

*“The Young Innovative Company status can make Europe the most attractive place for entrepreneurs and investors. France is the first country to adopt the measure.”*

## Young Innovative Company Status (YIC)

Fifty percent of economic growth is generated by research and innovation. Public and private sector research needs to be stimulated to achieve this growth. The Young Innovative Company Status (YIC) can be particularly effective in stimulating private sector research and can create real growth in just a few years by lowering the costs of starting a new business and by multiplying the rate of investment in research across all innovative technology sectors.

Innovation also spurs employment and a nation's economic wealth (see graphic 1). Rather than a cost for European countries, the YIC represents an investment with a high economic return. A study on a similar measure in France (JEI) shows that such an initiative would provide governments with fiscal revenues in just 3 years (see graphic 4). The resulting boost to economic growth would make these tax incentives excellent investments for European countries.

*« Most countries are already taking measures to help increase investment in research. For example, the UK has considerably augmented tax credits on investments in research. France is putting in place a very favourable fiscal status for research based emerging enterprises (less than 8 years old) »*

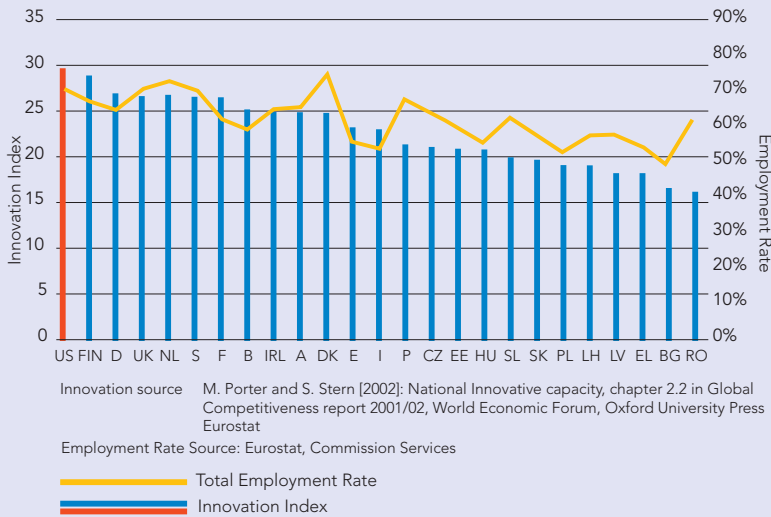
Philippe Busquin  
 EU Commissioner  
 for Research

There are huge disparities in social costs from one member state to another and varying costs in doing business (see graphic 2). If applied throughout Europe, the YIC would put innovative companies at a stroke on the same starting block.

To raise its level of innovation, Europe must increase R and D spending to 3% of GDP and drastically raise employment levels between now and 2010 (Lisbon goal). The public sector will not achieve this alone. To fulfil the Lisbon objectives, Europe needs to reach out to the private sector, especially in areas with a high growth potential. Young innovative companies have that growth potential and remain a largely untapped source of innovation and employment growth. EuropaBio calls on EU governments to create a specific status for Young Innovative Companies, providing tax exemptions to entrepreneurs, employees, investors and companies across Europe to reward risk with incentives and benefits.

Graphic 1

**Innovation Capacity Index & Total Employment Rate**



**Definition of an innovative company:**

Companies must:

- Spend at least 15 per cent of their expenditures on R & D
- Be less than 15 years old.

