



Letter from the Secretary-General

THE KEY TO TAX BREAKS FOR BIOTECH COMPANIES

Unlocking the YIC Kingdom

Biotechnology and the life sciences are focused on creating environmental, health and wealth benefits based on cutting edge research. A German study¹ estimated that "by 2020 biotechnology can secure or create between 369,000 and 596,000 jobs in Germany." Capturing the benefits that the European biotech industry can provide is crucial to meeting Europe's Lisbon objectives of becoming the world's most competitive knowledge-based economy by 2010.

A key European concern must be to improve the environment for young innovative companies to grow. This message is not new, and has been repeated over and over again during the Lisbon process. It is vital to secure early-stage funding, to provide small business grants and to offer an overall growth-friendly tax environment in which venture capitalists, business angels and companies feel comfortable with investing. Giving tax incentives for R&D is one attractive strategy that can efficiently stimulate investment in R&D companies with a minimum of market distortion and bureaucracy.

Several European states have introduced fiscal incentives for R&D through tax incentives. In France, R&D tax credits have existed since the 1980s, but the Young Innovative Company system launched in 2004 meant a decisive shift in policy towards a much more friendly tax environment for the most innovative firms. The UK has implemented a different system which also concentrates mainly on small and medium-sized enterprises (SMEs). Belgium, the Netherlands, Ireland and Norway are other examples of countries that have implemented fiscal incentives for business R&D; these all have their own specific profile. The common rationale behind fiscal incentives for R&D is to increase industrial investment in R&D by lowering the cost of such investments.

Worldwide, measures supporting **innovative companies** creates advantages for both industry and society while stimulating innovation, for example:

- In the UK there is a wide range of instruments in favour of young innovative companies and of investors with deductions of 125-150% of R&D investments, paid in cash the following year.
- France gives favours to young innovative companies (YIC-status) to cover social costs and has a tax credit system with broad focus to boost incremental R&D
- Norway has a tax subsidy scheme whereby the government funds 20% of corporate R&D and there are about 6000 applications annually.
- Canada has a federal tax credit program for a capped share of R&D and credit can be replaced by cash payment for loss making companies.

Policymakers need to invest time and effort in designing tax incentives for R&D in order to create the desired effect and to avoid bureaucracy. It is important to take a lesson from the best practices currently in place, in order to improve existing schemes and to avoid mistakes in designing new programs.

¹Biotechnology in Germany – Employment Potentials and Competitiveness - Summary

New EU Rules on State Aid Support YIC & the Efforts of Member States to Provide Funds to Young Biotech Companies

The **European Commission's new state aid rules** recognize Young Innovative Companies (YIC) status as an eligibility criterion for state aid. This will **enable Member States to provide extra public funds like tax and other financial incentives** to their young innovative biotechnology companies **without running into trouble with EU competition rules**. The new EU rules enable governments to give extra incentives to companies that are less than 6 years old and spend 15% or more of their revenues on R & D. As of 1 January 2007, the EU rules, which are not sector specific, have opened the path to benefit research, development and innovation across Europe.

The primary objective of this new framework is to:

- Increase R&D&I spending to 3% of European gross domestic product by 2010
- Help Member States invest more in R&D and Innovation and increase the share of aid for Research, Development and Innovation (R&D&I) as a percentage of total State aid budgets; and
- Use better economics to help Member States target State aid on the right projects, so that distortions of competition and trade are minimised and public spending efficiency maximised.

The new rules on Research, Development and Innovation contain a flexible package of measures which can be used by Member States to tailor their support to R&D&I according to their national preferences, needs and specificities. On the basis of economic analysis a series of measures are offered to Member States to grant aid, to help them direct more aid to R&D&I than currently the case and to better target their funds to measures that are on balance beneficial to the common interest.

Tax incentives could benefit companies investing in clinical trials, filing patents, developing new products. But only if your Member States put the new State Aid exemptions into practice. This means allocating public money from the Exchequer/Chancellery to fund this type of measure. **So contact your Chancellors and Finance Ministers for they hold the key to the YIC kingdom!**

These state aid rules have eight bloc exemptions to the state aid ban and YIC status is only one of them. The next Letters from Jo will address these other exemptions, so stay tuned!

Over the last two years, and with the support of the European Commission FP6 Programme, a consortium of Biotech industry associations has developed a common plan for the realisation of the Young Innovative Company Status (YIC) for biotech companies in four Nordic/Baltic countries. The partners in the project are France Biotech – the initiators of the concept of the Young Innovative Company status, and national biotech associations SwendenBio, Norway Biotech, Estonian Biotech, and the Finnish Biotech association. The project is being led by BioteknikForum.

Project partners



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For more information about **YIC** please visit the [YIC Project Website](http://www.YICProjectWebsite.org) or contact Vally Fidelman, Emerging Enterprises Council Manager, v.fidelman@europabio.org. For more information about the **Letter from Jo** series please contact EuropaBio's Communications & Events Manager, Rebecca Weaver, r.weaver@europabio.org

For more information, please visit: www.EuropaBio.org