

Germany's tax relief regulations for research and development expenses

1. Overview of the research allowance

With the Research Allowance Act, tax incentives for research and development in the form of an allowance were introduced on January 1, 2020, to supplement the existing project funding. The scope of the maximum funding has recently been significantly expanded up to a maximum amount of EUR 4.2 Million per year for SMEs and EUR 3.0 Million for other entities.

The research allowance is intended to strengthen Germany as a business location, improve Germany's attractiveness for new settlements and investment decisions, and thus secure growth and employment.

2. Eligibility and eligible research and development projects

All legal forms of entities in Germany that are subject to unlimited or limited tax liability, conduct research and development, and are not exempt from tax are eligible for the research allowance. Start-ups and established companies of all sizes, industries, and regions in Germany are therefore eligible.

Research and development projects in the categories of basic research, industrial research, and experimental development that are sufficiently targeted are eligible. To be classified as research and development activity, it must be a novel, creative, and systematic activity that is uncertain in terms of the end result and transferable and/or reproducible.

- **Basic research:** Experimental or theoretical work that serves to acquire new basic knowledge without any recognizable direct commercial application.
- **Industrial research:** Systematic research or critical investigation to gain new knowledge and skills with the aim of developing new products, processes, or services, or significantly improving existing products, processes, or services.
- **Experimental development:** Gain in, combination, design, and use of existing scientific, technical, economic, and other relevant knowledge and skills for the purpose of developing new or improved products, processes, or services.

In addition to in-house research, which can be carried out either independently or in cooperation, contract research, cooperation, and the work contribution of an individual or co-entrepreneur are also eligible for funding.

- **In-house research:** Research carried out by the company itself. The intellectual property rights to the research results (IP) are generally held by the researching company.
- **Collaborative research:** Indications of the existence of a collaborative project include the division of labor and tasks in pursuit of a common goal, joint determination of the subject matter of the project, participation in the implementation and

design of the project, and sharing of the financial, technical, scientific, and other risks associated with the project.

The eligible company must carry out its own research activities. Any cooperation member that meets the other requirements can receive the research allowance.

- **Contract research:** The eligible party commissions a specific research project in return for payment, whereby the contractor must have its place of management in an EU/EEA country.

The responsible authority *Bescheinigungsstelle Forschungszulage* (BSFZ) checks whether a research and development project is eligible for funding in a specific case as part of the certification procedure (see 3. "Application procedure").

Companies (undertakings) in difficulty within the meaning of EU state aid law are not eligible for the research allowance. A company is considered to be "in difficulty" if more than half of its share capital has been lost due to losses, insolvency proceedings have been initiated, or it has received rescue or restructuring aid that it has not yet repaid. Large companies that are not SMEs must also comply with requirements regarding their debt ratio and the interest coverage ratio.

Affiliated companies that are legally and economically linked can also apply for research allowances. It should be noted that any maximum amounts (see below) always apply to the respective group of companies.

3. Eligible expenses

The amount of the research allowance is based on the eligible expenses for the beneficiary R&D projects. Eligible expenses for in-house R&D projects include:

- Wages and Social security contributions
Eligible expenses are the wages (including special payments) of the beneficiary's (domestic employer) own employees who are entrusted with research and development activities and who are subject to wage tax deduction.
Special considerations must be taken into account when considering the work performance of self-employed sole traders and partners in partnerships involved in R&D projects.
- Depreciable, movable assets
Since 2024, depreciation for movable fixed assets (not low-value assets) acquired after March 27, 2024, that are necessary for the R&D project carried out and are used exclusively in-house for this purpose.
- Flat-rate overhead costs
For R&D projects started after January 1, 2026, overhead costs and other operating costs can also be claimed in the form of a flat rate of 20% of the eligible expenses incurred.

Remuneration for contract research

If an R&D project is carried out as contract research by a third party, 70% (for research and development projects commissioned after March 27, 2024, and 60% for those commissioned

before that date) of the remuneration incurred for this is included in the eligible expenses. In the case of contract research, the client is eligible for funding, as they bear the costs and risks of the contract research.

Recording requirements

All eligible expenses must be documented in detail in a comprehensible manner. If R&D projects are outsourced to third parties, the corresponding contracts and invoices must be retained. The implementation of the project must also be documented on the basis of a project plan that is regularly adapted to the progress of the project.

