



Your route to the German R&D tax credit

Roadmap





Research allowance as a tax incentive for research and development (R&D)

Objectives

- Greater investments in R&D
- Success in international competition
- Boosting Germany as a place for R&D
- More private investments and innovations

Who is eligible?

- Taxpayers subject to unlimited or limited tax liability, provided they are not exempt from tax, as well as partnerships regardless of size, profit situation and company purpose
- Contracting parties (not the contractor who carries out R&D on behalf of the contracting party)

What R&D projects are eligible?

- Basic research: obtaining fundamental knowledge without a specific application or use in mind
- Applied research: obtaining new knowledge with the objective of developing a specific product or achieving a specific result
- Experimental research: obtaining additional knowledge that builds on existing research and practical experience and that is aimed at producing and/or improving new products or processes
- Multi-company research cooperations
- Contract research, provided the contractor has its registered office in an EU or EEA country

What expenses and research allowance are eligible?

- Within the framework of the Growth Opportunities Act that was promulgated on 27 March 2024, a distinction has to be drawn between research expenses incurred before and after 28 March 2024.

- Own research: the allowance is measured based on the salaries of in-house employees who are subject to payroll tax deductions, in so far as they are involved in eligible R&D activities.

- In addition, the pro rata depreciation for movable fixed assets can be recognised with effect from 28 March 2024, provided the asset in question is used for the project. The asset must be necessary and essential for the research project, form part of the business assets of the company conducting the research and have been acquired or manufactured after 27 March 2024.

- Contract research: for research expenses from 28 March 2024 onwards, eligible expenses amount to 70 per cent of the fee paid to the contractor by the contracting party (up to 27 March 2024: 60 per cent).

- Own work by sole proprietorships and partnerships – if they carry out eligible R&D activities – is included at 70 euros per hour in the basis of assessment with effect from 28 March 2024 (up to 27 March: 40 euros per hour).

- With effect from 28 March 2024, the maximum basis of assessment is EUR 10 million (up to 27 March 2024: maximum of EUR 4 million p.a.). This limit applies to affiliated companies within the meaning of Section 15 of the German Stock Corporation Act [AktG]. The research allowance is equal to 25 per cent of the basis of assessment (section 4 of the German Research Allowance Act), i.e. up to EUR 2.5 million per company per financial year with effect from 28 March 2024 (up to 27 March 2024: the maximum allowance is EUR 1 million per company per financial year).

- For research expenses from 28 March 2024 onwards, small and medium-sized enterprises (SMEs) can additionally apply for the research allowance to be increased by 10 percentage points to 35 per cent of the basis of assessment.



Date of application

- Allowance available only for R&D projects for which work began after the act came into effect on 1 January 2020
- The allowance can only be claimed for personnel expenses that were incurred or, in the case of contract research, for invoices that were paid after 31 December 2019
- The research allowance is granted on the basis of an annual application
- Applications can be submitted retroactively for a period of up to four years, i.e. the research allowance for research expenses from 2020 must be applied for by 31 December 2024

How to get your German R&D tax credit

Application



- The application for one or several research project(s) is submitted to the research allowance certification authority – one of the requirements for this is a description of the subject of the research
- Applications can be submitted before or after the research activities have begun
- Applications can be submitted for past financial years, for the current financial year and for a maximum of three full financial years in the future (amendment to the Certification Regulation in 2024)

Certification



- Definition and assessment of the eligible R&D fields according to the criteria of the EU General Block Exemption Regulation
- Certification according to section 6 of the German Research Allowance Act by the research allowance certification authority



Research & documentation

3

- Own research
 - Documentation in accordance with the requirements of the tax authorities competent for the research project, especially:
 - Names of the employees working on the project
 - Professional title and description of work for each project employee
 - Time frame (from/to) in the financial year in which the employees worked on the project
 - Indication of whether the employees worked exclusively or partly on the project
 - GoBD-compliant record of hours on a daily basis with note of the project ID according to the research allowance certification authority
 - Information on contractual working hours, annual leave, special holidays, illness, public holidays that fall on a weekday, reduced working hours, parental leave or similar
 - Period-based description of the services performed by employees in the project
 - Gross wages according to payroll account
 - Calculation of the basis of assessment derived from the wages taking any pro rata temporis breakdown into account
 - The relevant documentation also has to be saved for own work conducted by sole proprietorships or partnerships
 - In accordance with the Growth Opportunities Act: (1) list of assets, (2) reason why these are required for the project and (3) specification of the periods for which the individual asset is required for the project
- Contract research: calculation and documentation of the invoiced services (contract and invoices)
- Monitoring to furnish evidence that the actual research is in line with the application
 - It is mandatory for documentation to be retained until a later external audit for these years has been completed
 - Documentation of the status of the work in the project at the end of each financial year

