DOING BUSINESS IN Israel

HLB Gai, Goffer, Yahav, Guilman, Udem & Co.

1. Foreword

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3. General Information

3.1 Geographical Location and Climate

The State of Israel is located on the eastern shores of the Mediterranean Sea. Across Israel's northern border are Lebanon and Syria, to the east is Jordan, to the south is Egypt. Israel also borders on areas belonging to the Palestinian Authority.

Israel is a long and narrow state having a total area of 22,000 sq. km. – 430 km. long and 110 km. wide at the widest point.

The geographical structure of Israel is varied – in the South is the Negev Desert, in the Central Region the Sea Level Plain and in the North the mountains of the Galilee.

The climate in Israel is subtropical – rain in the winter, hot in the summer with no rain, and pleasant in the spring and autumn. The lowest temperatures are recorded in January–February and the highest temperatures are recorded in July–August.

3.2 Population

Israel's population numbers 8.1 million persons, who reside mostly in city centers.

Eighty-seven thousand foreign workers live in Israel, about seventy-one thousand of whom are legal and about sixteen thousand of whom are not.

The capital of Israel is Jerusalem, which lies in the State's eastern section and has a population of 987,400 persons. Jerusalem is the State's political center and is the location of the Government's ministries and the parliament (the Knesset). A number of historical and holy sites of the three main monotheistic religions are also located in Jerusalem.

Tel-Aviv is situated in the State's Central Region along the shores of the Mediterranean Sea and is Israel's economic, commercial, industrial and business center. The embassies of foreign countries are located in Tel-Aviv, and the managements of Israel's large companies and the stock exchange also operate out of Tel-Aviv. Metropolitan Tel-Aviv's population is 1.3 million persons.

Other important cities in Israel are Haifa in the North (549,400), Beer Sheva in the South and Eilat in the Lower Central Region of the State, which borders on Jordan and Egypt and is the gateway from Israel to the Red Sea.

3.3 Languages

The official languages in Israel are Hebrew and Arabic. English is not an official language in Israel however it is in wide use and is studied as a required course from an early age in most of the State's schools. In most cases, public signs and street names are presented in Hebrew, Arabic and English, which makes finding one's way relatively simple.

3.4 International Time

The time in Israel is two hours ahead of Greenwich Mean Time in the winter, and three hours ahead thereof in the summer.

3.5 The Political and Legal Systems

Israel's government is a parliamentary democracy. In Israel there is separation between the three state powers – the legislature, the executive and the judicial. Every four years there are general elections for the parliament (the Knesset). The head of the winning political party assembles the government and he or she is the Prime Minister. The President of the State of Israel is elected by the members of the Knesset and is a representative figure with no important executive powers.

The Knesset has 120 members. The number of ministers is limited by legislation to a maximum of 19.

The system of legal jurisprudence is based on the British Common Law, which was in effect prior to the establishment of the State of Israel. At the top of Israel's legal system is the Supreme Court, whose main function is to supervise the governmental authorities and to see to it that the basic relationships upon which Israeli's democracy is founded are not prejudiced. In addition, the Supreme Court serves as a court of appeals with respect to decisions rendered by other courts.

The State Comptroller is chosen by the Knesset and constitutes the representative of the public's complaints, and is responsible for examining the activities of the Government and the local authorities, as well as other bodies subject to his supervision by law.

In the Proclamation of Independence, the State of Israel committed to protect the rights of the citizens and to be true to the principles of the Proclamation of Independence of the United Nations. Israel's citizens enjoy equal social rights as well as equal rights before the law with no discrimination due to religion, race or sex; freedom of religion, freedom of speech, freedom of conscience, freedom of education, freedom to incorporate and freedom of the press. All of the State's citizens who have reached the age of 18 have the right to vote for the Knesset and the local authorities, and every citizen who has reached the age of 21 may be elected to the Knesset. Discrimination of whatever kind is prohibited.

The Knesset enacted thirteen "basic laws" regarding citizens' rights – the Law for a Person's Honor and Freedom and the Law for Freedom of Occupation.

3.6 Currency

The monetary currency in use in Israel is the Shekel (NIS). Every shekel is made up of 100 Agorot. The Bank of Israel updates the representative rates of exchange in relation to the various foreign currencies on a daily basis. The Bank of Israel's exchange rate policy relates to the basket of currencies, the components and relative weights of which in the basket reflect the currency composition of the foreign trade of the Israeli economy with respect to goods and services. The rate of exchange is not defined as a "floating rate", however, since 1997 Bank of Israel does not intervene and allows market forces to determine the rates of exchange of the various currencies.

The rates of exchange of selected currencies as at December 31, 2013, are set forth below:

1 U.S. dollar	=	NIS 3.4710
1 Euro	=	NIS 4.7819
1 British pound	=	NIS 5.7419
100 Japanese yen	=	NIS 3.3063

3.7 Economy

The State of Israel's economy has undergone a radical change over the last several decades from an economy based on agriculture and small businesses, to an open economy influenced by high-tech companies and large industrial concerns producing a wide variety of highly demanded products that are marketed worldwide.

Today, Israel is recognized as one of the most important advanced technology centers in the world. Many international companies have opened development and manufacturing locations in Israel or have acquired Israeli companies. An additional index of Israel's technological success is the number of Israeli companies traded on the NASDAQ in New York, which is higher than any other country except for China, Canada and the United States.

Further, Israel is blessed with many minerals, which are located in the Dead Sea area – the earth's lowest point. Such minerals are used by many industrial companies, which market their products worldwide.
Israel offers the business sectors and entrepreneurs all the necessary services in the most advanced manner; numerous and varied means of assistance to industry and business, quality and trained personnel, comprehensive insurance services, relevant legislation, advanced communications, and an advanced domestic and international transportation system, with an extensive inter-urban highway network which permits quick and safe movement throughout the State as well as to global destinations by air and by sea.
Israel's banking system is advanced and well-developed, with branch connections all over the world, and it provides the business sector all the services it requires.

The GDP growth rate in 2013 (3.3. percent) was similar to that in 2012, and per capita GDP increased by 1.4 percent. Also, Israel's per capita GDP has increased by a faster rate than the OECD average since 2008, and as a result Israel has narrowed the gap with the OECD average from 20 percent in 2007 to 14 percent this year.

3.8 The Natural Gas Sector in Israel

Israel is encouraging a transition to natural gas as the primary energy source, with the many advantages it offers the consumer, the economy and the environment.

The Israeli economy has, in recent years, undergone significant changes in terms of fuels. Within the space of a few years, natural gas has become the preferred fuel for electricity generation and for major industries, yielding savings of NIS 20 billion for the economy. Vast gas reserves found off the coast of Israel are helping to encourage energy initiatives based on natural gas.

In December 2010, the largest reserve of natural gas, over 16 trillion cubic feet, was discovered off the coast of Israel, and is estimated to be worth more than $95 billion. The reserve, Leviathan, is the largest amount of natural gas discovered in the world in the last decade.

Thanks to this and other discoveries, Israel has become a nation capable of providing for a substantial portion of its energy consumption without dependence on external sources. By the encouragement and support of the government, power plants and large industrial factories are gradually converted to natural gas use, and the establishment of a nation-wide conduction and distribution system has commenced.

3.9 Imports and Exports

In 2013, imports of goods to Israel totaled $63 billion. Total Export of goods from Israel amounted to $47.5 billion. Exports from Israel are composed, mainly, of high-tech products, electronic components, medical products, polished diamonds, minerals, metals and machines. Imports to Israel consist, primarily, of machines, equipment, raw materials for industrial, electronic components, raw diamonds and consumer goods.

