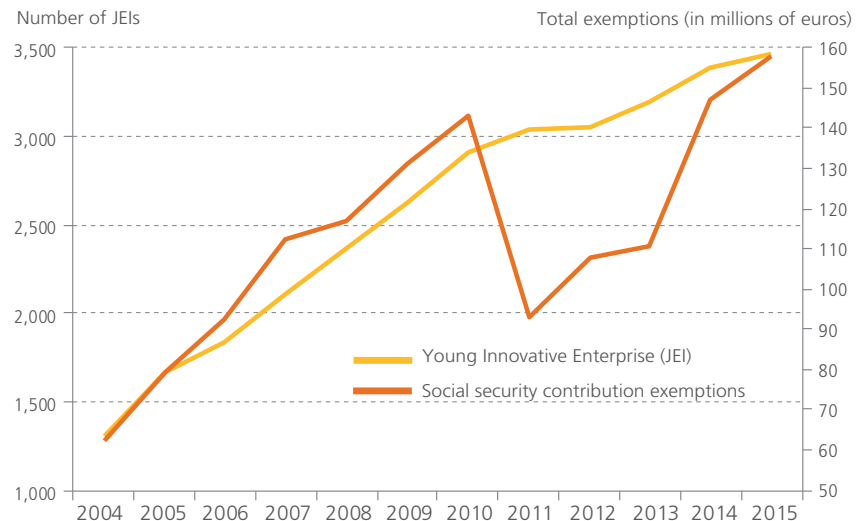


In 2015, 3,500 firms benefited from the French Young Innovative Enterprise scheme, mainly in the digital and scientific sectors

The French Young Innovative Enterprise scheme (Jeune entreprise innovante - JEI) aims at supporting R&D and innovation activities of new SMEs through tax cuts and, above all, exemptions from social contributions for highly skilled employees. In 2015, 3,500 enterprises benefited from the JEI scheme, mainly in the digital and scientific sectors. As a result of the 2014 Budget Act, which repealed the degressive rate for social security exemptions introduced in 2011 and widened the scheme to include certain types of innovation spending, the level of JEIs' exemptions from social contributions has almost returned to its 2010 level. JEIs benefit from the scheme for an average of four years. Nearly 80% of them have fewer than 10 employees, most of them assigned to R&D activities. Despite a certain level of financial fragility, JEIs invest and export.

Chart 1: Number of JEIs and total amounts of social security contribution exemptions



Source: Acoiss (2015 JEI base); DGE calculations

The Young Innovative Enterprise scheme, which was introduced in 2004, aims at supporting R&D activities of new SMEs by granting them under certain conditions tax cuts and exemptions from social contributions on highly skilled employees. This support lowers the cost of research, development and innovation efforts (RDI) for enterprises created within the last eight years and for which RDI spending represents at least 15% of their total expenditure. In 2014, the European Commission ranked the JEI scheme first among EU tax measures to support R&D (See «Find out more»). The JEI scheme can be combined with the Research Tax Credit (CIR), the Innovation Tax Credit (CII) and the membership in a cluster. Each of these three additional measures addresses a specific purpose, but they are all concerned with promoting the knowledge economy as a key factor in development and growth. In the twelve years since it was introduced, nearly 8,100 young enterprises relied on this scheme to start and boost their business notably through maintaining high levels of RDI. In 2015, nearly 3,500 enterprises benefited from the scheme, 667 of which

entered the scheme that same year. Since the JEI scheme was implemented, its beneficiaries have been granted a total of 1,355 million euros in social security contribution exemptions and almost 150 million euros in tax cuts. In 2015, these amounted respectively to 158 million euros and 11 million euros.

Social security contribution exemptions granted in 2015 per JEI reached almost the same level as prior to the 2011 reform

Some 158 million euros exemptions were granted in 2015 (Chart 1). This increase is linked to changes in the legislative framework of this policy to support innovative enterprises. Between 2004 and 2010, exemptions from social security contributions more than doubled compared to the natural increase in the number of beneficiaries over the same period. It went from 62 million euros in 2004 to 143 million euros in 2010. Each enterprise in the scheme received an average of 50,000

euros in exemptions per year (Chart 2). In 2011, social security contribution exemptions decreased by 35% due to the introduction of an upper bound and a degressive rate over time¹, and the average exemption per beneficiary amounted to 30,000 euros annually. Amending this reform under the 2011 Supplementary Budget Act to make it more flexible resulted in an increase in exemptions (an annual average of 35,000 euros per beneficiary in 2012 and 2013). The most recent reform of the JEI scheme, under the 2014 Budget Act, eliminated the degressive rate for social security exemptions but retained the upper bound. It also broadened the scheme to include some types of innovation spending². Initial effects could be seen starting in 2014. Total and per-beneficiary amounts of social security exemptions granted were on the rise. Average annual exemptions reached 43,000 euros in 2014 and 46,000 euros in 2015, a level slightly under that of 2010.

