



Business Destination Germany 2022

**Focus industry: Infrastructure, building &
construction**
Survey





Infrastructure, building & construction: improvement of the poor logistics and digital infrastructures; adapting infrastructure to demographic trends and the new digital environment

Many international investors praise the infrastructure in Germany and consider it an advantage in location competition. Yet maintaining, expanding and renewing existing infrastructure is a challenging task and requires an investment of billions each year. Changing demographics, ongoing urbanization and an increasing demand for uninterrupted broadband coverage are forcing additional investment in modern transport routes, public transport systems, and as well as in communications and electricity networks. In addition, the “old” imperatives of commercial, residential and industrial building projects are supplemented by other vital civic and social infrastructure projects. The financial restrictions on the public sector and the prospect of cost savings through more efficient management will lead to Public Private Partnership (PPP) projects in the area of public transport infrastructure. The involvement of private investors in infrastructure will continue to gain importance, particularly for the financing of road construction projects.

“The increasing interconnectedness of transport is leading to new forms of travel. Never before has technological progress driven the development of the transport, building and construction industry so rapidly. The digital transformation of the transport industry and the startup boom of recent years are making the boundaries between transport, mobility and technology more indistinct. The challenges of the future are manifold and range from automation to the use of new drive technologies, lower-emission mobility and increasing transparency in the face of an exponential flood of data, to the testing of new technologies such as augmented reality and blockchain.”



Dr. Steffen Wagner
Partner, Head of Transport & Leisure,
KPMG in Germany

Subsidies and funding for R&D in Germany

a) Funding of small and medium-sized enterprises (SMEs) based on the German Research Allowance Act

The German Research Allowance Act that was introduced in 2020 is sector, topic and region unspecific, so not only German companies can benefit from the program but Inbounds in Germany too. All unrestricted and restricted taxpayers, as long as they are not exempt from paying taxes, may receive monetary support in the form of a tax deduction – for their eligible projects – that is based on internal personnel costs and external costs. A company may receive funding, regardless of its size, profits and purpose. Only companies facing difficulties fulfilling the EU’s General Block Exemption Regulation (GBER) criteria are excluded from funding via this program. The ultimate goal is to support innovation in smaller sized businesses, in order to ensure long-term, sustainable growth for Germany and Europe. SMEs in various industries and markets can apply for funds. Some programs focus on specific niches, while others are rather broader. For the latter, the largest national programs are FZuG (estimated 1.4 billion EUR fund subsidized by law) and ZIM (a 500 million EUR fixed fund).

a1) Research Allowance Act (FZuG)

On January 1, 2020, a tax research allowance was introduced, which can be claimed by all eligible companies regardless of their profit situation. This tax incentive is an addition to the well-developed project funding landscape and is intended to strengthen Germany as an investment location and stimulate research activities, especially among small and medium-sized companies. The funding relates to research and development projects in the categories of basic research, industrial research and experimental development, and is based on the wage expenditure for researching staff and the contract costs for commissioned projects. On top of this, the costs of the self-researching entrepreneur are taken into account. The funding takes the form of a research allowance and amounts to 25 percent of a maximum assessment base of 2 million EUR. The research allowance will be offset against the next tax assessment and paid out if it exceeds the assessed amount. There is a legal right to the research allowance – provided that all requirements are met.

The Second Corona Tax Aid Act, Section 3 (5) of the Research Allowance Act (FZuG) increased the maximum annual assessment basis from 2 to 4 million EUR for eligible expenses incurred after June 30, 2020 and prior to July 1, 2026. Eligible expenses incurred before July 1, 2020 are against a maximum assessment base of EUR 2 million. If the beneficiary incurs further eligible expenses after June 30, 2020, the maximum assessment base will increase to 4 million EUR for this period, i.e., in 2020 a further eligible expenses amount of up to EUR 2 million can be included in the assessment base.

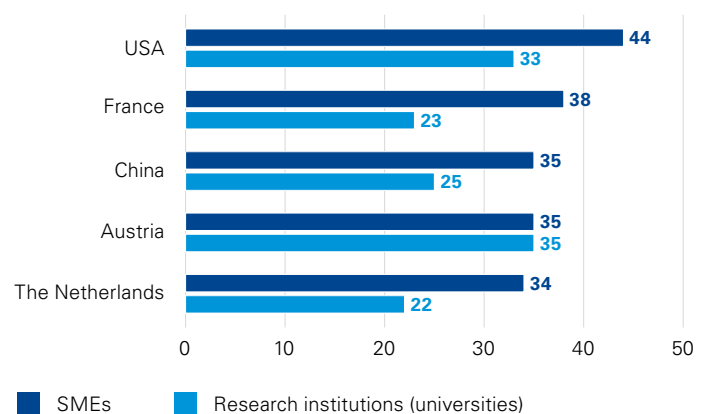
a2) The ZIM program is particularly relevant for SMEs

The ZIM program (Zentrales Innovationsprogramm Mittelstand) subsidizes research and innovation projects with up to 50% of the project’s costs; averaging a payout of 424,000 EUR. The program specifically supports technological innovations for SMEs, and does not target any specific research topics. While firms not based in Germany are ineligible for ZIM, it does allow for a number of cross-border cooperations with international research subsidies, such as “Eureka” and “IraSME”, so as to foster and facilitate joint international R&D work. Currently, firms that operate solely in non-EU countries are excluded from these funded joint cooperations due to incompatibilities with their local R&D programs. Some companies, as a result, have set up offices in countries that do have joint funding possibilities in order to overcome these barriers and benefit from German and European subsidies.

