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COMMON CONSOLIDATED CORPORATE TAX BASE WORKING GROUP (CCCTB WG)

Assets and Tax Depreciation

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Assets and Tax Depreciation

I. Purpose of this paper

1. The treatment of assets and their depreciation is one of the main structural elements of the existing national tax bases and will be of any Common Consolidated Corporate Tax Base (CCCTB). As the CCCTB solution is intended to replace up to 25 national tax bases (at least for those companies who make use of it) it has to be agreed by up to 25 Member States (MS). Currently assets and depreciation are generally subject to different rules in each MS in the taxation accounts, and to varying degrees, in the financial accounts as well. However, the general objectives of both tax and accounting rules are often broadly similar and in the consolidated accounts of certain listed companies as from 2005 the same accounting rules will be applied across the EU – the International Accounting Standards and International Financial Reporting Standards (IAS) which have been endorsed for use in the EU.

2. The objective of this paper is to identify the key issues and some possible solutions for the tax depreciation of assets. As the first such paper on structural elements it also serves as a sort of 'test' of the working methods outlined in the work programme. The starting point for discussion is generally the accounting treatment permitted in the relevant IAS. The use of these IAS definitions, such as those in IAS 16, does not imply that the tax treatment should necessarily be the same as the one agreed for accounting purposes. By starting from the IAS definition the paper aims to use terms which should already be familiar to MS. Whether tax solutions can be derived from the IAS accounting treatment requires specific analysis on a case by case basis. In addition to the IAS analysis the paper also refers to some of the different approaches taken by individual MS in their national tax legislation. These references illustrate how the general accounting rules could be clarified, or amended, to take into account specific tax concerns and objectives. The sheer number of existing different treatments across the EU also illustrates the scale of the task of achieving a CCCTB, and gives an indication of the possibilities for simplification that a CCCTB could bring if consensus can eventually be achieved. Tables with more details on depreciation schemes and practices currently applied in MS are annexed.

3. The principle issues in both accounting and taxation for assets are their definition, the timing of the recognition of the assets, the determination of their valuation or carrying amounts, and the depreciation charges to be recognised in relation to them. Recognised assets cannot be immediately expensed and they are depreciated only when certain conditions are met (eg. in taxation after a business purpose test). The depreciation of assets is a measure which allocates the costs of the asset to the periods of time over which an asset is expected to be used by the enterprise (useful life). Assets are generally classified as either tangible or intangible, and within these two groups there are often further sub-divisions. This paper concentrates on the sub-set within tangible assets of 'property, plant and equipment' and considers

each of the principle issues in turn before suggesting some possible solutions for discussion.

II. Assets, qualifying assets

4. Resources held and controlled by an enterprise for use in the production or supply of goods or services, for rental to others or for administrative purposes which are expected to be used during more than one period are recognised as assets[1]. Tangible, intangible and financial assets are distinguished. As noted above this paper elaborates further on tangible assets (hereafter assets), specifically property, plant and equipment. Intangible and financial assets will be discussed separately at a later stage.

5. For accounting purposes an item of property, plant and equipment should be recognised as an asset when it is probable that future economic benefit associated with the asset will flow to the enterprise and the cost of the asset to the enterprise can be measured reliably[2]. For tax purposes this definition is in principle accepted, but some of its elements are further developed. Assets subject to normal wear and tear, with a limited useful life and serving the realization of profits qualify for tax depreciation in most MS. A direct link between the asset and the realization of profits ('business purpose test') is explicitly required and underlined in most MS. A minimum useful life is also fixed in some MS (e. g. 1 or 3 years).

6. Assets that are not subject to wear and tear, i. e. assets that generally do not change (decrease) their value over time are not in principle depreciable for tax purposes. Land is often explicitly excluded. The value of land can be written down only if the fair market value has fallen permanently below the acquisition cost.