Exports of goods and services in 2013 dropped by 0.1%, after a rise of 0.9% in 2012 and of 7.3% in 2011,. Revenue from the export of tourist services dropped by1.2%, following a drop of 1.4% in 2012.
Exports of services excluding tourism and start-up companies rose by 3.9%, after a 10.7% rise in 2012.
Imports of goods and services have remained steady this year, after a rise of 2.3% in 2012 and of 10.5% in 2011.

The year 2013 marked a current account surplus on trade in goods and services (excluding defense imports) totaling $ 5.7 billion, compared with $ 3.2 billion surplus in 2012. The final account, including defense equipment, capital and current transfers from abroad, showed this year a deficit of $3.9 billion, compared with a $ 0.85 billion surplus during the previous year.

3.10 Israel High-Tech Industry

The technology industry in Israel has been the driving force of the nation's economy, and has played a prominent role in Israel's economic development, particularly over the past decade. Only 25 years ago, most of the country's technology was concentrated in military/security-related industries. Israeli companies now have a strong foundation in hi-tech industries worldwide and Israel ranks among the leading countries in the number of Nasdaq-listed hi-tech companies.

4. Investment Factors

4.1 Favorable Relation to Investors

It is the policy of the Israeli Government to encourage foreign investments in Israel. For this purpose many and varied means have been allocated including, among other things, provision of grants, tax benefits and other benefits described in detail below. In Israel there are almost no limitations on foreign investments (subject to security considerations), and there is neither foreign exchange control nor requirement to obtain advance approval for foreign investments, except for entities such as banks and insurance companies.

4.2 Human Resources

Israel's work force is relatively well educated, motivated and dynamic, and adapts itself to changes. During the last several decades, Israeli entrepreneurs have started many high-tech companies that have enjoyed impressive success in the technology and finance areas, and thus have attracted the attention of the international markets.

The main sectors in which Israeli high tech companies have succeeded are; communications, software, internet, life sciences (medical devices, pharmaceutical, diagnostic), and biotechnology. Many entrepreneurs and giant international companies have identified the potential latent in the Israeli economy and have invested in Israel through acquisition of Israeli companies or by setting up subsidiaries in Israel.

4.3 "Free Trade" Agreements

Pursuant to the policy of the Israeli Government to open the Israeli economy to free trade, "Free Trade" agreements have been signed with a number of countries eliminating or reducing customs' duties on imports and other administrative restrictions on importing products from those countries with which agreements have been signed. Such agreements include a "Free Trade" agreement with the European Union (FTA), a "Free Trade" agreement with the United States, "Free Trade" agreements with countries in the Free Trade Organization of the European Market (EFTA), "Free Trade" agreements with Qualified Industrial Zones (QIZ), and the "Free Trade" agreement with MERCOSUR the South-American Common Market. In addition Israel has signed FTA agreements with: Canada, Mexico, Jordan, Egypt, Turkey and Colombia. Trade and tariff protection agreements (GATT) have been signed with the World Trade Organization (WTO), which include preferences in accordance with the "general system of preferences" (GSP) from many developed countries. These agreements place Israel in a unique position of being a free trade region with worldwide economic centers and allow it to serve as a broker for other countries that do not have reciprocal agreements of this type between them. As part of the peace process, Israel signed an Agreement for Economic Development with the Palestinian Authority.

4.4 The Law for Encouragement of Capital Investments

The Law for Encouragement of Capital Investments is the main mechanism for encouraging capital investments in Israel. This Law grants various benefits to investments made by both foreign and local investors. Such investors receive “Approved Enterprise” status under the Law.

The main benefits to which Approved Enterprises are entitled are monetary grants and tax benefits.
In 2011 a comprehensive amendment to the Law was approved ("the 2011 Amendment"). Pursuant to the 2011 Amendment, industrial enterprises complying with the required export conditions may benefit simultaneously from both the grants as well as the tax benefits track.

4.4.1 Grants Track

Eligibility for investment grants is limited to industrial enterprises located in defined priority zones (Priority Area A).

Approved Enterprises are entitled to grants of up to 20% of tangible fixed assets. Nevertheless, the 2011 Amendment framework prescribes that approval of the grants will not be limited solely to investments in fixed assets but will also include investments in human resources and other ventures, provided these are in line with the defined targets. Furthermore, the Investment Center Management will be authorized to grant State guaranteed loans.

Conditions for Enjoying Grants Track
The grants are not deemed to be income but, for depreciation purposes, are deducted from the cost of the fixed assets.
The terms stipulated by law for obtaining a grant are as follows:

1) The enterprise must be an industrial plant or a hotel.
2) The enterprise contributes to the independence of the State's economy.
3) The enterprise is competitive and contributes to the gross local production.

4.4.2 Tax Benefit Track

In the framework of the 2011 Amendment unified tax rates may be applied on the aggregate revenue generated from manufactured activity for industrial enterprises complying with the minimum export conditions established.

The tax rates to be applied are for the 2014 fiscal year: 10% (Priority Area A)and 15% (other zones). The rate for individual recipients of dividends under the tax benefits track will be 15%, both for Israeli as well as for foreign residents, while intra-corporate dividend distributions (between Israeli companies) will be exempt from tax even if derived from the subsidiary’s "preferable income".

Conditions for Enjoying the Tax Benefits Programme
1) The enterprise must be owned by a company registered in Israel and the business of which is controlled and managed in Israel. The company and its officers must be free of previous convictions on tax-fraud charges during the 10 years proceeding the benefits periods.
2) The enterprise must have an industrial plant.

3) The enterprise is competitive and contributes to the Gross local Production.
In order to reduce the bureaucratic process to obtain approval of investments in the alternative (tax exemption) track, the Law defined the criteria required to be eligible for this track. A company meeting these criteria will get automatic approval and qualify for tax benefits eliminating the need for discussion of a project in advance.

The criteria includes requirement of: Investment in bio or nano-technology activities, or any other activity, subject to minimum proportion of sales done abroad.

4.4.3 Other Benefits

In addition to the benefits described above, the Law grants special tax benefits to other investments, such as buildings aimed for residential rent.
The Law for the Encouragement of Rental Housing - 2007 is designed to increase the number of apartments available for rent. The Law grants benefits only to companies, by way of enabling accelerated depreciation and giving them a full exemption from Appreciation Tax.
Rental Income - Reduced tax on income derived from the lease of a "new rental building" - at the rate of 11% for companies and 20% for individuals. Companies where the proportion of foreign investment exceeds 90% of the total shareholders capital are liable to a lower effective tax rate of 10% on foreign investments.
Dividend - 15% tax is chargeable on dividends distributed from the earnings of an approved enterprise which is a rental apartment building.
Accelerated Depreciation - at the rate of 20% p.a.

4.5 Supports for Industrial R&D

4.5.1 The Chief Scientist

The Office of the Chief Scientist (OCS) of the Ministry of Industry and Commerce is responsible for implementing government policy regarding the support and encouragement of industrial research and development in Israel. The objectives of the OCS are creation of jobs in industry, increasing the benefits to the economy beyond the direct benefit to the company involved in the R&D, improvement of the State's balance of payments and development of high-tech industry by means of the exploitation of the existing scientific and technological infrastructure along with the currently available human resources.

A single or multi-year programme that will provide know-how, processes or methods for the manufacture of a new product or the significant improvement of an existing product or process, may be eligible for approval.
The product must have a significant potential for export sales.

Approved R&D plans enjoy government grants, generally up to 50% of the approved expenses. Start-up companies are eligible to receive increased grants of up to 66% (70%-75% in special areas). If the R&D is successful, the grant is returned by means of the payment of royalties, generally at the rate of 3%–3.5% of the total sales deriving from application of the R&D, until the full amount of the grant is repaid.

