



TAX EXPENDITURES COUNTRY REPORT

Germany

Michael Thöne
Christian von Haldenwang

October 2026

The German Institute of Development and Sustainability (IDOS) is institutionally financed by the Federal Ministry for Economic Cooperation and Development (BMZ), based on a resolution of the German Bundestag, and the state of North Rhine-Westphalia (NRW) as a member of the Johannes-Rau-Forschungsgemeinschaft (JRF).

Suggested citation:

Thöne, M., & von Haldenwang, C. (2026). *Tax expenditures country report: Germany*. German Institute of Development and Sustainability (IDOS) and Council on Economic Policies (CEP). <https://doi.org/10.23661/cr5.2026>

Disclaimer:

The analyses expressed in this paper are those of the author(s) and do not necessarily reflect the views or policies of the German Institute of Development and Sustainability (IDOS) or the Council on Economic Policies (CEP).



Except otherwise noted, this publication is licensed under Creative Commons Attribution (CC BY 4.0). You are free to copy, communicate and adapt this work, as long as you attribute the German Institute of Development and Sustainability (IDOS), the Council on Economic Policies (CEP) and the author(s).

DOI: <https://doi.org/10.23661/cr5.2026>

© German Institute of Development and Sustainability (IDOS) gGmbH

Tulpenfeld 6, 53113 Bonn

Email: publications@idos-research.de

<https://www.idos-research.de>



Authors

Michael Thöne is the managing director of the FiFo Institute for Public Economics at the University of Cologne.

Christian von Haldenwang is a senior researcher and project lead with the German Institute of Development and Sustainability (IDOS). He is also the co-founder and co-director of the [Tax Expenditures Lab](#), which hosts the Global Tax Expenditures Database (GTED) and the Global Tax Expenditures Transparency Index (GTETI).

Acknowledgements

This report is part of a series of [Tax Expenditure Country Reports \(TECRs\)](#), overseen and edited by Agustin Redonda, senior fellow with the Council on Economic Policies (CEP), and Christian von Haldenwang, senior researcher with IDOS. Alexander Barkawi, Director of CEP, Flurim Aliu and Sofia Berg (both CEP fellows) provided additional feedback and valuable support in writing the document. Pepa Echanove (CEP), Cornelia Hornschild and Katharina Schaarschmidt (both IDOS) contributed to formatting and editing the document.

Table of contents

List of abbreviations	3
Executive summary.....	4
Germany at a glance (2025)	6
Tax expenditures key figures (2025).....	7
Key governance and institutional features.....	8
Tax expenditure reporting.....	9
Global Tax Expenditures Transparency Index	16
Benchmark	17
Revenue forgone	21
Tax expenditures related to environmental and climate goals	24
Evaluation	28
Political economy and reform	32
References.....	34
Annex.....	37

List of abbreviations

BMF	Bundesministerium der Finanzen (Federal Ministry of Finance)
BRH	Bundesrechnungshof (Federal Court of Auditors)
CIT	Corporate income tax
ETE	Environmental tax expenditure
EV	Electric vehicle
GDP	Gross domestic product
GTED	Global Tax Expenditures Database
GTETI	Global Tax Expenditures Transparency Index
LPG	Liquefied petroleum gas
OECD	Organisation for Economic Co-operation and Development
PIT	Personal income tax
SME	Small and medium size enterprises
TE	Tax expenditure
TECR	Tax Expenditure Country Report
UBA	Umweltbundesamt (German Environment Agency)
USD/\$	United States Dollar
VAT	Value added tax
WTO	World Trade Organization
ZEW	Leibniz-Zentrum für Europäische Wirtschaftsforschung (Leibniz Centre for European Economic Research)

Executive summary

Tax expenditures (TEs) in Germany represent a significant portion of government spending, amounting to 1.7 percent of GDP in 2026. Over the last decade, revenue forgone reported by the German federal government has remained consistently below 2.0 percent of GDP. This is below the global average of 4.0 percent of GDP (see Redonda, von Haldenwang, & Aliu, 2026), and less than most of Germany's neighbours. However, it is important to note that official TE reporting is incomplete, as acknowledged by the German Federal Ministry of Finance (BMF) itself.

Recent changes in TE use have been motivated above all by three rationales: First, TEs have been employed as primary crisis response measures, mainly in the context of the Covid-19 pandemic, the Russian war on Ukraine and the US-Iran war. Second, they are used to promote the transition towards zero carbon of the German energy system, including housing, transportation and manufacturing. Third, TEs are granted to promote growth or compensate high energy costs.

Since 1967, Germany reports on tax expenditures (TEs) and direct subsidies under the Act to Promote Economic Stability and Growth ("Stability and Growth Act"). Reporting covers all provisions that have an economic objective. The "Subsidy Report" is submitted to parliament every second year, with the most recent one (number 30) published in September 2025 (BMF, 2025). By law, the report should be submitted to parliament "together" with the government draft for the federal budget of the coming year, but usually the report trails the draft budget for several weeks, sometimes even months.

As previous editions, the 30th Subsidy Report contains two lists of TEs. One ("Annex 2") presents 107 TEs that fall under the reporting mandate of the Stability and Growth Act. The other one ("Annex 3") lists 52 provisions that result in revenue forgone, but do not fall under the mandate of the subsidy report as such, though the distinction between both lists is not fully consistent. Also, just 72 out of the 107 TEs presented in Annex 2 and only 18 of the 52 provisions listed in Annex 3 come with revenue forgone estimates. Based on the federal government's budget draft for 2027, the quantified TEs of Annexes 2 and 3 amount to 76.5 billion Euro in 2026 (after 74.3 billion Euro in 2025).

Annex 2 provisions are presented in great detail, each with its own data sheet. This reporting practice has earned Germany a relatively high score on the Global Tax Expenditures Transparency Index, where it ranks 6th out of 116 assessed countries (Redonda et al., 2026). In contrast, Annex 3 provisions are presented in one single list with much less information. In addition, multiple provisions that would technically qualify as TEs are not reported at all. As a result, it is almost impossible for political decision-makers and the public in general to gain a complete overview of all the TEs in use, their fiscal cost and the impacts they have.

Inconsistent reporting is partly due to the lack of a well-defined tax benchmark system, complicating the identification of TEs and estimations of revenue forgone. The criteria applied to decide whether a specific provision is a TE or part of the benchmark tax system are not always clear. For instance, lower value added tax (VAT) rates for food are part of Germany's benchmark system and not reported, while lower VAT rates for cultural activities are considered a TE.

The federal subsidy guidelines, issued in 2006 and amended in 2015, ask for a regular evaluation of all subsidies in use. Against this backdrop, two major rounds of evaluations have been commissioned by the BMF. The first

round in 2007-2009 covered roughly the biggest 20 TEs listed in the subsidy report. Together, these TEs resulted in revenue forgone of 18.1 billion Euro per year (Thöne et al., 2009). To the best of our knowledge, at the time this was the biggest evaluation of tax expenditures ever conducted worldwide. Ten years later, 2017-2019, a second round of evaluations was commissioned, which was meant to cover the next twenty largest TEs plus several closely related smaller TEs, increasing the total coverage of this evaluation round to 33 measures with revenue forgone of 7.4 billion Euro per year (Thöne & Gerhards, 2019).

Even with these two rounds of evaluations, however, the federal government has not fully lived up to the principles it is supposed to follow. 50 out of the 107 TEs listed in Annex 2 of the 30th Subsidy Report, representing over a third (34 percent) of the revenue forgone, have never been evaluated. The figure rises to 66 percent when the provisions listed in Annex 3 of the report are included, as these are not subject to regular evaluations. As an additional point, only 17 out of 107 TEs come with a time limit and only two TEs are granted with decreasing benefits over time.

TEs play an important role in German environmental and climate policy. On the one hand, they are used as environmental TEs (ETEs) to advance environmental protection and climate policy, above all in mobility, energy and heating. Revenue forgone from ETEs in 2026 amounted to 5.8 billion Euro. On the other hand, TEs are the dominant form of environmentally harmful subsidies. According to a report published by the German Federal Environment Agency (UBA), they resulted in 48.4 billion Euro of revenue forgone in 2018 (Burger & Bretschneider, 2022). A new report published bei the Bertelsmann Foundation focuses specifically on subsidies that are harmful to the climate (Fiedler et al., 2026). It shows that TEs falling under this category generated revenue forgone in the range of 47.3 billion Euro in 2024, including 18,2 billion Euro classified as only “partially harmful”.

Sustainability was introduced as an aspect of TE reporting in 2015, understood as a broad concept that combines economic performance, the preservation of natural resources and social cohesion from a long-term development perspective. This is in line with the common worldwide understanding of sustainability and implies that the evaluation score obtained by each TE in this category may reflect very different properties, not only environmental or climate-related ones. In fact, the 30th Subsidy Report lists 15 cases where TEs are meant to support the preservation of natural resources, against 36 cases where the aim is social cohesion and 93 cases that point at economic sustainability.

All in all, Germany has been slow in reforming its TE regime. As a recurrent observation, the Federal Court of Auditors highlights that the government has done too little to follow up on the recommendations that came out of the various evaluations since 2009. Against this background, three actions seem to be particularly relevant. To start, the federal government needs to address the lack of clarity regarding the German benchmark tax system. A comprehensive stock-taking review could help to determine which provisions should be classified as “structural” parts of the benchmark system, and which are “non-structural” and thus to be considered TEs and reported in future subsidy reports. In the medium term, this initiative could result in TEs no longer being viewed exclusively within the context of economic objectives, but encompassing social and other policy goals as well. This would be in line with international good practice in TE reporting. Consistent with these standards, TE reports should also be submitted to and adopted by parliament as an integral part of the annual budget. In addition, a clear evaluation framework with regular intervals and broad coverage should be implemented.



Germany at a glance (2025)



Population

83.5

(in million)

GDP

EUR 4,530

\$ 5,052
(in billion)

GDP/capita

EUR 54.2

\$ 61.3
(in thousands)

40.9%

(of GDP)

Total taxes and
contributions

14.7%

(of GDP)

Central government
spending

63.5%

(of GDP)

Public debt

TAX STRUCTURE

Taxes are levied for the federal government, the 16 German states (Länder), and the 10,747 cities and municipalities. The principal taxes are predominantly structured as joint taxes and revenue is shared between levels of government. Tax administration is largely enacted by the *Länder*. However, legislation for almost all taxes is the responsibility of the two chambers of the Federal Parliament. Thus, tax expenditures are also decided centrally, but are often financed collectively.

Net revenue from taxes, 2025

Tax type	Billion EUR	Billion \$	% Total
Personal Income Tax	409.9	463.2	22.6%
Corporate Income Taxes	115.6	130.7	6.4%
Value Added Tax	310.2	350.6	17.1%
Other indirect taxes	107.3	121.2	5.9%
Property and inheritance taxes	46.9	53.0	2.6%
Social contributions	823.1	930.2	45.4%
Total taxes and contributions	1,812.9	2,048.9	100.0%



Tax expenditures key figures (2025)

Biennial

reporting since

1967

159

Reported provisions

EUR 74.3

\$ 83.0

Total revenue forgone
(in billion)

1.6%

Total TEs as % of GDP

4.0%

Total TEs as % total revenue

3.2%

Total TEs as % public spending

Source: BMF (2025); <https://www.bundeshaushalt.de/static/daten/2027/soll/draft/Gesamtplan-und-Uebersichten.pdf> (accessed 1 September 2026)



Key governance and institutional features

Since 1967, Germany reports on tax expenditures (TEs) and direct subsidies under the Act to Promote Economic Stability and Growth. Reporting covers all provisions that have an economic objective – either to preserve specific sectors, to support structural changes, to promote productivity of certain sectors or to indirectly support the economy, for instance by means of consumption incentives. The federal government understands TEs as specific deviations from the standard tax system that result in reduced tax revenue for the public sector. They are considered TEs within the meaning of the subsidy report, if they either generate direct or indirect benefits for individual sectors or sub-sectors of the economy, or direct benefits for the economy as a whole. The so-called “Subsidy Report” is issued every second year, with the most recent one (number 30) published in September 2025 (BMF, 2025).

