

# Germany



## Background

The corporate tax rate generally is 15%, in addition to a 5.5% solidarity surcharge levied on corporate income tax (i.e., effective tax rate of approximately 15.8%). Municipal trade tax is imposed at rates usually between 7% and 17% (an average of 14%), with rates determined by the municipalities. The effective combined income rate (i.e., corporate income tax, trade tax and the solidarity surcharge) averages 30%.

## Nature of incentives

R&D incentives, mainly in the form of non-repayable cash grants, are awarded on a “per project” basis, usually for collaborative projects. There is no legal claim for R&D funding.

Grant rates average at 50% of eligible project costs, although higher rates may be possible for SMEs.

The selection criteria for eligible projects include:

- Extent of innovation;
- Extent of technical risk; and
- Extent of economic risk.

R&D loans are an alternative to R&D grants. R&D loans are not contingent on conducting R&D activities in a specific technology field and there are no application deadlines.

R&D loans are provided under different governmental programs (e.g., the ERP Innovation Program offers 100% financing of eligible R&D project costs up to EUR 5M).

R&D tax incentives are not yet offered, but the introduction of such incentives is on the political agenda.

## Eligible industries and qualifying costs

Eligibility is not limited to particular industries. Companies in the following industries typically seek cash grants:

- Biotech and life sciences
- Information and Communication Technology (ICT)
- Manufacturing, including automotive
- Energy and utilities

## Germany offers cash grants for eligible R&D projects, but does not offer tax incentives.

While no industry is expressly ineligible for grants, there are rarely grant opportunities for:

- Banks and companies in financial services
- Insurance companies

Qualifying expenditure includes: personnel costs, materials, overhead, subcontracts, amortization, and travel costs. Cash grants generally are disbursed to the business after costs have been incurred.

Qualifying activities include the following:

- Fundamental research—experimental or theoretical work aimed at gaining new knowledge;
- Industrial research—research with a specific practical objective aimed at developing new products, processes, or services, or at improving existing ones; and
- Experimental research—research aimed at producing draft, plans, and prototypes.

## IP and jurisdictional restrictions

R&D activities must be conducted and R&D costs must be incurred within Germany. The exploitation of project results generally must occur in Germany. Moreover, the IP created through the research must remain in Germany.

## Other concerns

Attractive grant programs exist for projects related to energy efficiency, CO<sub>2</sub> reduction, and renewable energy. Improving the energy efficiency of industry, in particular, has become a focus of the authorities, with more funds allocated to projects related to process innovation in those areas.

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Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Non-repayable cash grants	No income tax incentives are offered under German law, but grants are awarded for eligible project costs. Grant rates average about 50% of eligible project costs, although higher rates may be possible for SMEs.	Large projects require EU notification.	N/A
R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	No	Yes	No