Know-how derived from an approved programme is to be used in Israel. Transfer abroad of production rights regarding the know-how must be approved in advance by the OCS.

In addition, there are number of plans administered by the Chief Scientist which provide benefits to specific industries, and are intended to encourage groups of companies in the same area of research, while integrating academic and other similar bodies.

4.5.2 Benefits in the Initial Stage

There are a number of plans supporting research and development in the initial stage including, among others, the following:

4.5.2.1 Heznek – The Government Seed Fund

– The Government and the investor put up matching funds.

– The Government's investment is made in exchange for shares of the company.

– The Government's investment will be up to NIS 5 million per company per two-year period and will finance up to 50% of the Approved Plan.

– The expenditures supported will be those related to R&D.

The investor will be given an option to purchase the Government's shares any time within the first 5 years at the initial price plus adjustment of inflation and interest.

4.5.2.2 Technological Incubators

The incubator provides a supportive framework for the entrepreneur in the form of an independent company that enables him to translate a commercially viable technological idea into a product that will attract investors. The R&D grant provides 85% of the approved R&D expenditures with the remainder to be raised by the entrepreneur.

4.5.2.3 Tnufa

This support is intended for investors, entrepreneurs and start-up companies during the initial phase toward the realization of their ideas. The fund will contribute toward getting patents, the construction of a prototype to verify the viability of the idea, preparation of a business plan and the mobilization of initial capital. The grant for this programme is 85% of the approved costs up to a maximum of 210,000 NIS.

4.5.3 International Joint Venture Agreements regarding Industrial Research and Development

International joint venture agreements provide the Israeli and foreign companies which have signed the agreements, added value from technological, industrial and marketing standpoints, as well as the ability to develop strategic contacts. In the framework of the joint cooperation, the technological risks and the monetary costs are divided between the Israeli company and the foreign company. In most cases, both the Israeli company and the foreign company are entitled to financial support in the form of a grant, a contingent grant or a loan – each of which coming from the government. If the R&D plan is successful and the product is sold, royalties will be payable to the government for purposes of repayment of the investment.

The assistance alternatives in the framework of the international joint venture agreements include three basic tracks: multi-national agreements, bi-national funds and parallel support agreements.

4.5.3.1 Multi-National Agreements

A. The Eighth Framework Programme

In the Eighth framework agreement of the European Community for scientific and generic technological development – Israel is defined as an “Associated State”.
Therefore, Israeli companies and research institutes are eligible for grants in respect of projects jointly managed with partners from EU countries.

B. Eureka

EUREKA incorporates 40 national funding schemes of virtually all European countries and the European Union. EUREKA facilitates approximately 400 projects every year, mobilizing EUR 1.5 Billion of public and private funds. The Office of the Chief Scientist supports Israeli companies participating in EUREKA projects. Since 2000, Israel has been the only non-European Full Member of EUREKA. Israel is among the most active members of the network – Israeli companies currently participate in more than 10 percent of all EUREKA projects. Israel was also chosen to chair the EUREKA Programme in 2010-2011, this chairmanship additionally aided in developing new instruments to support innovation and industrial growth through R&D cooperation.

4.5.3.2 Bi-National Funds

Bird-F Fund – joint venture fund for American and Israeli high-tech companies, assists in financing of up to 50% of the R&D expenses.. Since establishment, the Fund has approved over 800 projects and cumulative sales of products developed through BIRD projects amount to approximately USD 10 billion.

Siird Fund – joint venture fund for Singapore and Israeli companies in various areas of industrial research and development, which assists in financing up to 50% of the R&D expenses. SIIRD has to date approved approximately 112 joint projects with a total budget of over USD 160 million.

Koril-RDF Fund – joint venture fund for South Korean and Israeli companies in various areas of industrial research and development, which assists in financing up to 50% of the R&D expenses to a maximum of USD 1,000,000. At least 30 percent of the R&D development must be performed in either Korea or Israel.

Joint Cird Fund of the Canadian and Israeli Governments – joint venture fund for Canadian and Israeli companies in various areas of industrial research and development, which assists in financing up to 50% of the approved R&D costs of joint projects, up to a ceiling of C$800,000..

4.5.3.3 Industrial R&D Cooperation Agreements

Israel has several bilateral cooperation agreements and industrial R&D programmes with established and emerging leaders in the global economy including Pacific Countries, North and Latin America, China, India, US, Canada Australia and Europe.

4.5.4 Allowing Investments in R&D Company's Shares

The law allows deduction of investments in R&D Company's shares vis-à-vis investments made by individuals or corporations. In both cases, the allowable amount will be deducted from the original share price for a Capital Gains calculation upon realization..

Individuals: An amount invested by an individual in a "special purpose Company" will be deductible against the individual's overall income in three equal annual installments as from the fiscal year in which the capital had been invested. Amongst others, the requirement is that the capital invested ought to have been paid between 1.1.2011 and 31.12.2015, and that most of it is applied by the special purpose company to cover R&D expenses incurred in Israel The law stipulates further conditions for allowing the said deduction.

Companies: A "preferred company" or "beneficiary company" as defined in the Law for the Encouragement of Capital Investments, will be entitled to deduct the cost of shares acquired during the period between 1.1.2011 and 31.12.2015 in an "entitling company" not related to it, to the extent of 20% per annum from the year after such acquisition The law stipulates further conditions for the tax reduction.

4.6 Other Benefits

4.6.1 Free Trade Zones

The Free Trade Zone Law (1969) declares the seaports at Haifa, Ashdod and Eilat to be Free Trade Zones. Companies located in these areas are entitled to an exemption from Property Tax along with other benefits, which are received as a result of other laws and regulations.
In addition, local companies in the Eilat seaport are entitled to a reduced rate of Companies Tax as well as a reduced rate for withholding of tax at the source with respect to dividends paid.

Free Trade Zone in Eilat -

In 1985, the Israeli Knesset passed a law declaring Eilat (which is located on the shores of the Red Sea) and its surrounding areas as a Free Trade Zone. This law provides the following benefits:

A. Employers are reimbursed by the State in respect of a part of the cost of employing persons in Eilat, up to a maximum of 20%.
B. Services provided in Eilat by companies or individuals are exempt from payment of Value Added Tax.
C. Providers of consulting services to hotels in Eilat are exempt from payment of Value Added Tax.

4.6.2 Development Cities

The Investments Center grants preferential conditions to entrepreneurs, businesses and companies interested in investing in Development Cities. In addition, the local taxes paid in Development Cities are very low compared with normal municipal taxes.

4.6.3 Fund for Encouragement of Foreign Marketing

In an attempt to significantly increase exports from Israel, the Ministry of Industry and Commerce set up Funds, in order to assist exporters intending to expand their activities by establishing a marketing infrastructure overseas. The Fund is intended to assist exporters who have formulated a strategic marketing plan which calls for a substantial increase in exports and which is accompanied by a large increase in marketing investments. The Fund will finance up to 50% of the recognized expenses not exceeding approximately $580,000 by way of loans repayable in 5 years.

4.6.4 Small and Medium Businesses

The Israel Small and Medium Enterprises Authority is engaged in establishing and supporting the operation Small Business Development Centers (CPE).

Small and medium-sized businesses are considered, according to common perception in developed and developing states, an important source for the growth of the economy and for the creation of stable and, from the economic point of view, healthy places of employment. In Israel as well, therefore, the Government views these businesses as one of the tools for achieving its economic targets and one of the central layers in the Israeli economy and society.

