



Federal Ministry
of Finance

27th Subsidy Report
2017–2020

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27th Subsidy Report

2017–2020

Federal government report on trends in federal financial assistance and tax benefits for the years 2017 to 2020

Summary report



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I. Introduction

The Federal Cabinet adopted the federal government's 27th Subsidy Report on 6 November 2019. In accordance with section 12 of the Act to Promote Economic Stability and Growth (*Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft*), every two years the federal government submits to the Bundestag and Bundesrat an overview of federal financial assistance and tax benefits. The report is submitted in conjunction with the government draft of the federal budget.

Subsidy policy is an integral part of the federal government's forward-looking financial policy. The government draft of the 2020 federal budget again fulfils a central budgetary requirement of the coalition agreement, according to which the federal budget must be balanced without new borrowing. In particular, the intensified implementation of the federal government's subsidy policy guidelines and the targeted design of assistance measures help to ensure the efficient use of financial resources for the purpose of facilitating the forward-looking development of the German economy. Subsidies that are no longer necessary

are wound down on an ongoing basis, and new subsidies are introduced in areas where they can boost competitiveness or provide temporary support for the advancement of pro-growth technologies. The German government's subsidy policy is increasingly being shaped by climate and environmental policies, especially in the area of direct support through federal financial assistance. The federal government's regular Subsidy Reports provide the information to the German Bundestag and the federal government that is needed to review the existing subsidies.

The federal government's 27th Subsidy Report outlines trends in federal financial assistance and tax benefits during the period from 2017 to 2020. This English-language summary report presents the main findings of the full report. The full report (in German only) is available online at www.bundesfinanzministerium.de. In addition to the information contained in this summary, the full report includes standardised data sheets for the individual financial assistance items and tax benefits.

II. Subsidy policy and definition of subsidies

In a social market economy, subsidies are used as an instrument of fiscal policy to promote innovation and investment, reduce regional disparities, mitigate the negative effects of market adjustment processes or steer processes during times of structural change. The decisive factor here is the impact of these assistance measures in terms of growth, redistribution, competition and the environment. However, subsidy policy must also take into account the external effects as well as their redistributive effects and potential knock-on costs.

Nonetheless, subsidies always require special justification, together with regular evaluations of their efficiency and success. This is because long-term favourable arrangements that benefit individual market participants at the expense of the general public typically have adverse effects. By altering relative prices, subsidies can distort markets as a whole and lead to the misallocation of resources. In addition, subsidised companies can crowd competitive companies out of markets. There is also the danger of a subsidy mentality becoming entrenched, with the consequence that necessary adjustments are not made and/or there is a decline in the motivation and initiative to overcome structural adjustment problems. Possible consequences include delayed

structural change, a loss of international competitiveness, and impairment of economic growth and employment.

In view of negative environmental impacts, subsidies should also be regarded critically if they result in disproportionate consumption of resources and damage to the environment and health, or if costs are incurred for the elimination of these impacts. Pursuing climate-friendly fiscal and tax policies also requires the ongoing reduction of subsidies that have an adverse impact on the environment. It will therefore be necessary to examine how to gradually develop the German system of taxes and social security contributions in order to achieve Germany's climate action targets by 2050.

2.1 The federal government's subsidy policy guidelines

The federal government follows subsidy policy guidelines that serve to enhance the subsidy system's transparency, accountability and governance (see box below). The guidelines constitute a voluntary commitment by the federal government regarding

the way it handles subsidy measures under its remit. They must be taken into account every time a new subsidy is introduced or an existing subsidy is modified.

Subsidy policy guidelines

(as agreed in the Federal Cabinet decision of 28 January 2015)

- New subsidies should be granted only if they are the best-suited instrument and are efficient on a cost-benefit basis, compared with other measures.
- New subsidies should be granted primarily in the form of financial assistance and should be financed by savings elsewhere.
- New financial assistance should be designed to be both temporary and, as a rule, degressive.
- The objectives of financial assistance should be formulated in a way that makes it possible to evaluate the success of such measures.
- Federal subsidy policy takes into account the impact of subsidies on growth, redistribution, competition and the environment. The federal government's Subsidy Reports show whether or not subsidies are sustainable.
- As a rule, all subsidies should be subject to regular evaluation in terms of target attainment, efficiency and transparency.
- Existing tax benefits should be reviewed with a view to replacing them with financial assistance or other measures that place a smaller burden on public finances.
- Time limits and, in general, degression rules should be introduced for existing financial assistance measures that are not currently designed to be temporary and degressive.

New subsidies must undergo especially rigorous scrutiny before they are introduced, because entrenchment significantly hinders subsequent change. Recipients often claim that subsidies are the only feasible option, although in some cases the same outcome could be achieved at far lower cost by other means, such as regulatory measures. Against this background, and in order to ensure efficient and sustainable fiscal policies, all new subsidies – including tax benefits – must be immediately, permanently and fully offset by savings elsewhere.

Tax benefits often have the same effect as a spending programme and are thus sometimes referred to as “tax expenditures”. They have a number of disadvantages compared with financial assistance. They cannot be capped by budget appropriations and are not part of the annual budget preparation process. As a rule, the amount of forgone revenue can only be estimated. Tax benefits can generate deadweight losses, tend to become entrenched, and run the risk of quickly ceasing to be regarded as subsidies. Tax expenditures financed from joint tax revenues have the same effect as joint tasks carried out with federal, *Länder* and local authority funding in accordance with the respective formula for allocating tax revenue. In such cases, the approval of the Bundesrat is also required to amend the law. For all of these reasons, tax benefits prove difficult to reform and control. New subsidies – to the extent that they are necessary – should therefore preferably be granted as financial assistance, and evaluations of existing tax benefits should check whether it would be feasible to convert such benefits into financial assistance items or regulatory measures.

In contrast to tax benefits, the federal government generally possesses greater authority when it comes to modifying existing financial assistance. Financial assistance measures can be modified in many cases on the basis of federal government

guidelines or administrative agreements. Their objectives must be precisely defined and monitored on an ongoing basis. A subsidy must be discontinued without delay if the targeted objective has been attained, if the objective is no longer justified, if it cannot be attained with the type of measure in question, or if there is another, better means of attaining the objective. It is also essential to prevent individual measures from having contradictory effects or cancelling each other out.

In order to enhance accountability, the federal government expanded the subsidy policy guidelines by adding sustainability impact assessments and adopted regular evaluation cycles as a general principle.

The purpose of the sustainability impact assessments is to ensure that the sustainability principle is incorporated into subsidy policies. In general, the assessments are based on Germany’s national sustainability strategy and the requirement – in effect since the 16th legislative term – to conduct sustainability impact assessments as part of overall regulatory impact assessments. Sustainability impact assessments of subsidies focus on their long-term economic, environmental and social effects.

The need for the continuous monitoring of subsidies already arises by virtue of the risk that long-term subsidies for specific economic sectors can lead to subsidy dependence without any examination of the justification. The federal government’s commitment to conducting regular evaluations underscores its intention to make public finances more outcome-oriented and to create transparency.

Adverse outcomes can be mitigated or prevented by designing subsidies to be temporary and degressive. Having time limitations ensures that the effectiveness of financial assistance must be reviewed regularly and, where appropriate, discontinued or re-designed. While certain government functions are based on statutory or even

constitutional provisions that cannot and should not be rendered time-limited by government decision, the federal government can nevertheless establish temporary framework plans or administrative agreements for precisely these types of functions. These provide a reason and an opportunity to regularly review the degree to which the objectives have been achieved.

2.2 Definition of subsidies

The main function of the federal government's subsidy reporting is to provide the German Bundestag with information that is required for budget decisions and to also inform the Bundesrat at the same time. The subject matter to be covered in Subsidy Reports is stipulated in section 12 of the Act to Promote Economic Stability and Growth (*Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft*) and includes payments and/or benefits for private enterprises and economic sectors. Financial assistance is defined in the Act as federal funds allocated to bodies outside the federal administration and deployed for the benefit of private businesses or economic sectors. Tax benefits, in turn, are defined as special tax exceptions that lead to a reduction in public revenue.

Section 12 of the Act to Promote Economic Stability and Growth specifically describes financial assistance as federal funds used to support adaptation, maintenance and productivity in businesses and economic sectors. Assistance that does not fall into these categories is designated as miscellaneous financial assistance. Forms of assistance that directly reduce the prices of certain goods and services for private households, but which may indirectly benefit the private sector, are referred to as indirect subsidies. This includes, for example, assistance for residential construction.

A similar definition applies to tax benefits, which are classified in the same way as financial assistance. A special tax arrangement is regarded as a subsidy – and hence as a tax benefit for the purposes of Subsidy Reports – if it directly or indirectly benefits specific sectors or subsectors of the economy. Tax benefits also include special tax arrangements that directly benefit business and industry over the general public.

Federal expenditures on general state tasks (such as funding for basic research) do not count as subsidies, although it can be difficult to draw the line in individual cases. Federal guarantees also do not count as subsidies; the main reason for this is that the typically low risk of default makes it highly unlikely that budgetary resources will have to be spent. In any case, trends in federal and other guarantees are documented in the financial reports regularly published by the Federal Ministry of Finance. Grants and capital injections for federal enterprises are likewise not counted as subsidies. Other federal government reports provide targeted information on specific policy areas in which the federal government is active. For example, federal enterprises are covered in the Federation's report on government holdings.

The categorisation of subsidies included in the Subsidy Report is continuously reviewed and updated as needed. Since the term "subsidy" is not conclusively defined in section 12 of the Act to Promote Economic Stability and Growth, and the term is interpreted differently in academic and political circles, the federal government's definition of a subsidy, and the question of which specific criteria should be assigned to federal subsidies, are the subject of regular discussions. The Subsidy Report's general focus on assistance for private enterprises and economic sectors means that large areas of the federal budget that could be classified as subsidies by other institutions are excluded.