International cooperation is highly appreciated by German SMEs. Studies indicate that around 44 percent of all German SMEs participating in ZIM are interested in collaborating with US firms and 35 percent with Chinese companies, which might create impetus for a possible change to the funding structure that will take this into account by making it easier to create funded cooperation with these countries in the future.

Even with single-sided R&D subsidies, engagement with German SMEs can be highly beneficial. 95% of all cooperative networks claim that without ZIM support their project could not have been realized or commercialized. For several companies from non-European countries requiring urgent R&D subsidies, the “Eurostars”, or “ESA Business Applications” programs might be viable options. Germany SMEs have a preference for working on future ZIM projects with SMEs (blue) and research institutions (green) from some countries over others, as shown in Figure 47.

German institutions’ preferred countries for project cooperation according to surveyed ZIM participants (figures in percent)



Source: RKW Kompetenzzentrum, *Wirksamkeit der geförderten FuE-Projekte und Kooperationsnetzwerke des Zentralen Innovationsprogramms Mittelstand (ZIM), 2021*

b) Funding programs for startups

Although Germany is a country with a successful economy and a growing number of investments in R&D, the German venture capital market is relatively small. This can be considered a serious problem because entrepreneurs, which are drivers of structural change and very important to Germany's economic development, do not only need financing via loans, but also backing with sufficient venture capital.

For this reason, the federal government has set itself the goal of improving legislation and tax rules for venture capital and, thereby, making Germany more attractive to venture capital. There are several funding programs available on the German market offering financial support. They can usually also be applied for by non-European startups, e.g., US entities.

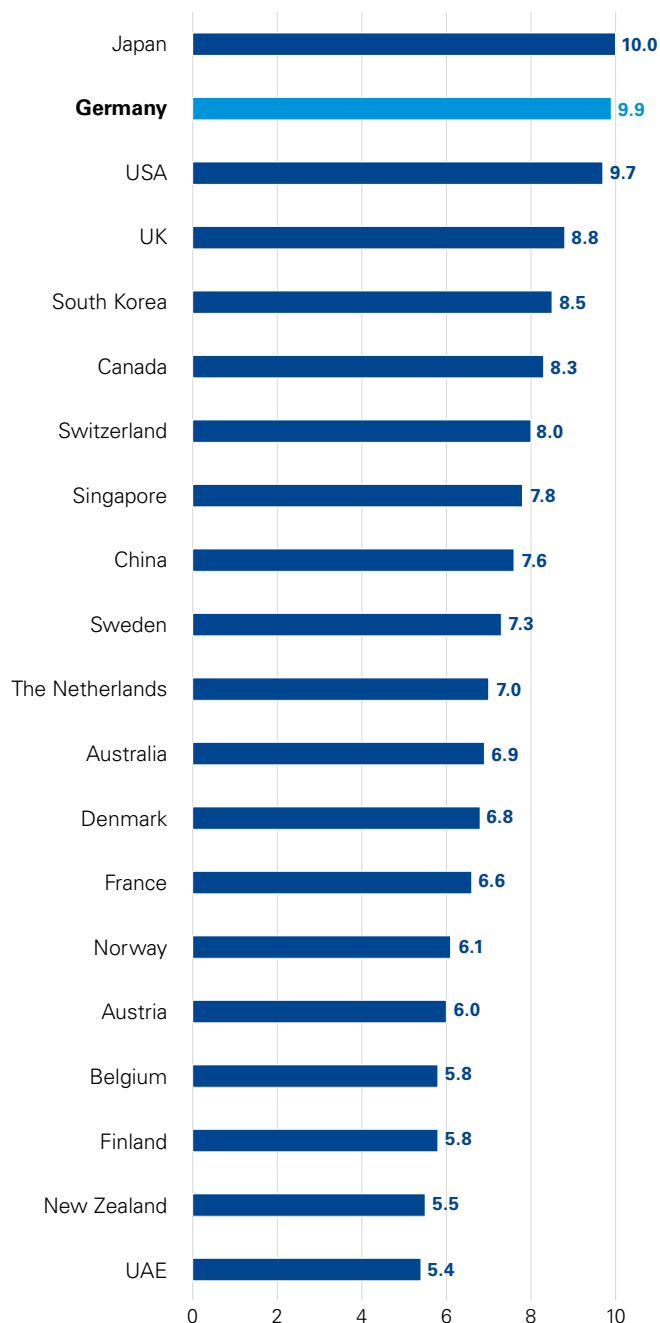
Some of the funding programs focus on companies during their early phase. In these cases, the company should not have been business active for more than five years. Examples of these programs are the "ERP Startup Loan – Startup Money", which provides a maximum of 125,000 EUR with a term of 5 or 10 years. Or the "ERP Startup Loan – Universal", which offers long-term loans of up to 25 million EUR.

