SUMMARY

Profit Reduction

Only **expenses** that actually **make a company "poorer"** are listed in the profit and loss account. Only these expenses actually make the company poorer and **reduce the profit by their full amount in the respective** financial year and thereby also reduce the basis for taxation.

They include, for example, expenses for materials consumed, personnel, telephone charges, advertising costs, etc.

Expenses that result in a lasting equivalent value (e.g. machinery) are to be listed as assets in the balance sheet (i.e. they have to be "capitalized").

Expenses representing a lasting equivalent value do not immediately reduce the profit by their full amount (e.g. investments in buildings, machines, etc.). They have to be **capitalized** in the balance sheet. The profit-reducing expense will occur over the years in the form of annual depreciation (spread over the useful life of the respective fixed asset).

However, tax consultants know ways of keeping the taxable profit as low as possible. These include, among others,
- increased depreciation rates for fixed assets (due to a low estimated useful life, which nonetheless stays within the statutory limits)
- setting-up of provisions
- and, in the case of a limited company, taking into account the managing director's remuneration

Low-cost assets

Goods which will serve the company for a longer period of time (i.e. in principle constitute fixed assets to be capitalized), but with a purchase price of less than 400 euros, are immediately written off in full and thus reduce the profit by their full amounts (e.g. lamps, keyboards, etc.). Low-cost assets are capitalized in the P&L account in the purchase year but not in the balance sheet.