

DOING BUSINESS IN ISRAEL 2016





Today's Israel features a robust industrialized economy with much of its value chain based on R&D-intensive high technology and innovation. This is largely due to its rapid development since its establishment a mere 68 years ago.

The Israeli economy exhibits consistent stability and resilience, even in the face of the global financial crisis. Characterized by a highly skilled workforce with 47.4% graduating from university or third stage education, Israel continues to enjoy low unemployment and a high GDP growth. Leading the pack with 4.2% of its GDP invested in R&D projects, the country has attracted major investments from leading multinational corporations including: Cisco, Intel, IBM, Johnson & Johnson, General Electric and many more.

The Ministry of Economy and Industry is one of the prominent operational government ministries responsible for providing tools and support mechanisms to advance the Israeli economy. The Ministry is actively involved in several areas pertaining to international companies operating, or planning to set up operations in Israel, including expanding economic collaboration, encouraging joint R&D programs and creating new job opportunities.

I believe that it is imperative for governments to make their economic information publicly available. Transparency leads to sounder investments while facilitating decision making. In fact, this is the driving force behind the "Doing Business in Israel" guide, the main objective of which is to broaden the knowledge of prospective investors while expediting the investment process.

I welcome you to do business in Israel and benefit from our pro-business environment conducive to technological innovations.

Sincerely,

Mr. Amit Lang

Director General, Ministry of Economy and Industry



Welcome to the Invest in Israel "Doing Business in Israel" guide, written by the Foreign Investments and Industrial Cooperation Division of the Israeli Ministry of Economy and Industry.

We have compiled this publication in order to provide essential information for doing business in Israel in an easy to comprehend manner. The guide starts with general facts about the Israeli economy, geography and the political system. It then covers the basic steps necessary for starting a business in Israel, including a brief review of the taxation system and the skilled workforce, followed by an overview of the various government incentive programs.

Israel features a pro-business environment with attractive government programs and services designed to address every phase of the investment process. The country's robust, innovation-driven economy, together with the government's comprehensive suite of incentive programs, position Israel among the most attractive places for foreign investors.

Whether you are planning to expand your business in Israel or intend to start a new one, operating in Israel makes simple economic sense for entrepreneurs and multinational firms alike. Our "Invest in Israel" team is here to provide you with complimentary services, including initiating contact with relevant Israeli partners, searching for synergistic technologies and more. I encourage you to join us and hope you will find the enclosed information useful.

Ziva Eger

Chief Executive of The Foreign Investments and Industrial Cooperation Division

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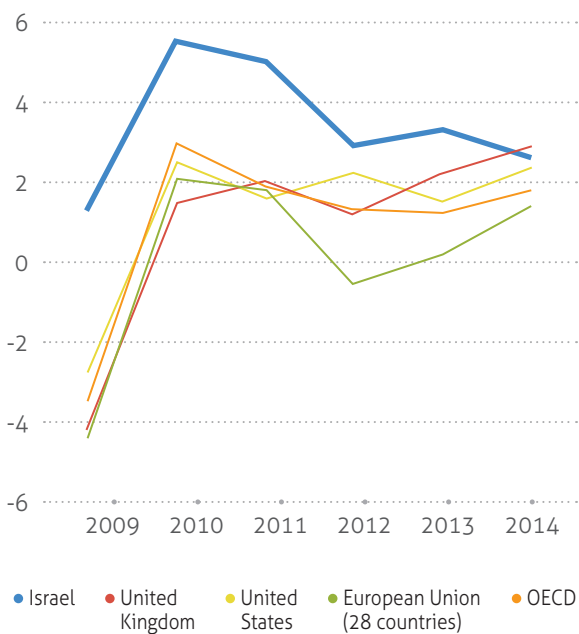
INTRODUCTION

Invest in Israel

Strong Economic Performance

Israel maintains a growth rate that is higher than most developed economies (2.6%; OECD – 1.9%).¹ This strong relative performance is supported by prudent fiscal policy resulting in a relatively low debt-to-GDP ratio (67.6%; OECD – 111.1%).²