7. Assets of minor value or assets with a very short useful life may be expensed (100% of their cost may be written off) in the year of acquisition in most MS for both accounting and tax purposes. Whereas in accounting this is often based on the materiality principle, tax law gives more detailed guidance on what "minor value" or a "very short useful life" is. Guidance on what constitutes minor value may come from existing or standard practice in both tax and accounting, but for tax purposes it is more often determined by specific tax legislation. Generally a statutory definition satisfies legality and transparency requirements while the determination of minor value by reference to existing or standard practice is more flexible and often reflects the material, or immaterial, character of the case in question. Minor value currently ranges between EUR 200 and 1,300 in MS, although the upper figure seems to be rather exceptional (Czech Republic). Assets with a very short useful life regardless of acquisition costs are expensed in some MS (Denmark, Finland, Luxemburg, Sweden). A very short useful life is determined as 1 – 3 years in these MS. Sometimes the total value of assets so expensed may not exceed a certain limit per tax year (Finland).

[1] IAS 16 Para 6., IAS 38 Para 7.
[2] IAS 16 Para 7.

III. Valuation of asset and depreciable basis

8. In accounting an asset is initially measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to the working condition for its intended use. Cost is understood as the amount of cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction[3]. Tax solutions are derived from this principle, but may disallow some kinds of directly attributable costs from being included in the acquisition costs. Historical, production or acquisition costs (hereafter acquisition cost) are generally distinguished for tax purposes depending on whether an asset is purchased from a third party, produced by the enterprise itself or acquired by other means than purchase for monetary payment or in exchange for other benefits. Detailed rules on acceptable ways and procedures if assets are acquired for non monetary payment and the determination of a fair value are frequent in taxation. The acquisition cost for tax purposes is restricted for some assets (e. g. cars) generally as a result of a particular public policy applied in some MS (e. g. Belgium).

9. Subsequent to initial recognition an asset is carried at its acquisition costs less any accumulated depreciation. Acquisition costs decreased by depreciation charges give the *residual value* of an asset. Accounting also requires devaluation of an asset in case of any accumulated impairment losses and alternatively revaluation of an asset on a regular basis if its fair value increases[4]. Recognition of such changes in the residual value of a depreciable asset for tax purposes is rather exceptional and its impact on the tax base is usually excluded. On the other hand some MS require taxpayers to revalue their assets regularly for tax purposes as well (e. g. Greece, Hungary)[5]. It is currently proposed that revaluation and devaluation of assets will be further discussed at a later stage, under the tentative heading of Capital Gains.

10. If *subsequent expenditure* relating to an asset that has already been recognised (and has already been depreciated) is incurred, in accounting it should be added to the carrying amount of the asset when it is probable that future economic benefits, in excess to the originally assessed standard of performance of the existing asset will flow to the enterprise. All other subsequent expenditure is to be recognised as an expense in the period in which it is incurred. Subsequent expenditure on an asset is recognised in case of modification of an asset to extend its useful life or increase in its capacity, upgrading machine parts to achieve a substantial improvement in the quality of output or adoption of a new production processes enabling a substantial reduction in previously assessed operating costs. Expenditure on repairs or maintenance of an asset made to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of the asset is expensed when incurred[6]. For the distinction whether it should be treated as an expense or as an asset it is important whether a new asset has been

[3] IAS 16 Para 6. and 15.
[4] IAS 16 Para 28. and 29.
[5] Unrealized gain is taxable under special tax in Greece.
[6] IAS 16. Para 23. and following

created by a subsequent expenditure. If so, it should be recognised as an asset and depreciated (either separately or as an increased residual value of the original asset) otherwise it can be fully expensed in the year when this expenditure incurred. Tax systems generally apply similar, although in some cases stricter, rules to distinguish between capital expenditure on assets eligible for tax depreciation over a number of years and revenue expenditure which is immediately deductible for tax purposes in full. As already mentioned some of them require companies to increase the residual value of the asset by the subsequent expenditure and others recognise a subsequent expenditure as a new distinct asset and depreciate it separately. For the appraisal of the subsequent expenditure the same method should be applicable as was applied in case of originally acquired asset.

