

Today's Definition of the “Increase of Net Assets” Theory

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In Germany, Georg Schanz led the income concept dispute to the conclusion. The “increase of net assets” theory by Schanz is distinguished into the “increase of net assets during a given period” theory and the “increase of net assets at the specific time” theory.

The “increase of net assets during a given period” theory regards “the total of each increase in property” as income. On the other hand, the “increase of net assets at the specific time” theory regards “the difference of property at the two times” as income.

The “increase of net assets” theory by Schanz was supported practically, and his “increase during a given period” theo-

ry was adopted in the Income Tax Act of Reich 1920. Moreover, both of the “increase of net assets during a given period” theory and the “increase of net assets at the specific time” theory were adopted in the Income Tax Act of Reich 1925. In the “increase of net assets at the specific time” theory, the unrealized profits are theoretically included in the taxable income.

However, it is said that Schanz had given up the taxation on unrealized profits from a viewpoint of “actual availability.”

“Schanz theory” gives many suggestions for today's Asset and Liability Approach.