



# Your Path to R&D Funding

Roadmap



# Research Allowance (German Research & Development Tax Incentive)

## Objectives



- Increase investment in research and development
- Strengthen Germany as an R&D location
- Succeed in international competition
- Increase private investment and innovation

## Eligible Entities



- Taxpayers subject to unlimited and limited tax liability, provided they are not tax-exempt, as well as partnerships, regardless of size, profit situation, or business purpose
- In the case of contract research, the client is generally eligible (not the contractor, who conducts research and development on behalf of the client)
- Exception: undertakings in difficulty as defined by the EU General Block Exemption Regulation (GBER)
- Special considerations for intercompany contract research

## Eligible R&D Categories and Projects (irrespective of sector)



- **Fundamental research:** experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena, without any direct commercial application or use in view
- **Experimental development:** acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved (digital) products, processes or services
- **Industrial research:** planned research or critical investigation aimed at the acquisition of new knowledge and skills for developing new (digital) products, processes or services
- Projects can be performed as single-company R&D, R&D collaborations and contract research (if the contractor is established in an EU or EEA Member State)

# Eligible R&D Expenses and Research Allowance



- Project-related **R&D personnel costs** can be taken into account at 100%. The Research Allowance is calculated on the basis of the wages of the company's own employees that are subject to payroll tax, as well as the corresponding employer social security contributions
- **Contract research:** for R&D tasks commissioned after 27 March 2024, eligible expenses amount to 70 percent of the remuneration paid by the client to the contractor (project start before 28 March 2024: 60 percent)
- In addition, for R&D projects starting after 27 March 2024, **pro-rata depreciation on movable fixed assets** is eligible, provided that the respective asset is used for the eligible R&D project. The asset must be necessary and indispensable for the R&D project, belong to the business assets of the applying company, and have been acquired or manufactured after 27 March 2024
- **In kind contributions:** own work performed by sole proprietors and partners in partnerships – insofar as they carry out eligible R&D activities – can be included in the assessment basis at a rate of EUR 100 per hour as of 1 January 2026 (until 31 December 2025: EUR 70/hour; until 27 March 2024: EUR 40/hour)
- For R&D projects starting after 31 December 2025, **overhead** and operating **costs** may also be taken into account at a flat rate of 20 percent of the aforementioned directly eligible expenses
- The **tax assessment basis** (sum of all eligible expenses mentioned above) **is capped at EUR 12 million** per year for expenses incurred after 31 December 2025 (until 31 December 2025: EUR 10 million, until 27 March 2024: EUR 4 million). For affiliated companies within the meaning of the German Research Allowance Act (FZuG), this cap applies collectively to the group and must therefore be shared among the affiliated entities
- The Research Allowance corresponds to **25 percent** of the tax assessment basis, meaning that since 1 January 2026, the allowance has increased to **up to EUR 3 million** per financial year
- For R&D expenses incurred after 27 March 2024, small and medium-sized enterprises (**SMEs**) may additionally apply for the Research Allowance to be increased by 10 percentage points (the "SME bonus"), bringing it to 35 percent of the tax assessment basis

## Time Frame



- The allowance applies only to R&D projects which started after the Research Allowance Act took effect on **1 January 2020** (neither the start of work nor the commissioning is permitted before the entry into force)
- Applications for Research Allowance may be submitted **retroactively** for up to **four years**. This means that for research expenses from 2022, the tax application for the Research Allowance must be submitted by 31 December 2026 (Status as of 15 July 2026)

# How to Apply for the Research Allowance



## 1. BSFZ Application

- The **application for certification of eligibility** is submitted to the BSFZ. This requires, among other things, a description of the project's R&D topic, its novelty, risks, work packages and, if applicable, a description of contract research and list of all depreciable assets whose depreciation expenses are to be included in the Research Allowance claim
- Furthermore, a financial and personnel framework is required
- BSFZ-Applications may be submitted before, during or after a project



## 2. Assessment and Certification

- Assessment of whether the project falls under the eligible categories of basic research, industrial research, and/or experimental development contained in the GBER. In conducting this assessment, the BSFZ relies on the Frascati criteria of "novelty," "uncertainty," and "systematic approach"
- **Certification** by the BSFZ
- Project-related certificates can be issued for past financial years, the current financial year, and for a maximum of three full future financial years



## 3. Documentation Requirements

Regardless of **legal retention requirements**, the documentation must be retained at least until the completion of any subsequent tax audit for the corresponding years. It may be reviewed for the first time (!) at the tax audit