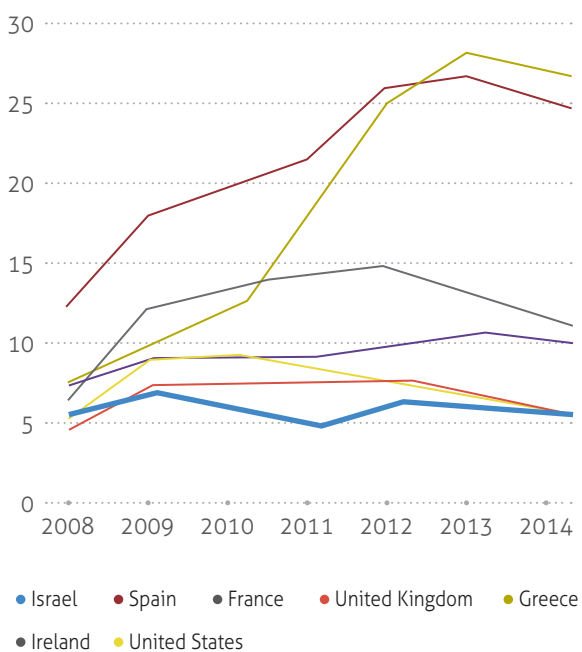
GDP Growth Rate (%)



High Level of Human Capital and Low Unemployment Rate

Israel's workforce is highly educated (47.4% with tertiary education; OECD – 33.3%).³ In addition, the robust economic performance manifests itself in a low unemployment rate (5.9%)⁴ as well as a high labor force participation rate (64.2%; OECD – 60%).⁵

Unemployment Rate (% of total labor force)



¹ 2014 | ² 2014 | ³ 2013 | ⁴ 2014 | ⁵ 2014



Innovative Environment

Israel is ranked high in recent innovation rankings (#5 in Bloomberg Innovation Index 2015). This is supported by being a world leader in R&D rate of investment (4.2% of GDP; OECD – 2.4%)⁶, which translates into the highest share of researchers per 1,000 employed (17.4; OECD – 7.8).⁷



Vibrant High-Tech Ecosystem

Israel is home to one of the world's most vibrant high-tech ecosystems with 4.4 billion USD capital raised by Israeli high-tech companies in 2015, 9.02 billion USD worth of exits (M&A and IPO) and 89 Israeli companies listed in NASDAQ in 2015.

Leading High-Tech Products and Services Exporter

42.4% of Israel's manufactured exports⁸ are high technology products (OECD – 16%).⁹ Israel is also a leading exporter of ICT services, which constitute 62.7% of its service exports (OECD – 30%).¹⁰

⁶ 2013 | ⁷ 2012 | ⁸ The Israeli data excludes diamonds sector from total exports. This is a common practice in Israel's trade statistics given that this sector, characterized by high trade volume with low added-value, tends to bias the numbers. | ⁹ 2013 | ¹⁰ 2014

Background

Geography

Israel is located at the junction of three continents: Europe, Asia and Africa. It covers an area of approximately 20,072 square kilometers, bordering with Lebanon and Syria in the north, Jordan in the east and Egypt in the south west. Israel's western border lies mostly along the Mediterranean Sea coastline, with a small part of the Red Sea coastline in the south.

Population

Israel has a total population of approximately 8.215 million people with an average life expectancy of 82.2 years. The majority of the population is Jewish, constituting 74.9% of the total population. The principle minorities are Muslims constituting 17.5% of the total population; Christians 1.97%; and Druze 1.63%.

The population is mostly young, with 50.4% of the population under the age of 30, and only 4.88% of the population over the age of 75. Israel is also characterized by a highly educated population with a tertiary attainment of 47.4% among 25-64 year olds¹¹ (OECD – 33.3%).¹² In addition, Israel has a well-developed secondary and primary education, with 98% enrolment rate among children between 5-14 years of age.