III. Subsidy trends

The Subsidy Report's analysis and discussion of financial assistance focus on the use of federal funding. Tax benefits, on the other hand, are reported on from different perspectives: first, the report shows the total size of tax revenue shortfalls resulting from tax benefits adopted by the federal legislature; second, it shows the size of the shortfall incurred at federal level. The Subsidy Report therefore also takes into account estimates of revenue shortfalls for other levels of government. It also provides an overview of trends in *Länder*, local authority, ERP and EU subsidies. From a budget policy perspective, however, the focus is on federal-level revenue shortfalls and expenditures.

3.1 Trends in federal subsidies during the reporting period from 2017 to 2020

Federal subsidies are set to climb from €21.8 billion in 2017 to €31.4 billion in 2020. This €9.6 billion increase in the total volume of subsidies will be driven mainly by an increase in federal financial assistance.

When looking at trends in subsidy volumes, it should be borne in mind that grants for closed financial years are reported on the basis of actual expenditure (actual figures) and for current and budgeted financial years on the basis of budget estimates (target figures). However, in many cases projected budgetary resources were not drawn-down entirely during 2017 and 2018. If this trend – which has already been observed for several years – continues in 2019 and 2020, the increase in financial assistance over the reporting period will be exaggerated due to the discrepancy between the target and actual figures.

Financial assistance is set to grow by €8.1 billion during the reporting period. The increase of €3.8 billion from 2018 to 2019 is due to increases in climate-friendly measures by the federal government such as the energy efficiency fund, the further development of electromobility and the subsidy for the construction of charging infrastructure for electric vehicles, as well as the introduction of new financial benefits such as the reduction of track access charges for rail freight, the retrofitting of hardware for delivery vehicles and the home ownership-related child benefit (*Baukindergeld*). The additional increase by a further €3.9 billion in 2020 compared with 2019 is based on decisions by the federal government related to compliance with the climate targets for 2030 within the framework of the Energy and Climate Fund.

Federal tax benefits are projected to rise from €15.6 billion in 2017 to €16.9 billion in 2020. This is being driven in particular by the new tax concession for the promotion of electric and externally rechargeable hybrid electric vehicles for motor vehicle tax purposes and increased usage of the reduced VAT rate for cultural and entertainment services, the reduced VAT rate on overnight accommodation, and tax exemptions on statutory or collectively agreed bonuses paid for working Sundays, holidays or nights.

Figure 1: Trends in federal financial assistance and tax benefits, 2017 to 2020

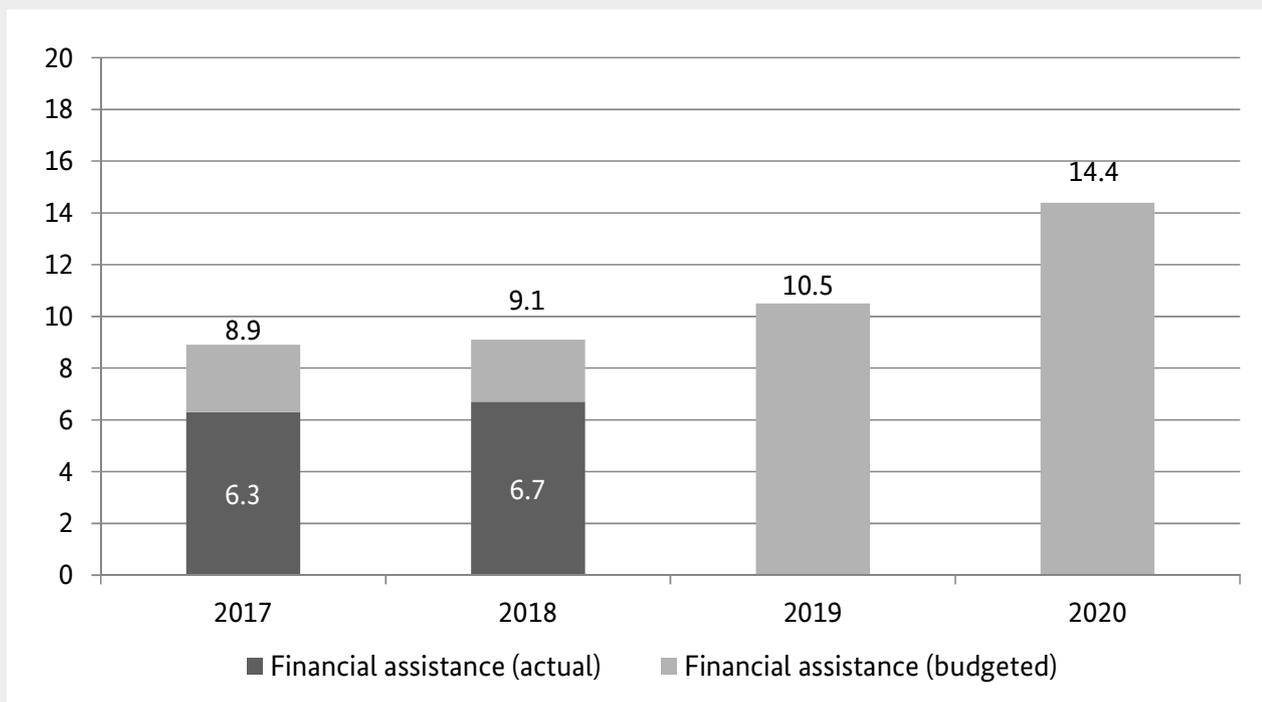
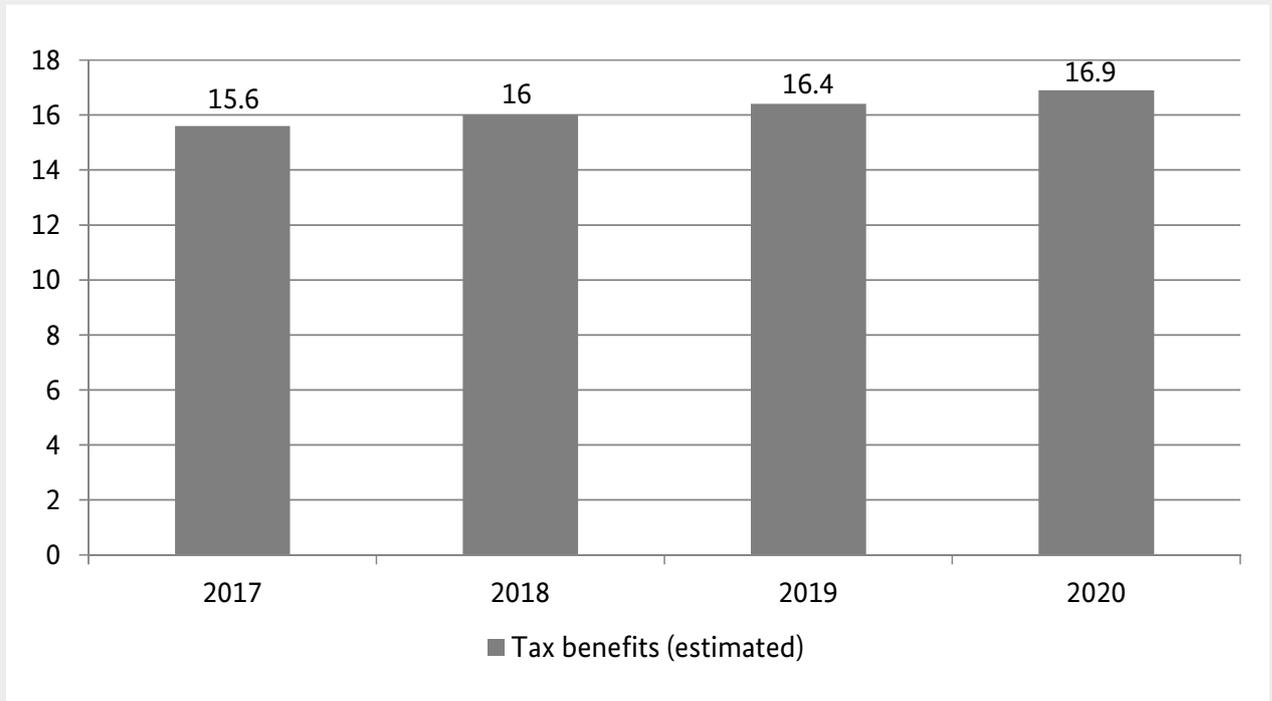


Figure 1 (continued)