The Ministry of Industry and Commerce helps by financing the revolving credit of small and medium-sized businesses under a government guarantee (up to NIS 500 thousand). In addition, the Authority supports the training activities of each of the CPEs in which a range of courses and workshops in various subjects are given, such as, the establishment and management of a business, computerization and the Internet, electronic trading, marketing, financial management, access to tenders, assistance in obtaining the ISO Standard, etc.

4.7 Sources of Financing In Israel

4.7.1 The Banking System in Israel

The banking system in Israel is modern, computerized and well developed. The banking system offers a wide range of services including, among others, conventional banking services, raising of capital and credit.

Bank of Israel is the authority charged with supervising the banking system. Bank of Israel's responsibilities and authorities are set down in the law and consist, primarily, of ensuring the stability of the banks, maintenance of proper administration of the banks, and assurance of fairness with respect to the relationships of the banks with their customers.

Israeli banks have branches and own other banks in foreign countries, and also have wide-ranging business connections with foreign banks all over the world. The scope of the international transactions in which Israeli banks are involved is very high in relation to the size of the State.

Commercial banks – Israel's commercial banks provide a wide variety of services which are characteristic of commercial banks in the developed countries, such as, financing for the short and medium periods of time, financial instruments, services to investors, underwriting services, and others.

Mortgage banks – Israel's mortgage banks are subsidiaries of the large Israeli banks and it is their function in the economy to provide long-term financing, project accompaniment and business credit, as well as to assist Israeli companies in raising capital from other internal and external sources.

Activities of Foreign Banks in Israel:

A. Branches of Foreign Banks
Branches of foreign banks operate in Israel. A foreign bank that wishes to open a branch in Israel must receive approval from Bank of Israel and is subject to the directives of the Supervisor of Banks just as the local banks are. Aside from this, there are no restrictions with respect to the types of activities engaged in by the branches of foreign banks.

B. Subsidiaries
Execution of banking activities in Israel by a foreign bank through a subsidiary is possible by means of setting up a new bank in Israel or by acquiring a local bank. The rules applying to local banks owned by foreign banks are the same as those applying to other local banks.

C. Representative Offices of Foreign Banks
A representative office of a foreign bank is permitted solely to provide information and to direct customers to the foreign bank. The representative office is not authorized to engage in banking or business activities in Israel. At the present time, there are representative offices in Israel of eleven foreign banks.

4.7.2 The Tel-Aviv Stock Exchange

The Tel-Aviv Stock Exchange represents an important source for raising capital in Israel. Many Israeli companies use the Tel-Aviv Stock Exchange for purposes of financing their investments and business activities and the Government also uses the Market to sell shares of government- owned companies to the public.

Trading on the Tel-Aviv Stock Exchange is executed on-line, the same as in the developed countries in the world.

Every business day, shares, options, bonds and other financial instruments are traded on the Tel-Aviv Stock Exchange. Approximately 495 companies and 1,560 government and other bonds are listed for trading on the Exchange.

Companies listed for trading on foreign exchanges may also be traded on the Tel-Aviv Stock Exchange on a dual basis, pursuant to a special regulation that relaxes the conditions required applying to such companies in connection with trading on the Tel-Aviv Stock Exchange.

4.7.3 The Securities Authority

The Securities Authority was established under the Securities Law in 1968 and is responsible for monitoring matters relating to parties investing in securities.

In the framework of its responsibilities, the Securities Authority handles the following matters:

A. Approving publication of prospectuses pursuant to which companies offer their securities to the public.
B. Arrangement of the activities of mutual funds and supervision thereof.
C. Review of current reports published by companies, part of the securities of which are held by the public.
D. Monitoring of specifications of tender offers for securities.
E. Supervision of proper and orderly operation of the Tel-Aviv Stock Exchange.
F. Licensing and supervision of portfolio managers and investment consultants.
G. Performance of investigations of violations of the Securities Law and the Law for Joint Investments in Trusts.

In 2004, The Securities Authority launched the "MAGNA", its official website, which includes "online" reports that public companies are required to submit, including prospectuses, financial statements and all relevant immediate information.

4.7.4 Foreign Stock Exchange

Up to now, more than 100 Israeli companies have raised capital on foreign stock exchanges. Many Israeli companies are currently traded on the NASDAQ and the New York Stock Exchanges. About another 36 companies are traded on the stock exchanges in London, Paris and Frankfurt.

4.7.5 Venture Capital Funds

Israel's Venture Capital Funds play an important part in the high tech industry providing start-up companies with funds as well as management tools, in order to enhance their possibilities of succeeding.

The number and volume of Venture Capital Funds grows due to facts such as: tax exemptions applicable to investments in VC funds and the involvement of large international finance companies.

At the present time, approximately 128 venture capital funds operate in Israel. Up to now, dozens of Israeli start-up companies, in which venture capital funds have invested, have been publicly issued, acquired or were merged with large international companies.

4.7.6 Insurance Companies

Insurance companies in Israel hold significant sums of money, which they are permitted to invest in any property subject to the Insurance Business Supervision Regulations, which are enforced by the Ministry of Finance. The activities of insurance companies as investors span many different sectors in the economy, mainly, investment in marketable securities.

4.7.7 Leasing Companies

Many companies in the Israeli economy operate in the area of finance leases and operating leases, and offer a wide variety of equipment to industry, commerce and individuals by means of “asset-backed financing”.

4.8 Proprietary Rights

“Proprietary rights” is a general name for types of ownership rights with respect to various products in which capital, work and creative efforts have been invested. Proprietary rights include, mainly, the following rights: patents, trademarks, models and copyrights. Many laws exist in Israel in order to protect the aforementioned rights, including: the Copyrights Law, the Copyrights Ordinance, the Patents Law (1967), the Patents and Models Ordinance, the Trademarks Ordinance (1972), the Original Name Protection Law (1965), the Executors’ and Broadcasters’ Rights Law (1984). In 1995, the State of Israel signed the World Trade Organization (WTO) Agreement, as a result of which the Knesset enacted the Law for Amendment of the Proprietary Rights Laws (1999). The Division of Patents, Models and Trademarks was established in the Ministry of Justice, the function of which is to provide legal protection with respect to proprietary and industrial rights in Israel.

4.9 Prevention of Money Laundering

In 2002, the Law for the Prevention of Money Laundering was enacted, and the Authority for the Prevention of Money Laundering in the Ministry of Justice was set up.
On August 1st, 2005, the Prohibition on Terror Financing Law came into force. This law includes several provisions regarding the criminalization of terror financing and the reporting duties of financial institutions with regard to suspected terror financing. In addition, the name of the authority was changed to "The Israel Money Laundering and Terror Financing Prohibition Authority ".

In accordance with international standards, the Law determined that various financial institutions (banks, portfolio managers, insurers and insurer agents, members of the stock exchange market, etc.) are required to identify their clients before performing a financial transaction, to report certain financial transactions to the database established by the Law, and to maintain records of such transactions. As well as a reporting obligation in connection with monetary transfers above a certain amount.

4.10 Employment Conditions and Regulations

Employment conditions in the Israeli economy are governed by a combination of laws, regulations, ministerial directives and collective bargaining agreements. Set forth below, are the main matters, which have been arranged and/or regulated:

- Work hours.
- Equal pay for women.
- Retirement conditions.
- Vacation rights.
- Minimum wages.
- Severance pay.
- Labor courts.
- Collective bargaining agreements.
- The right to strike.
- Employment of persons by human resource companies.
- Employment of persons from foreign countries.

4.10.1 Employment of Persons from Foreign Countries

A person, who is not a resident of the State of Israel and who wishes to work in Israel, must obtain a work permit from the Ministry of Labor.

