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The Bundestag adopts a tax relief package for business

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The central element of the new investment programme in Germany will be tax incentives for companies. Between 2025 and 2027, these will take the form of declining-balance depreciation of movable fixed assets, and, starting in 2028, a reduction in corporate income tax in five annual steps – from 15% to 10%. To boost the electric vehicle sector, tax relief measures and a system of special depreciation allowances for the purchase of new vehicles will also be introduced. The Bundestag passed the legislative package at the end of June; its approval in the Bundesrat on 11 July is expected to be a mere formality.

The planned reforms represent the federal government's response to growing concerns over Germany's declining competitiveness. At the same time, the programme has caused tensions between the federal government and local authorities, as it is the federal states and municipalities that will bear the greatest financial burden arising from the new regulations. Experts have highlighted the slow pace of implementation and the limited effectiveness of some of the mechanisms included in the package.

Commentary

- **The adopted package forms part of a broader strategy to return the German economy to a path of growth.** A prolonged period of stagnation and two consecutive years of recession have prompted the government to introduce a series of reforms aimed at stimulating production amid trade uncertainty and internal structural problems (see '*The CDU/CSU–SPD government facing economic challenges*'). The tax relief package is one of the initial steps aimed at increasing private sector investment. The government has also announced additional measures to address key challenges raised by businesses – including reducing reporting obligations and lowering energy prices. To boost public investment (e.g. in infrastructure and digitalisation), the CDU/CSU–SPD coalition has unveiled plans to reform the so-called debt brake and to establish an off-budget special fund worth €500 billion (see '*Agency on credit. Germany releases the debt brake*'). The effects of the changes are expected to become visible from 2026 – with GDP projected to grow by approximately 1% that year.
- **The reforms are intended to improve Germany's attractiveness as a business location.** The total tax burden on companies in Germany stands at approximately 30%, which is 5.5 percentage points higher than the OECD average and 9 percentage points above the EU average. High taxes are among the principal factors discouraging both foreign and domestic entities from doing business in Germany. In 2024, international corporations announced 17% fewer investment projects in the country compared with the previous

year – the lowest level since 2011. The government's newly implemented investment support measures aim to attract investors, including German manufacturers who are scaling back their activities in the United States owing to the protectionist policies of President Donald Trump's administration.

- **Initially, the greatest financial burdens resulting from the reform were expected to fall on the federal states and municipalities, thereby depriving them of tax revenue – this led to a revision of the legislation.** Municipalities, which currently receive 15% of the revenue from national taxes (the remainder is shared between the federal states and the federal government), were expected to lose approximately €13.5 billion due to the proposed tax reliefs – equivalent to 29% of the projected €46 billion drop in total budgetary revenue. This disproportionate impact sparked strong criticism from the federal states and cast doubt on whether the measure would gain approval in the Bundesrat. In response, federal government support became a condition for passing the reform: it pledged to fully cover the tax revenue losses of municipalities, to partially compensate the federal states, and to provide annual financial support to indebted municipalities. The total cost borne by the federal budget in connection with this compromise, which is necessary to secure Bundesrat approval, will amount to approximately €20 billion.
- **Experts do not consider the reform unequivocally positive; parts of the package have been criticised for being ineffective.** The gradual reduction of corporate income tax will continue until 2032, the prolonged implementation may weaken its impact, particularly if the economy enters a recovery phase before the tax relief is fully in place. In such a case, there is a risk of further fuelling economic growth, which could, in turn, drive up inflation. Meanwhile, the system of declining balance depreciation (in which depreciation allowances are highest at the beginning of the use of a fixed asset, resulting in lower taxes in the initial years) will mainly benefit large companies. In some sectors (for example, construction, which is characterised by underutilised production capacity) its three-year duration is too short to incentivise new investment. The instruments supporting electromobility have also come under criticism, as they do not cover leasing – a form of financing responsible for 60% of new vehicle registrations – which will significantly reduce their effectiveness in developing this market segment.