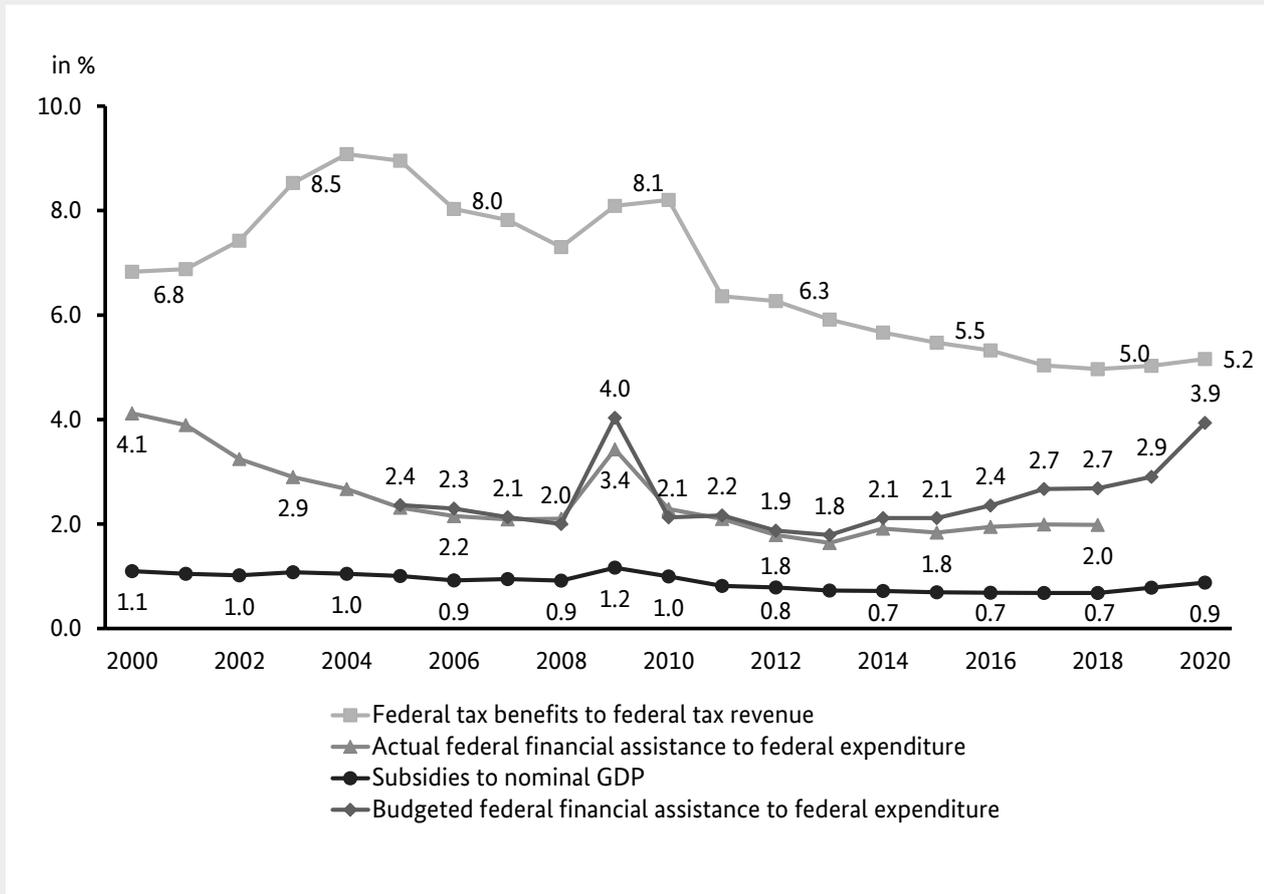
To allow subsidy trends to be estimated, Figure 2 shows various subsidy ratios in relation to the revenue and expenditure trends in the federal budget and the gross domestic product.

Subsidies as a percentage of GDP amounted to 0.7% in 2017. This figure is expected to increase slightly to 0.9% in both of the 2019 and 2020 budget years. It remains at the low level achieved in 2012. Financial assistance as a percentage of federal public spending declined steadily from 1997 to 2008 before rising in 2009 in response to the global financial and economic crisis. During the 2017 to 2020 reporting period, financial assistance accounted for 2.0% of federal

expenditures in 2017 and 2018. For the 2019 and 2020 budget years, on the other hand, estimated grant amounts are €10.5 billion and €14.4 billion respectively (2.9% and 3.9% of budgeted expenditures).

Tax benefits will fall slightly in nominal terms from 2017 to 2018, but will remain at 5.0% in relation to tax revenues. Some €16.4 billion in tax benefits are expected for the 2019 federal budget, which still corresponds to 5.0% of tax revenues. A total of 5.2% of tax benefits are budgeted for the 2020 financial year, as tax revenues are expected to increase at a much slower rate than budgeted tax benefits.

Figure 2: Subsidy ratios



3.2 Federal financial assistance

sales and decommissioning assistance for coal mining and support for the expansion of the broadband network.

Federal financial assistance is projected to increase from an actual spending total of €6.3 billion in 2017 to an estimated total of €14.4 billion in 2020. There are a total of 93 federal financial assistance items; of these, the 20 largest individual items are expected to account for nearly 83% of total financial assistance in 2020 (see Table 1). As was the case in the prior report, the largest individual item during the reporting period will be the KfW subsidy for energy-efficient building refurbishment measures, followed by

Table 1: The 20 largest federal financial assistance items

No	Chapter	Brief description of financial assistance item	No in Annex 1 of 27 th Subsidy Report	2020 Govt. draft €m	2019 Target €m
1	2	3	4	5	6
1	09 03 60 92	KfW subsidy for energy-efficient building refurbishment measures ¹⁾	87	2,305	2,404
2	09 03	Subsidies for the sale of German coal for electricity generation, for sale to the steel industry and to offset the impact of capacity adjustments	13	1,932	940
3	12 04	Funding to expand and upgrade broadband networks	58	900	0
4	06 04	Subsidies included in the home ownership-related child benefit (<i>Baukindergeld</i>) programme by the KfW Banking Group	92	861	570
5	10 03	Joint task "Improvement of agricultural structures and coastal protection" ¹⁾	8	774	608
6	60 92	Electricity price compensation	17	567	230
7	60 97	Funding to expand and upgrade gigabit networks	59	463	75
8	60 92	Market introduction programme to promote the use of renewable energy sources ¹⁾	18	431	328
9	09 02 09 10	Joint task "Improvement of regional economic structures" ¹⁾	40	419	420
10	60 92	Measures for the promotion of electro-mobility ¹⁾	56	383	282
11	12 10	Reduction in track access charges for rail freight	70	350	350
12	12 01	Utilisation of distance-based commercial vehicle toll	66	337	387
13	60 92	Energy efficiency fund	16	331	358
14	60 92	Energy efficiency in industry and business	19	317	169
15	09 01	Central Innovation Programme for SMEs (ZIM) ¹⁾	30	298	320
16	60 92	Subsidies for the purchase of electric cars	57	290	150
17	16 02 60 92	National Climate Initiative	20	274	318
18	60 92	Industrial production for mobile and stationary energy storage units	25	268	40
19	06 04	Support for urban development ¹⁾	84	256	245
20	06 04	Premiums under the Home Ownership Savings Premium Act (<i>Wohnungsbauprämien-gesetz</i>)	93	223	223

1) Stated amount only a portion of budget amount.

3.3 Federal tax benefits

The Federation's revenue shortfall from tax benefits is expected to increase during the reporting period, from €15.6 billion to €16.9 billion in 2020.

Like financial assistance, tax benefits are concentrated within a small number of sectors (see Table 4). In 2020, trade and industry will account for the largest share of federal tax benefits at 50.4%, followed by miscellaneous tax benefits (27.1%) which consist mainly of tax benefits that directly benefit private households and that influence economic activity in key sectors. The third largest category of tax benefits targets the transport sector (13.6%). Over the course of the periods covered in recent Subsidy Reports, tax benefits for the transport sector and miscellaneous tax benefits have gained substantially in importance compared with the significance of tax benefits targeting the housing sector. Due to the discontinuation of the owner-occupied homes premium, tax benefits for the housing sector now account for just 0.7% of total tax benefits.

In 2020, the 20 largest tax benefits listed in Annex 2 are projected to account for 86.7% of the total revenue shortfall at the federal level (see Table 2). The largest individual item from the Federation's perspective is the reduced VAT rate for cultural and entertainment services, which is expected to cause a revenue shortfall of just under €2.1 billion in 2020. The largest tax benefit item overall is the tax concession for persons who acquire businesses or corporate shareholdings by way of gift or inheritance; in this case, revenue shortfalls are incurred in their entirety by the *Länder*. There was a sharp but temporary increase in the amounts involved here due to persons bringing forward the timing of estate transfers to their heirs in the form of gifts ahead of (a) a Federal Constitutional Court ruling delivered on 17 December 2014 (1 BvL 21/12; Federal Law Gazette 2015 I, p. 50) and (b) reforms to inheritance and gift tax.

Table 2: The 20 largest tax benefits

No	No in Annex 2 to the 27 th Subsidy Report	Brief description of tax benefit	Revenue shortfall (€m) Revenue year 2020	
			Total	Federal
1	46	<u>Section 13a Inheritance Tax Act</u> Tax benefit for persons who acquire businesses or corporate shareholdings by way of gift or inheritance	6,800	-
2	100	<u>Section 12 (2) nos 1, 2, 12 and 13 VAT Act in conjunction with nos 49, 53 and 54 of Annex 2 to the VAT Act, and section 12 (2) no 7 VAT Act</u> Reduced VAT rate for cultural and similar services	4,030	2,128
3	96	<u>Section 3b Income Tax Act</u> Shift bonuses	2,815	1,196
4	40	<u>Section 35a (3) Income Tax Act</u> Reduced tax rate for renovation costs	2,055	873
5	55	<u>Section 37 and 53 Energy Duty Act</u> Reduced energy duty for electricity production	1,700	1,700
6	101	<u>Section 12 (2) no 11 VAT Act</u> Reduced VAT rate on overnight accommodation	1,580	834
7	69	<u>Section 12 (2) no 10 VAT Act</u> Reduced VAT rate for public transport	1,545	816
8	65	<u>Section 10 Electricity Duty Act</u> Electricity duty relief for manufacturing companies in special cases (<i>Spitzenausgleich</i>)	1,540	1,540
9	63	<u>Section 9b Electricity Duty Act</u> Electricity duty relief for manufacturing companies and agricultural and forestry businesses	1,000	1,000
10	64	<u>Section 9a Electricity Duty Act</u> Electricity duty relief for certain processes and methods	815	815
11	93	<u>Section 10a Income Tax Act, Chapter XI (sections 79-99) Income Tax Act</u> Support for fully funded private pensions (subsidy amount)	731	311
12	102	<u>Section 12 (2) no 6 VAT Act</u> Relief for dental technicians	615	325
13	78	<u>Section 27 (2) Energy Duty Act</u> Aviation fuels	584	584
14	37	<u>Section 8d Corporation Tax Act</u> Exemption of loss carry-forwards subject to the continuation of operations	580	160
15	62	<u>Section 9 (1) no 3 Electricity Duty Act</u> Tax exemption for electricity from small installations with a rated electrical output of up to 2 megawatts	502	502
16	54	<u>Sections 37 and 51 Energy Duty Act</u> Energy duty relief for certain processes and methods	483	483
17	19	<u>Section 3 no 7 Motor Vehicle Tax Act</u> Tractors and trailers	480	480
18	21	<u>Section 57 Energy Duty Act</u> Agricultural diesel	450	450
19	67	<u>Section 6 (1) no 4, second and third sentences, and section 8 (2), second to fifth sentences, Income Tax Act</u> Favourable tax treatment of electric and externally rechargeable hybrid electric vehicles for company car taxation	385	175
20	36	<u>Section 8c Corporation Tax Act</u> Restructuring and corporate group clause	370	111
1 to 20		Total % of tax benefits listed in Annex 2 to the 27 th Subsidy Report	29,310 90.2%	14,647 86.7%

3.4 Federal subsidies in specific sectors

Trade and industry (including support for the energy transition (*Energiewende*)) continues to account for the largest share of subsidies. Subsidies in this category are projected to increase from €11 billion in 2017 to €16.4 billion in 2020. The main factor driving this increase is the sharp rise in financial assistance to promote energy efficiency and renewable energy. In 2020, trade and industry are expected to account for 52.3% of all federal subsidies.