Receiving the allowance

4

- The application for the research allowance is submitted to the tax authorities
- The allowance is deducted or paid out (in the event of losses/overpayment of advance payments) from the assessed income or corporation tax in the next tax assessment
- New provision in the Growth Opportunities Act: notices of assessment for the research allowance that are received after 31 December 2024 can already be taken into account in the prepayment procedure on request





Let KPMG help you with your German R&D tax credit

KPMG Tax and Consulting experts will provide you with support and advice throughout the process.

Joint identification of eligible projects

- Presentation of eligible research projects
- Determination of wage/salary expenses and of own work in the case of research conducted in-house
- Identification of the assets that are required for the research project and determination of the time frame in which they are used in the project



- Calculation of the pro rata depreciation for the movable fixed assets required in the project
- Determination of the basis of assessment for the contracting party in the case of contract research

KPMG's preparatory measures

- Presentation of the process for obtaining a certificate and then the allowance
- Sending a questionnaire to explain the subject(s) of research as well as an estimate of personnel expenses in the case of own research or invoice amounts in the case of contract research for each research subject

Initial assessment of eligibility

You will receive our initial assessment of the application's chances of success (traffic light system) and, where applicable, the expected amount of the allowance, depending on the

- maturity of each subject of research and the
- expected and distinguishable (wage/salary) expense or distinguishable invoice amounts in the case of contract research

Support in submitting the application to the certification authority

- Approximately one-hour-long (virtual) meeting
- Guidance on submitting the application and on documentation requirements
- Coordination of the next steps in line with the initial assessment
- Support in applying for the R&D certificate
- Final review and submission of the application documents



Support in submitting the application to the tax authorities

For each individual research project:

- Calculation of the wages and salaries from the payroll account and of the own work of entrepreneurs and partners
- Calculation of the pro rata depreciation for the assets required in accordance with the certification
- Calculation of the distinguishable invoice amounts in the case of contract research
- Advice concerning the documentation required for the research project
- Submission of the application to the tax authorities for all research expenses and projects of a financial year, validation and electronic submission of the application after you have reviewed and approved it

Optional additional services

- Evaluation of the subject of the research in the event that the application for the R&D certificate is rejected
- Advice on documentation of the research activities and on the implementation of the relevant processes to ensure the ongoing documentation of the research activities

Side benefits

- Discovery of other relevant projects
- Anchoring of better R&D controlling in the company (for example through necessary tracking)
- Consideration of further innovations eligible for funding in accordance with the German Research Allowance Act

Example of an initial assessment

Research project	Assessment
 Research A	Your research project appears to be eligible for funding under the German Research Allowance Act.
 Research B	Your research project could be eligible for funding under the German Research Allowance Act. Further measures, such as the specification of the research design or the delimitation of the salary expenditure, are recommended.
 Research C	Your research project does not appear to be eligible for funding under the German Research Allowance Act. Alternatives can be discussed.

Contact

KPMG AG
Wirtschaftsprüfungsgesellschaft



Dr. Jan Wendland
Partner, Tax
+49 151 1726 0847
jwendland@kpmg.com



Denise Wollmann
Director, Tax
+49 174 300 1167
dwollmann@kpmg.com



Clemens Dicks
Partner, Consulting
+49 211 475 7706
clemensdicks@kpmg.com



Constanz Heine
Manager, Consulting
+49 174 303 4838
cheine@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

www.kpmg.de

www.kpmg.de/socialmedia



German Tax Facts App
Important topics, news and events
relating to taxes.



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2024 KPMG AG Wirtschaftsprüfungsgesellschaft, a corporation under German law and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.