                             |
| 6     | 5       | 3   | New  | Hot-water supply equipment                              | Boiler  |
| 6     | 5       | 4   | New  | Hot-water supply equipment                              | Indirect vacuum-sealed water heater                             |
| 6     | 5       | 5   | New  | Hot-water supply equipment                              | Heat-source power cogeneration equipment                        |
| 6     | 6       |     | New  | Alternating-current variable-frequency control elevator |   |

**Table 7: Energy-controlling equipment** (6 items are newly covered.)\*2

| Table | Section | No. | Type | Name of equipment item             | Details |
|-------|---------|-----|------|------------------------------------|---------|
| 7     | 1       |     | New  | Measuring equipment                |         |
| 7     | 2       |     | New  | Intermediary equipment             |         |
| 7     | 3       |     | New  | Actuator                           |         |
| 7     | 4       |     | New  | Variable air volume control system |         |
| 7     | 5       |     | New  | Inverter                           |         |
| 7     | 6       |     | New  | Electronic computer                |         |

**Others** (1 item is continuously covered.)

| Table | Section | No. | Type      | Name of equipment item                    | Details |
|-------|---------|-----|-----------|---|---------|
|       |         |     | Continued | Power distribution multiplexing equipment |         |

\*1 (1) Applicants must install concurrently more than one (1) item of target equipment specified in each section of Table 6.

(2) When filing a tax return, a confirmation note issued by the governing agency concerned should be attached to a tax return form and other related documents.

\*2 (1) Applicants must install concurrently all the target equipment specified in each section of Table 7. However, if the applicant has installed an item of target equipment (inverter) specified in section 5 of Table 7, the applicant needs to install concurrently all the other target equipment specified in the other section of Table 7.

(2) When filing a tax return, a confirmation note issued by the Minister of Economy, Trade and Industry should be attached to a tax return form and other related documents.

**Q 1** What tax incentive system is the Taxation System for Promoting Investments in the Reform of the Energy Supply and Demand Structures (hereinafter referred to as the Taxation System for the Energy Reform)?

**A** If you directly purchase any equipment covered by the Taxation System for the Energy Reform and offer it for use in your business within one (1) year after the purchase, this system may apply a special depreciation or tax credit to the equipment.

**Q 2** What is the equipment covered by the Taxation System for the Energy Reform?

**A** This system shall apply to high-energy saving and high-efficiency equipment, which includes “manufacturing equipment and others using energy effectively (4 items of equipment)”, “additional equipment and others using energy effectively (20 items of equipment)”, “electricity and gas demand harmonization equipment (1 item of equipment)”, “new energy-using equipment and others (15 items of equipment)”, “equipment using an alternative form of energy instead of petroleum and others (15 items of equipment)”, “equipment for rational use of energy (26 items of equipment)”, “energy-controlling equipment (6 items of equipment)”, and “electric power distribution-multiplexing equipment (1 item of equipment).” For each category of equipment, the range of equipment items covered by the Taxation System for the Energy Reform is defined.

**Q 3** Whom shall the Taxation System apply to?

**A** This system shall apply to the juridical persons (including the consolidated parent company or consolidated subsidiary company under full consolidated control by its parent company) and natural persons who shall file their blue returns. If the owner-managers of small businesses file their blue returns, they shall have submitted their “applications for the approval of their blue returns” and received the approval of their blue returns.

**Q 4** What does the reference purchase value mean?

**A** Reference purchase value means the value on which the calculation of special depreciation limit value or tax credit limit value is based. In the 2008 fiscal year, the standard purchase values shall be equivalent to 50% of the purchase values for the “electricity and gas demands harmonization equipment” and “electric power distribution multiplexing equipment,” and 100% of the purchase values for the other categories of equipment.

**Q 5** Will any leased, loaned or used equipment be covered by the Taxation System for the Energy Reform?

**A** No, leased, loaned or used equipment shall not be covered by the Taxation System for Energy Reform. If the equipment is leased under a contract other than ownership transfer, the Taxation System for Energy Reform shall be applied only to tax deduction (but not to special depreciation of such equipment).