Federal subsidies in the transport sector will probably increase during the reporting period, from €2.4 billion in 2017 to a projected €3.8 billion in 2020. The increase in transport sector subsidies is being led primarily by a large number of new grants such as reductions in track access charges for rail freight and hardware retrofitting for delivery vehicles as well as greater use of the reduced VAT rate for local public transport.

There will be a substantial increase in federal subsidies for housing during the reporting period, from €1.9 billion in 2017 to a projected €3.9 billion in 2020. The main factor behind this development is an additional increase in funding for the KfW subsidy to promote energy-efficient building refurbishment measures and the new assistance programme for the purchase of owner-occupied homes (*Baukindergeld*). With some 12.4% of all subsidies, the residential sector is the third largest subsidy category.

Federal subsidies in the category of food and agriculture will increase from €1.8 billion in 2017 to a projected €2.1 billion in 2020. This increase is due primarily to (a) a top-up in the budget for the joint Federation/*Länder* task “Improvement of agricultural structures and coastal protection”, (b) financial support for agricultural businesses harmed by drought and (c) a new tax benefit that evens out tax rates on income from agriculture and forestry over a period of three years.

Financial assistance and tax benefits in the category of savings and investment incentives saw another decline during the current reporting period. In the case of tax benefits, this was caused by reduced use of tax incentives for fully funded private pensions (known as “*Riester* pensions”), while the decline in financial assistance is being led by a decrease in the overall volume of the home ownership savings premium (*Wohnungsbauprämie*). Taken together, subsidies in the category of savings and investment incentives are projected to total €0.6 billion in 2020.

The remaining tax benefits will increase during the reporting period from €4.1 billion to €4.6 billion. The items posting the largest increases in this category are the reduced VAT rate for cultural and entertainment services, the reduced VAT rate on overnight accommodation, and tax exemptions on statutory or collectively agreed bonuses paid for working Sundays, holidays or nights.

The Subsidy Report also covers a substantial part of the federal government’s projects in the field of climate and environmental action, especially in light of the reorientation and expansion of measures supported by the Energy and Climate Fund in the area of financial assistance within the framework of the Climate Action Programme 2030. For example, 53 of a total of 93 grants have a direct relationship to the environmental and climate action goals anchored in Germany’s sustainability strategy. The financing volume of climate- and environmentally-friendly measures comprises some €8.4 billion of total financial assistance for 2020. This means that in the area of financial assistance, some 58% of total subsidies is allocated to measures that support climate and environmental action. With regard to tax benefits, some measures related to energy duty and electricity duty, VAT and motor vehicle tax have positive effects in the area of climate and environmental action.

Figure 3: Trends in federal financial assistance and tax benefits by economic sector, 2017 to 2020

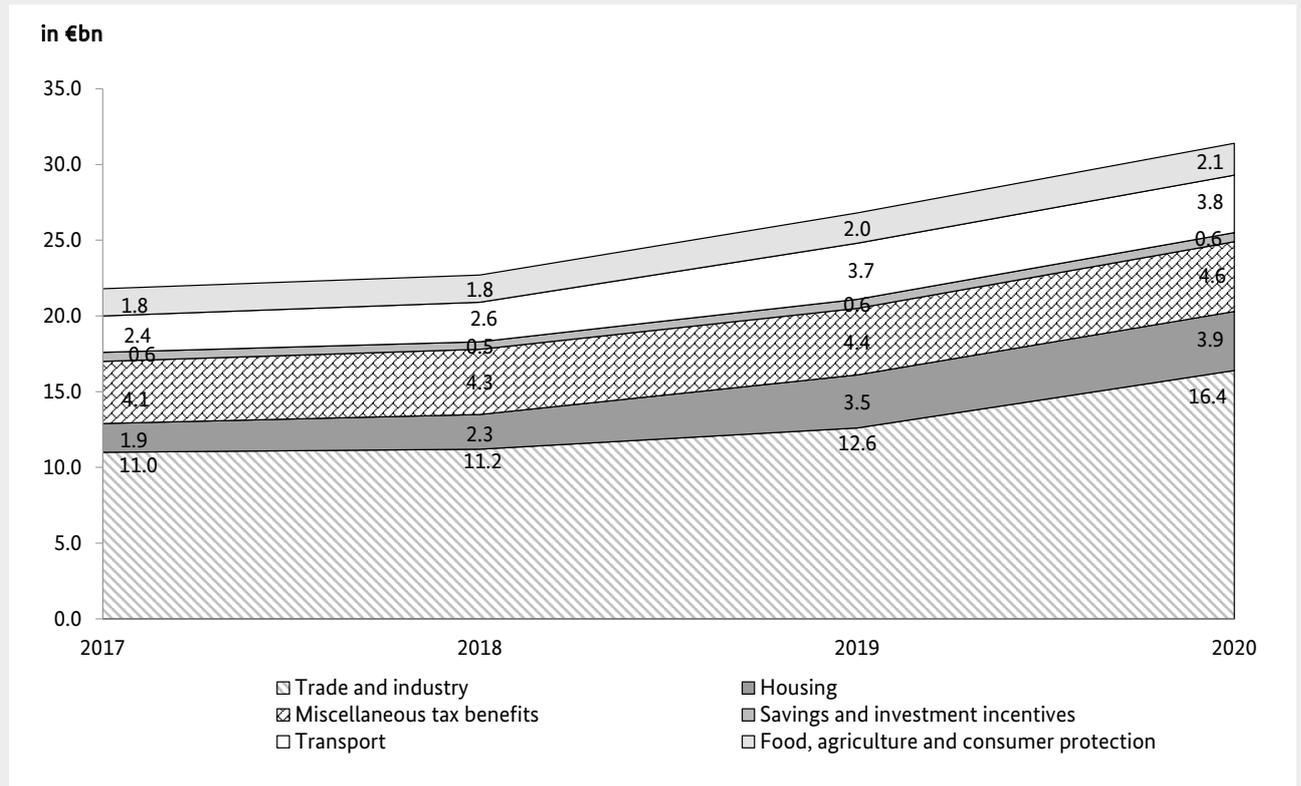


Table 3: Trends in federal financial assistance and tax benefits, 2017 to 2020 (in €m)¹⁾

Category	2017			2018			2019			2020		
	Financial assistance	Tax benefits	Total									
	Actual			Actual			Budgeted			Govt. draft		
1. Food, agriculture and consumer protection	797	1,029	1,826	765	1,029	1,794	954	1,016	1,970	1,044	1,019	2,063
2. Trade and industry (excluding transport)												
2.1 Mining	1,150	-	1,150	1,058	-	1,058	1,035	-	1,035	2,020	-	2,020
2.2 Energy efficiency and renewable energy	825	-	825	796	-	796	1,545	-	1,545	2,512	-	2,512
2.3 Technology and innovation subsidies	369	-	369	342	-	342	400	-	400	428	-	428
2.4 Assistance for specific economic sectors	22	-	22	27	-	27	29	-	29	28	-	28
2.5 Regional structural measures	365	14	379	323	6	329	420	0	420	419	0	419
2.6 Other measures	412	7,884	8,296	530	8,141	8,671	925	8,202	9,127	2,476	8,515	10,991
Total (2)	3,143	7,898	11,041	3,076	8,147	11,223	4,354	8,202	12,556	7,883	8,515	16,398
3. Transport	367	1,989	2,356	536	2,058	2,594	1,528	2,206	3,734	1,517	2,293	3,810
4. Housing	1,765	125	1,890	2,187	123	2,310	3,419	120	3,539	3,780	122	3,902
5. Savings and investment incentives	183	414	597	162	373	535	223	389	612	223	381	604
6. Miscellaneous financial assistance and tax benefits²⁾	-	4,130	4,130	-	4,277	4,277		4,435	4,435		4,573	4,573
Total 1 to 6³⁾	6,255	15,585	21,840	6,726	16,007	22,733	10,478	16,368	26,846	14,447	16,903	31,350

1) Totals may contain differences due to rounding.

2) Mainly tax benefits that directly benefit private households but affect business activity in important sectors of the economy.

3) Tax benefits estimated.

