

Germany

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

The R&D Tax Allowance Act became effective as from 1 January 2020. The act provides that companies in Germany are entitled to a 25% R&D tax allowance on their internal or subcontracted R&D activities, provided certain criteria are met. The incentive is available to all companies, regardless of their size or income level.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
R&D tax incentive	Tax incentive to promote R&D activities in Germany	25%, with a maximum annual incentive of EUR 1 million per company group	Project-related costs for R&D personnel and 60% of sub-contracting costs for outsourced R&D activities	Projects must be certified as R&D activities to be eligible for this incentive
7th Energy Research program	Broadly themed program supporting companies in R&D projects through the entire energy value chain, from energy production, transport, and storage to energy use in various industries	Up to 50% of eligible costs for large companies Small and medium-sized enterprises (SMEs) may receive higher funding rates Up to 100% of eligible costs for universities and research institutions	Project-related costs, such as materials, equipment, personnel, project-specific depreciation costs, travel expenses	Companies should consider applying through a consortium, including research partner(s) and SME(s)
Civil aeronautical research program	Program funding R&D for civil aeronautics, focusing on the reduction of exhaust emissions and noise	Up to 50% of eligible costs for large companies SMEs may receive higher funding rates	Project-related costs, such as personnel, equipment, materials, contracting costs project-specific depreciation for buildings and property	Priority is given to developing technologies for both aircraft and stakeholders in the air traffic and air transport system Scenario research is explicitly excluded
New vehicle technologies	Funding scheme focusing on autonomous vehicles and innovative vehicle technologies with respect to efficiency, emissions, and resources	Up to 50% of eligible costs for large companies SMEs may receive higher funding rates	Project-related costs, such as materials, equipment, personnel, project-specific depreciation costs, travel expenses	Companies should consider applying through a consortium, including research partner(s) and SME(s)
Environmental innovation program	Program funding large-scale demonstration projects to reduce or eliminate environmental pollution	Non-repayable cash grant up to 30% of eligible costs, or subsidized loans for up to 70 % of eligible expenditure	Project-related construction, machinery, or other investment costs; costs for commissioning and expert opinions	R&D activities, property acquisition costs, and financing costs are excluded from funding
National Innovation Program Hydrogen and Fuel Cells	Program providing funding for industrial research and experimental development in various industries and fields of application	Up to 50% of eligible costs for large companies SMEs may receive higher funding rates	Eligible costs include personnel, materials, equipment	R&D activities, property acquisition costs, and financing costs are excluded from funding Applicants are required to provide adequate technical qualifications

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Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Federal funding for energy efficiency in the economy	Program supporting the purchase of equipment leading to energy savings	Subsidized loan or non-repayable cash grant (funding rate of up to 45% of eligible costs for large enterprises and 55% of eligible costs for SMEs)	Additional investment costs (i.e., costs required to achieve the energy savings), related incidental costs (e.g., assembly) if work is conducted by a third party	Existing plant/technology/process must be upgraded or renewed No funding of power production (further exclusions exist)
Maritime Research Strategy 2025	Strategy supporting the goals and fields of action of the maritime industry in the area of pre-competitive industrial basic research	Up to 50% of eligible costs for large companies SMEs may receive higher funding rates	Project-related costs, such as materials, equipment, personnel, project-specific depreciation costs, travel expenses	Companies should consider applying through a consortium, including research partner(s) and SME(s)
ZIM/ZIM Network (central innovation program for SMEs)	Technology and sector program supporting SMEs in developing innovative solutions, products, and processes	Up to 60% of eligible costs for SMEs Up to 100% of eligible costs for universities and research institutions	Project-related costs, such as materials, equipment, personnel, project-specific depreciation costs, travel expenses	Qualifying entities must fulfill the EU definition of an SME Enterprises in the agriculture, fisheries, and transport sectors do not qualify
GRW program	Program supporting companies in setting up new plant or business premises in certain economically weaker regions	Up to 10% of eligible costs for large companies and up to 30% of eligible costs for SMEs, depending on the specific location. Higher funding rates are possible if specific criteria are met	Either investment costs or personnel costs (depending on the investment amount) are eligible for a non-repayable cash grant	Certain sectors are excluded from funding

Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
● Consumer Products	Real Estate
● Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
● Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	● Health & Social Care
● Mining & Metals	● Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	● Transport

