

# 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. The current economic crisis further exacerbates the situation.

### Germany follows suit at long last

In 2017, Germany reached for the first time the “Lisbon goal” with an R&D share in GDP of somewhat over 3 percent. But further efforts are needed to get to the target of “3.5 percent” by 2025, which is pursued in politics and economy. Therefore, the long awaited introduction of fiscal research incentives as research allowance in 2020 was the right move, and now an instrument is available which is scalable, open to different technologies and can be used by all companies at home and abroad. Next, it must be implemented unbureaucratically and expanded stepwise in financial terms, so that larger additional investment incentives come about for German and foreign businesses. In the future, companies as contract givers can benefit from fiscal incentives also 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 have their own R&D capacities.

The legislation provides for an appointed office (“beauftragte Stelle”) to examine the applications from companies. It is particularly important that the subsequent documentation obligations to the financial authorities involve 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 important decision criteria for investments in research locations or 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, additional tax revenues of some 750 million euros annually can be expected 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 perspective, the limitation to a maximum funding amount of 1 million euros per company is not sufficient – for intensifying or even triggering innovation processes in highly innovative medium-sized enterprises and in larger undertakings. The funding volume should be raised rapidly, also to support businesses which had to cut their R&D budgets due to the corona crisis. 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 without upper limit (“tax credits”).

### ◆ Do not cause bureaucratic obstacles

For an effective research encouragement mainly for medium-sized enterprises, application procedures should be workable and unbureaucratic. The subsequent documentation obligations to the financial authorities should involve as little bureaucracy as possible. In particular, this applies to the requirements to time sheets. The planned “Beauftragte Stelle” should give adequate consideration to the needs of industry in the design and implementation of R&D projects.

### ◆ Introduce transparent evaluation criteria

Transparent criteria are needed to be able to review the efficiency of research incentives. Such criteria should take into account, for example, the development of R&D spending in the companies.