Table 4: Trends in tax benefits for the years 2017 to 2020, by category (in €m)

Category	2017		2018		2019		2020	
	Total	Federal	Total	Federal	Total	Federal	Total	Federal
1. Consumer protection, food and agriculture	1,091	1,029	1,090	1,029	1,077	1,016	1,078	1,019
2. Trade and industry (excluding transport)	17,224	7,898	18,058	8,147	17,885	8,202	17,718	8,515
2.1 Mining	-	-	-	-	-	-	-	-
2.2 Energy and raw material supplies	-	-	-	-	-	-	-	-
2.3 Technology and innovation	-	-	-	-	-	-	-	-
2.4 Assistance for specific economic sectors	-	-	-	-	-	-	-	-
2.5 Regional structural measures	31	14	13	6	0	0	0	0
2.6 Miscellaneous trade and industry (excluding 2.1, 2.2, 2.3, 2.4 and 2.5)	17,193	7,884	18,045	8,141	17,885	8,202	17,718	8,515
3. Transport	2,682	1,989	2,775	2,058	3,076	2,206	3,275	2,293
of this amount: - aviation fuel	533	533	584	584	584	584	584	584
- other transport	2,149	1,456	2,191	1,474	2,492	1,622	2,691	1,709
4. Housing and urban development	293	125	289	123	281	120	287	122
of this amount: -								
- section 7b, 7h, 7i Income Tax Act	134	57	135	58	135	58	140	60
- section 10f, 10g Income Tax Act	144	62	146	62	146	62	147	62
- owner-occupied homes premiums	15	6	8	3	0	0	0	0
5. Savings and investment incentives	975	414	878	373	914	389	896	381
6. Miscellaneous tax benefits¹⁾	8,294	4,130	8,589	4,277	8,904	4,435	9,240	4,573
Total 1 to 6	30,559	15,585	31,679	16,007	32,137	16,368	32,494	16,903

1) Mainly tax benefits that directly benefit private households but which affect business activity in important sectors of the economy.

3.5 Overall subsidy trends by jurisdiction and government level

In accordance with the mandate laid down in the Act to Promote Economic Stability and Growth, Subsidy Reports provide an overview of the federal-level financial assistance items and tax benefits for each budget year. In addition to this, Table 5 and Figure 4 outline trends in federal, *Länder* and local authority subsidies as well as subsidies from the European Recovery Programme (ERP) and the European Union. The estimates of financial assistance from local authorities were projected until 2020. *Länder* and local authority tax revenue shortfalls are estimated by the Federal Ministry of Finance. Figures on EU market-related expenditure and ERP financial assistance are also taken into account insofar as such figures are available. As in past reports, data on *Länder* and ERP financial assistance and on EU market-related expenditure are not available for the entire reporting period.

The data on *Länder* financial assistance was provided by the ZDL, the central data office of the *Länder* finance ministries. The data is obtained by analysing relevant categories and functions of the *Länder* budgets.

For the 26th Subsidy Report, the Federal Ministry of Finance commissioned the ZDL to develop a methodology with which figures for the local authority level could be calculated analogous to the methodology used for financial assistance by the *Länder*, so that *Länder* and local authority data would be based on the same methodology. For this report, the Federal Ministry of Finance has used the ZDL methodology to project financial assistance at the local authority level until 2020.

For the 26th Subsidy Report, the ZDL calculated financial assistance from local authorities using a set of categories and functions (i.e. budget headings for types of expenditures and functions) contained in the annual accounts of local authorities. It was necessary to resort to a special evaluation due to the level of detail required; however this was only available up until 2011.

This approach provided the total volume of financial assistance granted at the local level in 2011. However, it only allows a technical approximation for a complex topic that cannot fully reflect the specific cases included in the aggregated data. Nevertheless, this kind of technically standardised solution has the advantage that the information can be updated regularly and relatively easily.

The actual expenditures for the 2011 base year were projected forward on the basis of assumptions taken from available data. For the years 2012 to 2018, the rates of change in net expenditures contained in local authorities' quarterly cash statistics were used as assumptions; from 2019 the rates of change of net expenditure originate from the budget projections at the local level (based on the 2019 Stability Programme). Following this method, subsidies granted by cities and local government authorities amounted to around €3 billion in 2018 and will reach some €3.25 billion in 2020.

Länder financial assistance increased from an actual spending total of €7.7 billion in 2017 to a projected total of roughly €11.7 billion in 2019. As in previous subsidy reports, the target figure for grants in the final reporting year is significantly higher than the latest available actual budget figures for previous years. In the past, however, a significant proportion of the budgeted funds was not spent by the *Länder*: the target figures for 2017 of €10.7 billion are now to be compared with actual figures for this year of €7.7 billion.

Financial assistance items from the *Länder* are subdivided into five categories in Table 5. Financial assistance in Category I (food, agriculture and forestry) has a pronounced geographic concentration. Approximately 40% of grants are allocated to the rural *Länder* of former East Germany and an additional 30% to one southern German *Land*. Aid for trade and industry (Category II) shows a sharp rise of 20%, reflecting strong growth in the majority of *Länder*. This can be attributed, first, to investment allocations to local government authorities and municipal associations (co-financing of the *Länder* with the municipal investment promotion fund) and, second, to additional financial efforts related to broadband expansion, which benefit private companies in particular.

The residential sector (Category IV) stands out with the highest growth rate of 42% between 2018 and 2019. One primary driver for this is the trend in “unbundling” funds intended to promote social housing. It is also striking that the highest positive rates of change in Category IV are found in the city states and in the *Länder* of southern Germany, where land prices are high. Accordingly, housing promotion as a political priority in today’s tight housing market is likewise reflected in the subsidy results. Urban development (Category V) also showed strong growth in 2019 based on residential-related retrofitting and energy-efficient renovation.

ERP financial assistance stood at approximately €217 million in 2018. From 2008 onwards, the figures for ERP funding no longer represent the total amount of newly issued loans but rather only the subsidy amount, which is mainly based on the reduced interest rates on these loans. This change in methodology had the effect of altering the overall total for 2018 by roughly €7.9 billion; this must be kept in mind when interpreting the long-term trends.

The ERP Special Fund provides low-interest financing to support new businesses, SMEs in the trade and industrial sectors, and self-employed individuals who provide professional services. In particular, ERP loans aim to support start-ups and innovation. The ERP Special Fund covers the interest rebate component, and the KfW is responsible for refinancing the loans. Table 5 shows the total amount of interest rebates granted for each year. The figures also include federal interest subsidies paid to the ERP Special Fund to boost the amount of funding that can be provided in specific areas.

EU market-related expenditure consists of return flows to Germany from the European Agricultural Guidance and Guarantee Fund, Guarantee Section.

Table 5: Reported total volume of federal, *Länder*, local authority, ERP and EU subsidies (in €bn)

	1991	1995	2000	2005	2010	2015	2016	2017	2018	2019	2020 ⁶⁾
1. Financial assistance											
Federal	10.1	9.4	10.1	6.1	7.0	5.5	5.9	6.3	6.7	10.5	14.4
<i>Länder</i> ¹⁾	11.5	10.7	11.2	10.3	8.9	8.4	7.7	7.7	9.2	11.7	
Local authorities ²⁾	1.5	1.5	1.6	1.4	2.4	2.7	2.8	2.9	3.0	3.1	3.3
2. Tax benefits											
Federal	9.0	9.1	13.1	17.4	18.6	15.4	15.4	15.6	16	16.4	16.9
<i>Länder</i> and local authorities ³⁾	10.9	12.9	12.0	12.5	10.5	16.7	15.9	15	15.7	15.7	15.6
3. ERP financial assistance⁴⁾	5.5	5.9	5.7	3.2	0.3	0.4	0.3	0.2	0.2	0.3	
4. EU market-related expenditure⁵⁾	5.4	5.4	5.6	6.3	5.7	5.2	5.1	5.1			
Total volume (total 1 to 4)	53.9	55.0	59.4	57.2	53.4	54.3	53.1	52.8	50.8	57.7	50.2

1) Source: Zentrale Datenstelle der Landesfinanzminister (ZDL)

2) Local authority data: estimates based on trends in *Länder* subsidies; source from 2010 onwards: ZDL

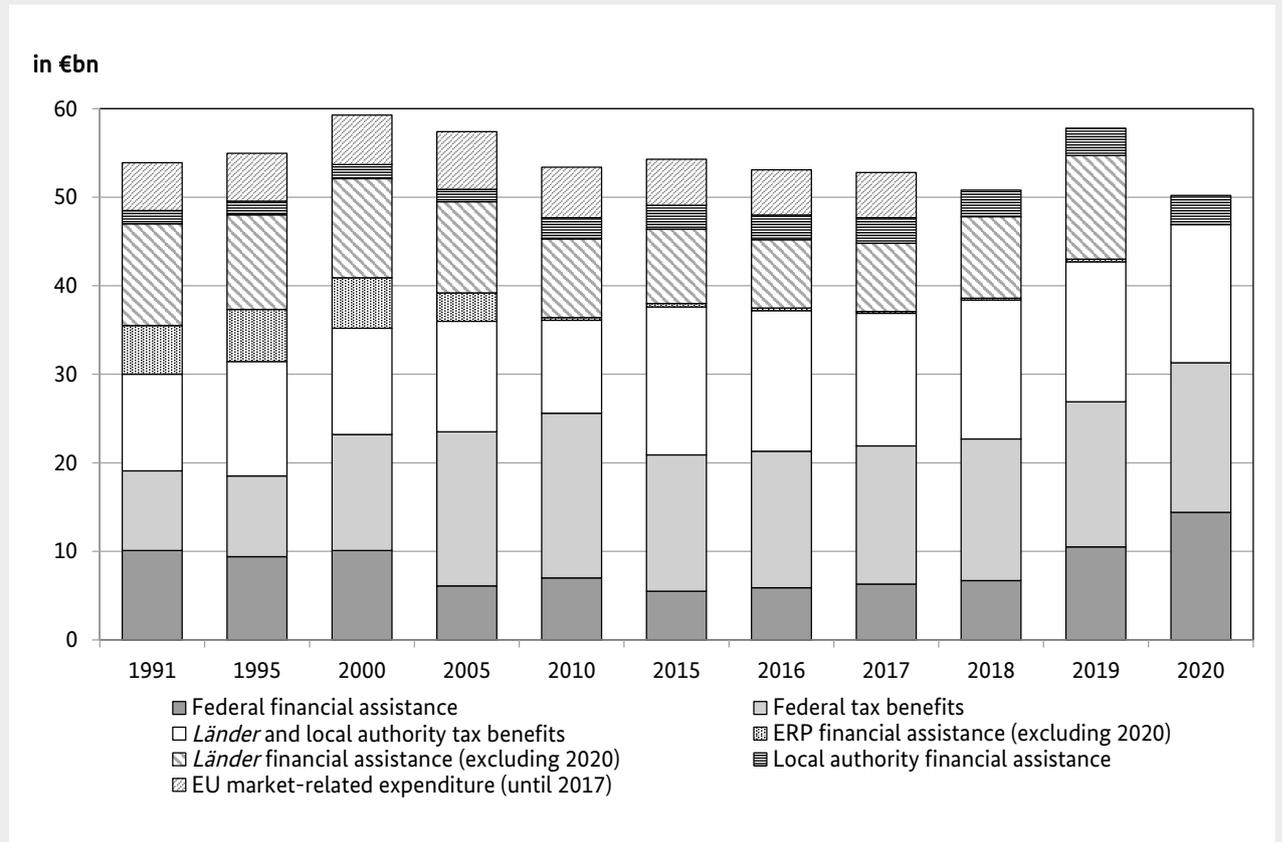
3) The substantial increase between 2012 and 2013 is the result of temporarily higher volumes due to individuals bringing forward the timing of the transfer of their estate to their heirs by means of gifts, ahead of a Federal Constitutional Court decision (delivered on 17 December 2014) and a pending revision of the rules for inheritance and gift tax.