4.10.2 Work Hours

In general, the workweek starts on Sunday and ends on Thursday or Friday in the afternoon. The usual number of working hours per week is 40–43 hours. Customary business hours in the offices are from 8:00–9:00 in the morning to 4:00–5:00 in the afternoon. Stores are usually open until later in the afternoon or into the evening. Holidays are fixed based on the Hebrew calendar.

4.10.3 Payments for Social Benefits

Employers and employees are required to pay a certain percentage of wages paid to the National Insurance Institute, which covers many benefits to employees, such as, retirement benefits, work accidents, unemployment compensation, maternity benefits, and the like. In addition, payments are made to the National Insurance Institute for government health insurance covering Israel’s population.

Employer payments reach 5.5% of the wages paid while employee payments reach 12 % (subject to a floor and a ceiling amount).

4.10.4 Mandatory Pension Arrangements for Employees

The Israeli Government has issued an order regarding Pension Fund Insurance which applies generally to all employees and employers in Israel.
As a result, from January 1, 2008, all employers are obliged to provide their employees with a pension fund with respect to a specified range of salary.
Every employee is entitled to be insured with a pension fund which also includes coverage for death and disability.
The minimum required rates of the contributions from wage are as follows: employers' contribution: 10% (including 5% severance), employee's contribution: 5%.

5. Types of Business Organizations

Structure of Business Activities

Pursuant to law in the State of Israel, a person [i.e., an individual or group of persons] may choose the legal framework in which he wishes to conduct his business activities that provides him with the maximum economic advantages based on the nature of his business operations.

Customary Structure of Business Activities in Israel

5.1 Individual

An individual may set up a business as a sole proprietor. Generally, such businesses are small, mainly service enterprises. It is noted, that operating in the form of a sole proprietor involves a high level of exposure to other parties.

5.2 Partnership

A very common structure is a partnership of individuals. In general, such partnerships involve small to medium size businesses. The usual practice is for the individual partners to sign a partnership agreement between them, however even without such a formal agreement, the provisions of the Partnerships Law (which was enacted in 1975) apply to them. Accordingly, a partnership is required to be registered with the Registrar of Partnerships.

There are two types of partnerships:

5.2.1 General Partnership

The liability of the partners in a general partnership is not limited to their capital contribution. Every partner is permitted to act in the name of the partnership. The action of a partner in the partnership binds all the partners. Very common examples are partnerships of CPAs, attorneys, as well as joint ventures between companies, organized as partnerships, which is common in the construction industry. The obligation to report to the Tax Authorities applies to each partner separately and each of the partners reports separately his share in the partnership's earnings.

5.2.2 Limited Partnership

A limited partnership is a partnership with respect to which the liability of a partner therein is limited to his interest in the partnership in accordance with the partnership agreement. A limited partnership is required to have at least one partner whose liability is unlimited.

5.3 Companies

5.3.1 General

The usual structure of activities in Israel is incorporation in the form of a company. Companies in Israel operate pursuant to the laws and regulations enacted under the Israeli Companies Law and its regulations. An individual is allowed to be the sole owner of a company. In order to incorporate in the form of a company, the company must register with the Registrar of Companies in the Ministry of

Justice. The company's shareholders must invest an amount of money with the company against which they will be issued shares of the company.

In the company's Memorandum of Incorporation, the following items are to be recorded: the company's name, the areas of its activities, its authorized share capital, its issued share capital, its various classes of shares along with a definition of each class, the names of the shareholders and the shares issued to each one of them, etc. Every company receives a certificate wherein its name and identification number are recorded.

Generally, the establishment process of a company, from the time of submission of the incorporation documents to the Registrar of Companies, is 2–3 business days, and the cost of incorporating is generally less than $1,000.

5.3.2 Public Company

A public company may have an unlimited number of shareholders – but not less than seven.
Where the company's shares are traded on the Tel-Aviv Stock Exchange:

– The company must publish annual audited and quarterly reviewed financial statements up to three months and two months, respectively, after the balance sheet date.

– Foreign public companies traded on the Tel Aviv Stock Exchange are required to publish their financial statements in both Hebrew and English.

– Every offer to the public must be published in a prospectus.

– The Board of Directors of a public company must include, among others, at least two directors having appropriate training from the public (external directors).
– One of the external directors is to serve as Chairman of the Audit Committee.

– Every public company must appoint an internal auditor.

5.3.3 Private Company

A private company is a company that is not a public company. A private company may not offer its shares to the public. Pursuant to law, a private company is required to maintain its books of account in accordance with generally accepted accounting principles, to prepare financial statements of each year and to appoint outside auditors who will audit the company's financial statements and will express an opinion thereon. A private company is required to submit audited financial statements as at December 31 of each year to the Tax Authorities in Israel (in certain cases such as subsidiaries of foreign companies, tax authorities may approve a different balance sheet date).

A private company must submit an annual report to the Registrar of Companies regarding its shareholders and directors; however it does not attach to this report its financial statements.

5.4 Incorporation for Non - Profit Purposes

5.4.1 General

A corporate entity operating for non-profit purposes is generally called an "amuta" (society). An amuta is an incorporation of persons the purpose of which is to advance a public matter. An amuta operates in the framework of a law passed in 1980 – the Amuta Law. An amuta is registered with the Registrar of Amutot, which confirms that the amuta's purposes are legal, do not violate other laws and/or are not unethical. The Registrar of

Amutot issues a registration certificate to the amuta that includes an identification number and approves the amuta's Articles of Incorporation. The amuta's Articles of Incorporation state the amuta's purposes and the manner of its operations. Every amuta must comply with the rules provided in the Amuta Law.

– An amuta must appoint a general manager.

– An amuta must have members that are "Members of the Amuta Committee".

– An amuta must maintain books of account in the same manner as a normal company.

– An amuta must prepare financial statements once a year (December 31).

– The financial statements of an amuta are to be prepared in accordance with generally accepted accounting principles for non-profit organizations.

– Every amuta must submit annual financial statements to the Tax Authorities and to the Registrar of Amutot. An external CPA must audit the financial statements of an amuta, whose gross income exceeds NIS 1 million.

– In certain cases, based on his discretion, the Registrar of Amutot may investigate the amuta's activities and he is permitted to "enter" into its books of account.

– The amuta's income is generally exempt from income tax, and in most cases from Betterment Tax as well.

– An amuta is exempt from payment of Value Added Tax (VAT) with respect to its receipts, however it is not permitted to deduct VAT inputs with respect to its expenses.

5.4.2 Public Benefit Company

A Public Benefit Company is a company that sets only public targets in its articles of association, and which prohibits the distribution of its profits or any other distribution to its shareholders. A Public Benefit Company will have to submit an annual report to the Registrar of Companies just as a public company and to the Registrar of Trusts as well.

5.5 Foreign Companies

Foreign companies that wish to conduct their businesses in Israel are required to register with the Registrar of Companies and must submit their Articles of Association, including a translation thereof into Hebrew, plus a list of managers and additional information. Foreign companies that wish to list their shares for trading on the Tel-Aviv Stock Exchange are required to act in accordance with the directives of the Tel-Aviv Stock Exchange and the Securities Authorities.

5.6 Cooperative Organizations

Cooperative organizations are required to register with the Registrar of Cooperative Organizations and to act in accordance with Cooperative Organizations Ordinance. This form of organization is generally availed of in the transportation and agricultural sectors.