¹¹ 2013 | ¹² 2013

Population Concentrations

Israel's largest population concentration is in its central part which spans from the Sharon area in the north to the city of Rehovot in the south, and from the Mediterranean Sea in the west to the city of Petah Tikva in the east. The central part comprises two districts: the Central District and the Tel Aviv District, constituting 40.7% of Israel's total population. The rest of the population is divided between the Northern, Southern, Jerusalem and Haifa districts.





Major Cities

Israel's major cities are Jerusalem, Tel Aviv, Haifa and Be'er Sheva. Its capital, Jerusalem, is located in the heart of Israel, and has a population of approximately 850,000 residents. Jerusalem is home to various holy sites, such as the Wailing Wall, Al-Aqza Mosque and the Church of the Holy Sepulchre. It is also home to the official offices of the Israeli government, including the Knesset (the Israeli parliament) and the High Court of Justice.

Tel Aviv is Israel's cultural and economic hub and is known as the country's international city. The city is located in the center of the Israeli Mediterranean Sea coastline and has a population of approximately 426,000 residents. Most of the foreign embassies and consulates are located in Tel Aviv.

Haifa, located in the northern part of Israel's Mediterranean Sea coastline, is Israel's major seaport city and consists of a population of 277,000 residents.

Be'er Sheva, also known as the southern capital of Israel, is located in the Negev (Israel's major desert area), has a population of 201,000 residents and it is home to one of Israel's seven universities – Ben Gurion University of the Negev.

Weather and Climate

The climate in Israel is characterized by two dominant seasons: Cool and rainy winters (November to May), and hot dry summers during the rest of the year.

There are some distinct differences among Israel's diverse geographical areas: The coastline area winters are moderate and its summers are humid; the hill regions (including Jerusalem) have dry summers and colder winters; and the Negev (situated in the south) has semi-desert conditions all year long, including relatively dry winters.

Temperatures in Israel are measured in Celsius.

Official Languages

Israeli law defines two official languages – Hebrew and Arabic. It is important to note that English is taught in most primary and secondary education institutions and it is well spoken by the vast majority of Israel's population.

Measurement System

The metric system is the standard measurement system in Israel.

Macro – Economic Characteristics

Criteria		Amount	Year
Currency	Monetary Unit	NIS (New Israeli Shekel), one NIS comprises 100 Agorot	
	Exchange Rates	1 USD = 3.8868 NIS	2015
		1 EUR = 4.3144 NIS	2015
GDP	GDP ¹³	305.7 billion USD	2014
	GDP Per Capita	37,208 USD	2014
	Average Annual GDP Growth Rate	3.4%	2009-2014
Employment	Unemployment Rate	5.9%	2014
	Average Unemployment Rate	6.4%	2008-2014
	Labor Force Participation Rate	64.2%	2014
	Number of Employed Israelis	3,555,800	2014
	Percent of Employed Israelis Working in Positions Requiring High-Education	26.1%	2014
Wage	Average Gross Monthly Wage for Employee	2.5k USD	2014
	Average Gross Monthly Wage in the ICT Sector	4.6k USD	2013
	Average Gross Monthly Wage in the Financial and Insurance Sector	4.4k USD	2013
Foreign Direct Investments	Foreign Direct Investments Inflows ¹⁴	6.7 billion USD	2014
	Foreign Direct Investments Inflows (% of GDP)	2.2%	2014
	Foreign Direct Investments Outflows ¹⁵	3.6 billion USD	2014
	Foreign Direct Investments Outflows (% of GDP)	1.2%	2014