**Q**

**6**

**What is the special depreciation system?**

**A**

If you purchase any equipment covered by the Taxation System for the Energy Reform and offer it for use in your business, this system shall apply the special depreciation limit value equivalent to 30% of the reference purchase value (on which the calculation is based) to the equipment in addition to the normal depreciation of the equipment. As a result, the taxation for the equipment will be reduced in the fiscal year when the equipment is purchased.

**Q**

**7**

**What is the tax credit system?**

**A**

The tax credit system is the system for the owners of smaller businesses and others in which 7% of the reference purchase value (on which the calculation is based) may be deducted from the corporate tax in a fiscal year, provided that the deduction shall be limited to 20% of the corporate tax in the fiscal year.

**Q**

**8**

**What is the definition of the owners of smaller businesses and others?**

**A**

Under the Taxation System for the Energy Reform, the owners shall be defined as juridical persons with capital of 100 million yen or less, except the affiliates and subsidiaries of large businesses, or those without any capital and with 1,000 employees or less, or otherwise the owners-managers of small businesses with 1,000 employees or less.

**Q**

**9**

**When shall it be judged whether or not any applicant is classified as the owner of smaller businesses and others?**

**A**

Whether or not any applicant is classified as the owner of smaller businesses and others shall be judged depending upon the actual situation on the date when the applicant's depreciable assets are offered for use in its business (Notice of the Special Taxation Measures Law No. 42-5-1).

**Q**

**10**

**What direct expenses may be included in the purchase value for any equipment covered by the Taxation System for the Energy Reform?**

**A**

It is understood that direct expenses shall include the freight for accepting the equipment, stevedoring costs, transportation insurance premium, and installation costs, in addition to the purchase price for the equipment (including the purchase commission and other costs) or the manufacturing costs (including the costs for materials and equipment as well as the wages, allowances and social service costs for employees engaged in manufacturing the equipment).

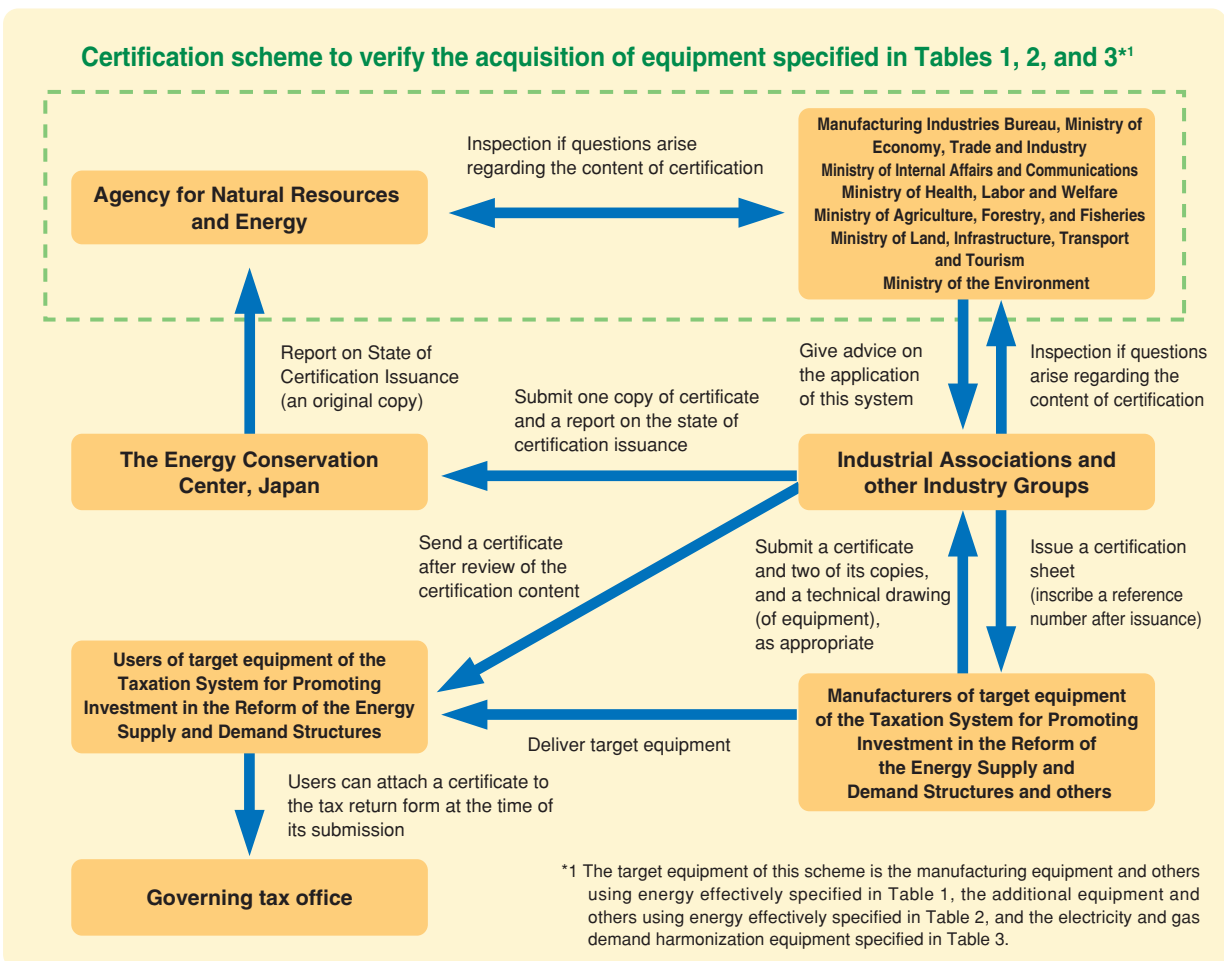
For the specific range of direct expenses that may be included in the purchase value for any equipment, please contact the advice window of the competent tax office where you file your blue returns.