IV. Purpose of depreciation

11. Costs of assets acquired or produced and used by companies for their business are expensed over the period for which the asset is supposed to bring proceeds to a company through depreciation charges. The overall expenditure on the asset is thus systematically spread out to the asset's useful life.

12. The depreciable amount of an asset should be allocated on a systematic basis over its useful life. The depreciation charge for each period should be recognised as an expense unless it is included in the carrying amount of another asset[7]. This accounting principle is also recognised in tax depreciation. Tax solutions tend to be prescriptive as regards the method and the amount (either as a precise or a maximum amount) of the depreciation charge and leave much less room for the taxpayer's judgement and interpretation of the general rule.

13. Tax systems may occasionally introduce special depreciation schemes that do not necessarily follow this principal purpose of depreciation. The allocation of assets' acquisition costs are then spread out over a statutory period shorter (occasionally longer) than the assets' useful lives. Tax rules may provide for faster depreciation in order to promote and support a particular sector of economic activity, or activity within a particular region or designated area. Such measures have an incentive character. Members of the group might therefore wish to postpone discussion of this aspect to a later stage of the discussions when special incentive schemes in general are addressed.[8]

V. The right to claim depreciation

14. With regard to the question of who is entitled to claim depreciation charges two main approaches (with several variations) exist. According to the first one only the legal owner is allowed to depreciate assets. The second one gives the right to depreciate the asset to the person bearing the risk of the wear and tear of an asset regardless the legal title that such a person has to the asset ('economic owner').

[7] IAS 16 Para 41.
[8] Draft Work Plan, II, the last indent, CCCTB/WP/003

15. In accounting terms *a holder* of an asset is generally supposed to recognise an asset in the balance sheet. Accordingly the lessee should recognise finance leases as assets and liabilities in his balance sheet at amounts equal at the inception of the lease to the fair value of the leased property or, if lower, at the present value of the minimum lease payments[9]. However a broad discussion on this topic has been ongoing.

16. Different solutions (in both tax and accounting at national level) have been adopted for leases, financial leases and usufruct holdings as well as for purchases of assets with a clause reserving ownership to a seller until the payment of full price ('reservation of title'). The purchaser is often allowed to depreciate the asset from the moment when he starts to use it for business, but if ownership is not subsequently acquired any claimed depreciation charges have to be recaptured. Some MS who apply in principle the legal ownership approach allow an economic owner (e. g. a lessee) to depreciate the asset under certain conditions, e. g. if they qualify as the beneficial owner of the leased asset (Austria).

17. In most cases the legal successor is allowed to continue depreciation commenced by his predecessor (company reorganisations - mergers, acquisitions).

VI. Timing

18. In accounting an asset is depreciated over its useful life. The useful life of an asset is defined in terms of the asset's expected utility to the enterprise. The estimation of the useful life of an asset is a matter of judgement based on the experience of the enterprise with similar assets[10]. Whereas accounting leaves the door open for judgement of each individual case as much as possible tax law prefers to fix applicable principles. Actual practices are further discussed in section VII.

19. Companies depreciate assets on an annual basis in all MS. Different approaches occur in respect to the first year depreciation charge, the interruption of depreciation and the year in which an asset is alienated or sold.

20. A full annual tax depreciation charge applies in a tax year in which the asset is acquired or produced, even though the asset is held for only part of that year in some MS. In others if the asset in question is owned for more than 6 months full annual tax depreciation charge is allowed and if less, 50% of an annual tax depreciation charge can be deducted (e. g. Austria, Germany). Another possibility is to use 50% of an annual depreciation charge regardless of when the asset is acquired (e. g. Italy) or to create a special rate for the first year, which can lead to approximately the same result of 50% (Czech Republic). An accrual basis (1/12 for each month) could also be a solution for the first year. This approach is applied by several MS in case of tax year longer or shorter than 12 calendar months. For

[9] IAS 17 Para 12.
[10] IAS 16 Para 41. and 44.

consistency a similar rule should be adopted for the year when the asset is alienated or sold (a full charge, 50% of the normal amount or the accrual basis).

