



# Proposing a Europe-Wide Tax Status for Innovative Companies

**An EU project led by seven trade associations and funded by the EU Commission is promoting tax incentives for companies as a way to spur Innovation.**

Tax incentives for business R&D are widely regarded as an important policy tool to stimulate private investment in life sciences and in innovation in general. OECD reports that in 2005, 70% of member countries had tax incentives including the US, Canada, Japan and Australia. The figure compares to only 50% of OECD countries in 1996, highlighting the growing popularity of this policy instrument.

A report, as part of the EU project, compares the R&D tax incentive systems in four countries: UK, France, Canada and Norway. The overall picture is that tax incentive programs have catalysed investments in R&D which support innovative companies and create new job opportunities. The fact that the four countries are continuously adjusting their systems to make them increasingly generous indicates a strong belief in their positive effects. The report "Promoting Innovation by Tax Incentives" can be downloaded from <http://www.sik.se/yicstatus/>

Today several member states have adapted their tax systems to

stimulate R&D intensive companies in areas like life science and IT/Telecom. In addition, the European Commission is exploring ways to cross-link national incentives in order to gain full impact on a European scale. One way forward is to introduce a framework for a European wide tax status for R&D intensive companies. It would make Europe one of the most interesting regions in the world when it comes to high-tech investments and new jobs.

As companies benefit from reduced social costs, it lowers the barriers to employ additional researchers and personnel. This means that more resources can be reinvested to accelerate and broaden product development. Social costs are the sovereignty of individual member states which allow for flexible national implementation, but they must also work in a European context and not be considered as unfair state aid.

## What the project proposes?

The tax incentive scheme being called for is similar to the "Young Innovative Company-status" systems already in place in France and Belgium, however less complex in design to encourage smooth implementation among member states.

## Recommended incentive design for an EU-wide tax status for innovation companies:

Design element	Comment
Stimulation	<ul style="list-style-type: none"> <li>Exemption from social costs for all employees carrying out R&amp;D related work</li> </ul>
Eligible companies	<ul style="list-style-type: none"> <li>SME:s with less than 250 employees.</li> <li>Companies should spend at least 15% of their total outlay on R&amp;D</li> </ul>
Administration	<ul style="list-style-type: none"> <li>Companies apply to the tax authority to be granted the tax status</li> <li>If needed, the status of companies could be reassessed annually.</li> </ul>
Investment and cost	<ul style="list-style-type: none"> <li>Social costs and design vary between member states and also the initial investment necessary in each country</li> <li>Cost efficient, initial costs will partly be immediately covered by new investments, jobs and products on the market.</li> <li>Basically cost neutral in some countries</li> <li>For France a three-year payback has been estimated</li> </ul>

## Next step and recommendation:

To improve the environment for young innovative companies to grow is a key concern for Europe going forward. Any government caring for innovation and seriously subscribing to the Lisbon process is recommended to adopt the proposed framework in national tax incentive programs to stimulate business R&D investments.

The project partners call on Member States and the EU authorities to put in place an EU framework for a EUROPE-WIDE TAX STATUS FOR INNOVATION COMPANIES.



## Q: What would a YIC-status mean to your company?

"A Swedish YIC-model would mean that we in the short term could accelerate our product development by hiring more researchers. Time-to-market is essential to generate income. Competition is increasing and we have identified seven new competitors, with more resources, although we were first with the idea and the concept. In the long term we can lower the investment risk and secure a market leading product. Had the program been in place when we started we would have hired additional personnel earlier "

Dr Teodor Aastrup, CEO Attana, biotech tools company with 18 FTE:s

"For us as an R&D intensive company it is instrumental with a high momentum in the product development. If we could reinvest social fees it would enable us to expand faster, accelerate development and hire personnel. It would lift our competitiveness in the global market place"

Dr Fredrik Tiberg, CEO Camurus, with 25 FTE:s

"Annually we are able to save about 11 000 € per employee. These savings are immediately improving our cash flow and clearly spur our development. In addition the investment risk in our company is reduced – as investor you get more for each invested Euro"

Mr Coste, CEO Neuro3D, French pharmaceutical R&D company with 35 FTE:s and YIC status

## The YIC creates advantages for both industry and society

### Win-Win situation

#### Government perspective:

- New high quality jobs – and taxation incomes
- Cost efficient – initial investment necessary in some countries
- Combine cost control and efficacy
- Similar models already in place
- EU-perspective – EC encourages member states to investigate advantages of YIC-model
- Possible to improve competitiveness – without reducing social security

#### Industry perspective:

- Lower barriers to hire additional personnel
- Instant effect on cash flow
- Faster and broader product development
- Lower investment risk – better opportunities to attract financing
- Predictable financing compared to grants

## At a glance – comparing the R&D tax incentive systems in four countries (download the full report from <http://www.sik.se/yicstatus/>)

Country	Policy programs to stimulate innovation
UK	Wide range of instruments in favor of young innovative companies and of investors. Deduction of 125-150% of R&D investments. Paid in cash following year.
France	Gives favors to young innovative companies (YIC-status) including social costs. Has a tax credit system with broad focus to boost incremental R&D
Norway	Has a tax subsidy scheme that implies that government funds 20% of corporate R&D. (SkatteFunn). About 6000 applications annually.
Canada	Federal tax credit program for a capped share of R&D. Credit can be replaced by cash payment for loss making companies.



SIXTH FRAMEWORK  
PROGRAMME

"Realisation of Young Innovative Company status, YIC, for biotech companies" is supported by the European Commission. The project has seven participants, five of which are national associations (SwedenBIO, Chemical Industry Federation of Finland, Estonian Biotechnology Association, Federation of Norwegian Industries and France Biotech). Further members are EuropaBio and The Swedish Institute for Food and Biotechnology (SIK, the coordinator).