R&D activities are only to be taken into account to the extent that they are included in the framework of the research and development project described in the BSFZ certificate. If expenses exceed this or relate to another R&D project, they cannot be considered as eligible expenses.

4. Assessment basis

The sum of the eligible expenses for a financial year determined in accordance with Chapter 3 forms the basis of assessment for the research allowance. The maximum assessment basis for eligible expenses incurred after March 27, 2024, is EUR 10 million per financial year. For expenses incurred after December 31, 2025, this limit has been increased to EUR 12 million.

The research allowance is generally 25% of the assessment basis and thus a maximum of EUR 2.5 million in 2025 and EUR 3.0 million from 2026 onwards.

For micro, small, and medium-sized enterprises (SMEs), the research allowance amounts to 35% of the assessment basis, i.e., a maximum of EUR 3.5 million (from 2026: EUR 4.2 million).

This increase of the research allowance by 10 percentage points, is available to companies that fall below the following size criteria:

- Balance sheet total of no more than EUR 43 million
- Annual balance sheet total of no more than EUR 50 million
- A maximum of 250 employees

If other subsidies or state aid are available, the corresponding expenses cannot be included (cumulation exclusion). The total amount of state aid granted, including the research allowance, may not exceed a maximum of EUR 15 million per company and research and development project.

Affiliated companies may also apply for research allowances. Both the maximum assessment basis of EUR 10 million/EUR 12 million and the limits of the SME regulation and the maximum amount of EUR 15 million are applied to the entire group of companies and not to each individual company within a group.

5. Application procedure

The Research Allowance Act provides for a two-stage procedure for applying for and granting the research allowance:

1. Application for a certificate from the Research Allowance Certification Office (BSFZ - Bescheinigungsstelle Forschungszulage)

First, a certificate of eligibility for a research and development project must be applied for from the Research Allowance Certification Office (BSFZ). The application is submitted via the [Website of BSFZ](#). The BSFZ certificate can also be applied for after the start of the R&D project. The BSFZ will examine whether a eligible R&D project exists.

The application must include the following information, among other things:

- Description of the content of the R&D project
- Time, personnel, and financial scope of the R&D project
- Degree of innovation / differentiation from the state of the art
- Details for each used asset – name, manufacturer, model name (only if depreciation is to be claimed).

The BSFZ should announce its decision within three months.

2. Application for the research allowance to be determined by the relevant tax office

In the second step, the research allowance must be applied for at the tax office responsible for income taxation. This application can only be submitted after the end of the financial year in which the eligible expenses for the eligible R&D project were incurred, at the latest four years after the end of the calendar year in which the entitlement to the research allowance arose.

The research allowance is applied for on a fiscal year basis and not in relation to a specific R&D project – this means that for multi-year R&D projects, an application for the research allowance must be submitted to the tax office for each fiscal year.

Applications for the research allowance are submitted via an electronic application form on the "ELSTER" online portal.

6. Payment and tax treatment of the research allowance

The research allowance (second stage) specified in the research allowance notice is paid as a tax credit.

This means that it is credited in full against the tax assessed in the next initial assessment of income or corporation tax or, if no tax is payable due to losses, paid out as a subsidy. This regulation means, for example, that start-ups, which often incur initial losses, can also benefit from the research allowance in terms of liquidity.

In the case of partnerships, the research allowance is determined separately and uniformly according to the profit distribution key and credited or paid out as part of the tax assessment of the partners.

In the opinion of the tax authorities, the research allowance itself is not taxable.

7. Example Calculation

Assuming that a limited company with unlimited or limited tax liability that exceeds the SME regulation limit has eligible expenses of EUR 100,000 in one year:

- Wage expenses for two employees who work exclusively on the R&D project of EUR 80,000 (incl. social contributions),
- purchase of a machine that is used exclusively in-house for the R&D project (useful life 10 years, acquisition cost EUR 200,000)
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The research allowance thus amounts to EUR 25,000 (25% of EUR 100,000) and is credited against corporate income tax.

If the R&D project begins after December 31, 2025, the research allowance is 25% of EUR 120,000.00, i.e., EUR 30,000.00, as the additional flat-rate overhead costs of 20% can additionally be taken into account.

Note:

The above corresponds to the legal situation as of October 31, 2025.