21. If a depreciable asset is sold or otherwise alienated, the difference between the sale price and the tax residual value (acquisition value minus depreciation applied) is subject to corporate income taxation or capital gains taxation. The various methods used in MS will be analysed when the taxation of capital gains discussed. Roll over relief is granted for some kinds of asset especially if replaced by a new one.

22. Some MS allow companies to interrupt depreciation under certain conditions (Czech Republic, Lithuania, Latvia) thus allowing taxpayers to optimize their tax base for example to facilitate the utilization of allowances and credits that cannot be carried forward to following years. This sort of approach illustrates how in some MS the underlying purpose of tax depreciation is subtly different from that of accounting depreciation. In accounting the accent is on correctly matching expenses and revenues in accordance with the judgement of the enterprise, whereas in taxation there is less flexibility over the maximum amount of depreciation in any given year, but more flexibility as regards the minimum amount. However, most MS do make depreciation compulsory in both profit and loss tax years (Belgium, Cyprus, France, Germany, Greece, Luxemburg, and Netherlands) and some MS actually impose a sanction on taxpayers who do not claim depreciation charges properly (France).

VII. Methods and mechanics

23. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. Accounting rules do not prescribe exact methods for the depreciation of particular assets. The depreciation method used should reflect the pattern in which the asset's economic benefits are consumed by the enterprise[7]. The choice of the actual method is however a matter of judgement in the application of the established accounting principles.

24. As already mentioned in previous sections the level of judgement to be applied is much lower in the tax area. Tax depreciation rules tend to be much more specific. They fix a compulsory method in most cases. If a taxpayer believes that the statutory method does not reflect the actual situation a special scheme may be granted by tax authorities or approved by the court in some MS. It is sometimes possible to apply for an increase in the statutory (maximum statutory) depreciation charge in cases of more intensive use of an asset than is normal in the sector of activity or in case of extraordinary wear and tear (e. g. Belgium, Italy, Spain).

25. Some MS fix just maximum depreciation charges and the taxpayer is allowed to use any rate within the range between zero and the maximum rate. Such a measure makes the system very flexible, but as outlined above is sensitive to tax planning techniques.

26. Assets may be depreciated on an individual or pool basis. The latter approach allows the addition of the depreciable bases of all assets and the calculation of the

depreciation charge as an overall figure. Some MS recognise only one group of assets (pool) covering essentially all depreciable assets (e. g. any plant, machinery or equipment), others categorise the assets in several groups (pools) and apply different rates to each of them. A significant number of MS (e. g. Belgium, Germany, Italy, Spain) require companies to depreciate (and record) each asset separately on an individual basis. The calculation of the depreciation charge on the pool basis is simpler than if it has to be calculated separately for each particular asset. However in case of sale or alienation of an asset a special rule for the calculation of the residual value of the sold or alienated asset is needed under the pool method. On the other hand the individual method of depreciation gives residual values of any asset at any time during the course of depreciation. A different regime for the taxation of any capital gains earned on the sale of an asset or the recapture of 'excessive' tax depreciation may follow from the application of these two methods.

27. Straight line or declining balance methods are two of the most common methods for the calculation of a depreciation charge. Under the straight line method the useful life of an asset (or pool of assets) is fixed at a certain number of years. The acquisition value (the depreciable basis) is spread out accordingly; usually at a flat rate (i. e. the same amount is deducted every year at a rate of 1/number of years). There exists an accelerated variation of the straight line method, under which the asset is depreciated at higher rates at the beginning of the asset's useful life. The base for the calculation of the depreciation charge is the acquisition price of the asset in all depreciation years.