6. Accounting and Auditing

6.1 General

Since 1 January 2008, Israel requires International Financial Reporting Standards (IFRS) for listed companies and has made IFRS optional for others. Previously Israeli companies prepared financial statements in conformity with Israeli Generally Accepted Accounting Principles (Israeli GAAP) as issued by the Institute of Certified Public Accountants in Israel (ICPA) and the Israeli Accounting Standards Board (IASB), with further guidance from the Israeli Securities Authority under the Israel Securities Laws and Regulations.
Whereas many previous adopting countries made regional modifications to IFRS to accommodate the local business environment and economic and political climates, Israel adopted IFRS "as is". The Israeli Tax Authority has not yet adopted IFRS, and still requires all companies to provide Israeli GAAP-based financial statements for tax purposes,
The IASB is an independent entity which deals with accounting standards for the purposes of raising the level of accounting standards in Israel, and to improve the quality and reliability of the information included in the financial statements published in Israel.
Standards published by the IASB, as well as Opinions published by the ICPA up to the time the Board was established (March 1997) are recognized as Israeli GAAP. Since its establishment, the IASB has published about 36 Standards.

The IASB allowed adopting the International Financial Reporting Standard for small and medium entities (IFRS for SMEs).
The Standard applies to small and medium sized entities, which are entities that publish financial statements which are designed for all external users but do not have public accountability. The application of this Standard is voluntary and starts in 2015.

The Securities Authority also has the right to issue accounting and reporting regulations, which are mandatory for public companies.
Israeli companies traded on foreign stock exchanges issue statements based on the relevant international standards in accordance with the stock exchange on which they are traded.

6.2 Auditing

The authority that supervises the profession in Israel is delegated by law to the Auditor's Council. The council is a statutory body subordinate to the Ministry of Justice and headed by the general manager of the Ministry of Justice. The ICPA in Israel is a voluntary body of licensed accountants which was established 77 years ago. Presently, over 11,000 Israeli Certified Public Accountants are members of the Institute.
Every limited liability company, as well as other entities, must appoint a CPA who will audit the books in order to express an opinion on the financial statements. In performance of the audit, the CPA is required to apply various Standards issued by the ICPA as well as Standards under law, while regarding specific audits the requirements of the State Auditor and others must be applied.

6.3 Peer Review

The ICPA established the Peer Review Institute which works alongside the ICPA, while maintaining professional independence, for examining the quality control work and processes at the offices of the auditors of publicly held Israeli companies.

7. Taxation

7.1 General

Up to 2002, the system of taxation in Israel was based on the "territorial" method. Effective as of 2003, a broad-sweeping legislative change was made (hereinafter – "the Reform"), which included, among other things:

- Reducing the tax burden on employment income.
- Taxation of foreign income.
- Taxation of the capital market.
- Tax relief for foreign residents and new residents.
- Encouraging business and technology entrepreneurs.
- Real estate tax reform (commencing November 1, 2001).

Upon entry of the Reform into effect, the system of taxation in Israel was changed to the "personal" method. Accordingly, every Israeli resident is charged for tax in Israel based on his worldwide income.

For the passive income of Israeli residents, there is an obligation to pay tax, without reference to the source thereof, that is, whether the assets producing the income are located within or outside of Israel's borders.
Foreign residents are subject to tax on their income, which was produced or derives from Israel, subject to sourcing rules and treaties for the prevention of double taxation. The tax is applied to income from business, employment, interest, rent, a sale of assets and other sources.

Regarding this matter, there is a difference between the method of calculation for an individual and for a company. A company is a separate entity, and the tax imposed thereon is a proportionate tax. In contrast, the tax on an individual is progressive and direct while an individual receives certain benefits that do not apply to a company. If the individual is married, the family is taxed as a unit, however generally a separate tax calculation is made for each of the spouses regarding his/her income.

7.2 Taxes on Income

7.2.1 Taxation of Companies

7.2.1.1 General

Charging a company for tax in Israel is based on an examination of the place of its residence. A company will be considered an Israeli resident company if one of the following two conditions exist: if the company was incorporated in Israel or management and control of its activities is executed in Israel.

Companies are charged corporation tax at the rate applicable during the financial year (1 January – 31 December). Up to 2013, the tax rate on Israeli resident companies was 25%, and became 26.5% from the year 2014. Generally, dividends paid between Israeli companies are not subject to income tax.

7.2.1.2 Company having an Approved Enterprise

The Law for Encouragement of Capital Investments provides special tax rates for companies having an Approved Enterprise. See Section 4.4.2, above.

7.2.1.3 Foreign Professional Company

A Foreign Professional Company is a foreign-resident private company, where Israeli citizens thereof hold at least 75% of the means of control directly or indirectly, and most of its income or gains derive from a “special profession” performed by its main Israeli shareholders. The Israeli controlling interest will be viewed as if it received a dividend in each year equal to its proportionate share in the company’s undistributed income. The rate of tax on the deemed dividend is 30% of the income, less companies' tax charged overseas

7.2.1.4 Controlled Foreign Company (CFC)

A Controlled Foreign Company is a foreign resident company, which is managed from overseas, the majority of the income of which in the tax year constitutes passive income taxable abroad at a rate not exceeding 15% and regarding which more than 50% of its means of control are held by Israeli residents. Where the conditions for existence of a Controlled Foreign Company are fulfilled, the controlling interest will be viewed as if it received a dividend in each year equal to its proportionate share in the company’s undistributed passive income. The rate of tax on the deemed dividend is 30% of the passive income, less the tax that will be charged overseas upon an actual distribution of the said undistributed income.

7.2.1.5 Participation exemption

In order to encourage foreign investors to operate from Israel its overseas business holdings, a participation exemption regime was approved.

According to this regime, a qualified Israeli Holding Company ("IHC") will be exempt from Israeli tax on: (a) dividends received and capital gains from the sale of "Held Companies", in which it has at least a 10% shareholding interest, and (b) from interest, dividends and capital gains from the sale of securities publicly traded in Israel.

Dividends paid from the IHC to its foreign shareholders will be subject to 5% tax.

A foreign shareholder will be tax exempt on a capital gain upon its sale of shares of the IHC.

A qualified IHC is required to meet several conditions, including incorporation, management and control to be operated from Israel, and an investment in Held Companies (including equity and loans) of at least 50 NIS million (approx. $ 15 million).
A qualified held company is a foreign business company, which is resident of a country that has a tax treaty with Israel, or where its local tax rate on business activities is at least 15%.

While additional rules exist, we recommend examining each case carefully before making a decision to establish an IHC.

7.2.1.6 Rules with respect to Foreign Companies Investing in Israel

In general, foreign residents producing income and capital gains from Israeli sources are subject to tax in Israel in full. In order to encourage foreign investments, the Income Tax Ordinance grants certain exemptions to foreign residents investing in Israel.

A. Exemption from tax on interest on foreign currency deposits.

B. Exemption from tax for international trade companies and their shareholders who are foreign residents.

C. Exemption on capital gains from a sale of shares in a research and development intensive company.

D. Exemption with respect to capital gains from sale of shares of a company traded on the Tel-Aviv Stock Exchange.

E. Exemption with respect to capital gains on forward transactions executed with a financial institution.

F. Exemption from Betterment Tax and Purchase Tax for a foreign resident selling or buying shares in a Real Estate Association of foreign residents (subject to the requirements set forth in the Law for Encouragement of Capital Investments).

G. Foreign investors receive a tax exemption on capital gains from sale of securities of a company resident in Israel or from the sale of shares of a company whose main assets are rights to assets (excluding land) located in Israel.

Specific regulations relating to investments in Israel determine the following matters:

1. A foreign resident that has a business or activities in Israel is required to appoint an Israeli resident as a representative on his behalf.