**Q 11** Can the Taxation System for the Energy Reform be combined with any other special tax incentives?

**A** No, it cannot be combined with any other tax incentives.

**Q 12** What is the certification system if the target enterprise installed the equipment specified in Tables 1, 2, and 3?

**A** From the viewpoint of promoting the application of the “Taxation System for Energy Reform,” it is the system, under which the related industrial associations of the manufacturers producing the equipment specified in Table 1 as the manufacturing equipment and others using energy effectively, in Table 2 as the additional equipment and others using energy effectively, or in Table 3 as the electricity and gas demand harmonization equipment, issue a certificate verifying that the specification of the above-mentioned equipment meets the conditions of the Taxation System for Promoting Investment in the Reform of the Energy Supply and Demand Structures. If you submit this certificate attached to your tax returns, you will be able to smoothly go through the tax return procedure. However, this certification system is not mandatory. Therefore, you will never be unfavorably treated, even if you do not submit a certificate.



## Q

### 13

**What is the framework to enhance the support measures for energy conservation initiatives for commercial buildings and the associated conditions?**

## A

The purpose of the support measures is to encourage the commercial building industry to enhance energy conservation initiatives in order to accelerate energy conservation initiatives by the commercial sector, which is responsible for a significant increase in CO<sub>2</sub> emissions.

### Framework to enhance support measures for energy conservation initiatives for commercial buildings and the associated conditions

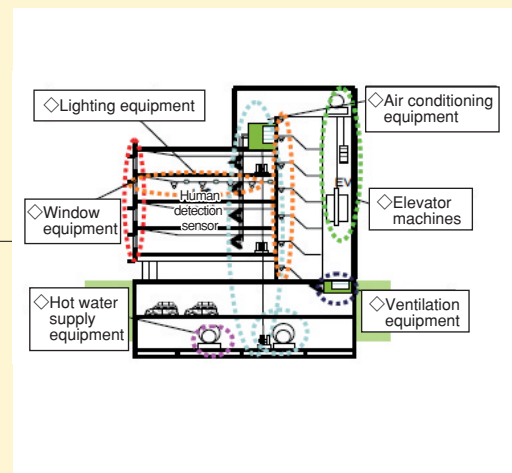
#### Enhancement of support for energy conservation initiatives for commercial buildings

##### ① Support for the introduction of high-efficiency energy conservation building systems

High-efficiency energy conservation building systems using high-efficiency energy conservation insulated windows, high-efficiency air conditioning equipment, high-efficiency mechanical ventilation equipment, high-efficiency lighting equipment, high-efficiency hot-water supply equipment, and alternating-current variable-frequency control elevators are added as targets of the support program.