28. Under the declining balance method rates are usually higher than those used for straight line, but they apply to the acquisition value only in the first year of depreciation and in the following years they apply to the residual value of the asset. The asset is depreciated more quickly at the beginning of its useful life than under straight line method but its acquisition value is theoretically never expensed up to 100%. The declining balance method may be modified to a double declining balance method, when the basis for depreciation for every following year is calculated as the residual value minus double the annual depreciation charge. Another modification of the double declining method is also sometimes applied which is more a hybrid method combining features of both straight line and declining balance methods. It also derives the depreciation base from the residual value of the asset, but calculates the annual charges in a way that allows the taxpayer to deduct 100% of the acquisition costs by the end of useful life of the asset[11].

29. In respect to the combination of pool/individual depreciation with straight line or declining balance methods, it is worth noting that the use of the declining balance method and its variations if assets are depreciated on an individual basis may become cumbersome and potentially inefficient, especially in the later stages of an asset's useful life. The basis for depreciation (tax residual value) of each asset

[11] If a useful life of an asset is e. g. fixed as 4 years, the first year depreciation charge is *acquisition value/4*, and the following years' charges are calculated as a *double residual value/(5 minus number of years in which the asset has already been depreciated)*.

becomes very low as do the depreciation charges while individual records of each asset have to be kept. If the individual concept of depreciation of assets is applied, a straight line method (with or without accelerated rate schemes) seems to be more appropriate.

30. The declining balance method may be also used as an optional method or as a method reserved only for some types of assets. However practices applied in MS differ rather widely. Some MS do not recognize the declining balance method whatsoever and the straight line basis is the only method for the depreciation of assets (e. g. Austria).

31. Other methods such as the depletion method are applicable in certain sectors (eg natural resources) but are not considered in any detail in this paper.

32. If two or more methods are allowed to be used in respect of the same kind of asset, rules determining when a taxpayer is allowed to change depreciation method are necessary. Some MS make any change conditional upon meeting certain conditions; others prohibit any change in method at all once a choice has been made.

33. The differences in the rates currently applicable to different kinds of assets in MS are rarely very large. As discussed above MS in principle set rates for different types of assets primarily according to the length of an asset's useful life. However the number of different rates and the number of different categories of assets for depreciation purposes vary considerably among MS.

34. All MS distinguish between movable (e. g. plant, machinery, equipment) and immovable (e. g. buildings) assets for the purpose of tax depreciation. Depreciation rates for immovables range between 1% and 20%, while the most frequent range is 2 – 5%. Different rates for different types of buildings (office, residential) are often applicable.

35. The remaining tangible assets are further categorised into several groups (up to five, or occasionally practically on an individual asset basis) by MS, or the same treatment is applicable to all of them (pooled). It would be difficult and a little bit misleading to generalize in respect of the applicable rates in this area, since many specific rates are given for a number of assets in some MS.

36. To be deductible for tax purposes, the amounts depreciated must be recorded transparently by the company. Whether the tax depreciation charges are registered as adjustments to a company's accounting depreciation plan (when they are different), taken to be equal to the accounting depreciation or deducted separately after the accounting depreciation charges have been added back to the company's accounting profit depends on the degree of 'dependency' between the financial accounts and the tax accounts, which varies across the EU.

37. A common approach to tax depreciation implies a common approach to dependency of the tax treatment on accounting: either dependency is weakened to permit the common depreciation rules, or the accounting rules are amended to

permit depreciation in line with the common tax depreciation rules. Where there is little dependency, i. e. the linkages between the financial accounts and the tax accounts are not very strong, changing from existing national rules on tax depreciation to a common approach to tax depreciation has little impact on financial accounting. However, where links are strong, this change has implications for the financial accounts. If national tax depreciation rules are changed to a newly defined common approach, national accounting rules would have to be amended accordingly. Although the treatment of assets and tax depreciation is an obvious example of how the issue of tax and accounting dependency needs to be resolved, the same question arises with other structural elements such as provisions.

