L.N. 298 of 2001

INCOME TAX ACT
(CAP. 123)

Deduction (Wear and Tear of Plant and Machinery) Rules, 2001

IN exercise of the powers conferred by sub-article (2) of article 14 and article 96 of the Income Tax Act, hereinafter referred to as "the Act", the Minister of Finance has made the following rules:-

Citation and commencement.

1. The title of these rules is the Deduction (Wear and Tear) Rules, 2001, and they shall be deemed to have come into force on the 1st January, 2002.

Interpretation.

2. In these rules, unless the context otherwise requires, terms and expressions used herein shall have the meaning assigned to them in the Act.

Deductions for wear and tear.

3. Annual deductions for wear and tear of plant and machinery under paragraph (f) of subarticle (1) of article 14 of the Act shall be calculated on the straight-line method over the minimum number of years, prescribed in the Schedule to these rules.

Classification of assets

4. Where an item of plant and machinery may be classified under more than one of the items in the Schedule it shall be classified in accordance with its preponderating use in each year.

Permissible deductions.

5. Annual deductions for wear and tear shall constitute permissible deductions only in cases where proper records and documentation have been kept of the cost of the assets in respect of which a deduction is claimed.

Cost of asset.

6. The cost of an asset shall be determined in accordance with generally accepted accounting principles.

Deductions in relation to date of acquisition of asset.

7. Where the asset is used in the production of the income for part of the accounting period or year to which a year of assessment refers only owing to the occurrence of one of the following events, the annual deductions for wear and tear in respect of that asset shall be ascertained as set out hereunder:

(a) if the asset is acquired or completed on any date other than that on which the year commences, the deduction shall be calculated as if the asset had been used for the whole year; and

(b) if the asset is sold , otherwise transferred, destroyed or put out of use as being worn out or obsolete or otherwise useless or no longer required, on any date other than that on which the year terminates, no deduction shall be allowed in respect of the year in which that event occurs.

Transfer of asset.

8. Where a person acquires an asset from another person and:

(a) that person is controlled and beneficially owned to the extent of more than fifty percent by the other person; or

(b) that person controls and beneficially owns more than fifty per cent of the other person; or

(c) both such persons are controlled and beneficially owned to the extent of more than fifty per cent by another person or persons:

the wear and tear deductions that shall be due to such person shall be computed on the lesser of:

(i) the written down value of the asset in the hands of the other person on the date of acquisition by such person, such written down value being calculated after adding or deducting any balancing charge or allowance as the case may be; or

(ii) the cost of acquisition to the new owner.

Annual deduction in case acquisition not by onerous title.

9. Where an asset is acquired other than by onerous title, the annual wear and tear deduction to such person shall not be greater than that which would have been allowable to the previous owner.

Deduction in relation to use and ownership of asset.

10. Where a person makes use of an asset which does not belong to him on such terms that the burden of wear and tear falls on the user and not on the owner of the asset, wear and tear shall be computed in accordance with these rules and shall be allowed as a deduction to the user to the same extent as if the owner of the asset had retained its use and were using it in the production of the owner's income.

Asset used for production of income and other purposes.

11. Where an asset is used both in the production of the income and for other purposes, annual deduction for wear and tear shall in all cases be computed in accordance with these rules, but the deduction to be allowed in each year in respect of such deductions so computed, shall be reduced in the proportion of the use of the asset in the production of the income to its total use.

Assets on which previous allowances were claimed.

12. The written down value of plant and machinery in respect of which a deduction for wear and tear has been allowed prior to year of assessment 2002 shall, for the purpose of these rules, be deemed to be the cost of acquisition on which wear and tear allowances are to be allowed, in accordance with these rules, for that year of assessment and subsequent years of assessment in respect of such plant and machinery.

Revocation of L.N. 9 of 1965.

13. The Deduction (Wear and Tear of Plant and Machinery) Rules, 1965 are hereby revoked.

SCHEDULE

Minimum number of years over which items of plant and machinery are to be depreciated

Category		Years
1.	Computers and Electronic Equipment	4
2.	Computer software	4
3.	Motor Vehicles	5
4.	Furniture, Fittings and Soft Furnishings	10
5.	Equipment used for construction of buildings and excavation	6
6.	Catering Equipment	6
7.	Aircraft	12
8.	Ships and vessels	10
9.	Electrical and Plumbing Installations and Sanitary Fittings	15
10.	Cable Infrastructure	20
11.	Pipeline Infrastructure	20
12.	Communication and Broadcasting Equipment	6
13.	Medical Equipment	6
14.	Lifts and Escalators	10
15.	Air-conditioners	6
16.	Equipment mainly designed or used for the production of water or electricity	6
17.	Other machinery	5
18.	Other plant	10