Conditions

|   |   |
|---|---|
| Buildings over 2,000 m <sup>2</sup>   | Should be efficient in terms of energy conservation at a rate exceeding the 1999 standard by <b>20%</b> |
| Buildings less than 2,000 m <sup>2</sup>  | Should be efficient in terms of energy conservation at a rate exceeding the 1999 standard by <b>10%</b> |
| More than one item of target equipment specified in each section of Table 6 is installed at one time. |   |



##### ② Support for introduction of Building Energy Management System (BEMS)

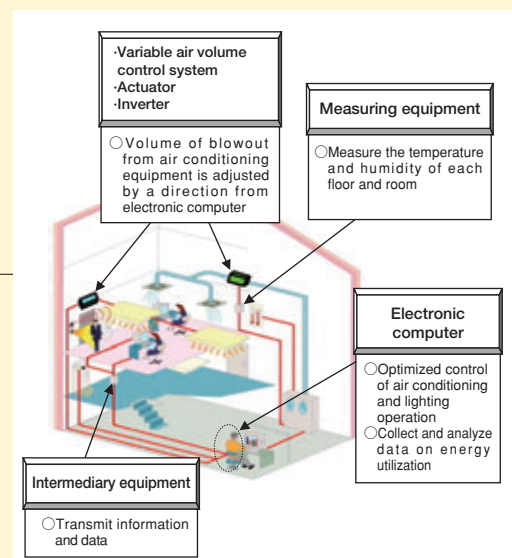
The Building Energy Management System (BEMS) by which energy conservation through air conditioning equipment and others is improved by measuring, controlling, monitoring and managing the indoor conditions and energy utilization is added as a target of the support program.

Conditions

Buildings whose energy conservation rate should be improved by more than **5 %** with the introduction of BEMS.

All target equipments specified in each section of Table 7 should be installed at one time.

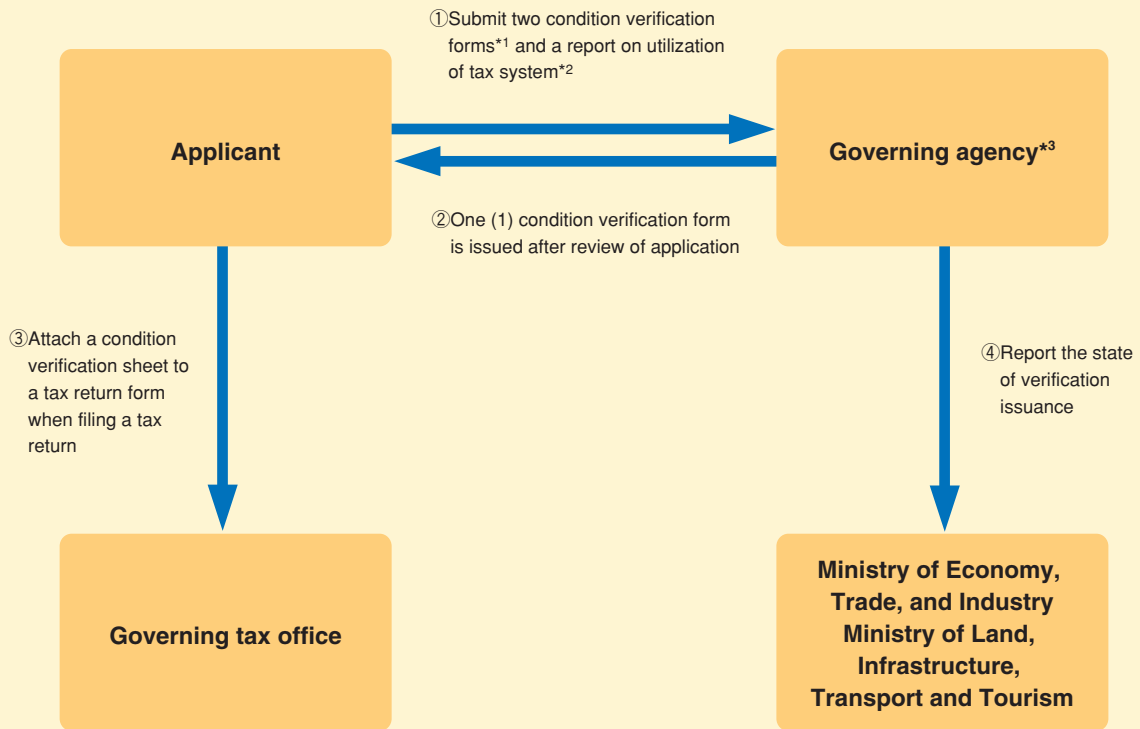
If the target equipment specified in section 5 of Table 7 (inverter) has already been installed, all the other target equipment specified in each section (of Table 7) should be installed at one time.