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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
R&D tax allowance	●	●	● ●	National: Varies ³ Local: Not applicable	Eligible: companies and tax-paying institutions of all sizes established in Germany, regardless of income/loss position Qualifying costs: personnel costs; 60% of sub-contracting costs	25% (maximum EUR 1 million per company group per year)	25% (maximum EUR 1 million per company group per year)
R&D grant: (National or EU)	▤	▤	● ●	National: Advance Local: Not applicable	Varies	Varies	Varies
R&D grant: (State/Province)	●	▤	● ●	National: Not applicable Regional: Advance	Varies	Varies	Varies
New vehicle technologies	▤	●	● ●	National: Advance Local: Not applicable	Eligible: companies, universities, research institutions established in Germany Qualifying costs: personnel costs, material costs, contracting costs	Up to 50% of eligible costs	Up to 60% of eligible costs
National Innovation Program Hydrogen and Fuel Cells	▤	●	● ●	National: Advance Local: Not applicable	Eligible: companies, universities, research institutions established in Germany Qualifying costs: personnel costs, material costs, contracting costs	Up to 50% of eligible costs	Up to 60% of eligible costs
Civil aeronautical research program	▤	●	● ●	National: Advance Local: Not applicable	Eligible: companies, universities, research institutions established in the EEA and Switzerland Qualifying costs: personnel costs, material costs, contracting costs	Up to 50% of eligible costs	Up to 70% of eligible costs

Key: ● = PERMANENT INCENTIVE ▤ = TEMPORARY INCENTIVE ▤ = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.
- There is a two-stage process to claim the incentive: (1) application for an R&D certificate (in advance or arrears); and (2) tax claim (in arrears).

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Innovation (continued)							
Maritime Research Strategy 2025			 	National: Advance Local: Not applicable	Eligible: companies, universities, research institutes, public institutions, non-profit organizations established in Germany Qualifying costs: personnel costs, material costs, contracting costs	Up to 50% of eligible costs	Up to 80% of eligible costs
Environmental innovation program			 	National: Advance Local: Not applicable	Eligible: companies, local authorities, municipal associations, specialized associations Qualifying costs: large-scale facilities with demonstration character	Cash grant: up to 30% of eligible costs Subsidized loan: up to 70% of eligible costs	Cash grant: up to 30% of eligible costs Subsidized loan: up to 70% of eligible costs
7th Energy Research program			 	National: Advance Local: Not applicable	Eligible: companies, universities, and research institutions Qualifying costs: personnel costs, material, equipment, travel	Up to 50% of eligible costs	Up to 50% of eligible costs, although a higher funding rate is possible under some circumstances
ZIM/ZIM Networks			 	National: Advance Local: Not applicable	Eligible: SMEs (according to EU definition) established in Germany and SME networks Qualifying costs: personnel costs, material costs, contracting costs	Not applicable	R&D projects: Up to 60% of qualifying project costs SME networks: Up to 95% of network management costs
Investment							
Employment: GRW program			 	National: Not applicable Regional: Advance	Eligible: companies that permanently establish a new plant or business premises and secure/create jobs in certain regions Qualifying costs: either wage/salary costs; or costs of buildings, machinery, equipment, and facilities	Up to 10% of eligible costs	Up to 30% of eligible costs, although a higher funding rate is possible under some circumstances
Environmental sustainability							
Federal funding for energy efficiency in the economy			 	National: Advance Regional: Not applicable	Eligible: companies, universities, and research institutions Qualifying costs: additional investment costs, ancillary costs	Up to 50% of eligible costs	Up to 55% of eligible costs

Key: = PERMANENT INCENTIVE = TEMPORARY INCENTIVE = NEGOTIABLE = NO = LIMITED APPLICABILITY = NOT APPLICABLE

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Country background

The corporate income tax rate in Germany is 15% (15.825%, including the 5.5% solidarity surcharge on corporate income tax). A municipal trade tax also applies and typically ranges between 14% and 17%. The effective corporate tax rate (including the solidarity surcharge and trade tax) generally ranges between 30% and 33%.

Investment incentives are available for initial investments in new establishments, as well as for investments in energy efficiency or job creation measures.

Innovation Incentives

Research & Development (R&D)

Nature of incentives

In Germany, a variety of incentives are available for companies to receive funding for R&D activities. Public incentives accessible to legal entities in Germany are provided by the EU, the German federal government, and the individual federal states under several different programs.