**Main fiscal measures:**

*Provide incentives for companies*

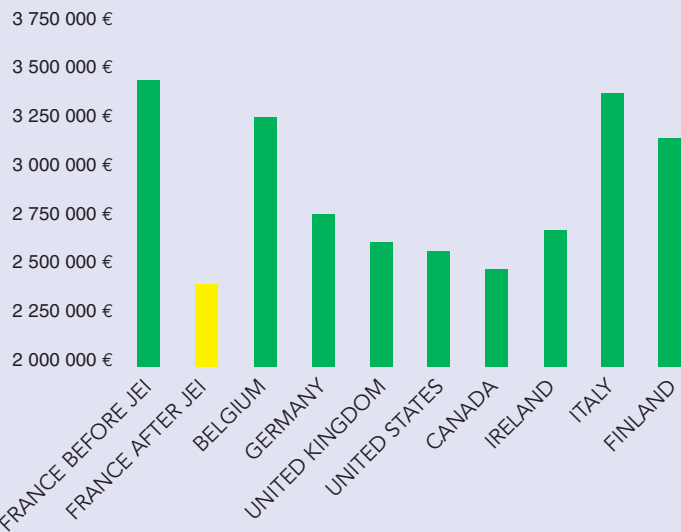
- Reduce social costs (social security, unemployment and pensions) by 100% for the first 15 years
- No tax on revenues for the first 3 profitable years, 50% reduction over the next 5 years and 35% reduction over the next 7 years

*Provide Incentives for investors*

- No tax on capital gains on shares or stock options that have been held for a minimum of 3 years

Graphic 2

**Total gross salaries including employer social security contributions**

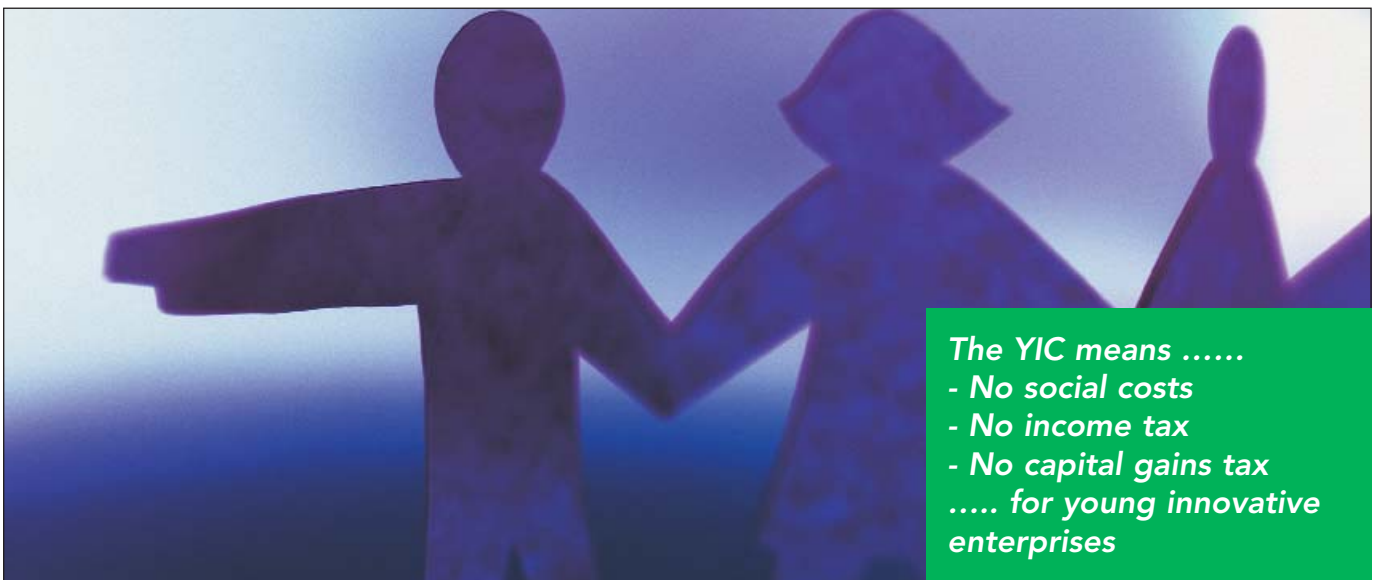


**Cost comparison: Huge disparities in social costs and income tax from one member state**

A comparative study<sup>1</sup> estimates the costs of employment and tax contributions in nine EU countries.

For an innovative company employing a staff of 40, salary costs in Canada and the US are highly competitive while France and Italy are at the other end of the scale.

