Arguments and Positions

Introducing Fiscal Incentives for Research

The German chemical and pharmaceutical industry is among the world leaders in innovation. In the spending 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 attractiveness. They have recognized the value of innovations for the national economy and, therefore, promote them intensively. Competition is getting fiercer overall. Countries which invest the most in their power to innovate are frequently among the most successful nations.

R&D investment should further increase

In 2017, Germany reached the so-called 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. A consistent implementation of the recently adopted fiscal research incentives could help trigger additional R&D investments of companies.

Germany follows suit

In November 2019, the German parliament (Bundestag) adopted the “act on the introduction of fiscal research incentives” (Forschungszulagengesetz). This strengthens the high-tech location Germany. All companies can apply, irrespective of their size. However, maximum promotion funding is only 500,000 euros per company and year. In the long term, the volume should grow for greater investment incentives.

In the future, contract givers can benefit from fiscal incentives for research mandates, because they bear the costs and risks after all. This is mainly to the advantage of small and medium-sized enterprises which do not conduct their own research.

The new legislation provides for an appointed office (“beauftragte Stelle”) to examine the applications from companies. This should be done with as little bureaucracy as possible. The act will be evaluated after 5 years. This enables practice-oriented further development, on condition that the evaluation criteria are transparent and specific.

It is important to maintain project funding without restrictions, as it is conducive to the various forms of R&D cooperation.

Fiscal incentives are decision criteria

All companies of German industry – mainly internationally active ones – increasingly see adequate fiscal incentives for research as an important decision criterion for investments in research locations or R&D projects.

Fiscal incentives for research for all companies raise the R&D spending and contribute to welfare gains in the overall economy. This is emphasised by several studies and expert bodies. In their calculations, inter alia, additional 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.

THE VCI IS CALLING FOR THE FOLLOWING

- Grant tax credits of 10 percent in the medium term

In the course of time, the funding volume per company should be raised significantly. This is the only way to substantially boost the R&D activities of industry and to make an even larger contribution to reaching the 3.5 percent target. For example, all companies should be allowed to deduct 10 percent of their self-financed R&D spending (inter alia, for personnel and non-personnel expenses and contract research) from their tax liability (“tax credits”).

- Practice-oriented implementation in the public administration

For an effective research encouragement mainly for medium-sized enterprises, application procedures should be workable and unbureaucratic. The “Beauftragte Stelle” should be organised uniformly nationwide. The VCI speaks for a constructive practice dialogue between the stakeholders – for a practice-oriented and unbureaucratic implementation of the new incentives.

- Transparent evaluation criteria

Reviewing the efficiency of research incentives calls for transparent criteria. These should take into account, for example, the development of R&D spending in the companies.