Act for an Immediate Tax Investment Program

4 June 2025

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Content

The governing parties have introduced a draft bill for an "Act for an immediate tax investment program to strengthen Germany's business location" to the Bundestag. The draft bill includes the following measures, all of which are contained in the coalition agreement of the new federal government:

- **Investment Booster**: Temporary reintroduction and increase of declining balance depreciation for investments in movable assets
- Gradual reduction of the **corporate tax rate** and the **retained earnings tax rate** starting from 2028
- **Electric vehicles**: Introduction of a temporary declining balance depreciation for newly acquired, purely electric vehicles and raising the gross list price limit for company cars
- Expansion of the **research allowance.**

According to the explanatory memorandum of the Act, these priority measures are intended to contribute to strengthening the location and promoting investment, from which a strong signal for the short-term and long-term competitiveness of Germany as a business location will immediately emanate. The measures are aimed at quickly initiating growth-effective investments combined with long-term and widespread relief effects, which together are intended to ensure a sustainable, growth-promoting environment and planning security for companies.

1. Investment Booster

The Investment Booster is designed as a temporary reintroduction and increase of declining balance depreciation. For movable fixed assets acquired or manufactured after 30 June 2025 and before 1 January 2028, a declining balance depreciation of up to 30%, but not more than three times the straight-line depreciation, is possible.

The declining balance depreciation for movable fixed assets was last applicable for investments in the period from April 2024 to December 2024.

2. Reduction of corporate tax rate

Following the expiration of the Investment Booster, the corporate tax rate will be gradually reduced from currently 15% to 10% starting in 2028. The reduction will occur in five steps, decreasing by one percentage point annually:

- FY 2028 = 14%
- FY 2029 = 13%
- FY 2030 = 12%
- FY 2031 = 11%
- from FY 2032 = 10%.

According to the explanatory memorandum of the Act, the simultaneous implementation of both measures in one Act is intended to send clear signals for the location, create reliable framework conditions, and thus ensure planning security for companies.

The rate reduction is accompanied by the adjustment of other legal regulations, which, due to the multitude of changes, will be addressed in a later legislative process. The explanatory memorandum mentions adjustments in connection with withholding tax on capital income and withholding tax for taxpayers with limited tax liability.

3. Reduction of income tax rate for retained earnings taxation

To equally relieve retained earnings of partnerships, the income tax rate within the regime of preferential treatment of retained earnings will also be gradually reduced starting in 2028. According to the explanatory memorandum, this maintains the goal of tax neutrality between partnerships and corporations.

The reduction will occur in three stages from currently 28.25% to 25%:

- FY 2028 and 2029 = 27%
- FY 2030 and 2031 = 26%
- from FY 2032 = 25%.

4. Tax incentives for electric vehicles

Declining balance depreciation: For newly acquired, commercially used, purely electric vehicles, an arithmetically declining balance depreciation with decreasing tier rates is introduced:

- in the year of acquisition = 75%
- in the first following year = 10%
- in the second and third following years = 5% each
- in the fourth following year = 3%
- in the fifth following year = 2%.

In addition to passenger cars, electric commercial vehicles, trucks, and buses are also included. The declining balance depreciation can be claimed for acquisitions after 30 June 2025 and before 1 January 2028.

Company cars: The upper limit of the gross list price for purely electric vehicles acquired after 30 June 2025, will be increased from currently EUR 70,000 to EUR 100,000. The upper limit is relevant for the flat-rate 1% taxation of the benefit for private use of a company car. For eligible electric vehicles, only a quarter of the gross list price is considered (the so-called quarter rule).

5. Research allowance

Changes to the Research Allowance Act include two measures to make tax incentives for research and development (R&D) more attractive:

- Expansion of **eligible expenses** (currently: wages and investment expenses) to include additional overhead and other operating costs incurred in the context of an eligible R&D project that began after 31 December 2025. These overhead and other operating costs are exclusively calculated as a flat rate amounting to 20% of the other eligible expenses incurred during the fiscal year.
- Increase of the **maximum assessment base** for the research allowance from currently ten million euros to twelve million euros for eligible expenses incurred after 31 December 2025. The maximum research allowance can thus increase from currently 2.5 million euros to three million euros.

Outlook

The federal government aims to complete the legislative process as quickly as possible. The goal is to secure the approvals of the Bundestag and Bundesrat before the parliamentary summer recess. Considering the last scheduled session of the Bundesrat before the summer recess, which is set for 11 July, this goal appears ambitious.

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