## Q 14 What is the condition verification scheme in the case where the equipment specified in Table 6 is purchased?

**A** If you apply for preferential tax treatment for the purchase of equipment for rational use of energy, you need to attach the verification sheet issued by the governing agencies based on the scheme described in the following table to a tax return form when filing for a tax return.

**Table 6: Condition verification scheme for the purchase of equipment for rational use of energy**



\*1 For the submission of two condition verification forms, form Number 1 specified in a separate paragraph of the ministerial ordinance on the submission of applications concerning buildings (Ministerial Ordinance No.15 of Ministry of Land, Infrastructure, Transport and Tourism, 2003) which was stipulated in accordance with Article 75, Item 1 of the Law Concerning the Rational use of Energy, should be attached to the application.

Those who are not required by the Energy Conservation Law to submit a notification (an agency/person who builds a new building having a size of less than 2000m<sup>2</sup>) should fill in the pages with the exception of page 1 of the notification and attach them to the condition verification form. Those who submitted a notification based on the Energy Conservation Law need only attach a copy of the appropriate notification to the condition verification form.

\*2 Submission of report on utilization of the tax system is not mandatory. The information received by the office will be treated with great care and used only for the purpose of reviewing the utilization state of this system.

\*3 Governing agencies are those belonging to prefectural and city governments that assign a construction chief who is responsible for managing the locations where the equipment for rational use of energy is established and certifies the building construction.



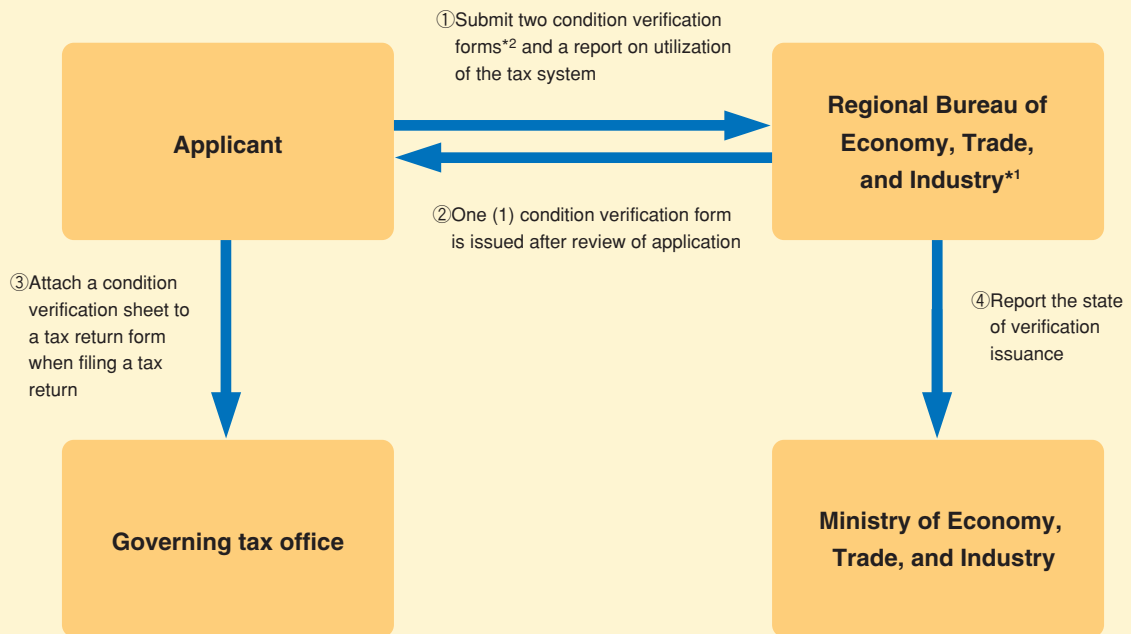
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**What is the condition verification scheme in case where the equipment specified in Table 7 is purchased?**



If you apply for preferential tax treatment for the purchase of energy-controlling equipment, you need to attach the verification sheet issued by the Minister of Economy, Trade, and Industry, based on the scheme described in the following table, to a tax return form when filing a tax return.

