Downloaded from Blogs on 03.11.2026 02:39

By PwC Deutschland | 28 June 2011

Debts assumed to be taken up under tax principles

The finance ministry has issued a decree on the assumption of debts, calling for the new items to be taken up under tax rules, even in the face of the commercial reality of the consideration received.

Downloaded from Blogs on 03.11.2026 02:39

The finance ministry has issued a decree on the assumption of debt, by purchase, merger or take-over of business assets. The legal accounts of buyer and seller are to follow the legal accounting rules of the Commercial Code, i.e. assets are to be taken up at historical cost, but not exceeding market value. The tax computations of both parties are to follow the accounting rules of the Income Tax Act. Thus an acquirer of a non-interest bearing liability at its face value will record an immediate taxable gain in the amount of the tax-required discount (5.5% p.a.). The acquirer of a potential loss (e.g. reflected in the lower purchase price for a business) will be unable to reflect this risk in the tax computations under a tax-law prohibition on relief for impending losses, although he will be required to show a provision in his legal accounts. By contrast, the acquirer of the liability behind the loss reflects it in the tax computations as well as in the accounts. The seller applies similar principles. The ministry illustrates the distinction with the example of a lease for a property no longer of use to the business. If the buyer steps into the shoes of the lessee, he must account for the future loss, but cannot obtain tax recognition of the provision made. The seller realises a lower price and thus a lower gain on sale. If, on the other hand, the parties agree that the seller shall remain the tenant (lessee) with the buyer assuming the obligation to bear the cost of the rent, the seller takes up a receivable in the amount of the future rent reimbursements and the buyer a corresponding debt discounted (in the tax computations) as appropriate.

Keywords

assumption of debt, debt assumed, discounts