VIII. General solutions

38. The CCCTB aims to provide MS with a complete solution for the tax depreciation of assets and should not in principle be subject to any modifications made by national laws. Ideally the system would replace up to 25 different tax depreciation schemes with one.

39. Tax depreciation rules currently applicable in MS are often similar in essential principles, but different in details, especially in respect of the categorisation of assets for tax purposes and the various schemes applicable to them. The reasoning behind some aspects of the 25 systems have been developing over many years. These national systems are an important starting point for an EU-wide scheme, but all these different elements cannot simply be combined together without some changes. In order to reach consensus participating members will have to be open to new innovative solutions seeking an accurate, simple, transparent and neutral scheme which reflects economic reality and measures the profit of companies on a relatively objective base, even if such solutions lead to a change in the traditional methods in some MS.

40. In order to create a complete and functional set of rules it will be necessary to agree and elaborate on the following issues. In order to progress it is suggested that solutions for the general rules should be examined in the first instance.

	General rule	*Specific rule*
A	**DETERMINATION OF ASSETS QUALIFYING FOR TAX DEPRECIATION**	● Expenses ● Non depreciable assets ● Assets of minor value
B	**DETERMINATION OF DEPRECIABLE BASE**	● Acquisition for non monetary payment ● Second-hand property ● Subsequent expenditure treatment
C	**WHO IS ELIGIBLE TO CLAIM TAX DEPRECIATION CHARGES**	● 'Economic' (beneficial) ownership e. g. financial lease ● Purchase with the clause reserving ownership ● Subsequent expenditure on rented asset ● Legal successor
D	**TIMING OF TAX DEPRECIATION**	● First year, last year (if an asset sold) rule ● Tax year longer or shorter than 12 months
E	**MECHANICS OF TAX DEPRECIATION**	● Methods ● Rates
F	**SALE OF THE ASSET, TAX VALUE**	
G	**RELATION BETWEEN ACCOUNTING AND TAX DEPRECIATION (dependency)**	
H	**RECORDING OF DEPRECIATION**	

A. DETERMINATION OF ASSETS QUALIFYING FOR TAX DEPRECIATION

41. The accounting solution creates a good starting point as it is accepted in most MS. Assets with a limited useful life recognised in the balance sheet of a company should in principle be depreciated for tax purposes. As the aim of CCCTB is to measure business profits of companies it is advisable to ensure that only the costs of assets used for business purposes will affect the tax base. A business purpose test should therefore be added.

►*Do members agree that only assets acquired and used for business purposes shall be depreciable for tax purposes?*

B. DETERMINATION OF DEPRECIABLE BASIS

42. Historical, acquisition or production costs seem to be the most appropriate basis for tax depreciation. For the determination of the actual costs the simplest solution seems to be to follow the accounting one.

►*Do members of the group think that more specific guidance should be given on what costs should be/should not be included in the acquisition price or could the accounting rules be accepted as a general basis?*

C. WHO IS ELIGIBLE TO CLAIM TAX DEPRECIATION CHARGES

43. A 'legal owner' rule is the simpler, but the more formalistic solution. The "economic owner" approach better reflects the real relation between the asset and business in which it is used. On the other hand it requires the creation of a set of rules to define and identify the economic owner. Special rules for the depreciation of the asset by the beneficial owner would be in line with the principle *substance over form*[12]; on the other hand depreciation by the legal owner is more in line with the *simplicity*[13] principle.

44. A legal successor should be allowed to continue depreciation commenced by his predecessor. Companies are mainly affected in the case of reorganisations (e. g. mergers, acquisitions). The determination of situations when depreciation is not to be recaptured even if the owner of the asset has changed could be done in line with the 'Merger' Directive on the common system of taxation applicable to mergers, divisions, transfers of assets and exchanges of shares concerning companies of different Member States.

