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By PwC Deutschland | 30 July 2014

Asset write-downs for impairment of value

The finance ministry has brought its position on value impairment write-downs into line with the relevant Supreme Tax Court cases.

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Assets are to be written-down with tax effect as necessary to reflect a permanent loss in value. Should the value rise again later, the previous loss should be written back. The Supreme Tax Court has ruled on value impairment in a number of cases over the past few years. The finance ministry has now summarised its position in the light of these cases in a decree replacing its previous pronouncements on the subject.

The value of assets is permanently impaired if the value has fallen at balance sheet date and is not likely to rise again later. If this is a judgmental issue, a write-down is called for if the reasons for it are stronger than those against. If the value rises again after write-down the loss in value should be written-back. The reason for the rise in value is independent of the reason for the earlier fall.

A depreciable fixed asset should be written down if its value is likely to remain below its written down value for at least half of its remaining useful life. The remaining useful life is to follow the regular depreciation taken. Catastrophic losses and technical obsolescence are assumed to be permanent.

Environmental damage is a reason for writing down property, even if the clean-up obligation is not immediate. Thus the write-down to a lower market value is not precluded by a prohibition on a provision for the expected costs for lack of certainty as to amount or timing of the obligation.

Quoted investments and marketable securities should be written down to their stock exchange value at balance sheet date. The fall in value is to be considered as permanent unless there are objective factors suggesting otherwise (such as a deliberate attempt to “rig” the market). However, redeemable securities should only be written down below their redemption price if there is a danger of default. Other reasons for a lower present market value, e.g. because the interest rate has ceased to be attractive to investors, are not permanent.

Keywords

Wertminderung / Impairment (allgemein), value impairment, write-down