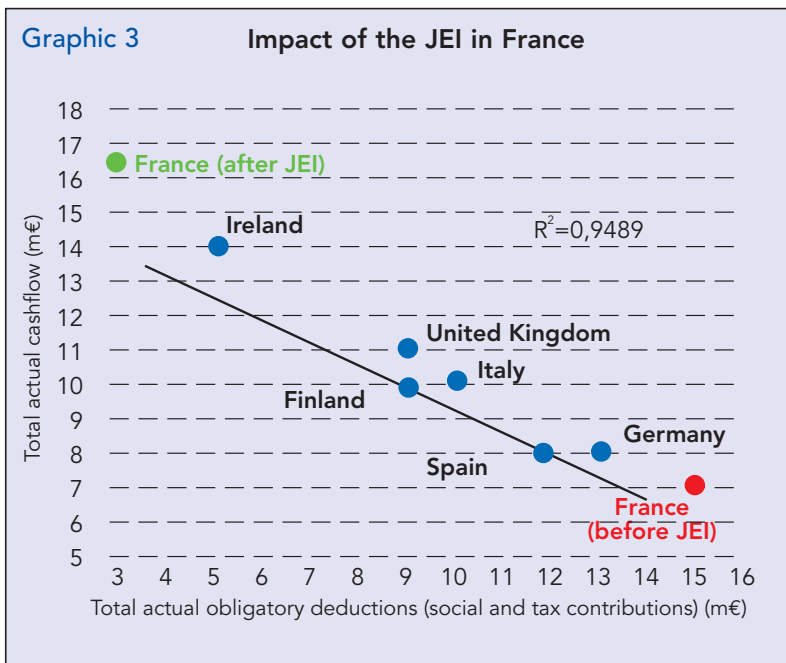
<sup>1</sup> The study's methodology compares an innovative enterprise, in 9 different countries, employing 40 people, with an annual expenditure of € 7 million (60% on R & D; 20% on marketing; 20% on social contributions) and with revenues of € 2 million. The average salary costs include: 1 CEO (€ 170,000); Personal Assistant (€ 30,000); 6 Directors (€ 100,000 per person) 18 managers (€ 60,000 per person); 12 technical staff (€ 40,000 per person); 2 Secretaries (€ 25,000 per person). The study was produced by CSI (Maryvonne Hiance) and Deloitte & Touche (David Dancey, Colin Spence)



**The YIC means .....**  
 - No social costs  
 - No income tax  
 - No capital gains tax  
 ..... for young innovative enterprises

## France adopts a similar measure to the YIC – Jeunes Entreprises Innovantes (JEI)

A study on the impact on the profitability and financial stability of a typical innovative enterprise in France was conducted in February 2003 by France Biotech in collaboration with Ernst & Young.



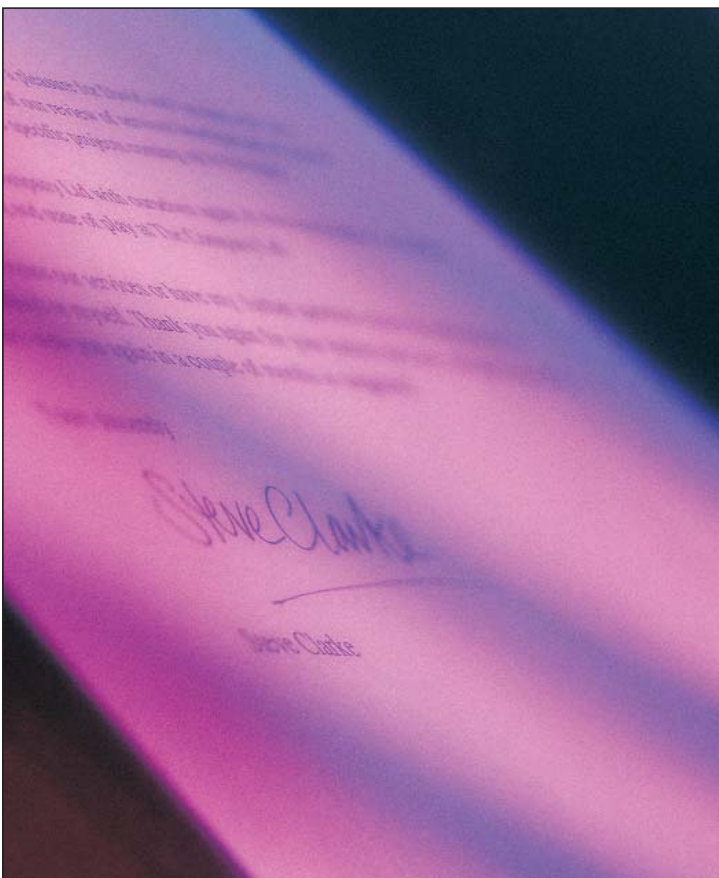
This analysis was based on a concrete example of an innovative enterprise in France. It examined the profitability and financial stability of the company if it were based in one of the other countries studied. In terms of net results and operational margin, France arrives last. However, with the JEI measure if applied on the basis of 100% tax and social security exemptions for an 8 year period, France would climb to number one position. But after that period, the country would return to the levels of inferior competitiveness. The analysis shows that taking into account the slow industrial cycles, particularly in the biotech industry, it is desirable to maintain this measure over a long period.