- **General documentation:** Planning documents (project kick-off documentation) and brief reports describing the status of the project at the end of each financial year
- **For in-house R&D personnel costs:** Documentation in accordance with the tax authorities' guidelines, in particular:
  - Last and first names of the employees working on the project
  - Job title and job description for each project employee
  - Time frame (from/to) during the financial year in which the employees worked on the project
  - Indication of whether the employees worked exclusively or partially on a project
  - Time tracking (compliant with the German generally accepted principles of computerised accounting systems – GoBD) on a daily basis with a note of the project ID according to the BSFZ
  - Details regarding contractual working hours, annual leave, special leave, sick leave, public holidays falling on a weekday, reduced working hours, parental leave, or similar
  - Gross wages according to the payroll account
  - Determination of the tax assessment base from wages, taking into account any pro-rata allocation



- A corresponding record must also be maintained for work performed by sole proprietors or partners in the form of in-kind contributions
- **For contract research:** Determination and documentation of the invoiced services (contract and invoices)
- **For depreciation:** (1) List of assets; (2) justification of why these are necessary for the project; and (3) specification of the project phases for which the asset is required



## 4. Receipt of the Allowance

- Application for Research Allowance is submitted to the **tax office** (no earlier than after the end of the financial year in which the costs were incurred). The application must include **all projects** which were performed within the corresponding financial year
- The prerequisite for including projects in the claim is a **positive BSFZ certification** confirming their eligibility
- As opposed to the BSFZ application, all **costs** must be **calculated precisely** and supported by **documentation**
- The allowance is **offset against** the assessed income or corporate income tax in the next initial tax assessment (regardless of the year). If the allowance exceeds the tax liability, the excess amount is refunded
- Notices of assessment for the Research Allowance received after 31 December 2024 may be taken into account in the tax prepayment procedure upon request



# Research Allowance with Assistance from KPMG

Our KPMG tax experts leverage their technological and tax proficiency to assist you throughout the entire process and take the requirements of the tax authorities into account from the outset.



## 1. Kick-Off Meeting

- Introduction to the research allowance
- Discussion of key requirements (in particular documentation and eligibility)
- Clarification of initial questions
- Explanation of the advisory process

## 2. Assessment of Eligibility & Showstoppers

- Personal and factual eligibility
- Grounds for exclusion (e. g. “undertakings in difficulty”)
- Project documentation (in particular time-tracking)
- In-house R&D vs. intercompany contract research (especially for German inbound entities conducting R&D)

## 3. Targeted Collection of All Relevant Information

- Where appropriate, preliminary portfolio screening and/or workshop to identify potential projects eligible for funding
- Questionnaires on projects (technical project content as well as personnel and financial framework)
- Questionnaires on company data (affiliated companies and business statistics)

#### 4. Initial Assessment Eligibility

- Initial assessment of success prospects by KPMG
- Joint discussion of the initial assessment and the further course of action

#### 5. Assistance with BSFZ applications

- Assistance with preparing the BSFZ applications
  - Project scoping
  - Drafting (in particular objectives, novelty, risk and work plan)
  - Financial and personnel framework
  - Preparation of the applications in the BSFZ online portal
- Technical assistance with responding to additional information requests and/or rejections by the BSFZ

#### 6. Support with Filing the Application with the Tax Office

- Targeted collection of all information required for the application to the tax office

- Complex calculations in line with the specifications of the Federal Ministry of Finance (BMF)
- Assistance with assessing whether documentation requirements are met (e. g. by reviewing samples)
- Submission of the application to the tax office
- Preparation of explanatory cover letters
- Assistance with responding to queries from the tax office
- Review of assessment notices and, where applicable, credit/refund notices

#### 7. Positive Side Effects

- Identification of further R&D activities potentially eligible under the Research Allowance Act
- Reflection on additional potential funding opportunities
- Establishment of an R&D process and improved R&D controlling within the company (e. g. through the necessary tracking/time recording)

#### Example initial Assessment

##### Assessment



Your R&D project appears to be eligible for funding under the Research Allowance Act.



Your R&D project may be eligible for funding under the Research Allowance Act. Concrete steps, such as refining the research design or defining the scope of labour costs, are recommended.



Your R&D project does not appear to be eligible for funding under the Research Allowance Act. Alternatives are discussed.

##### R&D Project

Project A

Project B

Project C



# Contact

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