

# German Growth Opportunities Act offers tax advantages for investments

04/16/2024

**After a long struggle, the Growth Opportunities Act (*Wachstumschancengesetz*) was passed and promulgated on March 27, 2024. The law will result in numerous changes for companies operating in Germany.**

The Growth Opportunities Act aims to create incentives for companies to invest more in the long term and dare to innovate. The aim is to support the transformation of the economy and strengthen competitiveness, growth opportunities and Germany as a business location. Even though the original draft has been weakened during the legislative process and the business community had hoped for more, some improvements for companies have been implemented. In addition, counter-financing measures have also been implemented. The most important changes for international companies are listed below.

- **Extended loss carryforward (Sec. 10d (2) Income Tax Act (*Einkommensteuergesetz*)**

In the years **2024 to 2027**, loss carryforwards for income tax and corporation tax may be deducted up to **EUR 1 million and beyond in the amount of 70%** (previously 60%) of the total amount of income for the respective year. No change was made to the regulations on loss carryforwards for trade tax.

- **Degressive depreciation (Sec. 7 (2) sentence 1 Income Tax Act)**

Movable fixed assets acquired or manufactured in the period from **1.4.2024 to 31.12.2024** can be depreciated at twice the percentage of straight-line depreciation, **up to a maximum of 20%**.

- **Extended trade tax reduction for real estate companies (Sec. 9 no. 1 sentence 3 lit. b Trade Tax Act (*Gewerbesteuergesetz*)**

Companies that rent out real estate can deduct income from the management and use of real estate from trade income if they only carry out a few other permitted activities. The exemption limit for **harmless electricity supplies** has been increased from 10% to **20%**.

- **Increase in the exemption limit for withholding tax on licenses (Section 50c (2) Income Tax Act)**

No withholding tax must be withheld on license payments to a foreign licensor if the double taxation agreement does not provide for a right of taxation for Germany and the remuneration amounts to a **maximum of EUR 10,000 / year** (previously EUR 5,000).

- **Cross-border financing relationships (Section 1 (3d) Foreign Tax Act (Außensteuergesetz))**

The arm's length requirements for loans between group companies have been tightened. In addition to strict requirements regarding the permissible amount of interest on loans, which must meet arm's length comparison requirements, it must be demonstrated that the debtor will be able to repay the loan.

- **International risk assessment procedure (Sec. 89b Fiscal Code (Abgabenordnung))**

The introduction of a risk assessment procedure shall simplify tax audits. If the risk of circumstances is assessed as low in the international risk assessment procedure, the determination of the taxpayer's tax situation can be omitted as part of an tax audit.

- **Research Allowances Act (Forschungszulagengesetz)**

For R&D projects for which a research allowance can be claimed, the eligible expenses have been extended. For financial years beginning after 31.12.2023, the research allowance is granted on wages, own work of a sole proprietorship and pro rata on the remuneration for contract research and now on **depreciation of movable fixed assets used in the beneficiary research and development project**. Furthermore, the maximum assessment basis was increased to **EUR 10 million** (previously EUR 4 million).

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