¹³ Current USD | ¹⁴ Current USD | ¹⁵ Current USD



	Criteria	Amount	Year															
Foreign Direct Investments	Inward Foreign Direct Investments Stock ¹⁶	98.6 billion USD	2014															
	<div>Israel's Inward FDI Stock has grown dramatically since 2002¹⁷</div> <div>Israel Inward FDI stock</div> <div>Million USD</div> <div><table><caption>Approximate data points for Israel Inward FDI Stock (Million USD)</caption><thead><tr><th>Year</th><th>Stock (Million USD)</th></tr></thead><tbody><tr><td>1990</td><td>5,000</td></tr><tr><td>1994</td><td>5,000</td></tr><tr><td>1998</td><td>20,000</td></tr><tr><td>2002</td><td>18,000</td></tr><tr><td>2006</td><td>45,000</td></tr><tr><td>2010</td><td>65,000</td></tr><tr><td>2014</td><td>100,000</td></tr></tbody></table></div>			Year	Stock (Million USD)	1990	5,000	1994	5,000	1998	20,000	2002	18,000	2006	45,000	2010	65,000	2014
Year	Stock (Million USD)																	
1990	5,000																	
1994	5,000																	
1998	20,000																	
2002	18,000																	
2006	45,000																	
2010	65,000																	
2014	100,000																	
International Trade	Exports of Goods and Services (% of GDP)	32.3%	2014															
	Average Exports of Goods and Services	35.0%	2008-2014															
	Imports of Goods and Services (% of GDP)	30.6%	2014															
	Average Imports of Goods and Services	33.6%	2008-2014															
	Free Trade Agreements	EU, EFTA, MERCOSUR, USA, Turkey, Mexico, Canada																
Government Deficit	General Government Deficit (% of GDP)	-3.5%	2014															
	Average General Government Deficit (% of GDP)	-4.1%	2014-2008															

¹⁶ US Dollars at Current Prices and Current Exchange Rates | ¹⁷ US Dollars at Current Prices and Current Exchange Rates

Government

System of Government

Israel is a parliamentary democracy consisting of three branches – legislative, judicial and executive. A major principle in Israel's political system is the separation of powers – in which the executive branch (the government) is subject to the confidence of the legislative branch (the Knesset – the Israeli parliament), while the independence of the judicial system is guaranteed by law.

Main Democratic Institutions

Knesset

Israel's legislative branch, the Knesset, comprises 120 members of parliament (MKs – Members of Knesset) who are elected every 4 years, with each MK serving within the framework of a single party. The Knesset's major functions are to legislate and revise laws, review and monitor government activities and to serve as a stage for public debate.

Government

The Israeli government's function is to control all internal and external affairs mostly through its ministries. Each minister is usually appointed to head a certain ministry and reports directly to the Prime Minister.

Judicial Branch

The judicial branch consists of secular and religious courts, which function as independent units within the Ministry of Justice. An important judicial establishment in Israel is the Supreme Court, which also sits as the High Court of Justice. The High Court of Justice is of extreme importance as it exercises judicial review over the other branches of the government.

President

The Israeli President is chosen directly by the Knesset. The candidates for presidency are nominated for their public contribution and appeal. While most of his or her duties are formal and ceremonial, the President is in charge of appointing the party that attempts to establish a government following the official elections for the Knesset. In addition, the President is entrusted with pardoning prisoners and commuting sentences.

General Elections

Israeli general elections are usually held once every four years. However, elections can be held earlier in case the Knesset is dismissed, as in the case of a vote of no confidence.

Elections are general, national, direct, equal, secret and proportional, with the entire country constituting a single electoral



constituency. Voters cast one ballot for a single party which they support to represent them in the Knesset, with the different parties choosing their candidates internally. The number of Knesset Members is proportional to the number of ballots a party has received, as part of the general number of ballots cast on Election Day.

Every Israeli citizen over 18 is entitled to vote, and citizens over 21 can be elected as parliament members. Voting is not compulsory in Israel despite Election Day being a national holiday (the voter turnout for the 2015 election was 67% of all eligible voters). Once official voting results are published, the President nominates the leader of a single party to establish a government (usually, but not limited to, the leader of the biggest party), within 28 days of the nomination.

Transportation

Airports

Israel has four official international airports (Ben Gurion, Eilat, Ovda and Haifa) that are used for transportation of cargo and passengers. Ben Gurion Airport is by far the largest and best known airport with over 14 million international passengers and approximately 105,000 international flights in 2014. An additional international airport, the Ramon Airport, is currently under

construction in the southern part of Israel and is designated to become the 2nd largest international airport in the country after Ben Gurion Airport, in addition to replacing the two existing airports in the Eilat area (Ovda and Eilat Airports).