**Table 7: Condition verification scheme for the purchase of energy-controlling equipment**



\*1 Refers to the regional Bureaus of Economy, Trade, and Industry that govern the locations where energy-controlling equipment is installed. The bureaus where the applications should be submitted are listed in the table below.

\*2 Submission of report on utilization of the tax system is not mandatory. The information received by the office will be treated with great care and used only for the purpose of reviewing the utilization state of this system.

|  |   |  |   |                            |
|--|---|--|---|----------------------------|
| Ministry of Economy, Trade, and Industry | Hokkaido Bureau of Economy, Trade, and Industry | Natural Resources, Energy and Environment Department | Energy Policy Division                                  | 011-709-1753 (Direct line) |
|  | Tohoku Bureau of Economy, Trade, and Industry   | Natural Resources, Energy and Environment Department | Energy Division   | 022-263-1207 (Direct line) |
|  | Kanto Bureau of Economy, Trade, and Industry    | Natural Resources, Energy and Environment Department | Energy Policy Division                                  | 048-600-0361 (Direct line) |
|  | Chubu Bureau of Economy, Trade, and Industry    | Natural Resources, Energy and Environment Department | Energy Policy Division                                  | 052-951-2775 (Direct line) |
|  | Kinki Bureau of Economy, Trade, and Industry    | Natural Resources, Energy and Environment Department | Energy Policy Division                                  | 06-6966-6043 (Direct line) |
|  | Chugoku Bureau of Economy, Trade, and Industry  | Natural Resources, Energy and Environment Department | Natural Resources, Energy and Environment Division      | 082-224-5713 (Direct line) |
|  | Shikoku Bureau of Economy, Trade, and Industry  | Natural Resources, Energy and Environment Department | Energy Policy Division                                  | 087-811-8535 (Direct line) |
|  | Kyushu Bureau of Economy, Trade, and Industry   | Natural Resources, Energy and Environment Department | Energy Policy Division                                  | 092-482-5473 (Direct line) |
| Cabinet Office, Government of Japan      | Okinawa General Bureau                          | Economy, Trade and Industry Department               | Environmental Protection and Natural Resources Division | 098-866-1757 (Direct line) |

**Q 16** What does the term “offer for use in business” specifically mean?

**A**

The meaning depends on each piece of equipment, considering its conditions. In general, the term “offer for use in business” means that any equipment really starts to be operated in its regular application by using its regular method of operation. Thus, it is understood that any equipment will be offered for use in business when it reaches the conditions where it can produce the initially expected products.

Therefore, any equipment that is under trial operation or that has not yet started working although it is capable of working is not considered to be “offered for use in business.”

The term “offer for use in business” does not necessarily require that “any product or other is really produced.”

In practice, when any equipment was obtained and when it was offered for use in business shall be confirmed and clearly certificated by means of source records such as work diaries to prevent any problem from occurring later. The dates when the equipment was obtained and when it was offered for use in business are considered as matters of importance on the 31<sup>st</sup> of March or the 1<sup>st</sup> of April, that is, the closing or opening day of any fiscal year.

**Q 17** Concerning the interpretation of the terms “offer for lending,” is the case of lending a tenant space in a general building for lease, for example, covered by the Taxation System for the Energy Reform?

**A**

If any company controls and maintains any equipment installed in its own building for lease, it is understood that the Taxation System for the Energy Reform shall apply to the equipment. If only the tenant spaces in the building are leased, however, this system shall not apply to any equipment installed in the tenant spaces.

## Q 18 What is the Special Depreciation System?

**A**

Depreciable assets such as buildings, machinery and equipment may be depleted and economically antiquated during the use or operation or with the lapse of time.