2. Transfer pricing regulations in Israel affect international transactions between related parties. International transactions covered by the regulations are asset, service or credit transactions between related parties if one party is a foreign resident or if the resulting income is also taxable abroad. The tax law requires such international transactions to be reported for Israeli tax purposes on arm's length (market – based) terms. The regulations reinforce this by requiring a transfer pricing study to be prepared to check the transfer pricing, applying a prescribed method. These methods are not defined in the regulations, but they are understood to be similar to those prescribed in the transfer pricing principles of the OECD.

7.2.1.7 Sourcing Rules

The source of business income is the place where such income is produced, whether from business activities, an occupation, or casual transactions.

The source of employment income is the place where the work is performed.

Interest, as well as royalties, pensions and dividends, is sourced in the place of residence of the payer.

The source of usage fees with respect to an asset is the place where the asset is located.

All that stated above is subject to a number of exceptions and the provisions of the relevant treaties.

7.2.1.8 Dividends from Foreign Income

Generally, foreign dividends are subject to tax at the rate of 25%/30% (less tax credit arising from tax withheld abroad on that dividend).
Despite the above, a company may request to pay tax at the rate of 26.5 % in respect of the income from which the dividend was distributed, while receiving a credit for the tax charged abroad on that income and the tax withheld at the source from the dividend overseas, in connection with such income.
Dividends to foreign residents are subject to tax at the rate of 25%, or a lower rate based on a treaty or the Law for Encouragement of Capital Investments.

7.2.1.9 Withholding of Tax at the Source

Israeli law imposes an obligation to withhold tax at the source with respect to various parties paying interest, dividends, salaries and certain other payments. The law requires the payer to deduct from the payment and to transfer to the tax authorities the amount due to them, before the recipient of the income receives it. Tax is not withheld at source where the recipient of the income is exempt from withholding of tax at source or the income itself is exempt from tax.

7.2.2 Individuals

In order to determine the tax liability applying to individual Israeli residents, a definition of the term “residence” is required and, in this context, it is provided that an Israeli resident is an individual whose “center of life” is in Israel.

For purposes of determining whether a person’s “center of life” is in Israel, many tests have been established, such as, permanent home, presence of family members, place where the primary economic and social contacts exist, presence in Israel most of the year, the place from which the business is carried on, etc.

In addition to that stated above, quantitative assumptions have been enacted in the law, which may be contradicted, pursuant to which a person who is present in Israel 183 days or more in a tax year, or a person who is present in Israel 30 days or more in a tax year and a total of 425 or more in such year together with the preceding two years, will be considered an Israeli resident.

7.2.2.1 Tax on Earned Income

The tax rate applicable to an individual (independent contractor or salaried employee) is progressive and begins from 10% and reaches a maximum rate of 48%. There are credits against the tax which reduce the tax burden on the individual and they are granted to him under certain conditions such as: credit for place of residence, a woman working outside of her household, or children who are unable to care for themselves, credits for having a BA or MA, savings in pension funds, etc.

Set forth below, is a table presenting the tax rates on the income of individuals (2014):

Tax %	Income in U.S. (*)
10%	1 – 18,429
14%	18,430 – 31,449
21%	31,500 – 48866
31%	48,867 – 69,808
34%	69,809 – 146,003
48%	146,004 and over

(*) $1 = NIS 3.438 (30/06/2014)

If a person's total taxable income for the tax year exceeds $ 232,693 an additional tax at a rate of 2% will be charged in respect of any taxable income exceeding the above mentioned amount.

7.2.2.2 Income from Residential Rentals

There are tax preferences with respect to taxation of rental income that do not rise to the level of operation of a business. Set forth below are the preferences applying to income from the rental of residential units:

A. From a property located in Israel –
Income from the rental of residential property by an individual is exempt from tax if the income does not exceed approximately $1,450 per month. Where the income exceeds the aforementioned amount, the taxpayer has three alternatives – (1) If the rent income is higher than 1,450$ but does not exceed an amount of 2,900$, the taxpayer may choose to receive a partly tax exemption. (2) Tax is paid at the rate of 10% of the gross rent received, with no upper limit, without the taxpayer being entitled to deduct any expenses. (3) Tax is paid according to the marginal tax brackets in respect of the rent income net of expenses.

B. From a property located outside of Israel –
The taxpayer has two alternatives.
(1) Tax is paid at the fixed rate of 15% of the gross rent received, with no upper limit, without the taxpayer being entitled to deduct any expenses, except for depreciation and without being entitled to offset foreign taxes.

(2) Tax is paid according to the marginal tax brackets in respect of the rent income net of expenses, and having right to offset foreign taxes.

7.2.2.3 Investment Income

Most of the income of individuals from bank deposits and savings plans is subject to tax at 15%-25%.

Regarding New Immigrants and Returning Residents, special preferences are given with respect to their income from assets they held overseas before coming to Israel.

7.2.2.4 Tax exemptions for new immigrants

The new "oleh" (immigrant) or returning resident to Israel has tax exemptions such as:

- Exemption for 10 years from the immigration date from both passive and active income taxes, for such income earned, produced or generated abroad or sourced from assets outside of Israel.
- Tax credits worth thousands of NIS.
- Tax exemption on Exchange rate differences for 20 years.
- Full tax exemption on pensions for 10 years.
- Tax exemption on foreign companies owned by immigrants.

7.3 Capital Income

Capital gains tax is imposed on gains from the sale of capital assets, in respect of the positive difference between the sale value of the asset and its depreciated cost.
Capital gains are taxed in Israel if the seller is an Israeli resident or where:

A. The asset is located in Israel.
B. The asset is not located in Israel however it creates a right in an asset, inventory, or real estate located in Israel.
C. The asset is a share or right in a share in an Israeli company.
D. The asset creates a right in a foreign corporation, which, primarily, holds the right to an asset located in Israel.

Commencing on January 1, 2014, the tax rate on a real (inflation-adjusted) capital gain from sale of an asset, is 25% for individuals and 26.5% for companies. The system of taxation with respect to Land Betterment is very similar.

7.4 REITs

A Real Estate Investment Trust (REIT), is required to be an Israeli Real Estate company, traded on the Tel Aviv Stock Exchange, and comply with certain quantitative requirements may be used to encourage small investors to participate in major real estate projects. The taxation of the investors is deemed to be similar to taxation of direct investment in the assets.

7.5 Tax Rulings

The process for obtaining tax rulings from the tax authorities has been formalized.
The tax authorities commit themselves to publish their rulings in order to provide other taxpayers with guidance and aiming for uniformity in tax authority decisions.

7.6 Taxation of trusts

A trust is defined as an arrangement under which the "Grantor" transfers to a "Trustee", for no consideration, an asset or its income, appointing the Trustee to hold the asset for the benefit of a "Beneficiary".
A trust may be revocable or non-revocable.
The reform defined 4 categories of Trusts, as follows:

Israeli Resident Trust: a trust, which, at the time of its creation, has at least one grantor and one beneficiary, both Israeli residents, and during the specific tax year at least one grantor or one beneficiary were Israeli residents. And is also a trust which does not qualify for any of the categories below. Its income will be treated as derived by the grantor and subject to Israeli taxation at the maximum marginal rate, or a reduced rate if applicable to the specific kind of income. Special rules apply when a resident abroad, either grantor or beneficiary becomes an Israeli resident.

Israeli resident beneficiary trust: a trust in which all the grantors are foreign residents and at least one beneficiary is an Israeli resident. The tax treatment is similar to the preceding category.
In case that all the grantors and the beneficiaries are closely related, special treatment alternatives are allowed by the law.

Non-resident trust: a trust in which all the grantors and the beneficiaries are foreign residents, its income will be treated as derived by the grantor; consequently it will be taxed only on its Israeli related income, subject to existing exemptions.

