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By PwC Deutschland | 28 January 2014

Impairment of value of assets

The finance ministry has published a discussion draft of a decree on extraordinary write-downs to reflect the permanent impairment of asset values. Professional associations have until February 28 to comment.

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In September 2011 the Supreme Tax Court held that a fall in the stock market price of shares at balance sheet without a subsequent recovery by the time the accounts were drawn up represented a permanent fall in value allowing a write-down under the rules for the permanent impairment of value of assets. Its reasoning was that stock market movements are unforeseeable; thus the current market price at any one date is as accurate an indication of the permanent value of the investment as any other price, unless there are specific pointers to the contrary. However, it did exclude short term fluctuations by providing that the fall in value must have been at least 5% of the balance brought forward from the previous year or of the acquisition cost during the current year. The finance ministry intends to react to this judgment with a decree on extraordinary write-downs generally, and has published a discussion draft. Industrial and professional associations are invited to comment by February 28.

In general, the draft follows the Supreme Tax Court's reasoning for quoted shares held as fixed or current assets (with an exception for the trading stocks of banks and restricting the 5% limitation to fixed assets), but ignores it in other cases in favour of the approach that the fall in value must be permanent and that more must speak for permanency than against it in any given case. Subsequent events are to be taken into account if they are relevant as value indicators at balance sheet date. Thus, a stock market price recovery at any time before the accounts are drawn up is to be taken into account. Redeemable securities can never be written-down below the redemption price (default risks apart), as any lower value is not permanent. A contaminated site can be written-down to its current market value if the contamination will have to be rectified at some point in the future, even if the responsible authority is not insisting on action currently. However, if the site is cleaned up, the market value will rise and the write-down should be written back. Unrealised exchange losses should only be taken into account if the relevant rate appears to have fallen permanently. The draft emphasises that the write-back requirement follows from every value increase independently of the original reason for the write-down.

Keywords

Wertminderung / Impairment (allgemein), asset values, extraordinary write-down