For the purchase value for any depreciable asset, the depreciation is the procedure of dividing the estimated depletion value as the depreciation cost into the values in the asset's years of service life according to the predetermined method.

Two calculation methods are generally used:

### 1. Straight-Line method

Depreciation limit value = (Purchase value) × (“depreciation rate” according to the straight-line method in Table 10, Ministry’s ordinance on Service Life)

### 2. Fixed percentage on reducing balance method

**[Case of (depreciation value before adjustment) ≥ (depreciation guarantee value)]**

Depreciation limit value = (Starting book value) × (“depreciation percentage” according to the fixed percentage on reducing balance method in Table 10, Ministry’s ordinance on Service Life)

**[Case of (depreciation value before adjustment) < (depreciation guarantee value)]**

Depreciation limit value = (Revised purchase value) × (“revised depreciation percentage” in Table 10, Ministry’s ordinance on Service Life)

For the juridical persons, the fixed percentage on reducing balance method shall legally apply to the tangible depreciable assets.

The special depreciation is a system in which any depreciation limit value that is not smaller than the normal depreciation limit value may be authorized from the standpoint of policy if the predetermined level of depreciable assets is acquired.

If a company purchases any asset covered by the special depreciation, therefore, it is permitted to depreciate the asset earlier so that it may enjoy the fiscal merit of deferred taxation.

The company is also permitted to defer the payment of a shortage in its special depreciation value by one (1) year and transfer it into the special depreciation reserve (in accordance with the Special Taxation Measures Law 52-(2)).

## Q 19 Would you please explain the special depreciation system by using an example?

**A**

The special depreciation system will be explained by using Example 1 below.

### Example 1:

Company A purchased any kind equipment in this fiscal year (April 1, 2008 through March 31, 2009) and offered it for use in its business in May 2008. It adopted the straight-line method for the special depreciation.

**Purchase value: ¥27,000,000 / legal service life: 15 years**

#### 1. Normal depreciation limit value:

¥27,000,000 (reference purchase value) × 0.167 × 11/12 = ¥4,133,250

#### 2. Special depreciation limit value:

¥27,000,000 (reference purchase value) × 30/100 (special depreciation) = ¥8,100,000

#### 3. Depreciation limit value in this fiscal year:

¥4,133,250 (normal depreciation limit value) + ¥8,100,000 (special depreciation limit value)  
= ¥12,233,250

## Q 20 Do you have any notification form for the special depreciation?

**A** Any juridical person shall attach the “Specification on the calculation of depreciation value for any depreciable asset(s)” (in the form depending on the depreciation method) to its final corporate tax return, and also attach tables to the Specification.

## Q 21 Would you please explain the tax credit system for the owners of smaller businesses and others by using an example?

**A** The tax credit system will be explained by using Example 2 below.

### Example 2:

Company A purchased any kind equipment (reference purchase value: ¥27,000,000) in this fiscal year (April 1, 2008 through March 31, 2009) and offered it for use in its business in May 2008. The corporate tax imposed on Company A is ¥6,964,000 for this fiscal year and ¥7,550,000 for the next fiscal year.

#### <For this fiscal year>

$$¥27,000,000 \text{ (reference purchase value)} \times 7\% \text{ (tax credit rate)} = ¥1,890,000 \dots\dots (1)$$

$$¥6,964,000 \text{ (corporate tax in this fiscal year)} \times 20\% \text{ (limit rate)} = ¥1,392,800 \dots\dots (2)$$

In this case, the tax credit value for this fiscal year is (1) or (2), whichever is lower. Thus, it is (2) ¥1,392,800. The difference of ¥497,200 between ¥1,890,000 and ¥1,392,800 ((1) – (2)) may be transferred into the tax credit for the next fiscal year.