New provisions

Recent years have seen multiple changes to the TE regime. These changes have been motivated above all by three rationales. First, TEs have been employed as primary crisis response measures, mainly in the context of the Covid-19 pandemic and the Russian war on Ukraine. For instance, a reduced VAT rate for restaurants and catering services had been granted as a short-term crisis response to the Covid-19 pandemic by the previous government

from July 2020 to December 2023, only to be re-instated by the current government in January 2026. More recently, a 17 cent fuel tax reduction was introduced in reaction to energy price hikes following the US-Iran war in May and June 2026, and re-enacted in October for the remainder of 2026. A related proposal, a 1000 Euro tax free salary top-up that private sector firms could have paid voluntarily to their employees was adopted by the Bundestag in April 2026, only to be rejected in May by Germany's upper chamber, the Bundesrat, representing the federal states.

Second, TEs have been used to promote the transition towards zero carbon of the German energy system, including housing, transportation and manufacturing. These are discussed in more detail below in the section on environmental and climate-related TEs. A related issue refers to exemptions or reduced rates on energy and electricity taxes that have been introduced in the context of the ecological tax reform with the aim to safeguard the international competitiveness of the manufacturing sector.

Third, TEs are granted to promote growth or compensate high energy costs. For example, a newly (re-) introduced TE foresees the depreciation of movable assets acquired or manufactured after June 30, 2025 and before January 1, 2028, at three times the linear depreciation rate and a maximum of 30 percent per year (BMF, 2025). Other measures target specific sectors of the economy. For instance, the partial tax refund on diesel used in agriculture and forestry had been gradually reduced by the previous government, but was re-instated at its original level by the current one from January 2026 onwards.

Monitoring and oversight

TEs are regularly monitored by the BMF, the German Bundestag (several committees) and the German Federal Court of Auditors (BRH). Reacting to the government's subsidy report (see the following subsection), the BRH produces a specific report on TEs to the audit committee of the Bundestag every second year, the latest of which has been published in June 2026 (BRH, 2026). In addition, the BRH issues reports on TEs related to specific taxes, such as for instance the VAT (BRH, 2022), the tonnage tax (BRH, 2024) or the vehicle tax (BRH, 2025a). Not least, so-called "special reports" and "remarks" are published to focus on specific topics. For instance, a 2025 special report addresses measures to improve the government's revenue basis, with TEs playing a pivotal role (BRH, 2025b). A special report from July 2026 shows that the volume of direct subsidies and tax expenditures tripled between 2019 and 2026 (BRH, 2026b) and that an "enormous potential" for budgetary savings remains untapped. A constant element of these reports is the observation that the government has not followed up on the conclusions, directives and recommendations formulated by the Bundestag or the BRH itself.

Tax expenditure reporting

The subsidy report is prepared by the BMF every two years (usually in the odd-numbered years). By law, the report should be submitted to parliament "together" with the government draft for the federal budget of the coming year, but this rule is not strictly followed. Usually, the report trails the draft budget for several weeks, sometimes even months. As a federal government report it is prepared by the BMF, but approved by the cabinet of ministers, which functions as a collective body under the "collegiate principle", meaning that decisions are typically taken by consensus. Each subsidy report covers 4 years, from $x-2$ to $x+1$, " x " being the year of publication and " $x+1$ " the year for which the draft budget is presented. Hence, the 30th Federal Subsidy Report of 2025 covers

the years 2023 to 2026. The first two years are based on actual budgetary figures. The third year reports forecasts based on the current annual budget, while estimates for the fourth year are based on the federal government's budget proposal submitted to parliament.

Although the subsidy report is in principle a federal government document attached to the federal budget process, it reports TEs for all levels of the German government: the federal level, the state level ("Länder") and the two main taxes accruing to municipalities: trade tax (a municipal tax on business profits) and property tax. As most major taxes in Germany are shared among these three levels, many TEs lead to revenue losses for more than one of them. For example, the two largest German taxes, personal income tax (PIT) and VAT, are shared between all three levels. The subsidy report provides two figures for each TE: the total revenue loss for the respective year and the related revenue loss for the federal budget. It also covers TEs that do not affect the federal budget at all. The most important TE in recent subsidy reports is the inheritance tax allowance and rate reduction, which is expected to result in revenue forgone of 8.8 billion Euro in 2026 (BMF, 2025). This revenue loss is borne exclusively by the Länder.

The reporting of TEs on taxes payable only at lower levels of government is a consequence of German legislation. Almost all tax laws are passed by the federal parliament with the consent of the second chamber, the Bundesrat, which represents the Länder. Therefore, TEs that lead to revenue forgone at subnational levels are also decided at the federal level – and consequently reported in the federal subsidy report. TEs on taxes decided at the state or municipal level, such as for instance second-home taxes, are not covered by the report. Effective from 2025, the municipal property tax is no longer levied under a federal law, but under the laws of the 16 Länder. As a result, any TE on this tax will no longer be reported in the federal report.

The 2025 report lists a total of 107 TEs with an economic objective, amounting to revenue forgone of 39.7 billion Euro in 2026, of which 19.2 billion Euro are borne by the federal government. An additional list of 52 "other tax regulations" that do not qualify as subsidies under the Stability and Growth Act is published in Annex 3 of the report, totalling expected revenue forgone in the range of 36.8 billion Euro in 2026 (18.4 billion Euro for the federal level). All in all, these quantified TEs amount to 76,5 billion Euro in 2026 (after 74.3 billion Euro in 2025).¹

Some TEs listed in Annex 3 can be considered structural provisions to ensure that the respective taxes serve their intended purpose without overstressing their scope. For instance, political parties, trade unions, social security institutions and other bodies serving public interests are explicitly exempt from corporate income tax (CIT). These exemptions are meant to ensure that non-profit organisations are not subject to a tax intended to cover business profits.²

Although they may not qualify as subsidies under the Stability and Growth Act, most Annex 3 provisions are "typical" TEs, which are not necessary for the functioning of the tax concerned (or the tax system) and follow

¹ Please note that the figures cited here do not fully correspond to those in the subsidy report, but are based on the Federal Government's draft budget for 2027. Each draft budget contains an up-to-date estimate of the revenue forgone for the 20 largest TEs listed with an estimate in Annex 2 and Annex 3. Using the government's draft budget for 2027, we have updated the TE estimates for the current year, 2026. For Annex 2, 56 percent of the TE volume is based on updated estimates. Annex 3 is fully updated (100 percent), as less than 20 TEs in this annex are quantified at all. See <https://www.bundeshaushalt.de/static/daten/2027/soll/draft/Gesamtplan-und-Uebersichten.pdf> (accessed 1 September 2026).

² It should be noted that these CIT exemptions, while listed in Annex 3 (numbers 13-24), are not reported with revenue forgone estimates.

discernible policy objectives associated with social welfare, philanthropy, cultural and religious activities, or administrative simplification.

The distinction between Annexes 2 and 3 of the subsidy report is not straightforward. In the 20th Subsidy Report of 2006, the government made an effort to clarify the issue (BMF, 2006): TEs that favour either directly or indirectly “a distinct segment or sector of the economy” are classified as subsidies in Annex 2. The same applies to TEs that “directly” benefit the whole economy. In contrast, provisions that benefit the economy “indirectly” or that have other objectives beyond the economic realm are not considered subsidies and are therefore assigned to Annex 3. This leaves considerable room for discretion, especially since the distinction between “directly” and “indirectly” is not explained further and no examples are provided. For instance, the reduced VAT rate of 7 percent for cultural and entertainment services provided by private corporations is listed as a subsidy in Annex 2. However, the same services provided by public entities, such as public theatres, opera houses and orchestras, are completely exempt from VAT. Yet this TE is reported among the non-subsidies in Annex 3.

Sometimes, TEs are even completely removed from the report without being abolished. In 2020, Germany introduced an R&D tax credit (“Forschungszulage”) that had long been called for by many experts. In the 29th report of 2023, the revenue loss associated with this provision listed in Annex 2 was an estimated 1.1 billion Euro, making it the tenth largest TE. However, in the 30th report of 2025, this TE has been completely removed. The reason given for this removal was that “spending on research and development is covered in other reports issued by the federal government.” (BMF, 2025, p. 35).

Indeed, with the two annexes German TE reporting covers only a subset of the TEs in use, as routinely mentioned in all subsidy reports (for instance, see Annex 6 of BMF, 2025). Even including the 52 additional TEs listed in Annex 3 does not provide a complete picture. To give an example, revenue forgone from the above-mentioned inheritance tax allowance and rate reduction (8.8 billion Euro in 2026) is eclipsed by the VAT exemption for healthcare services, hospitals, and nursing care, which leads to forecast revenue forgone in the range of 23.8 billion Euro in 2026, but is only listed in Annex 3 of the subsidy report. Another highly relevant (and environmentally harmful) TE, the distance-based commuter allowance is not mentioned at all in the subsidy report, because the government considers it to be part of the benchmark (see Box 1).

Box 1: Commuter allowance

Like some of its neighbours (for instance, Austria, Belgium, and the Netherlands – see Redonda, von Haldenwang, & Aliu, 2025), Germany grants a commuter allowance on income tax. As of January 2026, the allowance amounts to 0.38 Euro per full kilometre for the one-way distance between home and primary workplace, starting from the first kilometre and independently of the mode of transport chosen by the taxpayer. Before, the allowance stood at 0.30 for the first 20 kilometres and 0.38 starting from the 21st kilometre. A cap of 4,500 Euro per year applies if modes of transport other than an own or company car are used.

Unlike other countries, however, Germany does not treat the commuter allowance as a tax expenditure. Together with other business- and employment-related expenses, such as the costs of job applications, computers and software used for work, or the home office allowance introduced in 2020, the commuter allowance forms part of income-related expenses (*Werbungskosten*) under the benchmark tax system. They reduce the tax bill if total income-related expenses exceed the annual employee lump-sum of 1,230 Euro, which is automatically deducted by the tax authority.

The underlying motivation is to ensure tax fairness and equal treatment under the so-called “net principle”: A taxpayer’s income should only be taxed after the expenses necessary to earn that income have been deducted, to ensure that everyone is taxed according to their ability to pay. In contrast to the “factory gate principle”, the net principle considers work-related mobility not a purely private activity. This view has been confirmed by a 2008 ruling of the Federal Constitutional Court, which found that the partial removal of the commuter allowance in 2007 violated the general principle of equality under Art. 3 of the German Basic Law. It should be noted, however, that the above-mentioned flat rate has been introduced mainly for reasons of administrative simplification and does not fully reflect the net principle, as actual mobility costs incurred by taxpayers may be higher or lower, depending on their means of transportation and other factors.

Germany considers the commuter allowance part of the benchmark tax system and does not report on this measure in its subsidy reports – not even in Annex 3. However, in a 2021 report on environmentally harmful subsidies, the German Environment Agency finds that the commuter allowance resulted in revenue forgone of 6 billion Euro in 2018, based on BMF estimations (Burger & Bretschneider, 2022).³ The same report highlights the negative impact of the allowance on CO2 emissions and urban sprawl. In addition, the commuter allowance has been criticised for its regressive distributional impact, as higher-income households tend to benefit more (FÖS, 2023).

Given the fact that the commuter allowance falls short of being a fully consistent application of the net principle, while at the same time having important (positive as well as negative) effects on the German economy, we would consider it to be in the public interest to report the measure as a tax expenditure, to estimate its revenue forgone and to subject the measure to regular evaluations.

In the above-mentioned Annex 6, the 30th Subsidy Report discusses more comprehensive approaches to the definition and reporting of TEs, in particular those put forward by the World Trade Organization (WTO), the Organisation for Economic Co-operation and Development (OECD) and the German Environment Agency (UBA). This discussion is a recurring element of – at least – the last ten subsidy reports. Annex 6 also mentions that the

³ The costs of the measure are higher today, since the federal government has raised the allowance from 2026 onwards, resulting in additional losses of up to 2 billion Euro by 2030, according to government estimates. See <https://dserver.bundestag.de/btd/21/011/2101145.pdf>, accessed 11 May 2026.

Federal Government has announced a review of the conceptual approach used in the subsidy report, with a particular view on generating more transparency on the climate-related impact of direct transfers and TEs. It also acknowledges the issues raised regarding the classification of the various provisions: “It is often difficult to distinguish between regulations that are systematic or required for reasons of tax equity, and special tax provisions” (BMF, 2025, p. 605). However, for the current report, the government sticks to the narrow understanding based on the Stability and Growth Act, for two reasons: First, because the approach “has proven to be effective”, and second, broadening the scope could cause reporting to “get out of hand” (BMF, 2025, p. 610). None of these arguments appears to be fully convincing, in particular if the experiences of other countries are taken into account (for instance, see Chapter 3 of von Haldenwang et al., 2025).