Nearly 80% of JEI firms have fewer than 10 employees, most of them assigned to RDI activities

The 3,459 enterprises benefiting from the JEI scheme in 2015 employ nearly 26,000 employees. The great majority of them have fewer than ten employees (78%), and account for 38% of total JEI labour force and 46% of social security contribution exemptions (Table 1). JEIs are, on average, smaller than SMEs (excluding self-employed entrepreneurs) that carry out R&D activities (only 48% of SMEs have fewer than ten employees). JEIs that hire fewer than ten employees are exempt from social security contributions for 78% of labour force that are involved in research or innovation activities. This is raised to 89% for JEIs with fewer than five employees. Generally, the percentage of employees carrying out RDI activities decreases as the size of the JEI grows, particularly when it passes the threshold of 50 employees. In this case, an average of only 15% of the labour force is eligible for exemption, whereas in enterprises that employ between 10 and 49 employees, which account for slightly more than half of total JEI labour force, close to 50% of labour force is eligible for exemption. If a new enterprise is focused on developing an innovative project from the beginning, the ensuing efforts to bring it to market will require new skills (marketing, sales actions, etc.), new labour force and income that overpass the scope of the social contribution exemption eligibility perimeter.

86% of JEI beneficiaries are active in the «IT and Communication» and the «Specialised, Scientific and Technical Activities» sectors

Since the JEI scheme was implemented, the distribution of sectors in which enterprises are active has remained stable. In 2015, 86% of JEI beneficiaries were active in the «IT and Communication» and the «Specialised, Scientific and Technical Activities» sectors (Table 2). By comparison, only half of SMEs (excluding self-employed entrepreneurs) carrying out R&D activities are part of these sectors. JEIs in these sectors account for 87% of employees and nearly 88% of social security contribution exemptions granted, amounting to a total of more than 138 million euros. Conversely, less than 10% of JEIs perform their activities in the manufacturing industry, whereas nearly one third of SMEs (excluding self-employed entrepreneurs) carrying out R&D activities belong to that sector. They were granted about 7% of total social security contribution exemptions. The share of

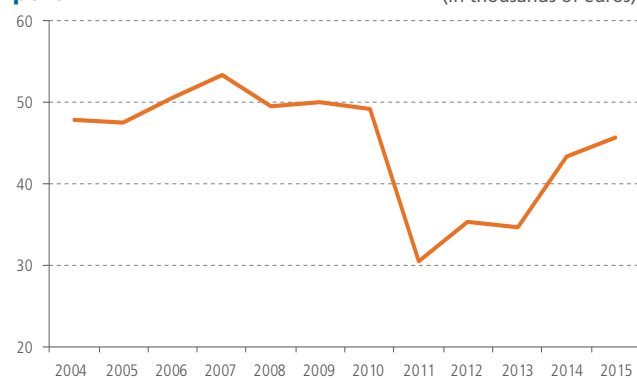
Table 1: Distribution of JEIs, JEI labour force and social security contribution exemptions by labour force categories in 2015 In %

| | JEI | Labour force | Labour force eligible for exemptions | Share of labour force eligible for exemptions | Distribution of social security contribution exemptions |
|-----------------------------|------------|--------------|--------------------------------------|---|---|
| Fewer than 5 employees | 52 | 15 | 24 | 89 | 20 |
| Between 5 and 9 employees | 26 | 23 | 30 | 72 | 25 |
| Between 10 and 49 employees | 21 | 52 | 44 | 47 | 50 |
| 50 employees or more | 1 | 10 | 3 | 15 | 5 |
| TOTAL | 100 | 100 | 100 | 55 | 100 |

Note: Fourth quarter 2015 labour force.

