Arguments and Positions

Taxation: Introduction of Fiscal Incentives for Research

The German chemical and pharmaceutical industry is among the world leaders in innovation. In the spending of the sector on research and development (R&D), Germany ranks fourth behind the USA, China and Japan. But weights are shifting rapidly, especially in favour of Asian countries which heavily use strong tax incentives to increase their attractive-ness. They have recognised the value of innovations for the national economy and, therefore, promote them intensively.
The innovation competition is getting fiercer overall. Countries which invest the most in their power to innovate are frequently among the most successful nations economically. Fiscal incentives for research are an important instrument for more innovation; their introduction in Gemany is long overdue.

R&D investment should increase

In 2017, Germany reached the Lisbon goal for the first time: The R&D share in GDP was somewhat over 3 percent. All the same, further efforts are needed to pursue the target of "3.5 percent" by 2025, which is backed in politics and industry. Here, further and adequate public administration incentives for research investments in additional projects or projects involving higher risks could be helpful. Most OECD countries apply this instrument.

The departments of the German federal administration are currently negotiating the cornerstones for such an incentive instrument. A first draft bill has been presented. Basically, it includes all companies, however, the proposed funding volume is too low.

All companies of German industry - mainly internationally active ones - see adequate fiscal incentives for research as an important decision criterion for research locations. Therefore, when corporate headquarters make investment decisions on R&D projects, the availability of fiscal incentives is becoming an ever more important point.

The means are available: According the latest tax estimate for the present legislative period, the public tax revenue will increase roughly by another 50 billion euros - additonally to the tax revenue already earmarked in existing planning.

Fiscal incentives for research for all companies would noticeably increase the R&D spending while contributing welfare gains to the overall economy. This is emphasised by several studies and expert bodies. In their calculations, inter alia, tax revenues of some 750 million euros annually can be expected purely from innovation gains triggered by fiscal research incentives. Thus, there would be a "return on investment" for the federal budget.

Fiscal research incentives - additionally to project funding - make sense in regulatory terms, because they leave the choice of research topics to the companies, they are unbureaucratic to handle, and individual sectors or companies are neither preferred nor put at a disadvantage.

THE VCI IS CALLING FOR THE FOLLOWING

Create more incentives for innovation in Germany

More incentives for innovation are needed to strengthen the research location, stimulate growth and maintain the innovation ability of companies. Therefore, the federal government should introduce fiscal research incentives additionally to existing project funding.

Grant tax credits of 10 percent

All research-based companies should be allowed to deduct 10 percent of their self-financed R&D spending (personnel and non-personnel expenses as well as costs for research assignments) from their tax liability ("tax credits"). Tax credits should be paid out if losses are incurred. A tax credit of at least 10 percent seems appropriate for Germany. Other major industrial countries usually grant tax credits of between 8 and 20 percent.

Introduce fiscal R&D incentives for all research-based companies

Fiscal incentives for research should benefit all research-oriented companies, irrespective of company size. Only in this way could the research activities of industry substantially increase, and a contribution to achieving the 3.5 percent target could be made. Both small and medium-sized enterprises and large businesses are relevant to innovation, with the latter often being the leaders of R&D consortia and the main contract givers for research mandates to SMEs. Taking into account the personnel costs of R&D in taxation could be a first step; additionally, the credit per company might be limited.