Just 72 out of 107 TEs presented in Annex 2 of the subsidy report, and only 18 of the 52 provisions listed in Annex 3 come with revenue forgone estimates. It is also important to note that each TE in the main report is presented in Annex 2 with its own data sheet, containing detailed information on the measure. This, however, is not the case for the TEs listed in Annex 3 (see Table 1).

Table 1: Summary of information on individual TEs provided in Annex 2 and Annex 3 of the subsidy report

Information	TEs listed in Annex 2	TEs listed in Annex 3
Name of the TE	X	X
Objective	X	(X)
Legal basis	X	X
Statistics (data & methods)	X	X
Number of cases	X	X
Timeline (permanent – temporary)	X	X
Revenue forgone	X	X
Distribution (federal – state – local level)	X	
Type of subsidy	X	
Description of the measure	X	
Start date	X	
Sustainability of the measure	X	
Degression	X	
Evaluations	X	
Outlook	X	

Source: BMF (2025).

Tax expenditure transparency

TE transparency in Germany is a tale of light and shadow. TEs listed in Annex 2 of the subsidy report are presented with a high level of detail, as shown in Table 1 above. The report is reliable in terms of the facts and also cites unfavourable evaluation findings. Another strength is that it covers TEs in relation to virtually all major taxes, not just income taxes and VAT. TEs are also reported in relation to insurance tax, energy tax, alcohol and gambling

taxes, tobacco tax, motor vehicle tax, and even taxes whose revenue goes to local authorities (e.g., trade tax) or the *Länder* (e.g., inheritance tax).

This wide coverage of taxes that partly or fully accrue to subnational jurisdictions is due to the highly centralised nature of tax legislation: Very few taxes fall within the legislative remit of the lower government levels. At the same time, there is no reporting on TEs at the state (or local) level. State budgets also do not report their (substantial) revenue losses from TEs in joint taxes or the inheritance tax.

Although the subsidy report covers TEs on almost all taxes and by all levels of government, incomplete reporting still renders Germany's TE system intransparent. Apart from the limited coverage of TEs that do not have an economic objective and are thus not considered subsidies, three more reasons play an important role (for an in-depth discussion see Aliu et al., 2023):

- **Different labels:** The subsidy report considers a provision to be a TE only if the respective tax law defines it as an exemption to the rule. For example, lower energy tax rates for diesel as opposed to gasoline are not considered a TE, even though neither the law nor scientific evidence provide any justification for these rate differentials. Similarly, the low flat-rate taxation of the use of company cars for private purposes should qualify as a TE to the extent that it does not fully capture the average income gain obtained by car users, but is considered solely a tax simplification measure by the BMF.
- **International agreements:** In some cases, TEs are not reported because they are based on international commitments rather than national policy decisions. This is the case for energy tax and VAT exemptions on aviation fuels for international flights, or VAT exemptions on exports. This exclusion from reporting is in line with the practice in many countries.
- **Expenditures from governmental fees:** Exemptions from or reductions of certain government fees result in revenue forgone for the government, but are not considered TEs. While in general fees are not taxes, some fees such as royalties for the extraction of sub-soil assets resemble taxes and are treated as tax revenue in some countries, for instance in Chile and Norway. In Germany, only a few raw materials and fossil fuels are still being extracted. Hard coal mining ceased in 2018 and lignite mining is set to come to an end by 2038. For lignite, waivers of royalties and other fees resulted in 287 million Euro of revenue forgone in 2018 (Burger & Bretschneider, 2022). This figure is going to decrease with the phasing-out of lignite coal mining. Currently, there is renewed discussion in Germany about domestic mining of lithium, copper, tin, zinc, bismuth, tungsten, and potash. Accordingly, transparency regarding mining royalties and associated TEs is likely to gain renewed significance in the future. The resulting revenue forgone will mainly affect the state budgets, since extraction royalties accrue to the *Länder*.

Germany is not the only country that classifies certain provisions as TEs and others as part of its standard (or benchmark) tax system. This is common practice in all reporting countries and limits comparability of TEs across countries. However, an additional problem in Germany is the lack of a well-defined tax benchmark system, complicating the identification of TEs and estimations of revenue forgone (Thöne & Gerhards, 2019). The criteria applied to decide whether a specific provision is a TE or part of the benchmark tax system are not always clear. Lower VAT rates for food are part of Germany's benchmark system and not reported, while lower VAT rates for cultural activities are considered a TE. Grandfathering clauses (whereby older regulations are treated in one way and younger regulations in another) add another layer of complexity to the issue. Another example is the commuter's tax allowance, which is considered a TE by the UBA (Burger & Bretschneider, 2022), but part of the benchmark tax system (income-related expenses) by the BMF.

Evaluation framework

In its subsidies guidelines from 2006 (amended in 2015), the federal government pledges to regularly evaluate all subsidies with regard to goal achievement as well as efficiency and transparency. In addition, since the 25th Subsidy Report (2015), all subsidies are subjected to a sustainability self-assessment based on the government's sustainability strategy.

Contrary to these regulations, however, the practice of TE evaluation deviates considerably from the principles it is supposed to follow. Of the 107 TEs listed in the 30th Subsidy Report, 50 have not been evaluated at all. In another 20 cases, the report refers to internal assessments, studies conducted by the Federal Court of Audit or other evaluations commissioned by the BMF, most of which are not accessible to the public. Only 37 TEs listed in the most recent report have been evaluated in two major evaluation rounds, conducted by a consortium of academic institutions under the leadership of FiFo Köln and whose results have been published (Thöne et al., 2009; Thöne & Gerhards, 2019). While this will be discussed in more detail below, it is important to note that more than a third of the revenue forgone mentioned in Annex 2 of the 2025 report has never been evaluated. The picture gets even worse when the provisions listed in Annex 3 of the report are being included, as these are not subject to regular evaluations at all. Table 2 gives an overview of TEs reported in the recent Subsidy Report (2025) with a view to their evaluation status.

The current federal government has pledged to review all subsidies in its coalition agreement.⁴

Table 2: Summary of TE evaluations and revenue forgone 2026

30 th Subsidy Report (2025)	TEs listed in Annex 2				TEs listed in Annex 3	Total TEs reported
	Thöne et al., 2009*	Thöne & Gerhards 2019	Internal assessm. / other	No evaluation		
Total number	10	27	20	50	52	159
TEs with revenue forgone estimates	10 (100%)	22 (81.5%)	18 (90.0%)	22 (44.0%)	18 (34,6%)	90 (56.6%)
Revenue forgone 2026 (million Euro)	16,112	3,056	6,722	14,247	34,590**	74,727**
Revenue forgone 2026 (percent of total)	21.6%	4.1%	9.0%	19.1%	46.3%	100%

Notes: * Three TEs evaluated in 2009 (Thöne et al. 2009) were subsequently assessed again internally or by third parties (not shown in the table). ** To ensure comparability, this table uses the original revenue forgone data from the 30th Subsidy Report rather than the updated figures used elsewhere in our report. Sources: BMF (2025), own calculations.

As an additional point, only 17 out of 107 TEs in Annex 2 come with a time limit – either because they were introduced with a limited duration or because they are in the process of being dismantled or replaced. Only two TEs are granted with decreasing benefits over time (degression) (BMF, 2025).

⁴ See <https://www.koalitionsvertrag2025.de/>, accessed on 23 February 2026.

72.2/100

Overall GTETI score



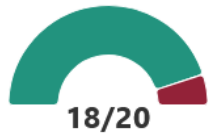
Global Tax Expenditures Transparency Index

The quality and scope of TE reporting in Germany is reflected in the Global Tax Expenditures Transparency Index (GTETI), where it ranks **6th out of 116** assessed countries.



Dimension 1 – **Public Availability**

This dimension captures the extent to which TE reports are made available to the public. It considers the regularity of reporting, the timeliness of data, the online accessibility, and the reader-friendliness of the document.



Dimension 2 – **Institutional Framework**

This dimension evaluates how well the institutional framework promotes transparency and accountability in TE policymaking. It assesses the legal basis for TE reporting, the requirement to submit reports to parliament, the assignment of the responsibility to report to a specific public authority, and the consideration of TEs in the country's budget cycle and medium-term strategy.



Dimension 3 – **Methodology and Scope**

This dimension analyses the extent to which TE reports cover all TEs available at the national level, the level of specification of the reference benchmark system against which TEs are assessed, and the method(s) used to calculate revenue forgone.



Dimension 4 – **Descriptive TE Data**

This dimension assesses the information available in the report to identify and explain the nature of different TEs. It evaluates the extent to which the report specifies the policy objective(s) of TEs. Also, it analyses the availability of TE data regarding the type of TE (tax credit, deduction etc.), beneficiaries, time frames, and the legal basis under which TEs are granted.



Dimension 5 – **TE Assessments**

This dimension analyses the extent to which revenue forgone estimates are provided in the report, including levels of (dis)aggregation and the time span of revenue forgone estimates (previous years and forecasts). Further, it assesses the availability of information on TE evaluations, considering both the existence of ex-ante and ex-post evaluation frameworks, and the scope of publicly available evaluations.

Benchmark

TEs are defined as deviations from the benchmark tax system. This includes deviations from the standard tax base, deviations from the standard tax rate, or changes in the tax period benefitting the taxpayer. Nevertheless, the definition of what should be attributed to the benchmark tax system and what should be marked as a TE is not always straightforward.

As many other countries, Germany does not have an official definition of a benchmark tax system. Moreover, since reporting is incomplete, it is not possible to retroactively establish the benchmark by examining the exemptions outlined in Annexes 2 and 3 and subsequently designating the remainder as the “benchmark system”. Many exemptions from standard tax rules are not reported in these annexes, and not all of them form part of the benchmark tax system.

Against this backdrop, obtaining a picture of the de facto benchmark system inevitably involves a degree of ambiguity. In principle, good TE reporting should provide a complete list of reductions, exemptions, etc., covering also all provisions that are considered integral, i.e., “structural”, parts of the tax system.⁵ Covering *all* TEs would help to avoid the central flaw that permeates the German system: The subsidy report reflects the notion that mainly “non-structural” TEs in favour of the economy (Annex 2) or other societal purposes (Annex 3) are worth reporting. This would be less of a problem if only the undisputed structural provisions were not presented, since omitting those does not affect TE transparency. The problem lies with the many borderline cases that Germany classifies under the benchmark system, meaning they are neither reported nor evaluated. As a result, many TEs remain hidden – which also entails the political temptation to shield borderline cases from critical discussion.

Against this background, the following short characterisation of benchmarks cannot provide a full picture of each tax including structural provisions and borderline cases, but rather only a few TE examples to better understand the benchmark.

Personal income tax (PIT)

Germany’s PIT benchmark is the standard progressive income tax schedule defined in the Income Tax Act, including a basic allowance, the progressive rate curve, and the general structural rules of the tax base. The PIT is levied on income from seven categories: agriculture & forestry, business, self-employment, dependent employment, capital income, rentals, and other income such as pensions, private sales, etc. In general, all income is aggregated after allowable income-related expenses. The basic allowance leaves the minimum subsistence level exempt from income tax. This exemption is required by constitutional law. Above the threshold (12,348 Euro for single taxpayers in 2026), a standard progressive rate of 14-42 percent applies, with a top rate of 45 percent for high-income earners (277,826 Euro for single taxpayers in 2026).

Germany has historically adopted a comprehensive approach to personal income taxation, but never implemented this approach very stringently. For instance, taxing imputed income from owner-occupied housing

⁵ We use the term “structural” in reference to the British TE system, where structural provisions are understood as integral parts of the tax system that serve various purposes, such as to define the scope of the tax or calculate income or profits correctly. See Sinfield (2025).

TAX EXPENDITURES COUNTRY REPORT – GERMANY

was stopped in 1987. Germany also taxes capital gains more lightly than other sources of income. Consequently, the German tax model can be characterised as an imperfect comprehensive income tax.

Over the past 25 years, the PIT has diverged even further from the basic model, making the determination of the benchmark increasingly difficult. In 2002, the government introduced tax benefits for privately funded pensions. Among other measures, individuals can make contributions to pension funds out of untaxed income, with income tax levied decades later when the pensions are paid out. A similar change is being implemented gradually for compulsory retirement benefits and pensions. Additionally, since 2009, Germany has implemented a tax reform with core elements of a dual income tax (DIT), although it is not officially referred to as such. Interest income, dividends, and capital gains on shares or other financial instruments realised by individuals as non-business income are subject to a flat tax rate of 25 percent instead of the above-mentioned progressive rate of up to 45 percent. This tax is levied as a withholding tax. Taking both reforms together, we can characterise the German personal income tax not as dual, but as *triple income tax* (Thöne, 2011).