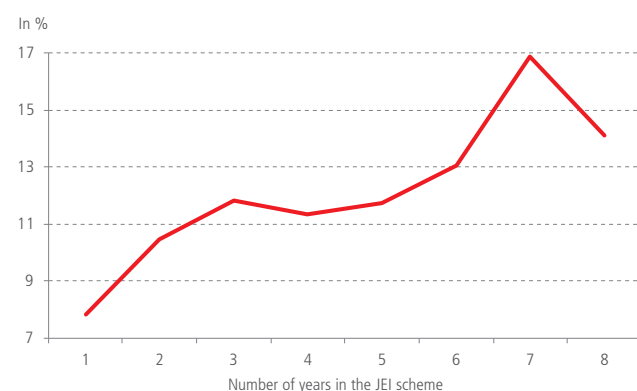
In 2015, 52% of JEIs had fewer than 5 employees; 15% of JEI labour force were employed by enterprises with fewer than 5 employees; 24% of labour force whose wages were exempt from social security contributions were employed by enterprises with fewer than 5 employees; 89% of labour force in JEIs with fewer than 5 employees were exempt; 20% of the total exemptions were granted to JEIs with fewer than 5 employees. Source: Acoess (2015 JEI base); DGE calculations.

Chart 2: Average social security contribution exemption per JEI (in thousands of euros)



Scope: France, all companies benefiting from the JEI scheme between 2004 and 2015. Source: Acoess (2015 JEI base); DGE calculations.

Chart 3: Distribution of JEIs time spent in the scheme



Note: 17% of JEIs who joined between 2005 and 2014 remain in the scheme for seven years. Some enterprises leave the scheme and then re-join it later. Only the years of the initial entry and last departure are taken into account here. The estimation of the distribution is based on observations of enterprises which joined the scheme between 2005 and 2014. Source: Acoess (2015 JEI base); DGE calculations.

«exempted» employees per enterprise varies between 45% and 64% depending on the sector, with the exception of the «Water Production and Distribution, Treatment, Waste Management and Decontamination» sector (85%). In 2015, all areas of activity taken together, JEIs were granted an average of 46,000 euros each in social security contribution exemptions. This average

¹ For a discussion of the JEI scheme reforms, see the January 2015 publication of «Les 4 Pages de la DGE» (n° 41).

² For more information: Minefi, 2013.

Table 2: Distribution of JEIs, labour force and social security contribution exemptions by sectors in 2015

| Sectors | JEI | Labour force | Labour force per JEI | Labour force eligible for exemptions per JEI | Share of labour force eligible for exemptions | Social security contribution exemptions per JEI |
|--|--------------|---------------|----------------------|--|---|---|
| | Number | Number | Average number | Average number | In % | Average amount (in thousands of €) |
| Information and communication | 1,492 | 11,326 | 8.0 | 4.9 | 57 | 47 |
| Specialised, Scientific and Technical Activities | 1,467 | 10,996 | 7.8 | 4.4 | 54 | 47 |
| Manufacturing | 248 | 1,650 | 6.9 | 3.8 | 54 | 43 |
| Commerce; automotive and motorcycle repair | 116 | 624 | 6.1 | 3.6 | 56 | 32 |
| Administrative and support service activities | 41 | 401 | 10.3 | 5.4 | 50 | 54 |
| Financial and insurance activities | 26 | 196 | 8.2 | 5.4 | 64 | 43 |
| Education | 18 | 132 | 7.8 | 4.2 | 45 | 20 |
| Water production and distribution, water treatment, waste management and decontamination | 11 | 33 | 3.7 | 3.1 | 85 | 19 |
| Other sectors | 40 | 289 | 7.4 | 3.8 | 50 | 33 |
| Total | 3,459 | 25,647 | 7.8 | 4.6 | 55 | 46 |

Note: Fourth quarter 2015 labour force.
Sources: Acoiss (2015 JEI base); Insee; DGE calculations.

was driven upwards by the structural weight of enterprises in the «IT and Communication» and the «Specialised, Scientific and Technical Activities» sectors, which were each granted an average of 47,000 euros in exemptions.