Other funding programs are created for firms that have already completed their initial phase and are currently in their growth phase. An example is the "KfW corporate loan" that provides external capital to established companies that have been on the market for at least 5 years. The maximum finance available from this funding program is 25 million EUR with terms of up to 20 years. Another program is called "RUBIN" and is for companies or other entities that focus on innovation and development. A company can receive up to 50% of their project costs in the form of a grant.

Although there are many different funding programs and the requirements for receiving financial aid do vary, they all have one thing in common: they only provide support for innovative companies with a promising business model. It is a prerequisite that a company applying for one of the funding programs must be technology-oriented with a primary focus on a trend in the field of digitalization. Right now, Germany's position in terms of digital transformation is only middling amongst EU countries. This is due to several reasons. For example, 24% of German companies indicate that they do not give high priority to investment in AI and large-scale data analysis, probably due to traditional German risk aversion. The funding programs are an incentive to change this mindset and to generate products and services that can help Germany with its digital transformation.

According to the Best Countries Ranking 2021 of the Top 20 countries for entrepreneurship and startups that is seen as the benchmark in the startups field, Germany is ahead even of the United States.

Best Countries Ranking 2021 for Entrepreneurship and Startups* (10 is highest)



* Global survey of 17,326 respondents
(informed elites, business decision-makers, general population)
Source: US News & World Report; ID 731835

c) Funding of pan-European projects in specified fields of business

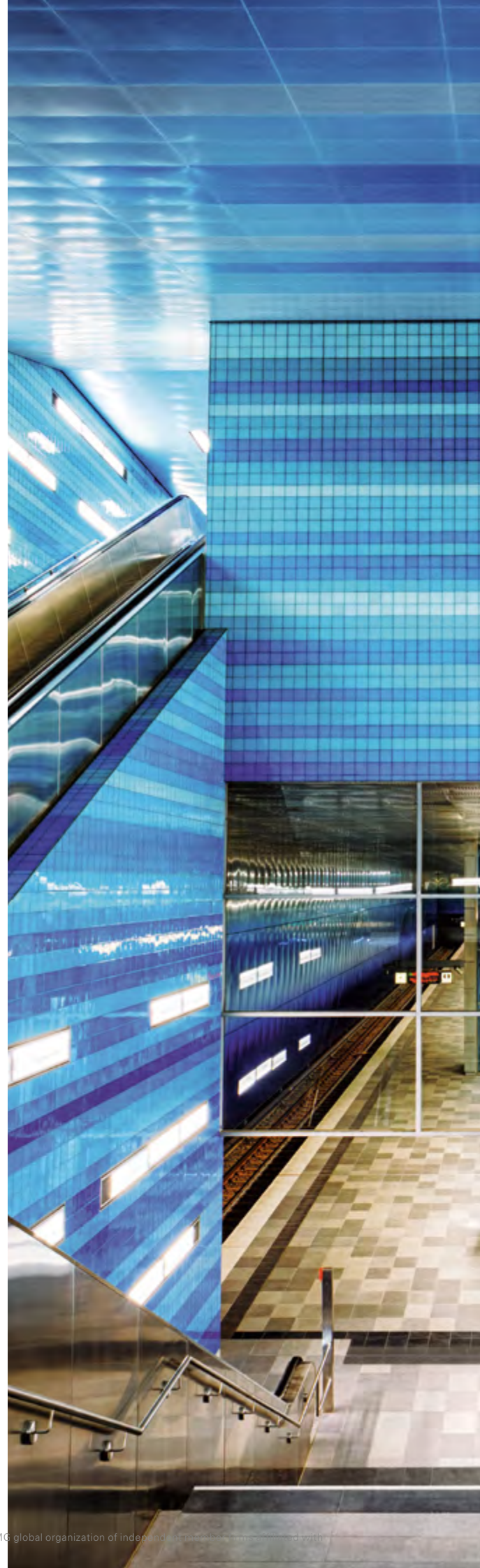
The “Important Project of Common European Interest” (IPCEI) is a significant transnational EU project. It makes a valuable contribution by means of state support to the growth, employment and competitiveness of European industries and economies. An IPCEI project has a number of prerequisites. It must:

- Contribute to the strategic objectives of the European Union.
- Have the involvement of several EU member states.
- Provide its own co-financing from participating companies/ institutions.
- Have a positive spillover effect throughout the EU.
- Have very ambitious research and innovation objectives, i.e., go significantly beyond the latest state-of-the-art elements in the sector with which it is linked.

The projects are divided into three classes:

- Research, development and innovation projects.
- Projects where the final product has an industrial application.
- Environmental, energy and transport projects, which may also include infrastructure support.

In an IPCEI, a so-called “integrated” project, several member states are usually involved and each individual component can be connected to a different step on a value chain. What is important is that these individual projects complement each other, and work toward a common European goal. The requirements and basis for eligibility and subsequent approval are outlined in the European Commission’s IPCEI Communication. For each partner that is to be funded, an individual grant must be approved for under state aid law.



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