Non-resident beneficiary trust: a non-revocable trust in which one grantor is an Israeli resident, and all its beneficiaries are non- residents, while the trust documents prohibit an Israeli resident to be a beneficiary. The tax treatment is similar to the preceding category.

Testamentary trust: a trust established according to the directives of a person who was an Israeli resident immediately before his/her death. If this trust has at least one Israeli resident as beneficiary, the tax treatment will be similar to the Israeli Resident Trust, if there are no Israeli beneficiaries, the trust will taxed like a non-resident trust.

7.7 Disclosure of tax planning

The tax authorities deal with aggressive tax planning, which it considers an improper law interpretation or use of tax treaty protection, by enacting a list of tax planning actions that will be required to disclose in the tax reports.

7.8 Deduction of Losses

Deduction of losses in Israel, is permitted only prospectively, i.e., against taxable income in future years. A loss from a business or occupation accrued in the tax year, may be deducted in the same year against income from any other source. A loss from a business or occupation accrued in prior years may be deducted only against income from a business or occupation, including a business capital gain.

A capital loss may offset only against a capital gain. A capital loss arising from sale of securities may also be offset against interest or dividend received. The balance of a capital loss not offset in the current tax year may be offset in future years only against capital gains.

7.9 Tax Treaties

The purpose of treaties for prevention of double taxation is to encourage international business activities by means of avoiding a situation wherein tax will be collected twice in two countries which both have a connection with the same income deriving from the same economic activity. The tax treaties which Israel has signed, take precedence over the provisions of the Income Tax Ordinance. The tax treaties represent an additional source, the proper use of which permits a foreign investor to reduce his liability for Israeli tax or even enjoy a complete exemption there from.
Israel has signed many treaties for prevention of double taxation, as detailed in the Appendix.

7.10 Value Added Tax

7.10.1 General

Value Added Tax (VAT) is an indirect tax imposed on the consumption of goods and services in Israel. The VAT Law imposes tax at the rate of 18% on all transactions in Israel and on the import of goods. The tax is imposed at every stage of the sale on the added value of the product in its production process and is collected at the time of delivery of the merchandise to the purchaser.
At every stage, the tax is collected from the purchaser and is paid over to the VAT Authorities after the offset of VAT paid on account of inputs (input VAT exceeding output VAT is repaid to the business within 30 days from the date of the report). Accordingly, the ultimate consumer bears the entire amount of the VAT charge with no possibility for a refund thereof.

7.10.2 Exemptions

There are certain transactions the VAT charge with respect thereto is at the rate of 0%, such as:

A. Export of goods.
B. Sale of an intangible asset to a foreign resident.
C. Provision of a service to a foreign resident.
D. Services involving transport of merchandise and cargo to and from Israel provided at an airport or seaport.
E. Provision of a service to a customer in a foreign country.
F. Sale of fruit and vegetables.
G. Provision of a usage right to a foreign resident in an exhibition site.
H. Hotel and car rental services to tourists paid for in foreign currency.

7.10.3 Salaries Tax

Financial institutions (banks and insurance companies) pay a 16% tax on profit and salaries instead of VAT. Non-profit organization pay 7.5% VAT on salaries instead of VAT.

7.11 Taxes on Real Estate

7.11.1 Betterment Tax

Betterment Tax is imposed on capital gains arising on a sale of rights in real estate.

For individuals: Betterment Tax arising after November 7, 2001 till 31 December 2011 is at the uniform rate of 20%, from 2012 till the date of the real estate sale the tax rate will be 25%. For Companies: Betterment Tax will be taxed like corporate tax, in 2014 26.5%.

Betterment Tax arising prior to November 7, 2001 with respect to individuals is at the marginal rate up 48% and at the rate of 26.5% on corporate entities.
The sale of residential real estate by Israeli resident individuals is exempt from this tax up to a ceiling of $ 1.3 million approx., subject to the fulfillment of certain conditions.

7.11.2 Land Purchase Tax

Purchase Tax is imposed on the purchaser of a right in real estate. Purchase Tax is an indirect tax, which is collected as a certain percentage of the purchase price.
The rate of Purchase Tax on residential property is between 0% and 10%.

The rate of Purchase Tax on non-residential transactions is between 3.5% and 6%.

7.11.3 Customs Duty

Import of certain goods to Israel is subject to a sliding scale tax in accordance with the nature of the goods imported. The rate of the tax is a certain percentage of the value of the asset, which includes its value and the value of the import thereof into Israel, including the relevant insurance fees. Countries with which “Free Trade” agreements have been signed are entitled to an exemption or reduction of the customs duty. See Section on “Free Trade” agreements.

7.11.4 Purchase Tax

The sale of certain goods in Israel is subject to this Tax.

7.11.5 Estate Tax

At the present time, there is no estate tax in Israel.

7.12 Municipal Taxes

In every region in Israel the local authorities collect annual taxes on real property located within their jurisdictional boundaries. The amount of the tax is based on the following parameters: the region (zone) in which the property is located, the size of the property, and the type of use of the property – private or business.

7.13 Stamp Tax

As of 2006, stamp tax is cancelled.

8. *Appendix* – Withholding Tax Rates under the Treaties

The following table summarizes withholding tax rates on dividends, interest and royalties in accordance with various tax treaties. It should be noted that the data listed below are subject to specific provisions of each treaty.

Treaty Partner	Ownership	Dividends	Interest	Royalties
Austria	-	25	15	0/10
Belarus	-	10	5/10	5/10
Belgium	-	15	15	0/10
Brazil	25	10/15	15	10/15
Bulgaria	-	7.5/10/12.5	5/10	7.5/12.5 *
Canada	-	15	15	0/15
China	-	10	7/10	10
Croatia	25/10	5/10/15	5/10	5
Czech Republic	15	5/15	10	5
Denmark	10	0/10	0/5	0
Estonia	10	0/5	5	0
Ethiopia	10	5/10/15	5/10	5
Finland	10	5/10/15	10	10
France	10	5/10/15	5/10	0/10
Georgia	10	0/5	5	0
Germany	-	25	15	0/5
Greece	-	0	10	10
Hungary	10	5/15	0	0
India	-	10	10	10
Ireland	-	10	5/10	10
Italy	25	10/15	10	0/10
Jamaica	10	15/22.5	15	10
Japan	25	5/15	10	10
Korea (ROK)	10	5/10/15	7.5/10 *	2/5
Latvia	10	5/10/15	5/10	5
Lithuania	10	5/10/15	10	5/10
Luxembourg	10	5/10/15	5/10	5
Malta	10	0/15	0/5	0
Mexico	10	5/10	10	10
Moldova	25	5/10	5	5

Netherlands	25	5/10/15	10/15	5/10
Norway	-	25	25	10
Philippines	10	10/15	10	15
Poland	15	5/10	5	5/10
Portugal	25	5/10/15	10	10
Romania	-	15	10	10
Russia	-	10	10	10
Singapore	10	5/10	7	5
Slovakia	10	5/10	2/5/10	5
Slovenia	-	5/10/15	5	5
South Africa	-	25	25	0/15
Spain	-	10	5/10	5/7
Sweden	-	0	25	0
Switzerland	10	5/10/15	5/10	5
Taiwan	-	10	7/10	10
Thailand	25	10/15	10/15	5/15
Turkey	-	10	10	10
Ukraine	10/25	5/10/15	5/10	10
United Kingdom	-	15	15	0
United States	10	12.5/15/25	10/17.5	10/15
Uzbekistan	-	10	10	5/10
Vietnam	-	10	10	5/7.5/15

All rates expressed as %.

HLB in Israel

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