Public funding mainly is available through application-based, non-repayable cash grants for R&D and demonstration projects, although an R&D tax incentive scheme was introduced as from 1 January 2020 (as described further below).

The application for grants is either ongoing or based on deadlines relating to specific calls for proposals. For programs with ongoing applications, early submission is recommended, since the annual budget typically is allocated to projects in the first three to six months of each year.

Eligible industries and qualifying costs

R&D incentives mainly are awarded on a "per project" basis, usually for collaborative projects. Applications for grants are subject to a competitive process. The success and funding volume of an application usually also depend on the availability of earmarked budgets of the relevant funding authority.

General funding rates are up to 50% of eligible project costs for commercial enterprises, although higher rates may be available for SMEs.

The criteria upon which successful project proposals are selected include:

- Innovation level of the planned project;
- Scientific and technical risk addressed;
- Quality of the exploitation plan; and
- Positive environmental or societal effects.

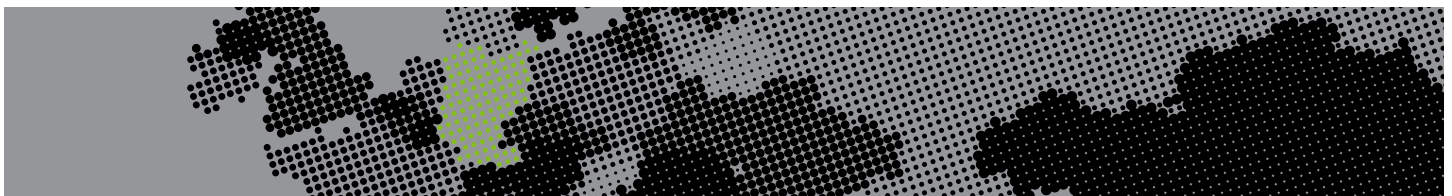
Eligibility is not limited to particular industries. Statistics show that most cash grant project applications are submitted by companies in the following industries:

- Manufacturing and production processes;
- Automotive and transportation;
- Biotech and life sciences;
- Information and communications technology; and
- Energy and utilities.

Qualifying expenditure includes, among other things, costs for personnel, materials, overhead, subcontracting, amortization, and travel.

Qualifying activities usually include the following, but also may be specified in the call fiche (a document setting forth detailed information relating to the specific call):

- **Basic research:** Theoretical research primarily aimed at acquiring new knowledge of fundamental principles, without any direct commercial application in view;
- **Industrial research:** Research with a specific practical objective aimed at developing new products, processes, or services, or improving existing ones;



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- **Experimental development and demonstration activities:** Demonstration of new applications and/or research results; and
- **Development of business models (limited):** Analysis and implementation of innovative (digital) business models.

Intellectual property (IP) and jurisdictional restrictions

R&D activities are expected to be conducted in Germany and R&D costs must be incurred in Germany. The exploitation of project results will have to take place in Germany or the EU, with the IP initially created through the research remaining in Germany or the EU. Nevertheless, large multinational companies with IP relocated to headquarters outside Germany also may qualify for funding in certain cases.

R&D tax incentive

In Germany, an R&D tax incentive scheme was introduced through the R&D Tax Allowance Act as from 1 January 2020. Under the new scheme, companies with a tax liability in Germany are entitled to receive funding for R&D activities performed in relation to eligible projects that meet certain criteria.

In particular, the incentive scheme provides a 25% tax incentive for in-house R&D activities in Germany, which is granted as a tax credit and is available to companies regardless of their size or economic position. Generally, eligible costs are limited to EUR 2 million per year, resulting in a maximum subsidy amount of EUR 500,000 per group of companies. Due to the COVID-19 pandemic, the eligible cost basis has been increased to EUR 4 million per year, raising the maximum annual incentive that can be received to EUR 1 million per group of companies. The increased limit applies to eligible costs incurred from 1 July 2020 up to 30 June 2026. Any person with unlimited or limited tax liability within the scope of the Income Tax Act and the Corporation Tax Act is eligible to benefit from the incentive scheme.

Applications for the R&D tax incentive follow a two-stage process. First, potential projects have to qualify as R&D according to the definition given by a "certifying body". Second, after the end of the

fiscal year in which qualifying expenses are incurred, claims for confirmed R&D activities (projects) may be submitted electronically to the relevant tax office.