The de facto PIT benchmark underlying the Subsidy Report also entails additional elements, which are counted as tax expenditures in many other countries. Examples are the age-related tax credit, the tax credit for single parents, the child tax credit and the spousal income splitting. The same applies to structural provisions such as the TE for so-called “extraordinary expenses”, for instance related to caring for family members, or tax credits for people with disabilities, surviving dependents, and caregivers.

Borderline cases often occur in the context of administrative simplification. One prominent case in Germany (as in many other countries) is the tax treatment of company cars. It entails a deliberate trade-off between accuracy and administrative simplicity through the so-called “1 percent method”. Rather than requiring taxpayers to calculate the exact private-use benefit based on detailed records of actual costs and mileage — which would involve tracking depreciation, fuel, maintenance, and the precise share of private versus business use — the system allows a flat-rate valuation of 1 percent of the vehicle’s gross list price per month (plus a distance-based component for commuting). This approach significantly reduces compliance costs and administrative burden for both, taxpayers and tax authorities, as it avoids complex documentation such as logbooks and cost allocation. At the same time, the measure also includes an element of subsidisation. A recent FiFo-Report calculates the subsidy value of the simplification measure at 4,2 billion Euro for 2025 (Gerhards, et al., 2026).

Another PIT rule which started as a simplification measure is the treatment of gains from the sales of real estate. Appreciation in value, general depreciation and special depreciation, as well as the deductibility of maintenance expenses, result in hidden reserves being created. To avoid double benefits, these reserves must be subject to retroactive taxation upon realisation at the latest. However, profits from the sale of a property are tax-free if it was held for at least ten years after acquisition. This tax benefit provides a significant incentive for wealth accumulation. Officially, the regulation is part of the tax benchmark. Still, abolishing this preferential treatment would lead to additional revenues of approximately 6 billion Euro per year (Fuest et al., 2021).

Corporate income tax (CIT)

Germany’s CIT benchmark involves the uniform taxation of corporate profits at a statutory rate of 15 percent (Körperschaftsteuer), supplemented by a municipal trade tax (Gewerbesteuer). The latter varies by location, but typically brings the combined effective rate to around 30 percent. The implicit benchmark is based on a comprehensive definition of taxable income, derived from commercial accounting principles with adjustments

under the tax law. It assumes the full taxation of both retained and distributed profits, and aims to be neutral across sectors and financing structures. In this idealised model, taxation is designed to be neutral, transparent, and without preferential treatment for specific industries, activities or forms of income.

In practice, however, the German system incorporates numerous exceptions and exemptions that deviate from pure neutrality. Key examples include the participation exemption, whereby 95 percent of dividends and capital gains from qualifying shareholdings are exempt to avoid double taxation, further loss carry-forwards and carry-backs, which soften the annual accounting principle, and special depreciation rules and investment incentives that favour certain assets or policy goals. There are also sector-specific provisions for financial institutions and energy-intensive industries, as well as rules addressing international taxation, such as controlled foreign corporation (CFC) provisions and transfer pricing adjustments. While these deviations are often justified by goals such as preventing double taxation, supporting investment, ensuring international competitiveness or achieving broader economic and environmental policy objectives, they collectively mean that the real system departs from the theoretical benchmark in important ways.

One traditional aspect of the benchmark for the municipal trade tax is the highly contested field of preferential treatment for liberal professions: The exemption of self-employed professionals and freelancers in these fields, such as doctors, lawyers and architects, from the trade tax effectively operates as an implicit subsidy, because it departs from the benchmark of a broad-based local business tax applied uniformly to all self-employed economic activity. While commercial enterprises are subject to trade tax at effective rates typically ranging from 7 to 17 percent, depending on the municipality, liberal professions are entirely exempt, even when they compete in similar markets and generate comparable profits. This preferential treatment reduces their overall tax burden relative to incorporated or commercial businesses and can influence legal form choices and competitive conditions. Estimates of the fiscal magnitude vary, but the implicit subsidy is commonly assessed at 10-15 billion Euro per year. The same is true for businesses owning and renting out real-estate. The corresponding TE amounts to 5 billion Euro per year (Fuest, Hey & Spengel, 2021).

Value added tax (VAT)

The benchmark for VAT is a broad-based consumption tax with a single uniform rate applied to all final consumption, combined with full input tax deduction along the supply chain. Under this ideal benchmark, VAT is neutral with respect to production decisions, sectors, and consumer choices, and it taxes all goods and services equally at the standard rate (currently 19 percent). The system is designed to ensure that only final consumption is taxed, while businesses act as intermediaries that collect and remit tax, without incurring the tax themselves, based on the credit-invoice mechanism. In this benchmark, there would be no reduced rates, exemptions, or special regimes, ensuring simplicity, transparency, and minimal economic distortions.

In practice, however, the German VAT system includes numerous deviations from this benchmark. These include a reduced rate of 7 percent for essential goods such as food, books, and cultural services, as well as full exemptions for sectors like healthcare, education, financial services, and residential rents. Many of these exemptions are “without credit,” meaning input VAT cannot be deducted, which creates cascading effects and breaks neutrality. Additional special regimes (e.g. for small businesses or farmers) further complicate the system. These exceptions are typically justified by distributional goals, social policy, or administrative considerations, but they mean that the effective VAT burden varies widely across goods and services, deviating significantly from the theoretical benchmark of a uniform consumption tax.

TAX EXPENDITURES COUNTRY REPORT – GERMANY

With respect to the subsidy report the distinction between subsidies and structural provisions is somewhat blurred. The reduced 7 percent rates for some goods and services are included as TEs in Annex 2. This relates to books and cultural services, public transport and long-distance travel by train, among others. Other 7 percent rates are listed in Annex 3, such as the VAT for services by non-profit organisations, or not listed at all, such as VAT on food.

In contrast to the reduced rates, the completely untaxed areas (healthcare, education, financial services, and residential rents) are primarily considered part of the benchmark system, with a few exceptions such as the VAT exemption granted on health services. Still, this does not mean that taxation in these areas is out of question. An economically valid case can be made for the VAT taxation of many financial services (Næss-Schmidt et al., 2016). Another unresolved yet highly significant issue is the potential taxation of digital services under VAT or CIT (Næss-Schmidt et al., 2024).

Energy taxes

The benchmark for energy taxation is best understood as a system combining energy content and carbon content. On the one hand, the traditional energy tax (Energiesteuer) is largely based on the energy content of fuels (e.g. per litre of petrol or diesel, per MWh of gas). On the other hand, since 2021 the national emissions trading system (nETS) has introduced a CO₂ price component for heating and transport fuels, effectively adding a carbon-based benchmark to fossil energy use. Taken together, an ideal benchmark would imply a uniform price per unit of energy adjusted for carbon intensity, so that fuels are taxed consistently according to both their energy value and carbon content.

In practice, this ideal benchmark is not achieved. Numerous exemptions and preferential treatments significantly lower the tax liability for many firms and activities. Reduced rates or exemptions apply to sectors such as manufacturing, agriculture, and certain energy-intensive processes, often justified by maintaining international competitiveness and fighting carbon leakage. Additional reductions exist for electricity generation and specific industrial uses, as well as partial refunds tied to efficiency improvements. These TEs are covered by Annex 2 of the subsidy report.

In addition, tax rates differ across energy sources. While the government considers these differences as part of the benchmark, other stakeholders criticise this practice. Rather than fuels being taxed uniformly based on energy content, tax rates differ substantially. For example, petrol is taxed more heavily than diesel per litre, even though diesel has a higher energy content, which means diesel is effectively taxed at a lower rate per unit of energy. Other fuels such as heating oil, natural gas, or coal are taxed at even lower rates, reflecting historical policy choices rather than a consistent energy-based benchmark. The “diesel privilege” is also questioned by the Federal Court of Auditors. The court estimates revenue forgone of 7 billion Euro per year due to this preferential treatment (BRH 2025b).

Other taxes

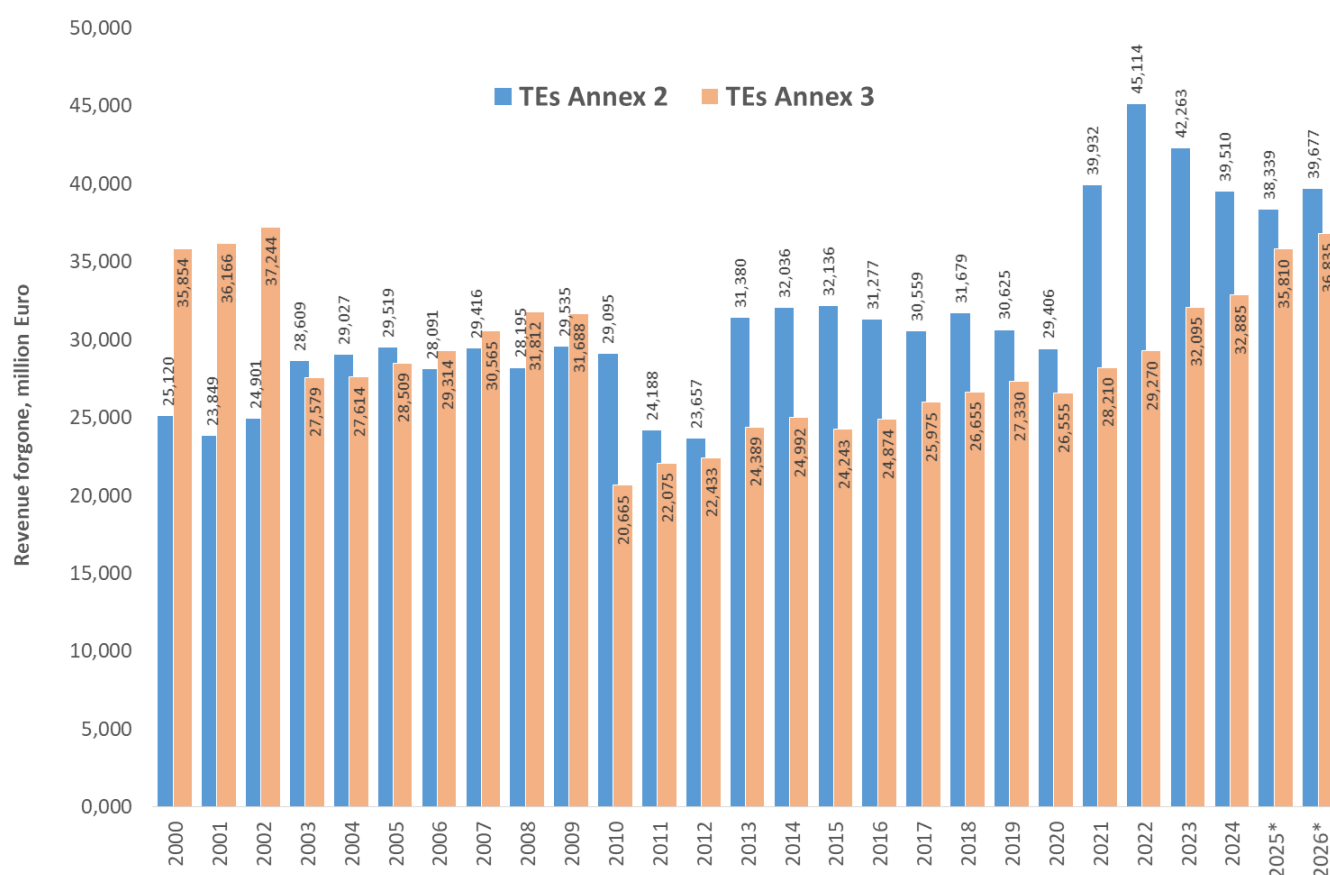
Other taxes whose benchmarks play a significant role in distinguishing between structural provisions and TEs include inheritance tax, motor vehicle tax, insurance tax, various alcohol taxes, tobacco tax, and — potentially in the future — the municipal property tax, which varies from state to state.

Revenue forgone

The revenue forgone method estimates the loss in revenue incurred by the government because of a TE provision. This involves comparing the amount of revenues actually collected with the amount of revenues that would be collected in the absence of the provision (under the benchmark tax system), and without considering taxpayers' behavioural responses.

