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Supreme Tax Court ruling on option premium applies to hedges only

The finance ministry has decreed that a Supreme Tax Court ruling that an option premium is expense on the decision not to exercise the option applies to hedges, but not to speculations.

In September 2012, the Supreme Tax Court held that the premium on an option taken out as a hedge to protect a foreign currency balance should be expensed once the decision was taken not to exercise the option in order to avoid realising a loss that would neutralise the gain from the hedged transaction. The finance ministry has now issued a decree to the effect that this judgment is to be followed in respect of forward contracts taken out as hedges, but not of those taken out as speculations. Speculative transactions lead to a gain or loss on their closure, or when they lapse without exercise at the end of their term.

Keywords

forward contract, hedge, option premium, speculation