Ports

Israel's main method of transportation for goods is through its naval ports, accounting for over 99% of the country's total imports and exports markets. Israel has three major naval ports – Eilat, Ashdod and Haifa, with the latter being the major one, accounting for over 50% of all maritime transportation in 2014.

Roads and Railways

Israel has a well-developed road network crisscrossing the entire country. Israel's Ministry of Transportation has declared that between 2011 and 2016, almost 10 billion USD will be invested in improving existing roads infrastructure and constructing new highways and roads throughout Israel.

Another major method of transportation in Israel is its strong network of railways, operated by the Israel Railways Company ("Rakevet Israel"), serving over 45 million passengers in 2014 and transporting over 7.5 million ton of cargo.

BUSINESS ENVIRONMENT

Business Entities

Companies

The Israeli Companies Ordinance defines a company as a corporation formed and registered in Israel, in accordance with Israeli law.

Most companies limit the personal liability of their owners, usually in the form of shares. In this case, the term "Limited" (or the abbreviation "Ltd.") must appear as part of the full name of the company.

Private Company

Consisting of 1-50 shareholders, and one director, may not offer or sell debentures or shares to the public.

Public Company

A company which registers its stocks at the stock market, or offers the stocks to the public in Israel by a prospectus in accordance with the requirements of the Israeli Securities Law. The minimal number of shareholders in a public company is seven.

Foreign Company

A company incorporated overseas may establish a place for business (branch office, subsidiary) in Israel as long as it is registered as a foreign company with the Registrar of Companies.

Non-profit Organizations

Non-profit organization (NPO) is a general term

encompassing public institutions, associations and companies that are dedicated to the public's benefit and use their funding to further advance those benefits, without sharing profits, if such exist, between its members.

Cooperatives

Cooperatives are a relatively new form of companies. A cooperative works to promote the welfare of its members, unlike NPOs, it does not deny the option to share profits between its members.

Partnerships

The Partnership Ordinance defines a partnership as an entity that consists of persons who contracted for the purpose of conducting a business in order to make profits. The personal liabilities of the partners are not limited unless they are limited partners of limited partnerships. A foreign partnership is also permitted to do business in Israel.

Intellectual Property

Israel Patent Office (IPO)

Patents, designs and trademarks registration and legal protection granting are authorized by the Israeli Patent Office. The IPO operates under the auspices of the Ministry of Justice.



Patents

Patents in Israel are organized in accordance to the Patents Law (1967). According to the law, a person with an innovative, potentially useful and advanced in its field invention is eligible to apply for patent registration. The patents are granted legal protection in Israel by the IPO.

In addition, there is an option to apply for international patent registration: Israel has been a member of the PCT (Patent Cooperation Treaty) since 1996. Israeli citizens or residents can file an international patent application with the IPO PCT Department in order to seek international patent protection for their invention. In addition, the IPO also functions as a recognized International Searching and Examining Authority. Hence, an Israeli citizen or resident can also choose the IPO for international search and preliminary examination activities.

Designs

A registered design is a property right enabling protection on a new or original industrial product design. According to the Patents and Designs Ordinance (1926), a design can be registered for any object or industrial product with shape, design or decoration noticeable to the eye, that is new or original and that has not been sold, marketed or published in Israel prior to the

application. The design registration is under the authority of the IPO. A registered design at the IPO grants its holder exclusive right of use of the design only in Israel.

In addition, Israel is a member of the Paris Treaty. The membership enables an applicant who filed an application design in Israel to request the same priority date for the same design in other member countries.

Trademarks

The IPO is in charge of trademark applications as well. The registration of a trademark in Israel only provides territorial protection, and is applicable only under Israeli jurisdiction.

In addition, Israel has joined the Madrid Protocol; hence, an Israeli applicant may submit a single trademark application that can be automatically applied in over 90 countries. The filings are done under the Madrid System.

