

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 three percent of national GDP per year on R&D activities. This amounted to EUR 106 billion R&D spending in 2018.

Choosing the Right R&D Program

R&D 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. R&D incentives 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. R&D program guidelines specify in detail the eligible costs.

EU R&D Incentives

The EU's Horizon 2020 program offers financial support to research and innovation projects at the European level and will run until the end of 2020. Support is allocated in the form of grants covering up to 100 percent of eligible project expenditures. With a total budget of more than EUR 77 billion, Horizon 2020 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. Small and medium-sized enterprises (SMEs) can also use the facilitated access to R&D grants via the "SME Instrument" in Horizon 2020.

German Federal Government R&D Grants

All research programs financed by the German federal government have been concentrated within the High-Tech Strategy 2025. This program defines six priority areas with a high dependency on ongoing high-tech research and development: healthcare; sustainability; climate protection and energy; mobility; urban and rural area development; safety and security; and economy and work. Each area consists of a number of different R&D programs. Almost EUR 6 billion was distributed to R&D projects in 2018. Grant rates can reach up to 50 percent of eligible project costs. Higher rates may be available for SMEs and projects carried out in cooperation. Partnership between project partners, especially between enterprises and research institutions, is usually required.

The federal government periodically calls for R&D project proposals followed by a competition of best project ideas. In addition, a number of national programs without a specific technological focus also exist. 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 Federal Ministry for Economic Affairs and Energy has allocated more than EUR 555 million to the ZIM program in 2020.

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

R&D 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 technically oriented companies. Conditions are negotiated on a case-by-case basis.

Research Tax Credit Act

Companies with tax status in Germany and performing R&D activities are eligible for a tax credit of up to EUR 500,000 annually. The eligible expenditure is the cost to company of salaries paid to employees working on the project, with the tax credit set at 25 percent of eligible costs to a maximum of EUR 2 million. Projects are eligible for the credit as long as they fall under one of the three broadly-defined research categories. Companies wishing to benefit from the research tax credit act must get a certificate from a statutory body determining whether a project is eligible.

How to Benefit from Public R&D Spending

To participate in R&D grant programs, companies must define an R&D project with clear objectives and a fixed time line. 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 into marketable products, processes or services that 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. The research category expresses the scope of the intended project. There are three research categories: (1) fundamental research; (2) industrial research; (3) experimental development.

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At a Glance

- Support focuses on R&D grants
- Aid intensity level depends on: company size, research category, degree of partnership cooperation
- National High-Tech Strategy 2025 with planned funding volumes of 3.5 percent of GDP annually (together with the Federal States) provided for projects focusing on R&D in specified fields of technology
- Technology-open programs – with focus on SMEs – also available

The Central Innovation Program for SMEs (ZIM)

Eligible enterprises	Enterprises with up to 499 employees, less than EUR 50 million annual turnover, and a balance sheet total of no more than EUR 43 million
Eligible costs	<ul style="list-style-type: none"> • Labor costs of employees working on the project • Project-related contracts to third parties and R&D contracts to academic partners • Lump-sum of maximum 100% on labor costs for all other costs
Max. eligible costs	EUR 550,000
Aid intensity level	Between 25% and 60% (depending on company size, cooperation degree and location, and internationality)
Application and approval procedure	Application at any time to corresponding project management agency; program guidelines valid until 31 December 2024

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