With the JEI, which is France's equivalent of the YIC status, the country would take pole position among developed countries in terms of competitiveness and profitability for entrepreneurs and investors.

## How much would the YIC cost governments?

Pierre KOPP and Rémy PRUD'HOMME, economists at the Universities of Panthéon, Sorbonne and Paris XII, costed out a YIC simulation for France, assuming an 18 year tax free status. They calculated that if the measure were applied to 2500 existing innovative enterprises, as well as to new emerging enterprises, it would bring the following results:

- a 60% increase over 5 years in the numbers of innovative enterprises;
- a doubling in 5 years in the number of jobs in innovative companies;
- a reduction in the levels of failing young innovative companies.



They calculated that the initiative would cost the French Government some € 400 million per year for the first two years, essentially due to reduced social contributions. In the third year, revenues would be more than costs and € 117 million would be reaped by the government in tax and social charges. In the following years, the number of companies, their size, number of jobs and tax revenues would continue to grow. The JEI thus would considerably stimulate the growth of innovative enterprises and avoid having to use significant and unsustainable public deficits to do it.

In the words of Pierre KOPP and Rémy PRUD'HOMME: " JEI costs the state the amount it gives away in tax and social exemptions while increasing the state's revenues. Two contradictory movements are at work: On the one hand, the lowering of tax and social contributions temporarily diminishes the state's revenues but on the other hand, the creation of companies and jobs are being dynamised, which in turn rapidly increases the state's income. The aggregate results are very favourable for the JEI, making this initiative a truly productive investment in job creation."

Graphic 4

## YIC: costs and benefits to the State

<b>In blue – situation without the JEI measure</b>			
<b>France: estimate for jobs created with JEI</b> (based on current situation)			
	Year 1	Year 5	Year 10
NO OF INNOVATIVE ENTERPRISES	2800	4460 / <b>3895</b> +14%	9985 / <b>6092</b> +64%
- Existing	2500	2369 / <b>2280</b> +4%	2360 / <b>2266</b> +4%
- Newly created	300	2091 / <b>1614</b> +30%	7625 / <b>3826</b> +99%
NO OF JOBS	58000	135497 / <b>106799</b> +27%	731894 / <b>253062</b> +189%
- In existing innovative enterprises	55000	85357 / <b>79220</b> +8%	183763 / <b>127244</b> +44%
- In newly created enterprises	3000	50141 / <b>27579</b> +82%	548131 / <b>125818</b> +336%

<b>France: estimated costs / benefits of JEI</b> (€ Million)			
	Year 1	Year 5	Year 10
<b>SOCIAL CHARGES</b>			
- Reference scenario	1016	1869	4429
- JEI scenario	647	2399	9168
Annual gains (+) or losses (-)	-369	+530	+4739
<b>COMPANY TAX</b>			
- Reference scenario	59	108	256
- JEI scenario	22	32	396
Annual gains (+) or losses (-)	-37	-76	+140
<b>INCOME TAX</b>			
- JEI Tax relief	-9	-153	-1677
Capital gains			
- JEI Tax relief	-1	-2	-10
Total Annual gains (+) or losses (-)	-416	+299	+3192



The European Association for Bioindustries

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