As highlighted before, the 30th Subsidy Report lists a total of 107 TEs in Annex 2, plus another 52 measures in Annex 3 of the report. Of these 159 provisions, 90 (i.e. 56.6 percent) contain information on revenue forgone, amounting to 74.7 billion Euro for 2026: 40.1 billion Euro for TEs listed in Annex 2 and 34.6 billion Euro for those listed in Annex 3. Based on the Federal Government's 2027 budget draft, these calculations were updated for this report: the new figures are 74.3 billion Euro for 2025 and 76.5 billion Euro for 2026: 39.7 billion Euro (Annex 2, of which 19.2 billion Euro are borne by the federal budget) and 36.8 billion Euro (Annex 3, of which 18.4 billion Euro are borne by the federal budget).⁶

Figure 1: TE revenue forgone 2000 - 2026



Sources: Federal Government Subsidy Reports number 18 (2001) to number 30 (2025). The years marked with an asterisk (*) were updated based on the Federal Budget Draft for 2027.

⁶ See footnote 1 above.

Figure 1 depicts the development of the quantified TEs in Annex 2 and Annex 3 between 2000 and 2026. Changes in revenue forgone can be attributed to several factors. In addition to political decisions that lead to measures being introduced, amended or abolished, changes to the benchmark tax system also play an important role.⁷ Furthermore, progress made in quantifying TEs for which no estimate had previously been provided is also reflected. The illustration thus makes it clear that reliable conclusions regarding the changes over time can only be drawn once *all* TEs are calculated regularly against the backdrop of a consistent and stable tax benchmark.

The estimates capture the revenue loss from individual provisions against the benchmark tax system, but do not account for any behavioural changes in case the respective TE would be removed. While this is the common approach worldwide, it may lead to misperceptions regarding the true fiscal impact of any specific TE. Other methodological choices may influence the estimation of revenue forgone as well. For instance, as noted in the 2025 report, special business depreciation allowances do not lower the tax burden permanently, but rather cause a shift of the nominal tax burden over time. The subsidy element of the measure could be captured as the financing cost the firm would have to bear in the absence of the TE. However, depreciation allowances are documented with their immediate revenue shortfall in the German subsidy report, which implies an overstatement of the actual reduction in revenue. For TEs on income taxes as well as inheritance and gift tax, revenue forgone is estimated using microsimulation models, based on a representative sample of anonymised and weighted tax returns and assessments.

The subsidy report does not contain aggregate information about the distribution of TEs according to tax heads. As shown in Table 3 (below), among the ten largest TEs covered by the subsidy report, four are VAT-related measures, another four apply to the PIT and two refer to other taxes. All in all, the revenue forgone reported for the ten largest TEs amounts to 77.5 percent of all revenue forgone in the subsidy report (both annexes; updated with figures from the 2027 federal budget proposal). This degree of concentration is roughly in line with the worldwide average, which stands at almost 73 percent (see von Haldenwang et al., 2025, Chapter 2), according to data from the Global Tax Expenditures Database (GTED) (see Redonda, von Haldenwang, & Aliu, 2026).

⁷ For instance, the substantial decrease in TEs in Annex 3 between 2009 and 2010 can be attributed to the German Federal Constitutional Court's ruling of 13 February 2008 (2 BvL 1/06). The court ruled that no income tax may be levied on the portion of a citizen's income that must be spent on adequate health and long-term care insurance. Consequently, the existing tax deduction for these expenses could no longer be considered a TE (which theoretically could be abolished). Instead, it became part of the tax benchmark. Consequently, the volume of TEs in Annex 3 fell by EUR 11.2 billion.

TAX EXPENDITURES COUNTRY REPORT – GERMANY

Table 3: The ten largest TEs from Annex 2 and Annex 3 of the 30th Subsidy Report and the 2027 Federal Budget, revenue forgone 2026 in millions of Euro

	Description	Tax head	Revenue forgone (total)	Revenue forgone (federal level)
1.	VAT exemption of medical and hospital treatments	VAT	25,611	13,525
2.	Tax exemptions for heirs or persons receiving gifts of business assets or shares in companies	Inheritance tax	8,800	-
3.	Deduction of church tax as special expenses	PIT	4,382	1,862
4.	Electricity tax refund for companies in manufacturing, agriculture and forestry	Energy tax	4,000	4,000
5.	Reduced rate for cultural and entertainment services	VAT	3,560	1,880
6.	Exemption for surcharges for Sunday, public holiday and night work	PIT	3,254	1,383
7.	Allowance for property renovation, maintenance and modernization services	PIT	2,525	1,073
8.	Allowance for charitable, religious and non-profit expenditures, as well as for donations to political parties	PIT	2,862	1,216
9.	Reduced rate for passenger transport in local and long-distance rail transport	VAT	2,350	1,241
10.	Reduced rate for accommodation services	VAT	1,860	982
	Total		59,204	27,162

Source: BMF (2025); figures from the 2027 federal budget proposal, see

<https://www.bundeshaushalt.de/static/daten/2027/soll/draft/Gesamtplan-und-Uebersichten.pdf> (accessed 1 September 2026).

Looking at the development over time, the 2025 subsidy report observes a steady decline of revenue forgone from TEs measured against tax revenue. While TEs amounted to 9.1 percent of tax revenue in 2004, this value had decreased to 4.8 percent in 2024. It should be noted, however, that these ratios refer exclusively to the federal government and to TEs reported in the Annex 2 of the respective reports. In contrast, absolute numbers have risen over the past decades. The main reasons for this development were the introduction of the electricity tax with associated TEs in 1999 and several emergency relief measures during the Covid-19 pandemic. Downward tendencies were above all due to the gradual removal of the home ownership allowance after 2010 and the Covid-19 emergency measures after 2023.

Tax expenditures related to environmental and climate goals⁸

Germany supports the green transformation using a combination of regulatory policies, emissions trading, direct transfers and tax-related measures. Key features of this policy are laid out in the Federal Climate Action Act of 2019 (amended in July 2024).⁹ The current Climate Action Programme of March 2026 (BMUKN, 2026) and the 2024 German Climate Adaptation Strategy¹⁰ outline the measures by which the statutory objectives shall be achieved. According to the 30th Subsidies Report (BMF, 2025), 24 out of 107 TEs are classified as “climate-friendly”, resulting in revenue forgone for the federal government of 3.3 billion Euro in 2025.¹¹ Four TEs with revenue forgone of 1 billion Euro are categorised as having a negative climate impact. External studies report significantly higher figures: Most recently, the 'Climate Subsidy Report' by the Bertelsmann Foundation (Fiedler et al., 2026) identified 30 climate-harmful TEs, amounting to 47.3 billion Euros in 2024.

TEs play an important role for Germany’s environmental and climate goals. On the one hand, they are used as a tool to further environmental protection and climate policy – in other words, as environmental TEs (ETEs). On the other hand, TEs are the dominant form of environmentally harmful subsidies.

Environmental and climate policy is determined at all government levels, ranging from the local level, the states (Länder) and the federal government to joint policy-making within the EU framework. However, TEs with an impact on the environment and climate are almost exclusively designed at the federal level, as this is where legislative authority lies for almost all major taxes (even if the respective revenues accrue partly or in full to other levels of government).

German climate policy is based on the Federal Climate Action Act of 2019 (amended in July 2024).¹² The 2019 version of the Act was ruled unconstitutional by the Federal Constitutional Court in 2021. The Court found that overly lax climate protection measures in the present would impose an unfairly heavy burden of climate protection – that is, an excessive restriction of freedom – on future generations.¹³ Since then, German climate policy has been required to follow clearly defined emission reduction pathways. Failure to comply with these may result in an immediate obligation to implement more stringent reduction measures.

The Federal Government regularly submits a Climate Action Programme, which is reviewed by an independent Council of Experts on Climate Change.¹⁴ TEs play a key role in meeting these targets. On the one hand, climate-

⁸ With reference to environmental TEs, this section uses updated elements of the case study on Germany in Redonda, Berg and von Haldenwang (2025).

⁹ See https://www.gesetze-im-internet.de/englisch_ksg/englisch_ksg.html, accessed 22 January 2026.

¹⁰ See <https://www.bundesumweltministerium.de/en/topics/climate-adaptation/german-strategy-for-adaptation-to-climate-change>, accessed 22 January 2026.

¹¹ As shown in Table 4 in the annex of this report, updated revenue forgone figures for 2026 are significantly higher and amount to 5.8 billion Euro.

¹² See https://www.gesetze-im-internet.de/englisch_ksg/englisch_ksg.html, accessed 22 January 2026.

¹³ See Order of the Federal Constitutional Court of 24 March 2021, https://www.bundesverfassungsgericht.de/SharedDocs/Entscheidungen/EN/2021/03/rs20210324_1bvr265618en.html, accessed 31 July 2026.

¹⁴ With regard to the 2026 programme (BMUKN, 2026), the Council concluded that the government’s measures are probably not sufficient to meet the statutory reduction targets. See <https://expertenrat-klima.de/en/>, accessed 31 July 2026.

friendly TEs can serve as climate protection instruments that operate via prices and can be implemented quickly and with little additional bureaucracy. However, the greater leverage comes from reducing climate-damaging TEs – as Germany has significantly more of these (see below).

In an ideal scenario, tax expenditures and direct subsidies should play only a minor role in environmental and climate protection, as they run counter to the ‘polluter pays’ principle, which is central to national and European environmental law. In practice, however, they are frequently used as environmental policy instruments (Thöne, 2000). This may be particularly true in cases where additional climate protection measures need to be taken in the short term to avoid breaching statutory and constitutional limits. As they can be amended quickly and have a broad impact, tax expenditures can rapidly take centre stage in such situations.

Environmental tax expenditures (ETEs) are used by the German government above all in mobility, energy and heating. This is related to the fact that energy tax, vehicle tax and electricity tax are the most relevant environmental taxes in Germany, even though they have been steadily losing ground as a share of total tax revenue since 2005.¹⁵ Reflecting these sectoral priorities, the current portfolio of ETEs in Germany is heavily concentrated in transport and energy-related areas.

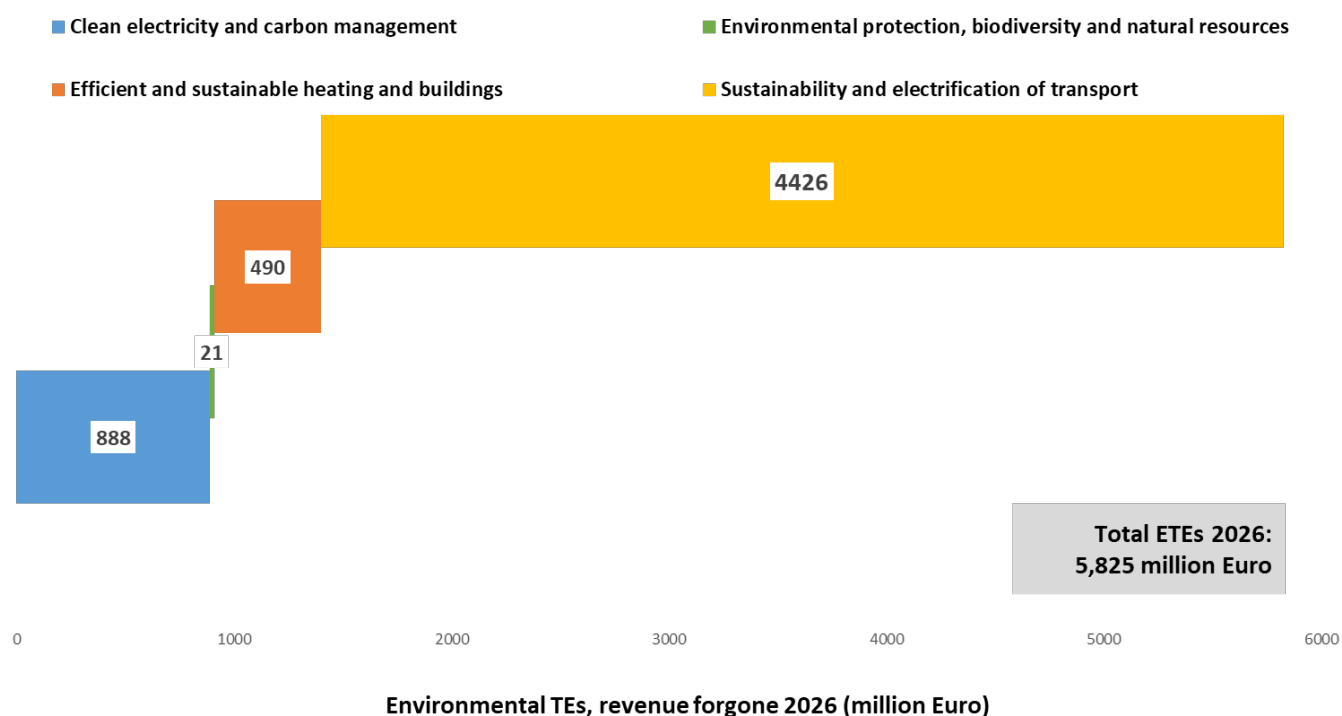
The 30th Subsidy Report classifies 24 out of 107 TEs as “climate-friendly”. They are implemented through a variety of tax instruments and mechanisms (see Table 4 in the annex and Figure 2 below). 15 ETEs, three of which being classified as intermediate ETEs, were introduced with the aim of reducing emissions from fossil fuels. They include preferential tax treatment for electric and plug-in hybrid company cars, a reduced tax rate on liquefied petroleum gas (LPG) and natural gas to encourage cleaner fuel use, and a temporary tax incentive for newly registered low-emission passenger cars to accelerate their market uptake. Five additional ETEs support transport sustainability and electrification, including provisions for public transportation and electric vehicles (EVs). Four provisions target clean electricity and carbon management, primarily linked to renewable energy production.