JEIs benefit from the scheme for an average of four years

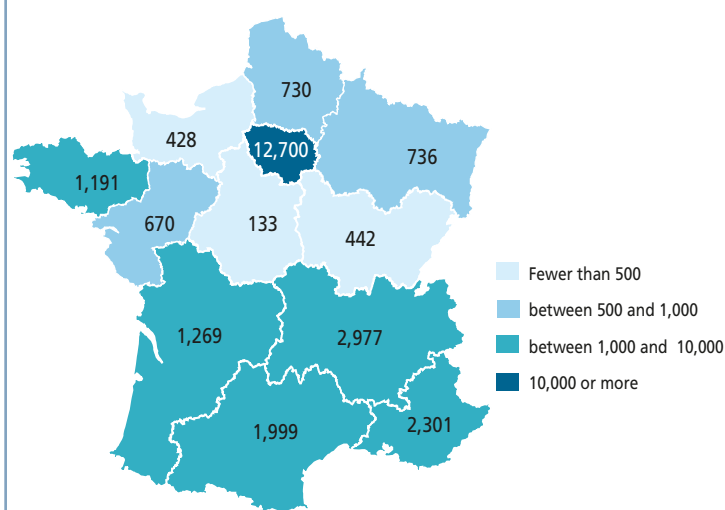
Since 2005, nearly 620 enterprises join the JEI scheme each year on average. Most enterprises are rather young: 60% of those that joined the scheme between 2005 and 2015 were less than two years old at the time of entering, and 77% were less than three years old. In contrast, the first generation JEIs (from 2004) were relatively older, because the initial group of beneficiaries did not fulfil the expected age criterion. The distribution by age of enterprise stabilised starting in the following year. Those which joined from 2005 on remained in the scheme for an average of four years. A relatively large share (17%) stay in for seven years, i.e. they remain JEIs until the scheme's age upper bound (Chart 3).

Nearly half of JEIs are based in the Greater Paris region

In 2015, three-fourths of JEIs and 78% of their employees were located in four of France's regions (map), the same four that account for the highest amounts of domestic R&D spending (BERD: business enterprise expenditure on R&D) by SMEs. They are the Greater Paris region, Auvergne-Rhône-Alpes, Provence-Alpes-Côte d'Azur and Occitania.

JEIs were particularly concentrated in the Greater Paris region, with 1,500 companies (44% of the total), whereas the second-place region had only 438 (13% of the total). By comparison, only a third of SMEs (excluding self-employed entrepreneurs) carrying out R&D activities are in the Greater Paris region. In the Greater Paris region, JEIs' activities are primarily linked to information and communication technologies (54% of the region's total), and have a greater average number of employees (8.8, compared to the national average of 7.8). This accounts for the region's high average level of social security contribution exemptions (52,000 euros), which is 6,000 euros above the national average.

Map : JEIs' labour force by region



JEIs located in Corse and DOM hire 71 employees in 2015.
Sources: Acoiss (2015 JEI base); DGE calculations.

Table 3: Accounting data for JEIs in 2014 (in thousands of euros)

| | Average | Median |
|-------------------------|---------|--------|
| Turnover ¹ | 496 | 152 |
| Exports ² | 111 | 0 |
| Value added | 196 | 80 |
| Gross operating surplus | -138 | -26 |
| Equity capital | 467 | 146 |
| Investment | 166 | 42 |

¹ Including JEIs without turnover.
² Including no exporting JEIs.
Scope: all 3,341 enterprises benefiting from the JEI scheme in 2014.
Sources: Acoiss (2015 JEI base); Insee (Fare 2014); DGE calculations.

In the Auvergne-Rhône-Alpes and Provence-Alpes-Côte d'Azur regions, a little more than half of JEIs are active in the «Specialised, Scientific and Technical Activities» sector.

Despite a certain financial fragility, JEIs invest and export

The structural features of JEIs, in particular their hefty charges in terms of research-related jobs and investments, and despite the exonerations they are granted, explain their difficulties to become quickly profitable and economically balanced. For these enterprises, investments account for one third of their turnover on average. In 2014, this represented 166,000 euros in investments for 496,000 euros in turnover (Table 3). They generally face a deficit (average gross operating surplus of -138,000 euros), and their salary costs account for nearly half of their operating costs (43%). The JEI scheme allows them to lower labour costs for employees involved in RDI, thus giving them access to the skilled labour they need for their growth. In 2014, salary costs were reduced by 12%, compared to 8% in 2013, thanks to this scheme and as a result of its strengthening enacted in the 2014 Budget Act. More than two-thirds of JEIs generate turnover and a positive added value, and nearly half succeed in making a profit, a share that has risen markedly (+10 points) in two years' time. Their minimal equity capital, which is almost equivalent to their turnover, corroborates the fact that these enterprises have not

yet been able to stabilise their business activity. Nevertheless, they are not reluctant to look into overseas market opportunities, and more and more of them are doing so. About 37% export (30% in 2012), generating abroad an average turnover of 371,000 euros in 2014 (392,000 euros in 2012). All JEIs taken together (those exporting or not), average foreign sales came to 111,000 euros in 2014, which represented a fifth of the year's total turnover.