#### <For the next fiscal year>

$$¥7,550,000 \text{ (corporate tax for the next fiscal year)} \times 20\% \text{ (limit rate)} = ¥1,510,000 \dots (3)$$

$$\text{Transferred tax} = ¥497,200 \dots (4)$$

In this case, the value of ¥497,200 (4) is lower than the value (3) so that it can be deducted. If the corporate tax is ¥600,000 for the next fiscal year, the value equivalent to 20% of the corporate tax will be:

$$¥600,000 \text{ (corporate tax)} \times 20\% \text{ (limit rate)} = ¥120,000 \dots\dots\dots (5)$$

The tax credit will be (4) or (5), whichever is lower. Thus, it will be (5) ¥120,000. In this case, the difference of ¥377,200 between ¥497,200 and ¥120,000 cannot be retransferred, but discarded.



## 22 Which special depreciation and tax credit is more advantageous for the owners of smaller businesses to select?



Companies are free to select the tax credit or special depreciation system. Companies may select the system more advantageous for them. However, it may not always be concluded that one system is more advantageous for any company than the other system. Therefore, the recommendation is that each company needs to select the system favorable to its actual situation.

As the criteria of selection, it can be said that the special depreciation system has greater merit in the first fiscal year when any asset is acquired.

Assuming that the special depreciation of 30 is selected for the reference purchase value of 100, it is simply estimated that the corporate tax is reduced by  $30 \times 30\%$  (\*) = 9. In the tax credit system, the corporate tax is reduced only by  $100 \times 7\%$  = 7. Thus, the special depreciation system is slightly more advantageous. (\* The lower tax reduction rate shall separately apply to smaller corporate bodies in accordance with Article 66, Corporation Tax Law.)

Finally, however, the special depreciation system presents merit only in terms of the interest on the tax reduction value for the first fiscal year. On the contrary, the tax credit system is characterized by the absolute tax exemption. Therefore, it is supposed that it may be more advantageous for companies to select the tax credit system throughout the service life of any acquired asset.

In reality, however, it is expected that each company will select the system more favorable for its actual situation, because there are various circumstances such as the case in which the tax credit system cannot apply to companies with financial deficits.

In either case, it is obvious that the introduction of any equipment covered by the Taxation System for the Energy Reform may reduce the consumption of energy and consequently fuel and lighting costs.

## Background of the Taxation System for the Energy Reform

To respond to the changing environment of energy supply and demand in Japan, it is necessary to reform the energy supply and demand structures by simultaneously taking the following measures including the stable supply of energy and global warming countermeasures:

- (1) Demand-side measures for the effective utilization of energy, including energy conservation; and
- (2) Supply-side measures for promoting the introduction of energy resources alternative to petroleum, including new energy resources.

To do so, the system (Taxation System for the Energy Reform) that supports the introduction of energy conservation equipment, equipment using new energy, equipment using energy resources alternative to petroleum, and other equipment was established in the 1992 fiscal year. When the tax system was revised in the 2008 fiscal year, it was approved that the effective term of the Taxation System for the Energy Reform would be postponed by 2 years, although it has the specified duration.

## References

### Re: Revisions of the Depreciation System in the 2007 fiscal year (including the abolition of depreciable limit value and residual value)

- (1) Depreciable assets purchased on April 1, 2007 and afterwards  
The abolition of depreciable limit value (equivalent to 95% of the purchase value) and residual value permitted the depreciation down to “1 yen in residual book price” for any fiscal year during the service life of any asset.
- (2) Depreciable assets purchased before and on March 31, 2007  
The equal depreciation down to “1 yen in residual book price” for 5 years was allowed, after the depreciation of up to the value equivalent to 95% of the purchase value (conventionally depreciable limit value).
- (3) Since the new fixed percentage on reducing balance method was introduced, the “depreciation percentage according to this fixed percentage on reducing balance method,” which was set at 2.5 times higher than that according to the straight-line method, has been applied to depreciable assets and permitted the depreciation of higher values in the early stage.

Remarks: For more detailed information about the revisions of the depreciation system, please refer to the following materials (Source: National Tax Agency) which contain the Taxation System for Energy Reform (<http://www.eccj.or.jp/enekaku/index.html>):

- © Outline of the Revised Depreciation System for Corporate Bodies, 2007
- © Q & A on the Depreciation System for Corporate Bodies



**The Agency for Natural Resources and Energy,  
The Ministry of Economy, Trade and Industry**



**The Energy Conservation Center, Japan**

This is translated from the original Japanese document.  
For precise information and nuances, please refer to the original.