4) See also table 7. From 2008: Changeover from total loan amount to interest relief granted in connection with applications approved in current year, over total term of loan or of other funding measures.

5) Data on EU market-related expenditure is not yet available for 2018-2020.

6) Data on EU market-related expenditure, ERP financial assistance, and *Länder* financial assistance is not yet available for 2020.

Figure 4: Reported total volume of federal, *Länder*, local authority, ERP and EU subsidies, 1991 to 2020



IV. Key general facts, findings and figures for federal subsidy reporting

4.1 Legal basis of subsidies

As a rule, the federal government does not grant subsidies without a legal basis. Indeed, the legal basis for financial assistance consists primarily of rules enacted by the executive branch. This is the case for 81 of the 93 items of financial assistance cited in the current Subsidy Report, although it should be noted that this also includes contracts that the Federation has concluded (e.g. with the KfW development bank) in connection with the implementation of individual programmes. Twelve financial assistance items are granted on the basis of statutory provisions. By contrast, tax benefits always have a statutory foundation by their very nature.

A statutory basis makes the provision of financial benefits more transparent to businesses and private citizens with regard to

the award criteria: the specific details of the approval process are uniformly regulated and verifiable. This creates legal certainty for private citizens, businesses and the public administration.

At the same time, a statutory basis tends to promote the continuation of subsidies. This is very clear in the case of subsidies that are based on legislation. Because of the large amount of government and parliamentary effort involved, it is relatively rare for them to be changed or revised. This applies in particular to tax benefits, which all require a basis in primary legislation. In contrast, financial assistance items are largely based on guidelines and can therefore usually be modified more easily. The annual budgeting process, for example, provides an impetus for revision.

Legal basis		Primary legislation	Secondary legislation, guidelines or contract	Total
Financial assistance	Number of items	12	81	93
	%	12.9	87.1	100
	Volume (€bn, 2017)	3.7	6.8	10.5
	%	35.3	64.7	100
Tax benefits	Number of items	105	-	105
	%	100	-	100
	Volume (€bn, 2017)	16.4	-	16.4
	%	100	-	100

In all, 60 of the financial assistance items included in this report – which account for 64.5% of the total – also qualify as state aid under EU law. This shows that the definitions of state aid and subsidies are closely related, but also that the two terms cannot be used synonymously. For example, financial assistance for housing and urban development does not constitute state aid, because it does not affect trade in the internal market.

4.2 Objectives of subsidies

The federal government's subsidy policy guidelines underscore the importance of clear objectives. Clearly defined objectives make it possible to evaluate the success of each measure. The subsidy data sheets (see Annexes 7 and 8 of the full version of the 27th Subsidy Report) contain information on the objectives pursued with each subsidy.

In addition, the Act to Promote Economic Stability and Growth stipulates that subsidies are to be classified according to their objective as sectoral support, adjustment assistance or productivity/growth assistance. In addition to these three categories, there are miscellaneous financial assistance items and tax benefits that do not always fit clearly into a specific category.

In 2020, sectoral support is expected to account for only a very small share of total financial assistance, at less than 2.7% (see Table 6). Adjustment assistance, which is expected to account for over 35.3% of all financial assistance in 2020, is centred on (i) joint Federation/*Länder* tasks to promote regional industry and agriculture and (ii) assistance to the coal industry. Financial assistance for purposes such as promoting private sector innovation is classified as productivity and growth assistance. This latter category is expected to account for 13.6% of all financial assistance in 2020. Miscellaneous financial assistance, which amounts

to 23.6%, covers subsidies that do not fit clearly into a specific category. This category includes such items as funding for measures to promote the use of renewable energy, improve energy efficiency, expand the broadband network and optimise pumping and heating systems. Assistance for private households that indirectly benefits trade and industry accounts for 24.8% of all financial assistance. In particular, such assistance includes funding for energy-efficiency building retrofits and premiums under the Home Ownership Saving Premium Act.

With regard to tax benefits, Table 6 shows only the federal share (in €m). Sectoral support will account for the largest portion of tax benefits in 2020, at approximately 44.4%. These include, for example, the energy and electricity duty relief introduced for manufacturing companies as part of the ecological tax reform, which serve to maintain the international competitiveness of the manufacturing sector. Adjustment assistance will make up only a relatively small share of tax benefits (4.7%) and includes, in particular, tax allowances and tax exemptions in the areas of trade, industry and agriculture. Productivity and growth assistance, which includes such items as energy duty relief for combined heat and power generation (CHP), is expected to account for 18.7% of tax benefits. Other tax benefits (24.8%) include, in particular, VAT relief in various areas. Tax benefits for private households (7.4%) that indirectly assist trade and industry consist mainly of (a) deductions for renovation costs and (b) savings and investment incentives.

Table 6: Federal financial assistance and tax benefits for businesses, economic sectors and private households

	2017		2018		2019		2020	
	Actual ³⁾		Actual ³⁾		Budget ³⁾		Govt. draft ³⁾	
	€m ¹⁾	%	€m ¹⁾	%	€m ¹⁾	%	€m ¹⁾	%
Financial assistance								
for businesses and economic sectors	4,496	71.9	4,573	68.0	7,090	67.7	10,864	75.2
of which:								
Sectoral support	44	0.7	142	2.1	352	3.4	392	2.7
Adjustment assistance	2,898	46.3	2,629	39.1	3,537	33.8	5,097	35.3
Productivity/growth assistance	597	9.5	589	8.8	1,299	12.4	1,970	13.6
Miscellaneous financial assistance	957	15.3	1,213	18.0	1,902	18.2	3,405	23.6
For private households ²⁾	1,759	28.1	2,153	32.0	3,388	32.3	3,583	24.8
Total financial assistance	6,255	100	6,726	100	10,478	100	14,447	100
Tax benefits								
for businesses and economic sectors	14,354	92.1	14,798	92.4	15,124	92.4	15,644	92.6
of which:								
Sectoral support	7,383	47.4	7,460	46.6	7,469	45.6	7,502	44.4
Adjustment assistance	807	5.2	800	5.0	792	4.8	795	4.7
Productivity/growth assistance	2,384	15.3	2,618	16.4	2,794	17.1	3,159	18.7
Miscellaneous tax benefits	3,780	24.3	3,920	24.5	4,069	24.9	4,188	24.8
For private households ²⁾	1,231	7.9	1,209	7.6	1,244	7.6	1,259	7.4
Total tax benefits	15,585	100	16,007	100	16,368	100	16,903	100
Federal financial assistance and tax benefits combined								
for businesses and economic sectors	18,850	86.3	19,371	85.2	22,214	82.7	26,508	84.6
of which:								
Sectoral support	7,427	34.0	7,602	33.4	7,821	29.1	7,894	25.2
Adjustment assistance	3,705	17.0	3,429	15.1	4,329	16.1	5,892	18.8
Productivity/growth assistance	2,981	13.6	3,207	14.1	4,093	15.2	5,129	16.4
Miscellaneous financial assistance and tax benefits	4,737	21.7	5,133	22.6	5,971	22.2	7,593	24.2
For private households ²⁾	2,990	13.7	3,362	14.8	4,632	17.3	4,842	15.4
Overall total	21,840	100	22,733	100	26,846	100	31,350	100

1) Totals may contain differences due to rounding.

2) Businesses and economic sectors benefit indirectly.

3) Figures for tax benefits are mostly estimated revenue shortfalls. Actual figures are also available in some cases for 2017 and 2018.

4.3 Financial character of assistance

Financial assistance can be provided in the form of grants, loans and debt service assistance, with grants accounting for the predominant share. Loans granted directly from the federal budget have long been of secondary importance. This is also due to the fact that the federal government uses financial institutions to issue these loans. These institutions generally receive an interest subsidy for the implementation of the programme and then finance issued loans via the market. The interest subsidy can be paid either on an ongoing basis – for each annual portion of a loan – or cumulatively for the total amount of assistance approved. The federal government grants the largest share of its interest subsidies on an annual ongoing basis. Thus the programmes involved – such as KfW loans under the CO₂ Building Refurbishment Programme, which can have long approval periods such as 10 years – have a constraining effect on fiscal policy in subsequent years. In some cases, this constraining effect extends beyond the horizon of the federal government's medium-term financial plan. In the year when approval is granted, the federal government enters into a multi-year commitment that leads to corresponding expenditures in subsequent years.