Overview of R&D cash grant-based funding programs (selection of programs)

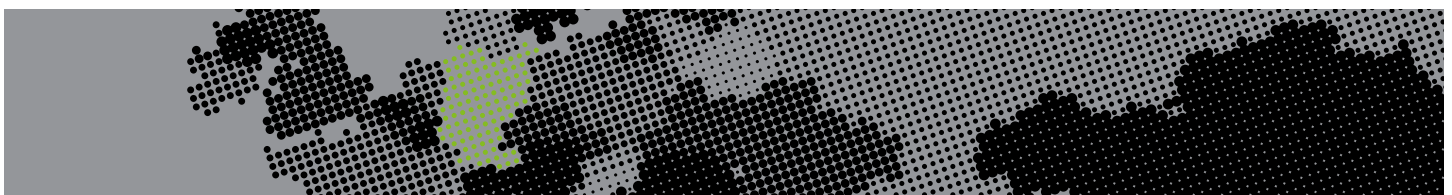
A selection of relevant cash grant-based funding programs are described below. As there are many more discretionary funding programs available in Germany, a thorough screening of funding opportunities and detailed matching with planned innovation projects is advised.

Environmental innovation program—This program supports large-scale pilot projects in Germany that demonstrate for the first time how advanced processes can be used and combined to reduce or eliminate environmental pollution. There are two funding options: either an investment grant or a subsidized loan.

7th Energy Research program—This federal program focuses on R&D activities that increase energy efficiency in the following areas: industrial production, buildings, cities, power supply and storage, or renewable energy. For large enterprises, cash grants are awarded for up to 50% of qualifying costs, with a 10% bonus possible for SMEs, depending on the specific call. Applications may be submitted at any time until 31 December 2022.

Research for Civil Security II—This federal funding program supports research focusing on solutions to improve the protection of society against threats that may, for example, be triggered by disasters, terrorism, or crime. This program is available through 31 July 2022.

New vehicle technologies—This program offered by the Federal Ministry for Economic Affairs focuses on research on technologies for future vehicles. Core areas are solutions for autonomous vehicles, innovative vehicle concepts, and technologies, as well as drive engineering with respect to efficiency, emissions, and



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resources. For large companies, cash grants are awarded for up to 50% of qualifying costs; SMEs may receive higher funding rates. Applications may be submitted until 31 December 2022.

Civil aeronautical research program—This program provides funding in all fields of application in civil aeronautics. With the aim of making civil aviation climate-neutral in the medium term, it focuses on reducing fuel consumption and decreasing carbon dioxide (CO₂) and nitrogen oxide (NO_x) emissions, as well as perceived noise. This program is available through 2026.

National Innovation Program Hydrogen and Fuel Cells—This program supports industrial research and experimental development in the following sectors: transport, including hydrogen infrastructure; hydrogen production; industrial applications; and special markets for fuel cells. Eligible projects should aim at commercially exploitable technologies. For large enterprises, cash grants are awarded for up to 50% of qualifying costs, with a potential additional 10% bonus for SMEs, depending on the specific call. This program is scheduled to be available until 2026. Additionally, the federal government presented a new “National Hydrogen Strategy” within its 2020 economic stimulus package, including a significant budget increase.

ZIM/ZIM Network—The innovation support program for SMEs (ZIM) is dedicated to supporting individual or cooperative R&D projects, as well as SME networks based on a joint idea for the development and exploitation of innovative products, processes, or technical services. There is no restriction to certain fields of technology or industries. Funding is provided as a non-repayable cash grant of up to 60% of qualifying costs for R&D projects or 95% of network management costs for SME networks, respectively. Applications are possible at any time.

Health—The two framework programs, “Health Research” and “Medical Technology,” support basic R&D projects on diseases and preventive measures and the development of innovative medical technologies. For large companies, cash grants are awarded for up

to 50% of qualifying costs. Specific calls for proposals will be made until 2026 (three to five calls for proposals are expected for each program per year).