Antitrust Laws

Restrictive Trade Practices Law

Israel's Restrictive Trade Practices Law is the primary law in the restraint of trade field. The law was legislated in order to prevent business from disrupting free competition in the markets. The law authorizes the Israeli Antitrust Authority

(IAA) to take action when free competition in a certain market or field might be negatively affected by a business activity.

The IAA is an independent government agency established in 1994 under an amendment to the Antitrust Law. The authority mandate includes preventing market power, preventing abuse of dominant position, enhancing the competition in the Israeli markets and advising the government and the Knesset about the competitive implications of their actions.

The Law for the Promotion of Competition and Reduction of Concentration

The law was enacted in 2013 and deals with three aspects of competition promotion: Various market and state essential considerations regarding public assets allocation, limiting the control on pyramid companies and separating large non-financial corporations and large financial entities.

Financial Reporting and Auditing

The Israeli Accounting Standards Board

The main institute responsible for financial reporting standards in Israel is the Israeli

Accounting Standards Board (IASB) which publishes the financial reporting standards required for companies in Israel. The accounting principles published by the IASB are considered the Generally Accepted Accounting Principles (GAAP) in Israel. It is important to note that the IASB is not an official government entity, but is instead a non-profit limited liability company that was established in 1998.

Reporting Standards

The Israeli Companies Law (1999) states that private companies must report their accounting records by "acceptable reporting standards" which are not defined in the law itself. However, due to precedents set forth by Israeli Courts, it is agreed that the IASB is the authority in charge of determining these standards.

Regarding public companies, since 2008, public companies in Israel are obligated by IASB standards to use the International Financial Reporting Standards (IFRS), a set of accounting standards that have been developed by the International Accounting Standards Boards.

Private companies however can either use the International Financial Reporting Standards (IFRS), IFRS for Small and Medium Entities (IFRS for SMEs), or standards published by the IASB. Each of these options is acceptable by the IASB



as a proper accounting method. It is important to note that private companies owned mostly by foreign citizens can apply to use other accounting reporting standards (for example, standards used in the United States – complying with GAAP-US). Companies must be consistent with their choice of accounting method.

Audit Requirements

The Israeli law concludes that Israeli companies are required to appoint a certified accountant to audit their annual financial reports. Both private and public companies must present annual reports. Private companies are obligated to file an annual report to the Registrar of Companies once a year. Public companies are obligated to file annual, quarterly and immediate reports (upon the occurrence of certain events) to Israel's Securities Authority.

Stock Market

The Tel Aviv Stock Exchange (TASE), also known as "The Bursa", is a private company, which was established in 1953 in order to institutionalize and serve securities trading in Israel. The TASE is currently the only stock exchange operating in Israel and handles trading in a variety of financial instruments, including shares, government and corporate bonds, options, futures and more.

As of December 2015 there were 577 publicly traded companies in the TASE with a total worth of over 244 billion USD.

The TASE business week lasts from Sunday to Thursday, from 09:00 to approximately 17:25 – there is no trading on Fridays and Saturdays. In addition, trading hours are usually different during Israeli national holidays.

Companies interested to be traded on the TASE have to follow criteria set forth in its regulations related to the company's equity after its IPO and its public holdings value.

Top market indices in the TASE include "TA-25 Index", which lists TASE's largest 25 market cap stocks, and the "TA-100 Index", which includes the top 100 traded companies by market cap.

STARTING A BUSINESS



Company Registration

Registrar of Companies

All companies in Israel are required to be registered at the Registrar of Companies. In order for a foreign company to operate a business in Israel, whether it is an Israeli branch office or a subsidiary company, it needs to register at the Registrar of Companies.