Regarding mobility, local passenger transport and long-distance rail transport are charged with a reduced VAT rate as well as reduced fuel and energy tax rates. Vehicle tax exemptions are granted for electric and hybrid vehicles. Also, a CIT reduction is granted if employers provide charging points for EVs. Electric company cars benefit from reduced taxation. In addition, in July 2025 the new government introduced a 75 percent depreciation for electric company cars in the first year, followed by the remaining depreciation decreasing from 10 to two per cent in the subsequent five years, in an attempt to boost stagnating sales of electric EVs. With the same law, called “investment booster”, the gross list price limit for electric vehicles was increased from 70,000 to 100,000 Euro.¹⁶

¹⁵ See <https://www.umweltbundesamt.de/en/data/environmental-indicators/indicator-environmental-taxation#at-a-glance>, accessed 3 June 2025.

¹⁶ It should be noted that the promotion of EVs through TEs is not always considered environmentally friendly, as it tends to foster unsustainable mobility patterns based on individual vehicle use.

Figure 2: Overview of German environmental TEs



Source: BMF (2025), updated with the Federal Government's draft budget for 2027, see <https://www.bundeshaushalt.de/static/daten/2027/soll/draft/Gesamtplan-und-Uebersichten.pdf> (accessed 1 September 2026). For more detail see Table 4 (Annex).

In energy and heating, self-consumption of electricity generated from renewable energy sources is exempt from electricity tax. Further, a zero VAT rate for the delivery and installation of solar panels, and an income tax exemption for small photovoltaic systems have been introduced to promote the use of solar energy. Combined heat and power generation enjoys a full or partial energy tax exemption, depending on the efficiency of the plant. In addition, the government grants households an income tax allowance for energy-efficient renovation measures for residential buildings.

On 'the other side' of this debate – TEs harmful to the environment and the climate – the need for transparency and the potential for reform is significant. Obviously, no TE is harmful *by design*. Detrimental effects for the environment and the climate arise as side effects of measures intended to achieve other political, economic or social objectives. TE are a popular tool for providing widespread and rapid relief in times of crisis. The German government has used them on several occasions in response to the energy crises caused by the war in Ukraine and, more recently, the war in Iran. In each instance, temporary reductions in energy taxes were intended to bring down energy and fuel prices. In the most recent case, taxes on petrol and diesel were reduced by 17 eurocents per litre in May and June 2026. Undoubtedly a climate-damaging subsidy, this temporary TE cost around 1.6 billion Euro. The measure was widely criticised as there were feasible alternatives that would have been better targeted, cheaper in fiscal terms and less harmful to the climate. Nevertheless, in mid-September 2026, the Federal Government decided to reintroduce the same TE for the last three months of that year, at an estimated cost of 2.5 billion Euros.

However, not all TEs with harmful side effects on the environment or climate are used temporarily as crisis response. Many harmful TEs have been in use for a long time. They have also long been the subject of critical scrutiny. Originally, following the OECD's (1998) initiative to identify the phasing out of environmentally harmful subsidies, the German Federal Environment Agency (UBA) started compiling information on such subsidies, including TEs, from 2003 onwards. Building on the work of Rave and Thöne (2010), the UBA published its own report on environmentally harmful subsidies on several occasions since 2014. The most recent UBA report dates from 2021 (English version: Burger & Bretschneider, 2022). For the reporting year 2018, it records a total of 65.4 billion Euro in environmentally harmful subsidies. Three-quarters of this amount (48.4 billion Euro) is provided through TEs.

More recently, the Bertelsmann Foundation published a 'Climate Subsidy Report' that focuses on climate-damaging subsidies, covering financial assistance and TEs (Fiedler et al, 2026). For the year 2024, the total volume of these subsidies amounts to 66.2 billion Euro. The 30 TEs listed in the report account for the lion's share of the total volume, 47.3 billion Euro. Compared with earlier reports, this study represents a notable step forward because it explicitly addresses the ambivalence of several subsidies by classifying them as 'partially climate-damaging'. This refers, for example, to electricity tax reductions for energy-intensive industries. On the one hand, these measures favour activities that are harmful to the climate. On the other hand, such reductions play a key role in making it politically feasible to introduce climate-oriented taxation in the first place and to prevent 'carbon leakage'. 'Partially' climate-damaging TEs account for 18.2 of the 47.3 billion Euro TE.

Regarding evaluations, the following section provides a more detailed discussion (see below). In the present context, note that the 2009 evaluation round of major TEs (Thöne et al., 2009) covered ETEs and environmentally harmful TEs only insofar as they appeared on the list of the then 20 biggest TEs in the federal subsidy report. Three of the 20 were ETEs,¹⁷ and another six of the evaluated TEs can be counted among the climate damaging TEs – including several that would be labelled "partially climate-damaging" today and were deemed necessary exemptions from (then) ambitious ecological taxes, e.g. to prevent carbon-leakage.

In this first round, the broad concept of ecological, economic and social sustainability was not yet a formal criterion of the evaluation. This was changed in the second round, when sustainability was introduced as one of five categories, along with relevance, effectiveness, instrumental suitability, and transparency and monitoring. The new approach reflects the government's decision to introduce sustainability as an aspect of TE reporting in 2015. Considered an overarching political principle of the German government, sustainability is understood as a broad concept that combines economic performance, the preservation of natural resources and social cohesion from a long-term development perspective, based on the United Nation's Agenda 2030 and the 17 Sustainable Development Goals (SDGs) (BMF, 2025). This is in line with the common worldwide understanding of sustainability and implies that the evaluation score obtained by each TE in this category may reflect very different properties, not only environmental or climate-related ones. In fact, the 30th Subsidy Report lists 15 cases where TEs are meant to support the preservation of natural resources, against 36 cases where the aim is social cohesion and 93 cases that point at economic sustainability (see BMF, 2025, p. 52).

¹⁷ One evaluation analysed tax exemptions on bio-fuels, which were transformed into a regulatory measure establishing fixed quotas for bio-fuels from 2007 onwards. The other ETEs evaluated were the reduced VAT rate for local public transport of persons, which then did not cover long-distance railway transport as it does today, and the energy tax relief for combined heat and power (CHP) (see Table 4 in the Annex).

Evaluation

The German federal government's subsidy guidelines call for regular evaluations of direct subsidies and TEs. Yet in practise, TEs are evaluated irregularly at best. The Federal Court of Auditors has also frequently criticised the federal government for failing to follow up on the recommendations formulated in TE evaluations.

Germany does not have a TE evaluation framework with fixed schedules, even though the subsidy guidelines call for regular evaluations (see BMF, 2025). Under the German constitution, the federal government is organised according to the “departmental principle”. This implies that evaluations of financial assistance are carried out or commissioned by the line ministries responsible for the relevant policy areas and from whose budgets they are funded. The situation is different for TEs, however: they are neither funded from departmental budgets nor technically assigned to any particular line ministry. As the Ministry of Finance is responsible for designing tax rules, including TEs, it is also authorised to carry out TE evaluations, involving the ministries that are responsible for the respective policy area. Line ministries do not have the right to veto the decision to carry out an evaluation.¹⁸ Neither the federal parliament nor the Federal Court of Auditors commission TE evaluations. Although the Court of Auditors does carry out a number of systematic, empirical investigations into individual subsidies, these audits do not replace the government's own evaluations warranted by law.

Evaluations led by the BMF are carried out in two different forms: as internal evaluations conducted in-house, and as external evaluations carried out by independent research institutes or consultancy firms. Evaluations carried out internally are not published. Consequently, it is not possible to assess their professional quality, their impartiality or their actual impact. In the context of transparent and evidence-based TE governance, unpublished evaluations offer little added value. The same applies to evaluations carried out externally but not made publicly accessible.

External evaluations that are made public fall into two separate categories. On the one hand, there are specific evaluations focusing on one particular TE or a small group of related TEs. These evaluations can be based on high scientific standards, but do not follow any discernible plan, neither in terms of timing nor subject matter. To give an example, the Mannheim-based Leibniz Centre for European Economic Research (ZEW) produced a rigorous analysis of reduced VAT tax rates in Germany in 2025, which was commissioned by the BMF and released to the public in April 2026 (Heinemann et al., 2025).

The second category of external TE evaluations sets Germany apart from most other countries: Two major rounds of evaluations have been commissioned by the BMF. The first round in 2007-2009 covered (roughly) the biggest 20 TEs listed in the subsidy report.¹⁹ Together, these TEs resulted in revenue forgone of 18.1 billion Euro per year (Thöne et al., 2009). To the best of our knowledge, at the time this was the biggest evaluation of tax expenditures

¹⁸ Conversely, line ministries are not prohibited from including TEs in their evaluations if they are responsible for the respective policy objectives. Such evaluations of specific policy areas that incorporate TEs are rare; in the past, they have been carried out in areas including wealth policy, environmental and climate policy, research policy and family policy. The findings of such evaluations are seldom reflected in the subsidy report, however.

¹⁹ It was not exactly the list of the 20 largest TEs taken from the 21st Subsidy Report, the most recent at the time, because three of those subsidies had already been abolished by law at the start of the evaluation, though they had not yet completely expired. Among the replacements chosen, there was one TE from Annex 3 of the report, which (technically) is not classified as a subsidy.

ever conducted in Germany and worldwide. Ten years later, 2017-2019, a second round of evaluations was commissioned, which was meant to cover the next twenty largest TEs plus several closely related smaller TEs, increasing the total coverage of this evaluation round to 33 measures with revenue forgone of 7.4 billion Euro per year (Thöne & Gerhards, 2019). Both research contracts were awarded on a competitive basis; in both cases, consortia of research institutes led by the FiFo Institute for Public Economics at the University of Cologne won the contracts and conducted the evaluation. Of the 53 measures examined, 37 TEs are still listed in Annex 2 in the latest 30th Subsidy Report. Those not listed anymore have been abolished (though generally not as a result of the evaluations) or merged with other measures.

Given that the TEs to be evaluated in each round were selected primarily on the basis of their fiscal volume, coverage was quite diverse, both in terms of the taxes concerned and the respective subsidy objectives. Still, evaluations followed a common approach, originally developed by Thöne (2003) for the BMF. Following a brief description of the technicalities and the history of the TE in question, the official method of estimating the revenue forgone for the subsidy report was evaluated. Then, each TE was evaluated according to its transparency, relevance, instrumental design, effectiveness and – if possible – efficiency, understood as the cost-effectiveness of achieving its goals. The approach was the result of an international benchmarking exercise. The second round followed the same scheme with two deviations: On the one hand, a sustainability check based on the Sustainable Development Goals (17 SDGs) reflected in the German National Sustainability Strategy was added. On the other hand, based on the experience gained from the first round, the second round did not explicitly ask about cost-effectiveness (efficiency). While the question is obviously valid, it can only yield useful answers if very clearly quantified impacts are identified and if clear points of comparison from other studies are available. Due to time and resource constraints, these requirements could not be met in the large-scale yet rather condensed evaluation of very diverse TEs.

In addition to full reports and standardised two-to-three-page summaries for each evaluation, all TEs were rated according to a simple scoring system. In the first round, this took the form of a deliberately simple pattern using the three colours of traffic lights: green (go ahead) yellow (revise thoroughly) and red (abolish). Of the twenty measures investigated, five received a red traffic light, ten a yellow traffic light, and the remaining five a green traffic light. The urgent need for revision became even more apparent when the financial volume of the three groups was considered: The group with a yellow traffic light comprised TEs worth more than 10.5 billion Euro annually, the group with a red traffic light amounted to 4.8 billion Euro, and the group with a green traffic light comprised the remaining 2.8 billion Euro.