Most JEI firms benefit from other measures to support their RDI activities

In 2013, 73% of JEI firms combined the JEI scheme with the Research Tax Credit (CIR) or the Innovation Tax Credit (CII). They were granted 249 million euros in CIRs and 7 million euros in CIIs, whereas their social security contribution exemptions totalled 111 million euros. In the same way, one-third of JEI firms were members of a cluster in 2013. In all, for 80% of JEI firms the scheme was combined with the CIR, the CII or membership in a cluster. Those which received tax credits or were members of a cluster were larger than the average JEI. More specifically, 25% of JEIs which were part of a cluster had between 10 and 49 employees, compared with an average of 19% for all JEIs taken together.

■ Adel Moutaabbid, DGE

■ Innovative Startup (JEI) Scheme

An enterprise may qualify as a JEI if it meets five conditions:

- It is an SME: it employs fewer than 250 people and generates less than 50 million euros in turnover or has less than 43 million euros in total assets
- Its R&D expenses account for at least 15% of tax-deductible expenses for the financial year in question
- It was created in the last eight years
- It is independent: its ownership mainly consists of individuals, non-profit scientific public interest organizations, research and education institutions, etc.
- It is genuinely new: it is not an outcome of a merger, restructuring, extensions of activities, or takeover of an older business

These enterprises are mainly granted tax cuts and exemptions from social security contributions.

Tax cuts

- Complete exemption from corporate tax on the enterprise's first financial year with taxable profit, followed by a 50% exemption for the next year when they post a profit.
- Exemption from the Local Economic Contribution (CET) and property tax on developed land after a decision by local government.

Social security contribution exemptions

– Exemption from employers' social security contributions on researchers, technicians, R&D project managers, legal advisers for patents and employees in charge of pre-competitive tests. The exemption is also granted for corporate officers who are covered by the general social security scheme and who are mainly involved in an R&D project.

– Starting on 1 January 2014, the exemption is also extended to employees or corporate officers who are directly involved in designing prototypes or pilot installations of new products as defined in paragraph k) 6 of Section II of Article 244 Quater B of the French General Tax Code.

Scope of study and sources

This study focuses on businesses that benefitted from the Young Innovative Enterprise scheme for the period 2004–2015. They are identified using databases belonging to the Central Agency for Social Security Bodies (Acos: Agence Central des Organismes de Sécurité Sociale). Acos and the network of Social Security and Family Benefit Contribution Collection Offices (Urssaf) collect and distribute social security contributions and dues, which are used to finance the general social security regime.

Find out more

- «6 600 entreprises ont bénéficié du dispositif JEI depuis sa création en 2004», Le 4 Pages de la DGE, n°. 41, January 2015.
- «A Study on R & D Tax Incentives, Final Report», European Commission, Taxation Papers, Working Paper, n°. 52, 28 November 2014, 130 pp.
- Guide pratique de la Jeune entreprise innovante, MESR, Minefi, MSP, November 2004, 31 pp.
- «Prolongation et extension du régime d'exonérations sociales accordées aux jeunes entreprises innovantes (JEI)», Minefi, 2014 Budget Act, prior assessments of the bill's articles, Article 71, 2013, pp. 424–432.

This study will be followed by another publication of 4 Pages de la DGE that looks at the ecosystems of young innovative enterprises.

Please see the Études et Statistiques section at www.entreprises.gouv.fr

Publication manager: Pascal Faure
Editor-in-chief: François Magnien
Editorial secretariat: Martine Automme,
Nicole Merle-Lamoot
Layout: Hélène Allias-Denis, Brigitte Baroin
ISSN : 2269-3092
Copyright: 2016
DGE - 67, rue Barbès, 94200 Ivry-sur-Seine

DGE
DIRECTION GÉNÉRALE
DES ENTREPRISES