



# GERMANY'S FOURTH COVID TAX RELIEF ACT - WHAT IT MEANS FOR YOUR BUSINESS

23 June 2022 | Insight

---

Europe's largest economy widens tax relief package again in a liquidity boost for struggling small and medium-sized firms

The Covid pandemic is not over yet. To support German companies, the German legislature has already passed three acts enacting Covid-related tax relief. Now, the fourth Covid Tax Relief Act (the Act) has been prepared and already passed the German Parliament with the state Federal Council giving its approval on 10 June 2022. The Act did become legally effective on 19 June 2022 when it was signed by the Federal President and published in the Federal Law Gazette.

## KEY PROVISIONS

Among a number of other points, including a further temporary extension for filing deadlines, the Act contains two changes that are highly relevant to business:

### ***1. Extension of increased limits for loss carry-backs***

- Under German tax rules for corporate income tax purposes, current year tax losses can generally either be carried forward or carried back, a practice that allows firms to reduce their future tax burden or claim a refund on taxes paid in previous years. While, subject to minimum taxation rules, tax loss carry-forwards are generally possible indefinitely, loss carry-backs were typically limited to €1 million and one year.
- The third Covid Tax Relief Act increased the €1 million limit for carry-backs to €10 million, but only temporarily for the 2020 and 2021 assessment periods (ie, losses suffered in 2020 and 2021 could be carried back to 2019 and 2020, respectively). It was the purpose of this change to enable taxpayers to offset Covid-related losses in 2020 and 2021 against previous profits. This would ideally have resulted in refunds of taxes paid on these profits, thereby improving the liquidity of businesses during the Covid

pandemic.

- The Act now extends these changes to the 2022 and 2023 assessment periods, meaning it will be possible to carry back losses suffered in 2022 and 2023 (now up to two years back) to 2020 and 2021, respectively.
- From 2024 onwards, a maximum amount for the loss carry-back of €1 million will apply.

## **2. No more discounting of non-interest bearing liabilities**

- Until now, taxpayers were required to discount non-interest bearing liabilities with a remaining term of more than 12 months, applying an interest rate of 5.5%. This discounting rule typically resulted in a taxable gain and was one of the major German tax pitfalls, in particular with respect to inter-company financing arrangements.
- From 1 January 2023, and upon request even for previous assessment periods, non-interest bearing liabilities no longer need be discounted. Rather than Covid-related factors, this account for the fact that interest rates have been significantly lower than 5.5% for several years now, and the previous discounting rules no longer reflected the economic reality.
- The liabilities concerned will generally be recognised at their nominal value. This is also the case for already posted and discounted non-interest bearing liabilities. The result is a reduction in profit in the amount of the previous discounting volume.

## **ANALYSIS**

German tax partner Steffen Hörner comments: "This is overall good news. The extension of the increased limits for loss carry-backs to 2022 and 2023 is certainly helpful, in particular for small and medium-sized businesses. Getting rid of the discounting rule for non-interest bearing liabilities reflects the economic reality of a low interest environment and abolishes at least one typical pitfall for inter-company financing arrangements."

### **SHARE**

[Share to Facebook](#) [Share to Twitter](#) [Share to LinkedIn](#) [Email](#) [Print](#)

Show Share Links

## **RELATED TOPICS**

[Business Protection & Risk Management](#)

## FEATURED INSIGHTS

# FEATURED INSIGHTS

HELPING YOU STAY AHEAD OF THE BIG ISSUES

BROWSE BY:

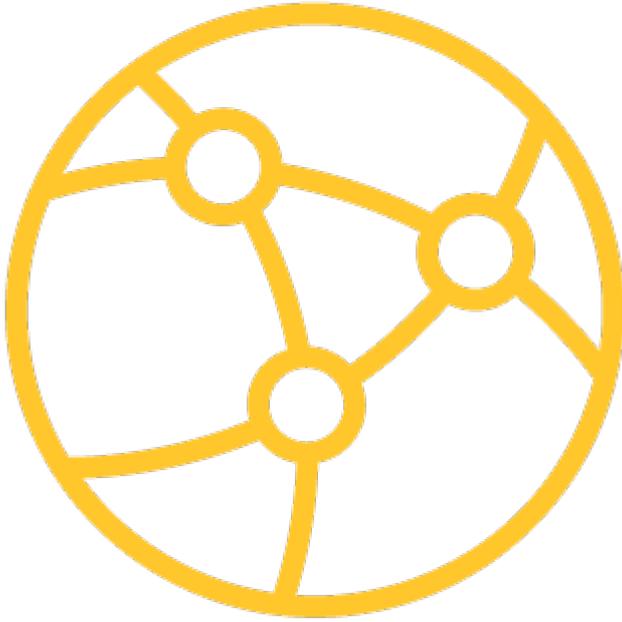
---



•

[TECH, DIGITAL & DATA](#)

---



•

[GEOPOLITICS AND BUSINESS](#)

---

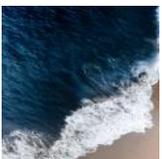


•

[NEW BUSINESS LANDSCAPE](#)

---

## RELATED ARTICLES



## Foreign investment: Rising tides of politics in regulation



Storm warnings - Will stagflation herald a new wave of corporate failures?



Second Scots independence referendum floated - A Q&A Update



# KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



**DR STEFFEN C.  
HÖRNER**  
PARTNER, GERMANY

+49 69 2222 82462  
steffen.hoerner@hsf.com



**VLADIMIR  
LEONHARD**  
SENIOR ASSOCIATE,  
GERMANY

+49 69 2222 82445  
vladimir.leonhard@hsf.com



**TATIANA  
GUENSTER**  
SENIOR ASSOCIATE,  
GERMANY

+49 69 2222 82434  
Tatiana.Guenster@hsf.com