In the second round, the evaluation team used a more refined scoring methodology, whereby each TE's overall assessment was derived from their individual scores in the five categories of the evaluation. Furthermore, the traffic light system was replaced by a more detailed five-stage scale. Six of the 33 tax expenditures evaluated received an overall rating of “good”. These measures accounted for a total volume of 2.7 billion Euro. Seventeen TEs, accounting for a total volume of 2.9 billion Euro, were rated as “sufficient”. This rating indicates that the benefit in question “passed” the evaluation, but there is significant room for improvement. Finally, ten TEs accounting for a total volume of 1.8 billion Euro received an overall rating of “weak”. These measures were found to fall far short of their expected objectives and therefore require urgent attention, either in the form of a complete redesign or discontinuation.

In retrospect, these two large-scale rounds of examinations had advantages and disadvantages for the evaluation of TEs in Germany. One of the advantages is that the sheer scale of the evaluations is likely to have given the subject of TEs and its critical reflection greater prominence than many smaller evaluations would have done. This is all the more true given that the BMF also used the two rounds strategically to ensure that evaluations of several sensitive measures could be pushed through within the government without being vetoed. Another positive factor was that the scale of these projects greatly enhanced Germany's reputation as a country that takes TEs seriously. This background may help to ensure that future TE evaluations can be advanced more easily within the government despite possible political resistance.

However, the impressive scale of the evaluations should not obscure the fact that, in light of their significance, they had to be carried out rather quickly and with limited resources. Due to these constraints, the studies were largely unable to meet the highest standards of evidence-based policy analysis, establishing causal evidence (see Redonda et al., 2023). For instance, no empirical surveys among beneficiaries were conducted. Furthermore, tax data was at times remarkably difficult to obtain, due to tax secrecy regulations and the data sovereignty of the Länder tax authorities.

As a result, the two evaluation rounds were both large and small at the same time. They were large compared to evaluation efforts otherwise observed in the TE field. But they were small in comparison to the sometimes enormous monitoring and evaluation efforts dedicated to direct budgetary funding programmes run by the federal government or the EU. Considering the many billions of Euro of revenue forgone year after year, more numerous and regular TE evaluations would still offer excellent value for money.

Regarding the success of evaluations in terms of policy impacts, it should be said that these assessments are carried out to validate the effectiveness of good policy instruments, to improve mediocre instruments and to abolish poor ones. This is what taxpayers expect from politicians and their evaluators, and what the German Federal Court of Auditors has been demanding repeatedly from the federal government and the Bundestag regarding the recommendations derived from the two evaluation rounds (for instance, see BRH, 2022, 2025b, 2026).

By this measure, the two evaluation rounds were not particularly successful. Measures that received a critical rating were generally not modified or abolished as recommended. This is partly due to unfortunate timing: The results of the first round of evaluations were published in 2009, at the height of the world's worst economic crisis since 1929. A few months after the results of the second round were published, the world was plunged into an equally severe economic recession by the COVID-19 pandemic. In times of recession, expansionist "Keynesian" policies are needed, not the reduction of government subsidies or tax increases brought about by the abolition of TEs.

However, even in normal times, a democratically elected tax legislator is under no obligation to implement the recommendations of external experts. In this respect, all independent evaluations share the same fate: When the recent ZEW evaluation of reduced VAT rates in Germany (Heinemann et al., 2025) was published, it became quickly clear that the federal government would not follow its recommendations, as the report directly recommends the immediate abolition of the reduced VAT rate on restaurant meals, which had only just been reintroduced.

Yet, when a government needs money, evaluation results may come handy. In late 2023, following a ruling by the Constitutional Court, the federal government was suddenly forced to generate additional revenue. One of the TEs that had been heavily criticised in the second evaluation round in 2019 was the reduced fuel tax rate on agricultural diesel. Its abolition was expected to yield half a billion Euro in additional annual revenue. It was decided that this TE would be phased out gradually, despite major protests from farmers and their lobbies. Even though the TE was reintroduced following the change of government in 2025, the experience nevertheless demonstrates that evaluations can be of benefit in this regard.

Hence, the success or failure of independent evaluations should not be judged by whether or not their findings can secure a majority in parliament in the short term. It is not the role of parliaments to follow evaluators. If they listen to them and if they are required to justify their subsequent decisions in the light of the evaluation results, the primary purpose of the evaluation has been achieved.

To ensure that evaluations of TEs can fulfil this purpose more effectively and on a more regular basis, the framework for such evaluations in Germany should be further developed, building on the sound foundation of previous experience.

In its coalition agreement, the federal government has agreed to “subject all subsidies to a thorough review.”²⁰ However, at present it is solely up to the BMF to decide whether TEs are to be evaluated at all, which ones are to be evaluated, and when these reviews are to take place. If large-scale evaluations are planned, it may be necessary to seek the agreement of the relevant line ministries or even the Federal Cabinet. Under these circumstances, the timing of external evaluations of TEs is even more unpredictable.

²⁰ See <https://www.koalitionsvertrag2025.de/>, accessed on 23 February 2026.

Political economy and reform

Germany has been slow in reforming its TE regime. As a recurrent observation, the Federal Court of Auditors observes that the government has done too little to follow up on the recommendations that came out of the various evaluations since 2009. Several efforts to reform individual TEs could not be implemented due to resistance by powerful interest groups, or were subsequently reversed by incoming governments. As a result, Germany keeps a TE regime that appears to be opaque, outdated and inconsistent.

In 2015, the federal government formulated eight guidelines on the use of subsidies (see Box 2). Among other aspects, they call for regular evaluations of all subsidies in use and for the replacement of TEs by financial assistance or other measures wherever feasible.

Box 2: Guidelines on Subsidies Policy (according to the Federal Cabinet decision of January 28, 2015)

- New subsidies will only be granted if they prove to be the most suitable instrument compared to other measures, also considering cost-benefit aspects.
- New subsidies will primarily be granted as financial assistance and must be financed by savings elsewhere.
- New financial assistance will only be granted for a limited period and will generally be degressive.
- The objectives of financial assistance will be defined in a way that allows for performance monitoring.
- The federal government's subsidy policy is geared towards its impact on growth, distribution, competition, and environmental policy. The federal government's subsidies report details the extent to which subsidies are sustainable.
- All subsidies are regularly evaluated with regard to the degree of target achievement, efficiency, and transparency.
- It will be examined to what extent existing tax expenditures can be converted into financial assistance or other measures that are less burdensome to the state budget.
- Existing indefinite and/or non-degressive financial assistance programmes will also be subject to time limits and, in principle, degressive payment.

Source: BMF (2025)

As outlined above, any serious TE reform would need to address the lack of clarity regarding the German benchmark tax system. Against this backdrop, it seems sensible to carry out a one-off stock-taking review in order to determine which special rules should be classified as “structural provisions” and incorporated into the benchmark system, and which “non-structural provisions” should be considered proper TEs and reported in future subsidy reports. Such a review – produced, for instance, by a commission of experts – would help to overcome the overly restrictive definition of subsidies laid out in the Stability and Growth Act of 1967.

In the long term, this initiative could result in TEs no longer being viewed exclusively within the context of economic subsidies. Instead, they would encompass social and other policy objectives as well. This would be in line with international good practice in TE reporting. Following these standards, TE reports should also be submitted to and adopted by parliament as an integral part of the annual budget. This would broaden the current practice of biennial subsidy reports. At the same time, such a TE report would provide an excellent basis for

analysing the German tax system in its entirety for the first time, for appreciating its numerous special policy objectives and, very importantly, for conducting the traditional debate on ‘broad base, low rates’ on a fully informed basis.

This also entails making greater efforts to estimate the revenue forgone associated with individual TEs. Rates of 71 percent (Annex 2) and 35 percent (Annex 3) for quantified measures in use in 2026 convey only an incomplete picture of the fiscal relevance of the reported TEs and fall far short of the proportions reported in other countries.

The evaluation of TEs needs a realistic and reliable approach. It could include the following elements:

- A provision stipulating the minimum frequency for evaluating Annex 2 TEs. International guidelines recommend regular evaluation cycles of five to ten years (Beer et al., 2022).
- In conjunction with such a cycle, it can be determined how many TE evaluations must be carried out within each legislative cycle. Priority should be given to evaluating those TEs that have never been assessed before.
- Internal evaluations should only be credited towards these requirements if they have been published in full.
- For Annex 3 TEs, clear criteria are required to determine whether they are also subject to this review obligation, or exempted as structural benchmark provisions. These criteria should be developed as part of the revision of the tax benchmark (see above).
- The monitoring of the evaluation approach should also track how much fiscal revenues have been generated through the implementation of evaluation recommendations. This information can also help to ensure that the additional resources required for conducting regular evaluations are made available.

“6/116

Germany ranks as the 6th most transparent out of 116 assessed countries in the Global Tax Expenditures Transparency Index (GTETI).

References

Aliu, F., Grundke, R., & von Haldenwang, C. (2023). Increasing transparency on tax expenditures in Germany. *Ecoscope*. <https://oecd ecoscope.blog/2023/08/03/increasing-transparency-on-tax-expenditures-in-germany/>

Beer, S., Benedek, D., Erard, B., & Loeprick, J. (2022). How to Evaluate Tax Expenditures. *IMF How To Notes* 2022. <https://doi.org/10.5089/9798400221507.061>

BMF (Bundesministerium der Finanzen). (2006). 20. Subventionsbericht. Bericht der Bundesregierung über die Entwicklung der Finanzhilfen des Bundes und der Steuervergünstigungen für die Jahre 2003 bis 2006. Berlin: Bundesministerium der Finanzen (BMF).
<https://www.bundesregierung.de/resource/blob/975918/779204/55ffe751ee6d63ca3865239cbaaa774b/2006-03-15-zwanzigster-subventionsbericht-data.pdf?download=1>

BMF (Bundesministerium der Finanzen). (2025). 30. Subventionsbericht. Bericht der Bundesregierung über die Entwicklung der Finanzhilfen des Bundes und der Steuervergünstigungen für die Jahre 2023 bis 2026. https://www.bundesfinanzministerium.de/Content/DE/Downloads/Broschueren_Bestellservice/30-subventionsbericht.html

BMUKN (Bundesministerium für Umwelt, Klimaschutz, Naturschutz und nukleare Sicherheit). (2025). Klimaschutzbericht 2025. Deutscher Bundestag Drucksache 21/1250. <https://dserver.bundestag.de/btd/21/012/2101250.pdf>

BMUKN (Bundesministerium für Umwelt, Klimaschutz, Naturschutz und nukleare Sicherheit). (2026). Klimaschutzprogramm 2026. <https://www.bundesumweltministerium.de/download/klimaschutzprogramm-ksp-2026>

BRH (Bundesrechnungshof). (2022). Reform des ermäßigten Umsatzsteuersatzes lange überfällig. Bericht nach § 88 Absatz 2 BHO an den Finanzausschuss des Deutschen Bundestages. <https://www.bundesrechnungshof.de/SharedDocs/Kurzmeldungen/DE/2023/umsatzsteuer.html>

BRH (Bundesrechnungshof). (2024). Steuervergünstigung für die Seeschifffahrt durch die Tonnagebesteuerung. Bericht nach § 88 Absatz 2 BHO an den Haushaltsausschuss des Deutschen Bundestages. <http://www.bundesrechnungshof.de/SharedDocs/Downloads/DE/Berichte/2024/tonnagesteuer-volltext.pdf>

BRH (Bundesrechnungshof). (2025a). Sachstand Kraftfahrzeugbesteuerung. Bericht nach § 88 Absatz 2 BHO an den Finanzausschuss des Deutschen Bundestages. <https://www.bundesrechnungshof.de/SharedDocs/Downloads/DE/Berichte/2026/kraftfahrzeugbesteuerung-volltext.pdf>

BRH (Bundesrechnungshof). (2025b). Sonderbericht: Maßnahmen zur Stärkung der Einnahmenbasis. <https://www.bundesrechnungshof.de/SharedDocs/Downloads/DE/Berichte/2025/einnahmen-volltext.pdf>

BRH (Bundesrechnungshof). (2026a). 30. Subventionsbericht der Bundesregierung: Steuervergünstigungen. Bericht nach § 88 Absatz 2 BHO an den Rechnungsprüfungsausschuss des Haushaltsausschusses des Deutschen Bundestages.

<https://www.bundesrechnungshof.de/SharedDocs/Downloads/DE/Berichte/2026/steuerverguenstigungen-volltext.pdf>

BRH (Bundesrechnungshof). (2026b). Subventionen verdreifacht – enormes Einsparpotenzial noch nicht genutzt. Bericht nach § 88 Absatz 2 BHO an die Bundesregierung.

