New BMF Circular on Interest Deduction Limitation: Key Updates at a Glance

The interest deduction limitation is a key element of profit determination for tax purposes in Germany. It restricts the deductibility of interest expenses to prevent profit shifting to low-tax jurisdictions.

New BMF Circular
On 24 March 2025, the German Federal Ministry of Finance (BMF) published a new administrative circular on the interest deduction limitation, which also impacts intragroup financing structures in the transfer pricing context.

It replaces the previous BMF circular dated 4 July 2008 and particularly reflects the changes introduced by the Act to Promote the Secondary Market for Loans of 22 December 2023, as well as the implementation of the EU Anti-Tax Avoidance Directive.

Applicable Period
The new circular applies to all fiscal years beginning after 14 December 2023 and not ending before 1 January 2024. For earlier periods, the 2008 circular remains applicable. This means that companies with non-calendar fiscal years must carefully observe the transitional provisions.

Expanded Definition of Interest
A key aspect of the new circular is the expanded definition of "interest," which now also includes:

- Capitalized interest (e.g., capitalized borrowing costs related to the production of assets)
- Discounting and compounding (e.g., for long-term liabilities or provisions)
- Interest components in leasing, factoring, or similar arrangements
- Interest components in receivables sales and derivatives

Foreign exchange gains and losses resulting from the conversion of foreign currency liabilities are still excluded from the scope of the interest deduction limitation, providing welcome legal clarity for practice.

Forfaiting and True Factoring
The new circular also addresses the tax treatment of forfaiting transactions and true factoring. According to the circular, no debt financing is deemed to exist in such cases since the purchaser of the receivable assumes the economic risk.

Thus, purchase prices received or discounts granted in these cases do not qualify as interest expenses or interest income under the interest deduction limitation rules.

Interest Carryforwards and EBITDA Carryforwards
The circular contains detailed guidance on the treatment of interest and EBITDA carryforwards. In particular, it explains how carryforwards are to be treated in cases of harmful events within the year, such as a detrimental change in shareholders or group internal restructurings.

It also specifies the documentation and substantiation requirements necessary to ensure tax recognition. Moreover, the circular outlines how existing loss carryforwards are to be handled following the termination of a tax group or the dissolution of a partnership.

Special Rules and Exceptiones
The BMF circular also addresses special rules for certain types of enterprises and financing models.

For partnerships, special provisions apply regarding the attribution of income and the allocation of interest expenses.
In the context of tax groups, the application of the interest deduction limitation is clarified at the level of the controlling entity, ensuring a consolidated tax view.

For public sector entities and public-private partnership (PPP) models, specific rules on the distinction between interest expenses and other costs are provided to ensure that infrastructure projects are not disadvantaged by the application of the interest deduction limitation.

Furthermore, special financing structures such as leasing, contracting, and project finance are addressed in a separate section, with a focus on distinguishing true interest expenses from other types of remuneration.

Practical Implications
For businesses, the new circular entails a range of necessary adjustments.

First and foremost, a thorough review of existing financing structures is needed, particularly in light of the significantly expanded definition of interest, which now covers a broader range of transactions.

Additionally, companies must update their tax documentation to meet the enhanced substantiation and record-keeping requirements.
Cross-border financing arrangements must be scrutinized, as intragroup interest payments are also subject to the new, expanded rules.

Special attention must be paid to the transitional rules, particularly concerning existing interest and EBITDA carryforwards, whose treatment is now regulated in greater detail.

Conclusion
With the new circular on the interest deduction limitation dated 24 March 2025, the BMF provides an updated and practice-oriented framework that incorporates both European requirements and recent legislative developments.
However, the clarifications and extensions — especially regarding the definition of interest — require careful review of existing financing structures, particularly for multinational enterprises, capital-intensive businesses, and companies with complex financing arrangements.

Do you have any questions?

Need support? Please do not hesitate to contact our expert Henning Straeter. He will be pleased to assist you.

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