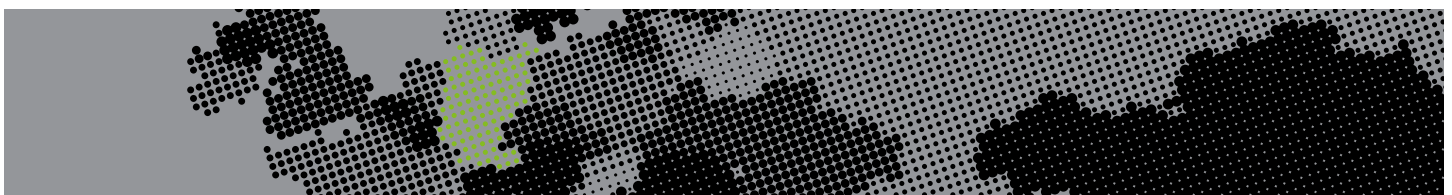
Maritime Research Strategy 2025—This strategy currently includes two funding measures: “Maritime Research Program” and “Real-time Technologies for Maritime Security.” The Maritime Research Program covers the entire technology spectrum of the industry. It focuses on R&D contributing to environmental compatibility and changes in technology relating to shipping (MARITIME.green), the use of digital technologies (MARITIME.smart), maritime safety (MARITIME.safe), and the sustainable development of maritime resources (MARITIME.value). Real-time Technologies for Maritime Security addresses innovative real-time-capable systems for enhancing civil maritime security in the areas of safety and security.

Other considerations

Funded R&D and investment projects may commence only after the funding has been awarded to a beneficiary by the relevant public authority. In the case of a premature project start (purchase of goods or start of activities), funding may be cancelled and “clawed back.” Cash grants are disbursed after costs have been incurred and claimed with the funding body. Costs incurred in the past (i.e., before the project started) do not qualify.

Cash grants are offered by different ministries within the framework of thematically focused funding programs. Some incentives are available for application on a continuous basis or have defined cut-off dates (e.g., twice a year). Most research programs are call-based with specific topics of interest and impose a specific deadline (usually about three months after publication of a call for applications).

The grants are awarded based on a competitive evaluation and subsequent ranking of the projects; thus, the chances of a successful application vary from program to program and often cannot not be determined in advance.



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The application typically is a two-stage process, which includes the submission of a project outline and, upon a positive evaluation of the project outline, the submission of a full application. Once the applicant has reached the second stage, the likelihood of funding usually increases significantly.

Investment Incentives

Incentives are available for investments in new permanent establishments, creation or securing of permanent jobs, energy efficiency, and reduction of carbon dioxide emissions.

While investment costs for new establishments or job preservation largely may be fully recognized up to certain limits, eligible investment costs for CO₂ reduction usually are limited to the "additional investment costs" (broadly, the amount of additional expenditure necessary to make an eco-friendly investment), following the regulations of the EU state aid law.

The availability of public grants for site investment projects (i.e., new establishments) is limited to selected regions. There are some non-repayable cash grants for investment measures leading to resource savings that can be applied for on an ongoing basis or based on specific calls.

Funding is disbursed under investment incentive programs either on the basis of expenditure/value for assets or wage costs.

GRW program

The GRW program supports companies in setting up new or extending existing plant or business premises in certain economically weaker regions. GRW funding is provided as a non-repayable cash grant that can be applied for either investment costs or wage costs incurred (the treatment of wage costs is described further below). The maximum funding quotas range from up to 10% for large companies (in "C regions") to up to 30% for SMEs (in C regions), depending on the specific location. Higher funding rates

also may apply if certain criteria are met, such as the establishment of central corporate/business functions at the site, creation of high value adding jobs, concepts for a family-friendly work environment/work-life balance, or special efforts relating to resource and energy efficiency. Funding available for large companies is limited and special conditions apply. The funding period is planned to be extended until 31 December 2021, with a new funding period planned to start in 2022.

The GRW program includes regional support for establishing permanent jobs when setting up business premises. Funding is provided as a non-repayable cash grant and can be applied to wage costs that do not exceed the related investment costs of EUR 750,000 (per newly created job) or EUR 500,000 (per permanently secured job). The available funding for large companies is limited and special conditions apply.

Environmental Sustainability Incentives

Federal funding for energy efficiency in the economy

Within this program, additional investment costs for eco-friendly innovative investments that result in energy savings or in CO₂ reduction, respectively, can be funded with non-repayable cash grants or subsidized loans with a repayment subsidy. Cash grants are awarded for up to 45% (for large enterprises) or up to 55% (for SMEs) of eligible additional investment costs, and subsidized loans are granted for up to 45% of qualifying costs. The program expires on 31 December 2022.

For both investment programs, the submission of applications is possible on an ongoing basis.

Additional funding programs relating to energy efficiency and environmental sustainability are available, with funding ratios depending on the specific location of the investment or company size. The disbursement takes place on a case-by-case basis.