<https://www.bundesrechnungshof.de/SharedDocs/Downloads/DE/Berichte/2026/subventionsbericht-volltext.pdf>

Burger, A., & Bretschneider, W. (2022). *Environmentally Harmful Subsidies in Germany. Update 2021* (UBA Texte 117/2022). <https://www.umweltbundesamt.de/publikationen/environmentally-harmful-subsidies-in-germany-1>

Fiedler, S., van Loock, H., Niesen-Meemken, S., Richter, B., Runkel, M. & Zerzawy, F. (2026). *Klima-Subventionsbericht 2026: Quantifizierung, Wirkung und Reform klimaschädlicher Subventionen in Deutschland.* Bertelsmann Stiftung, Gütersloh. <https://www.bertelsmann-stiftung.de>

FÖS (Forum Ökologisch-Soziale Marktwirtschaft). (2023). *Subventionssteckbrief: Die Entfernungspauschale* (Policy Brief). https://foes.de/publikationen/2023/2023-11_Subventionssteckbrief-Entfernungspauschale.pdf

Fuest, C., Hey, J., & Spengel, C. (2021). Vorschläge für eine Reform der Immobilienbesteuerung. *ifo Schnelldienst*, 74(12), 31-38. <http://hdl.handle.net/10419/250838>

Gerhards, E., Haerst, F., Kraken, F., & Thöne, M. (2026). *Quantifizierung des Dienstwagenprivilegs. Die fiskalischen und ökologischen Auswirkungen der 1%-Regelung* (UBA Texte 89/2026). <https://www.uba.de/n308467de>

Heinemann, F., Asatryan, Z., Bohne, A., Kindler, K., Moessinger, M.-D., Steinbrenner, D., & Wiegand, J. (2025). *Analyse und Bewertung des Systems der Umsatzsteuersätze unter Berücksichtigung von Wettbewerbs- und Abgrenzungsaspekten.* Studie im Auftrag des Bundesministeriums der Finanzen. https://www.zew.de/fileadmin/FTP/gutachten/BMF_Umsatzsteuersaetze_2026.pdf

Næss-Schmidt, H. S., Heebøll, C., & Lund, C. (2016). *Why and how to apply a Value Added Tax on financial services.* Copenhagen: Copenhagen Economics. <https://copenhageneconomics.com/wp-content/uploads/2021/12/copenhagen-economics-2016-why-and-how-to-to-apply-vat-to-financial-services.pdf>

Næss-Schmidt, H. S., Thöne, M., Schratzenstaller-Altzinger, M., Kastrop, C., & Weber, R. A. (2024). *Financing the global commons to achieve the sustainable development goals.* In *Global Solutions Issue Paper*. Berlin: Global Solutions Initiative. <https://www.global-solutions-initiative.org/publication/financing-the-global-commons-to-achieve-the-sustainable-development-goals/>

OECD (1998). *Improving the Environment through Reducing Subsidies: Part I: Summary and Conclusions - Part II: Analysis and Overview of Studies.* OECD Publishing. <https://doi.org/10.1787/9789264162679-en>

Rave, T. & Thöne, M. (2010). *Umweltbezogenes Subventionscontrolling* (Ifo-Forschungsberichte No. 49). München: Ifo-Institut für Wirtschaftsforschung. <https://d-nb.info/1008811475>.

Redonda, A., Berg, S., & von Haldenwang, C. (2025). *Tax expenditures for environmental sustainability: international experiences in their identification and evaluation to enhance their governance.* UN-ECLAC. <https://hdl.handle.net/11362/82550>

Redonda, A., Millan-Narotzky, L., von Haldenwang, C., Berg, S. & Aliu, F. (2026). *The Global Tax Expenditures Transparency Index (GTETI) Companion Paper (revised version, May 2026).* IDOS / CEP. <https://doi.org/10.23661/r3.2026>

Redonda, A., von Haldenwang, C., & Aliu, F. (2026). *Global Tax Expenditures Database (GTED) (1.4.0)* [Data set]. Tax Expenditures Lab. <https://doi.org/10.5281/zenodo.22031048>

Redonda, A., von Haldenwang, C., & Berg, S. (2023). *Evaluation of tax expenditures. Conceptual frameworks and international experiences.* ECLAC. <https://www.cepal.org/en/publications/68667-evaluation-tax-expenditures-conceptual-frameworks-and-international-experiences>

Sinfield, A. (2025). *Tax Expenditures Country Report: United Kingdom.* IDOS / CEP. <https://doi.org/10.23661/cr5.2025>

Thöne, M. (2000). *Subventionen in der Umweltpolitik – Zwischen institutioneller Rechtfertigung und EU Beihilfenkontrolle*, in: K. Bizer, B. Linscheidt, A. Truger (Hrsg.): *Staatshandeln im Umweltschutz*, Finanzwissenschaftliche Forschungsarbeiten N.F. Bd. 69, Berlin 2000, S. 253-279. DOI: [10.3790/978-3-428-50083-3](https://doi.org/10.3790/978-3-428-50083-3)

Thöne, M. (2003). *Subventionskontrolle. Ziele - Methoden - internationale Erfahrungen.* edition sigma. https://www.researchgate.net/publication/264741859_Subventionskontrolle_Ziele_-_Methoden_-_internationale_Erfahrungen

Thöne, M. (2011). 18 Billion at One Blow-Evaluating Germany's Twenty Biggest Tax Expenditures. Proceedings, Annual Conference on Taxation and Minutes of the Annual Meeting of the National Tax Association (Nov 17-19, 2011), New Orleans, LA.

Thöne, M., & Gerhards, E. (2019). *Evaluierung von Steuervergünstigungen. Ergebnisüberblick, Evaluationsschema, Methoden.* FiFo Institute for Public Economics, University of Cologne. <https://www.fifo-koeln.org/de/unsere-arbeit/projekte/evaluierung-von-steuerverguenstigungen-ii-2017-2019>

Thöne, M., Næss Schmidt, S., & Heinemann, F. (2009). *Evaluierung von Steuervergünstigungen, Band 1: Methoden und Ergebnisüberblick.* FiFo Köln, Copenhagen Economics, ZEW. <https://www.fifo-koeln.org/de/unsere-arbeit/projekte/evaluierung-von-steuerverguenstigungen-i-2007-2009>

von Haldenwang, C., Redonda, A., Aliu, F., & Berg, S. (Eds.). (2025). *Tax Expenditure Effectiveness. Tax Expenditures Lab Flagship Report 2025.* IDOS / CEP. <https://doi.org/10.23661/r3.2025>

Annex

Table 4: German environmental TEs identified in current legislation

TE name	Description	Tax head	ETE category	Revenue forgone in 2026 (million Euro)
Tax-exempt reserves and lower tax rates to mitigate extraordinary damages to forests	Tax measures such as tax-exempt reserves, reduced tax rates and higher flat rates for business-related expenses to mitigate the economic consequences of climate-related and other extraordinary damages for forestry	Multiple income taxes	Environmental protection, biodiversity and natural resources	15
Forestry tax reduction	Restrictions on felling and importing wood, formation of reserves, relief of valuation and reduced tax rates for income falling under the Forest Damage Compensation Act	Multiple income taxes	Environmental protection, biodiversity and natural resources	n/a
Reduced tax rate for certain other services in animal and plant breeding	Among other objectives, the provision aims at supporting climate-friendly agricultural production	VAT	Environmental protection, biodiversity and natural resources	n/a
Tax relief for domestic small-scale distilleries	Among other objectives, the provision aims at supporting the preservation of meadow orchards	Excise taxes	Environmental protection, biodiversity and natural resources	6
Exemption for certain photovoltaic systems	Tax exemption for income related to the operation of small residential / commercial photovoltaic systems	PIT	Clean electricity and carbon management	n/a
Zero rate for certain photovoltaic systems and storage	Reduction of the VAT rate to 0 percent for photovoltaic systems and storage if installed on or near private residences and public buildings	VAT	Clean electricity and carbon management	70
Exemption for biogas, marsh gas and landfill gases	Tax exemption for self-used landfill / marsh gas to encourage renewable use and methane combustion	Excise taxes	Clean electricity and carbon management	n/a
Partial energy tax relief for combined heat and power (CHP) generation	Partial tax relief for energy products used in stationary CHP plants with a monthly or annual utilization rate of at least 70 percent	Excise taxes	Efficient and sustainable heating and buildings	75
Tax exemption for electricity from renewable energy sources	Electricity derived from a network or line exclusively powered by renewable energy resources. Incentives to generate electricity from renewable energy sources and use them locally	Excise taxes	Clean electricity and carbon management	48

TAX EXPENDITURES COUNTRY REPORT – GERMANY

TE name	Description	Tax head	ETE category	Revenue forgone in 2026 (million Euro)
Exemption for small renewable or cogeneration plants	Small plants with a nominal power of up to 2 MW using renewables or efficient cogeneration, if used locally	Excise taxes	Clean electricity and carbon management	770
Reduced benefit-in-kind tax rate for electric and plug-in hybrid company cars	Reduced (50 to 75 percent) taxation on private use of electric / hybrid company cars to promote low-emission transport	PIT	Transport sustainability and electrification	1,730
Special depreciation allowance for electric company vehicles	Special depreciation allowance of 75 percent in the year of acquisition for new, purely electrically powered electric company vehicles up to 100,000 Euro sales value	Multiple income taxes	Transport sustainability and electrification	n/a
Reduced rate for local public transport and long-distance railway transport of persons	Introduced to incentivise the use of public railway over private transport	VAT	Transport sustainability and electrification	2,350
Exemption for buses used primarily in local public transport	Vehicle tax exemption to support local public transport	Vehicle tax	Transport sustainability and electrification	50
Exemption or refund for vehicles in combined transport rail, inland waterway, lake / street	Incentivise greater use of combined transport to relieve road congestion and contribute to a sustainable distribution of transport services across the various modes of transport	Vehicle tax	Transport sustainability and electrification	7
Temporary exemption for pure electric vehicles registered for the first time	Vehicle tax exemption until end of 2035 for electric vehicles registered until 31 December 2030 (maximum exemption: ten years).	Vehicle tax	Transport sustainability and electrification	145
Exemption for pure electric vehicles	Reduction of the vehicle tax by half (in addition to the temporary exemption above)	Vehicle tax	Transport sustainability and electrification	1
Tax relief for natural gas used as fuel	A degressive tax reduction to promote the use of gas engines for environmental and climate policy reasons. Expires at the end of 2026.	Excise taxes	Transport sustainability and electrification	35
Electricity tax reduction for local railway traffic and trolleybuses	Reduced rate (ca. 55 percent of the standard rate) on electricity consumed for railway transport operations and the use of trolleybuses.	Excise taxes	Transport sustainability and electrification	106

TAX EXPENDITURES COUNTRY REPORT – GERMANY

TE name	Description	Tax head	ETE category	Revenue forgone in 2026 (million Euro)
Electricity tax reduction for shore power supply of watercraft	Reduced rate (0.50 Euro per MW/h to incentivise the use of shore power, with the aim to reduce pollutant and noise emissions in ports)	Excise taxes	Transport sustainability and electrification	1
Tax relief for local public transport	Tax reduction of 9.08 Euro per MW/h for electric rail / trolleybus operations to promote cleaner transport modes.	Excise taxes	Transport sustainability and electrification	1
Special depreciation for new and affordable rental housing construction	Special depreciation allowances for new affordable and energy efficient rental housing construction amounting to 5 percent annually (on top of the standard depreciation rate) of the acquisition or construction costs in the first 4 years	Multiple income taxes	Efficient and sustainable heating and buildings	270
Tax reduction for energy-efficient building refurbishment measures for residential buildings	Tax break for residential building upgrades that improve energy efficiency	PIT	Efficient and sustainable heating and buildings	145
Total revenue forgone				5,825

Sources: Own calculations based on BMF, 2025; Regierungsentwurf Bundeshaushaltsplan 2027 vom 3.7.2026, 2027 federal budget proposal, see <https://www.bundeshaushalt.de/static/daten/2027/soll/draft/Gesamtplan-und-Uebersichten.pdf> (accessed 1 September 2026); <https://www.steuertipps.de/finanzamt-formalitaeten/elektroautos-kfz-steuerbefreiung-bis-ende-2035-verlaengert> (accessed 26 January 2026); <https://www.bundesfinanzministerium.de/Web/EN/Issues/Taxation/Growth-booster/growth-booster.html> (accessed 22 January 2026).