One characteristic of tax benefits is that their use reduces tax revenues. There is always a statutory entitlement to tax benefits. Premiums such as the employee savings premium are paid out in a fixed amount regardless of the applicable tax rate. The premiums thus function as financial assistance for the recipients. Benefits that are subject to a non-proportional rate have a different subsidy value for the beneficiary depending on the individual tax rate.

In this way, for example, joint taxes provide joint financing for federal, *Länder* and local authority tasks. In contrast to financial assistance, the volume of subsidies is not determined and stated in the respective budgets.

4.4 Implementation of the subsidy policy guidelines

The subsidy policy guidelines constitute a voluntary commitment by the federal government and are to be taken into account every time a financial assistance item or tax benefit is created or modified. The guidelines state as core priorities that subsidies must be temporary and degressive by design and that they must be subject to evaluations and sustainability impact assessments.

The regular review of subsidies in terms of their efficiency and sustainability, along with the temporary and degressive design of subsidies, contribute to their continuous re-evaluation and thus make an important contribution to increasing the outcome-orientation of public expenditures. Transparency promotes outcome-orientation and offers a basis for improving the efficacy and economic efficiency of the government's actions. The principles enshrined in the subsidy policy guidelines – in particular, defining objectives in a way that makes it possible to measure success and subjecting subsidies to regular evaluation – likewise provide a basis for further improving the outcome-orientation. Subsidies are also typically examined during spending reviews, due to the fact that there is a relatively large amount of information available on subsidies because of the evaluation findings. Further information about spending reviews is available online at www.bundesfinanzministerium.de.

Furthermore, by virtue of the comprehensive evaluation of 33 tax benefits during the current reporting period, the federal government has underscored its commitment to the resolute implementation of the subsidy policy guidelines, which state that generally all subsidies are to be subject to regular evaluation in terms of target attainment, efficiency and transparency.

Time limits

Most financial assistance measures are time-limited. Because most financial assistance is based on guidelines from the respective ministry, there tends to be less emphasis on adopting statutory time limits for such assistance (see Chapter 5.1). There are also instances in which primary legislation is combined with time-limited secondary legislation. This is the case, for example, with the joint tasks carried out by the Federation and *Länder*: these joint tasks are laid down in general terms in the Basic Law, while the details for each planning period are specified in time-limited planning and coordination frameworks. Because these planning and coordination frameworks make it possible to specify in detail both the object and amount of funding, joint tasks are treated as measures that are time-limited on the basis of secondary legislation.

Of the 29 new grants introduced, all but four are subject to time limits. The measures for national climate action, the federal government's earmarked participation in social housing construction and two cycling-related projects are not subject to time limits. Accordingly, out of a total of 93 financial assistance items, 68 are time-limited, and six of these (6.5%) are in the final funding phase. The latter are measures where the time limitation has already taken effect but there are still funding obligations to be fulfilled. This means that about 73% of financial assistance items are time-limited (or nearly 80% in terms of funding volume).

In total, 26.9% of financial assistance items (20% in terms of funding volume) are not time-limited. Compared with the previous Subsidy Report, the share of financial assistance items that are not time-limited has been reduced again, from 34.3% to 26.9%. There are various reasons why measures may lack time limits. In some cases, the measures concerned pre-date the adoption of the guidelines, and the measures' conditions have not been amended since. Other measures are implemented on the basis of annual budget resolutions. A small number of measures are based on direct parliamentary mandates, and another small quantity receive European co-financing that is not subject to time limits.

		Total items subject to time limits	Of which: in final funding phase	Annual decision/no time limitation	Total
Financial assistance	Number of items	68	6	25	93
	%	73.1	6.5	26.9	100
	Volume (€m, 2017)	8,336	19	2,141	10,478
	%	79.6	0.2	20.4	100
Tax benefits	Number of items	26	5	79	105
	%	24.8	4.8	75.2	100
	Volume (€m, 2017)	4,332	-	12,036	16,368
	%	26.5	0.0	73.5	100

In the case of tax benefits, which always have a statutory basis, a comparatively small number – 26 out of 105 tax benefits – are time-limited. The time-limited tax benefits comprise (i) measures for which time limits were stipulated upon adoption and (ii) tax benefits for which a parliamentary decision was taken to discontinue them because they had outlived their purpose or had been superseded by a follow-up arrangement.

Degression

Financial assistance is subject to degression in various forms. First, degression can apply for the recipient. This means that assistance granted for multiple years decreases in absolute terms over time. This form of degression aims mainly to prevent recipients from becoming habituated to and dependent upon the subsidy. Second, degression can apply for the subsidising authority. This means that the total outlay for the assistance decreases over time. This objective can also be attained – even if the size of individual grants is held constant or even increased – by restricting the number of grants.

There may also be technical reasons that argue against a degressive structure for a measure, e.g. if degression would jeopardise the achievement of the actual purpose of the subsidy. Many programmes also provide a one-off benefit, so that it is not possible to have individual degression per economic entity. Furthermore, a degressive structure is not useful if, at the same time, the measure is limited to a very short funding period, e.g. if a grant is only awarded for one financial year.

In the case of tax benefits, only limited control options are available when compared with financial assistance. Because the criteria for receiving tax benefits are fixed by law, degression can be applied through statutory limitations on individual support only in rare cases.

In the period covered by this Subsidy Report, 21 of the financial assistance items not in the final funding phase feature a degressive structure. Degressive measures account for 18.6% of total subsidy volume. These consist mostly of financial assistance items that are reduced in size by cutting the amount allocated in the budget. In these cases, the government departments concerned decide whether to decrease the number of grants and/or their amount.

		Items with a degressive structure	Items with no degression	Total	Expired (for information purposes)
Financial assistance	Number of items	21	72	93	6
	%	22.6	77.4	100.0	6.5
	Volume (€m, 2017)	1,947	8,529	10,476	19
	%	18.6	81.4	100.0	0.2
Tax benefits	Number of items	2	103	105	5
	%	1.9	98.1	100.0	4.8
	Volume (€m, 2017)	-	16,368	16,368	-
	%	0.0	100.0	100.0	0.0

Evaluation

In accordance with the subsidy policy guidelines, all subsidies are fundamentally subject to regular evaluation in terms of target attainment, efficiency and transparency. For the purpose of subsidy controlling, the subsidies are to be repeatedly reviewed in terms of their necessity, expedience and effectiveness (including external effects) as well as their compatibility with the fiscal, economic, social and ecological objectives of the federal government's policies, with a view to their potential for optimisation. The intention behind regular and effective internal or external performance evaluations is, in particular, to identify the potential for reductions in subsidies in a way that is both targeted and economically sound, or to optimise how subsidies are designed.

These performance evaluations also review whether a certain assistance item continues to be necessary and the extent to which it actually fulfils the desired objectives. To do this, it is essential to define sufficiently clear goals at the time the subsidy is introduced and ideally to support them with operational indicators. However, it is often particularly difficult to define appropriate and measurable indicators to support measures. High-quality analysis of outcomes also

requires estimates of how markets and/or the sectors under review would have developed in the absence of state intervention. The generation and provision of the required data is often not possible or may require a disproportionate level of effort. Causal performance evaluations of subsidies thus face considerable methodological and practical difficulties in implementation.

The evaluations documented in the data sheets (see Annexes 7 and 8 of the full version of the 27th Subsidy Report) are based on different forms of performance evaluation, such as internal performance evaluations and evaluations by the ministry or subordinate authorities, evaluations by the *Länder* or as part of the legislative process or spending reviews as well as reviews by the Bundesrechnungshof (Germany's supreme audit institution) or external experts.

The selection of the method to be used in conducting a performance evaluation is also the result of cost-benefit considerations. For example, from a cost-benefit perspective, an internal audit may often be the only option, particularly in the case of financially less significant measures, since a comprehensive external audit would entail disproportionately high costs and/or considerable effort. Furthermore, for temporary measures in their final funding phase,

Evaluations of federal financial assistance and tax benefits		External	Internal	No completed evaluation
Financial assistance	Number of items	33	16	44
	%	35.5	17.2	47.3
	Volume (€m, 2017)	6,653	1,163	2,660
	%	63.5	11.1	25.4
Tax benefits	Number of items	45	6	54
	%	42.9	5.7	51.4
	Volume (€m, 2017)	13,366	106	2,896
	%	81.7	0.6	17.7

it must be considered whether any potential findings from a performance evaluation would be worth the associated costs.

The data sheets contained in Annexes 7 and 8 of the full version of the 27th Subsidy Report include information on how each subsidy is evaluated, in particular with regard to frequency of evaluation, methodology and evaluation results. Evaluation findings are also intended to support policy-makers when considering whether a particular subsidy should be retained without modification, modified or discontinued.

In total, 49 out of 93 financial assistance items were evaluated internally or externally during the reporting period, representing 52.7% of the total. Overall, 74.6% of total financial assistance was subject to evaluation. This represents a decrease of 16 percentage points compared with the 26th Subsidy Report. According to the data sheets, 44 financial assistance items were not subject to evaluation, Non-evaluated financial assistance items account for 25.4% of total financial assistance in 2019. In light of the 29 new financial assistance items, the current Subsidy Report includes a large number of measures that need to be operating for a certain amount of time before it makes sense to evaluate them. Others are so short-term in nature that evaluations can be conducted – if at all – only after the programme expires.