►*Would members agree that only the legal owner shall be in principle entitled to depreciate an asset? Will it be necessary to adopt exceptions to this rule?*

D. TIMING OF TAX DEPRECIATION

[12] Commission Working Document on General Tax Principles, Para 26, CCCTB/WP/001.
[13] Commission Working Document on General Tax Principles, Para 17, CCCTB/WP/001.

45. The recognition of the acquisition costs of an asset for tax purposes should primarily relate to the actual useful life of the asset. This principle as applied in accounting is further developed by the company itself for each particular asset. Tax systems traditionally tend to decrease the element of permissible judgement and provide taxpayers with fixed rules for different categories of assets. This approach closely corresponds with the principle of certainty and effectiveness. The difficulty is to find the best balance between simplicity and accuracy.

46. Different schemes for movable and immovable assets will probably be necessary. Any further differentiation within each of the two groups should however be thoroughly considered and justified in order to avoid unnecessary complications and conflicts with the simplicity and transparency principles.

47. Tax depreciation charges should be claimed on an annual basis. Tax depreciation should probably be compulsory in both profit and loss years, although it is recognised that flexibility here is linked in some cases to loss carry-forward rules and the treatment of foreign tax credits.

48. Rules for the first year, the year in which an asset is sold or alienated and for tax years longer or shorter than 12 months are needed. Any of the currently applicable solutions (full depreciation charge or 50% or combination of the two) could be used. This is an example of where there does not seem to be a particular point of principle involved or a best practice identified, in which case the solution that members can agree on most easily is probably the most appropriate one.

►*Would members of the group like to comment on this issue and proposed solutions?*

E. MECHANICS OF TAX DEPRECIATION

49. Various methods and rates are currently applicable in MS and it is not possible to combine them all together. It will be necessary to establish a common approach agreed by all participating MS. As a starting point for a common solution depreciation of immovable property (buildings) on an individual basis under the straight line method and for movable property (plant, machinery, equipment) on a pool basis under the declining balance method could be envisaged. Movable assets could be divided into three categories according to their useful life (e. g. 4, 8 and 12.5 years). The choice of different methods for the same type of asset should not be possible as it seems to create unnecessary complications and requires additional considerations concerning whether or not companies can 'change their mind' etc. Depreciation rates could be fixed to correspond with the length of the estimated useful life of each category of assets (i. e. in the above example 25%, 12,5% and 8%).

►*The above example solution illustrates the sort of framework that could be applied. Do members have any comments on such an approach or do they have other suggestions?*

►*Could members of the group comment on what elements of the framework are particularly important for them and what sort of framework they might find acceptable?*

F. SALE OF ASSET, TAX VALUE

50. This issue should be analysed in line with the solutions for any capital gains taxation; therefore it will be discussed in more detail later.

G. RELATION BETWEEN ACCOUNTING AND TAX DEPRECIATION

51. To the extent that the rules for accounting depreciation charges differ across the EU accounting depreciation charges should be tax non deductible. It would permit to introduce a common EU-wide set of rules for calculating tax depreciation charges (see also H below).

►*Could members of the group agree with this approach?*

H. RECORDING OF TAX DEPRECIATION

52. The amounts depreciated for tax purposes shall be recorded transparently by the company. Tax depreciation charges may be registered as adjustments of the accounting depreciation plan or accounting depreciation charges may be added back to company's accounting profit and tax depreciation charges deducted afterwards and registered separately.

► *Do members of the group have a preference for any of above mentioned solutions?*

General questions:

►*Do members believe that all of the issues important for tax depreciation are identified in this document? Do members wish to add anything?*

►*Do members think that some of specific issues should be delegated to a subgroup in order to elaborate on them in more detail?*