

Research and Development Project Incentives

Research and Development (R&D) is considered to be among the most important areas for the development of the German economy. Industry and the public sector have made a commitment to spend around 3.5 percent of national GDP per year on R&D activities until 2025. This amounted to EUR 121,4 billion R&D spending in 2022.

Choosing the Right R&D Program

Research and development projects can count on numerous forms of financial public support. There are many programs allocating R&D grants, interest-reduced loans and special partnership programs. Financing is provided by the European Union (EU), the German government, and the individual German federal states. Research and development incentive programs in the form of grants generally provide money for R&D project personnel expenditure. Other costs for instruments and equipment may also be eligible if they can be clearly assigned to the relevant R&D project. The R&D program guidelines specify the eligible costs in detail.

EU R&D Incentives

The EU's Horizon Europe program offers financial support to research and innovation projects at the European level and will run until the end of 2027. Support is allocated in the form of grants covering up to 100 percent of eligible project expenditures. With a total budget of nearly EUR 100 billion, Horizon Europe is the world's largest research funding program. Support is provided to R&D projects working at the transnational level with different project partners. The EU usually issues a call for proposals announcing the research area, eligibility guidelines and the available budget.

German Federal Government R&D Grants

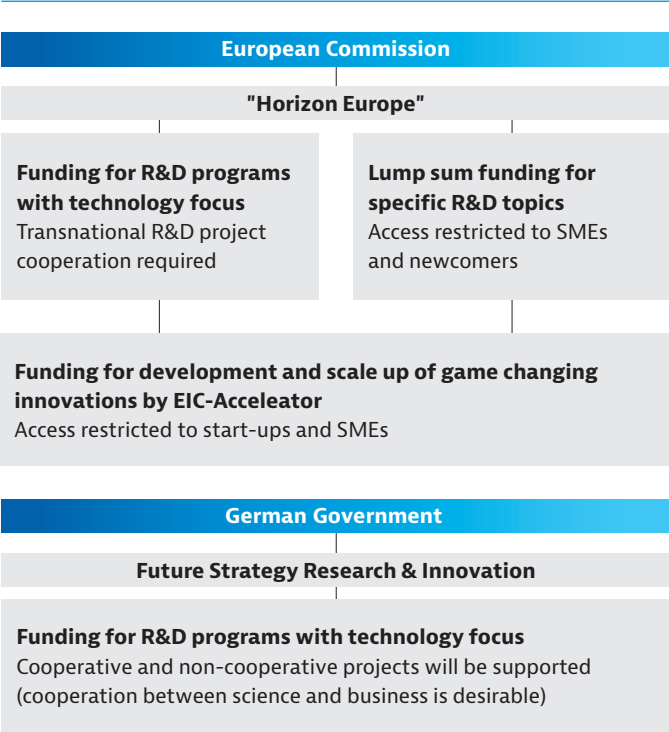
All research programs financed by the German federal government have been concentrated within the Future Strategy Research & Innovation. The Future Strategy Research & Innovation defines six priority areas for tackling transformation challenges anticipated in the upcoming years. Each area consists of a number of different R&D programs. R&D projects support is offered in the form of nonrepayable grants. Grant rates can reach up to 50 percent of eligible project costs in the research category experimental development. Higher rates may be available for SMEs and projects carried out in cooperation. The federal government periodically calls for R&D project proposals followed by a competition of best project ideas.

There are also a number of national programs without a specific technological focus. Of these, the Central Innovation Program for SMEs (ZIM) is the most prominent. Application for incentives available under this program is possible at any time and without any prior calls for proposals. It makes provision for individual as well as for cooperation projects. The R&D project viability can be determined by carrying out a feasibility study.

German Federal State Funding

In addition to programs run by the federal government, each German federal state has its own R&D funding programs in place. Regional conditions and structures influence the R&D funding programs available. Some states place particular focus on specific industry clusters. However, there are also a number of programs where a specific technological focus is not required. Cooperation between project partners is not always necessary.

R&D Grant Programs



Further R&D Project Subsidy Options

Research and development loans can be an alternative to R&D grants and entail several advantages: They are usually not attached to a specific technology field, application is possible at all times, and they can cover higher project costs. R&D loans are provided by different publicly owned development banks at the national and federal level. Equity is offered by both the KfW Group and federal state-owned or public-private venture capital companies to technology-oriented companies. Conditions are negotiated on a case-by-case basis.

R&D-Tax Credit: Research Allowance

Germany provides flexible support to R&D activities. Companies subject to taxation in Germany and engaged in R&D activities are eligible for a tax credit of up to EUR 2.5 million per year; 25% of eligible costs (35% for SMEs). Eligible expenditures – capped at EUR 10 million – include, for example, project-related personnel costs and depreciation of assets used in the R&D process. As of January 1, 2026, the R&D tax incentive will become more attractive: the maximum eligible expenditure will increase to EUR 12 million annually, and additional cost categories will be added. To benefit from the research allowance, a certificate from the R&D certifying body confirming the project's eligibility must be issued. The responsible tax office will process the certification and the financial aspects of the R&D project, in coordination with the company's financial statements. Where no tax liability exists, the research allowance will be paid out as a cash benefit.

How to Benefit from R&D Funding

To participate in R&D grant programs, companies must define an R&D project with clear objectives and a fixed timeline. Projects should be intended to develop a new product, process or service that substantially surpasses existing products, processes or technical services in terms of their functions, parameters or features. An application for R&D funding also has to set out a commercialization plan, detailing how research results will be transformed to generate additional turnover and/or employment in the region where the R&D project is located. The aid intensity level for a project depends on the size of the enterprise (small, medium-sized or large); whether the project is conducted in cooperation with other companies or research institutes; and the research category of the project. There are three research categories: (1) fundamental research; (2) industrial research; (3) experimental development.

➔ For individual R&D incentives support please contact GTAI's incentives experts at: invest@gtai.de

At a Glance

- Support focuses on R&D grants
- Aid intensity level depends on: company size, research category, degree of partnership cooperation
- Future Strategy Research & Innovation focusing on R&D in priority areas for tackling transformation challenges
- Technology-open programs – with focus on SMEs – also available

Three Research Categories:

- **Fundamental Research**
Experimental or theoretical work aimed at gaining new knowledge
- **Industrial Research**
Research with a specific practical objective aimed at developing new products, processes, or services, or at improving existing ones
- **Experimental Development**
Research aimed at producing drafts, plans, and prototypes

Future Strategy Research & Innovation: Shaping Transformation Processes (core areas)

 Resource-efficient Economy, Competitive Industry, Sustainable Mobility	 Climate Protection and Adaption, Food Security, Biodiversity	 Health
 Digital and Technological Sovereignty, Digitalization	 Space, Space Travel, Oceans	 Social Resilience

Source: Federal Ministry of Education and Research (BMBF), 2023