For the most part, financial assistance items that involve large amounts of funding are evaluated externally. Here, as well, there has been a decrease compared with the previous report due to the large number of new financial assistance items. Financial assistance items evaluated externally declined from 76.6% to 63.5%.

As part of its work to implement the expanded subsidy policy guidelines, the Federal Ministry of Finance commissioned an extensive research project in March 2017 that will evaluate the largest tax benefits

that have not yet been subject to external evaluation, along with arrangements that are closely related to such benefits. This means that an additional 33 tax benefits listed in Annex 2 of the 26th Subsidy Report are currently undergoing evaluation. The project was completed in October 2019.¹ The key individual findings of the evaluations that were performed are presented in the data sheets for the respective tax benefits in Annex 8 of the full version of the 27th Subsidy Report. They reflect the conclusions of the external experts. The results of the evaluation report are reviewed by the federal government.

Of the 105 tax benefits granted during the current reporting period, external evaluations have been completed for 45 (42.9%), and internal evaluations have been completed for six (5.7%). Fifty-four tax benefits, representing 51.4% of the total, have not been evaluated to date. In terms of volume, federal tax benefits that have already been evaluated made up some 82% of total federal tax subsidies. Compared with the last Subsidy Report, this represents an increase of more than 35 percentage points.

Sustainability impact assessment

Under the expanded subsidy policy guidelines, all subsidies are subject to a sustainability impact assessment. The relevant ministries are in charge of these assessments. The focus of the sustainability impact assessment is on weighing up the effects of the measures from an ecological, economic and social perspective, with a particular focus on conflicting objectives.

¹ The full current study setting out the researchers' results in detail can be accessed on the website of the FiFo Institute for Public Economics at the University of Cologne (www.fifo-koeln.de).

Sustainability is a guiding principle of federal government policy and is targeted towards the achievement of intergenerational equity, social cohesion, quality of life, and fulfilling Germany's international responsibilities. Economic competitiveness, protection of natural resources and social responsibility are to be combined in a way that ensures the long-term sustainability of future developments.

Germany's National Sustainable Development Strategy 2016, which was approved by the federal government in November 2018, forms the basis for sustainability impact assessments. Germany's national sustainability strategy focuses on the globally-based 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs) (see Annex 10). The updated German strategy sets national targets for all 17 SDGs and specifies at least one indicator-based national policy goal for each SDG. With these updates, the sustainability strategy provides a framework for implementing the 2030 Agenda at the national level.

By aligning its system of targets and indicators with the UN's sustainability goals, Germany is making sure that its policies also place a stronger focus on important international targets involving global supply and value chains, such as promoting decent work and economic growth (SDG 8) and ensuring sustainable consumption and production patterns (SDG 12). This also means that the sustainability impact assessments enshrined in Germany's subsidy policy guidelines reflect the specifications laid down in the UN's Guiding Principles on Business and Human Rights.

When conducting their sustainability impact assessments, the ministries make use of the management strategy for sustainable development developed as part of the German sustainability strategy, in particular the principles of sustainable development enshrined therein and

the defined goals and indicators. In accordance with the German sustainability strategy, the function of the sustainability impact assessment is to explain, with regard to each subsidy, the extent to which principles, indicator areas or objectives defined in the strategy are affected and to highlight any conflicts between objectives. The assessments analyse the long-term economic, environmental and social impacts of the subsidy in question, i.e. how the subsidy will affect such things as economic prosperity, future financial security, climate action measures, resource conservation and job creation/retention.

Subsidies may affect the sustainability strategy's diverse targets and impacts in different ways and must therefore be assessed in a manner that takes these differences into account. Accordingly, in addition to the primary objectives and impacts intended by the respective measure, possible side effects must be considered as well, so that conflicts between different sustainability objectives can be identified as part of the respective sustainability assessments.

Sustainability impact assessments are based primarily on qualitative measurements, because it is nearly impossible to make reliable statements about the quantitative impacts that subsidies have on the national sustainability strategy's complex system of targets and indicators.

Most financial assistance items and tax benefits are related directly or indirectly to the principles of sustainable development and the national sustainability strategy's specific indicators or groups of indicators. However, subsidies also tend to give rise to the increased consumption of financial, material and/or natural resources and, in this respect, can lead to conflicts with other objectives enshrined in the strategy such as resource conservation, climate action and government debt reduction. Such adverse impacts on other government objectives

and the resulting conflicts are one of the reasons why subsidies always require justification.

The 29 newly introduced financial assistance items, which are included as subsidies in this report, also have a positive impact on the targets and indicators contained in Germany's sustainability strategy. In total, 21 of these items are targeted towards positive environmental outcomes such as the promotion of climate action, resource conservation and renewable energy use. These include, among other things, the promotion of cycling, the reduction of track access charges for rail freight, the promotion of industrial production for mobile and stationary energy storage devices, subsidies for the hardware retrofitting of diesel vehicles used by tradespeople and for deliveries, and of diesel buses for public transport, and the promotion of measures within the framework of the Heat Network Systems 4.0 model programme. Another six new financial assistance items, such as support for the expansion of gigabit networks or support for agricultural enterprises damaged by drought, focus on the positive economic effects, in terms of economic provision for the future, competitiveness, innovation and jobs. New assistance items for residential construction are primarily focused on social aspects contained in the German sustainability strategy such as enhancing social cohesion.

Furthermore, subsidies must also be assessed within the international context. For example, a number of sectoral support measures related to energy duty benefits do not have an immediate positive environmental impact in Germany but are justified in economic and environmental terms, given that they prevent production from being shifted to third countries that have lower environmental and energy standards. Justification based on indirect effects related to conditions in foreign countries must be reviewed at regular intervals.

Even subsidies that have already been in place for a longer period of time should, as part of the evaluation process, be regularly reviewed in terms of their conformity with the rules of the national sustainability strategy. Against this background, the sustainability impact assessment formed for the first time a separate part of the analysis in the recently completed research project "Evaluation of tax benefits". The results of the report on sustainability impacts were taken into account in the corresponding data sheets contained in Annex 8. They have thus also made a contribution to a more nuanced analysis of the impacts of the subsidies under review and to a more robust examination of conflicting objectives.

V. Summary

Subsidy policy is an integral part of the federal government's forward-looking fiscal policies. The government draft of the federal budget for 2020, including the supplementary budget, again fulfils a central budgetary requirement of the coalition agreement, according to which the federal budget must be balanced without new borrowing. The general government debt ratio is expected to fall below 60 percent of GDP this year for the first time in 17 years. Budgetary latitude will be used primarily for measures that enhance growth and are forward-looking and socially cohesive.

The German government's subsidy policy is increasingly being shaped by climate and environmental policies, especially in the area of direct federal funding. For example, 53 grants with a total financing volume of €8.4 billion are directly related to the environmental and climate goals anchored in Germany's sustainability strategy. This means that in the area of financial assistance, around 58% of total subsidies are allocated to measures that are climate- and environmentally friendly.

In addition to climate action as a core political concern, other current funding priorities are in the areas of housing construction, digital technology and mobility. By setting clear goals in high-priority areas, subsidy-funded measures will provide important impetus to strengthen the economy's sus-

tainability and capacity for innovation, to advance climate and environmental action and to promote social equity.

Federal subsidies, in the form of financial assistance and tax benefits, are set to climb from €21.8 billion in 2017 to €31.4 billion in 2020. This €9.6 billion growth in total subsidies is being driven primarily by an increase in financial assistance by some €8.1 billion, from €6.3 billion appropriated in 2017 to an appropriation of €14.4 billion in 2020. Federal tax benefits will rise from €15.6 billion in 2017 to €16.9 billion in 2020.

Most of the increase in subsidies is accounted for by trade and industry. During the reporting period, they are expected to increase from €11 billion in 2017 to a budgeted total of €16.4 billion in 2020, a rise of €5.4 billion. This corresponds to a share of approximately 52.3% in 2020. The main factor driving this increase is the rise in financial assistance to promote energy efficiency and renewable energy. In addition, subsidies for the construction industry more than doubled from €1.9 billion in 2017 to an estimated €3.9 billion in 2020, primarily as a result of the home ownership-related child benefit (*Baukindergeld*). In the transport sector, expenditures are projected to rise from €2.4 billion in 2017 to €3.8 billion in 2020. This is the effect of the new measure to reduce track access charges for rail freight.

The subsidy policy guidelines set the framework for the federal government's subsidy policy and form an integral part of an impact-oriented subsidy policy (see Chapter 2). They increase transparency and accountability for subsidies and enhance the ability to control subsidies so that they are as target-oriented and efficient as possible and support sustainable development.

In line with the subsidy policy guidelines, nearly all of the new financial assistance items being introduced during the current reporting period to promote priority measures targeting climate action, mobility and socially-equitable construction will be provided on a temporary basis.

The regular evaluation of subsidies with regard to their accuracy and efficiency, as well as a detailed sustainability assessment for subsidies, comprise the core elements of effective monitoring of subsidies. Such evaluations are aimed at, in particular, preventing the misallocation of resources and identifying potential for optimisation and additional options for structuring the available tools. However, placing a greater focus on future-oriented measures can only be successful if subsidies that are no longer necessary are systematically reduced.

Sustainability impact assessments broaden the range of subsidy management instruments and focus on a holistic appraisal of subsidies by weighing the outcomes of individual measures from a variety of sustainability-related perspectives.

By commissioning the systematic evaluation of 33 additional tax benefits, the federal government has underscored its commitment to the resolute implementation of the subsidy policy guidelines. As part of a comprehensive research project, the largest tax benefits that have not yet been externally evaluated, as well as closely related arrangements, have been evaluated with regard to their target attainment, efficiency and instrumental suitability, and, for the

first time, also with regard to their sustainability. The research project, which was completed in October 2019, makes an effective contribution to the implementation of the subsidy policy guidelines and strengthens the foundations of evidence-based fiscal policy.

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