The following documents should be submitted to the Registrar of Companies in order to legally register a foreign company in Israel:

1. List of the company's directors, including their passport numbers.
2. Power of attorney form bestowing upon an Israeli representative the responsibility for officially representing the company in Israel.
3. The full name, address and national identification of an Israeli representative appointed to receive legal notices on behalf of the company.
4. The company's Article of Association and its Hebrew translation certified by a notary.
5. Company certificate of incorporation from its country of origin signed by an apostille. In cases where the country of origin does not issue such certificates, the lawyer handling the registration should deliver a signed letter declaring that such certificates are not issued in the country of origin, in addition to an official documentation indicating that the company is registered with the Registrar of Companies in the country of origin.
6. Hebrew translation of the company's certificate of incorporation certified by a notary.
7. Status approval from the state of origin - document proving the company is active in its country of origin and the document's Hebrew translation.
8. Proof of payment of the registration fee (currently 2,614 NIS, approx. 654 USD).

After a company has been successfully registered, it is issued a unique 9-digit unique identification number.



Tax Authorities and National Insurance Institute

Once a company has been registered with the Registrar of Companies, it must also be registered at the Israel Tax Authority (VAT and Income Tax departments) and at the National Insurance.

Income Tax

The registering company must fill out form number 4436 of the Income Tax Department of the Israel Tax Authority. The form includes basic details about the company.

VAT

The registering company is also required to register at the VAT Department of the Israel Tax Authority prior to commencing business operations. In addition – a foreign entity that conducts business in Israel needs to appoint a local VAT representative whose permanent place of residence is in Israel and who will assume the responsibility of handling all VAT issues. The representative will be treated as the person liable for VAT. VAT form 22 (Application for Registration as Foreign Dealer) and form 821 (Registration for VAT purposes) should be completed and signed by all parties.

In order to register as a local business, the

registration should be effected at the local VAT office nearest to the company's office. The following materials are required in order to register:

1. Registrar of Companies certificate of registration.
2. The company's Articles of Association.
3. A contract proving the rental or purchase of company offices.
4. Document proving the possession of an Israeli bank account.
5. A lawyer/accountant's certificate declaring the company's (a) authorized signatories, (b) directors.
6. Company directors details – ID numbers, addresses, phone numbers.
7. Company stamp.

The National Insurance Institute

Separate registration at the National Insurance Institute is not required. A copy of the form submitted to one of the relevant tax offices is transferred to the National Insurance Institute and the same filing number is used for both authorities.

PAYING TAXES

Corporate Income Tax

Resident and Non-resident Companies

Israeli resident companies are subject to tax on worldwide profits and gains, with credit granted for overseas taxes in certain countries.

A non-resident company is subject to tax only on Israeli-source profits, which includes, inter alia, income deriving from a permanent Israeli establishment or income accrued and produced in Israel.

Rates

Since January 2016, the corporate income tax in Israel is 25% (a 1.5% decrease from its former rate). It is important to note that certain companies are eligible to lower corporate income tax rates.

For example, Special Priority Enterprises and Priority Enterprises benefit from a lower corporate income tax rate ranging from 5% to 16% (depending on their exact location and definition by the Israeli Law for the Encouragement of Capital Investment).

Tax on Dividends

Companies

Dividends payable to an Israeli company

by another Israeli company resulting from income produced or accrued in Israel are exempt from tax (0%). Dividends payable to Israeli companies from income produced or accrued, or dividends received, from abroad are subject to a 25% tax.

Shareholders

Dividends paid to shareholders who hold under 10% of the company are subject to a 25% withholding tax, and dividends paid to more significant shareholders who hold over 10% of the company are subject to a 30% withholding tax.

Capital Gains Taxes

Companies

The capital gains tax rate for a company is the standard corporate income tax rate (25%). The inflationary component of the gain is exempt from tax (for capital gains created after 1993).

Individuals

Capital gains tax rate differs dependent on the relevant tax bracket. Individuals who are not residents of Israel for tax purposes are exempt from capital gains tax of shares traded on the Tel Aviv Stock Exchange.



Non-residents are also exempt from tax on gains derived from the sale of shares allocated to them by an Israeli resident company in consideration for their capital investment, as long as the Israeli company was classified as an “R&D-intensive Company”.

Municipal Tax

Municipal Property Tax is calculated per square meter of property and is levied upon the tenant, regardless of whether the tenant owns or rents the property.

The Municipal Tax varies greatly between the different municipalities in Israel, and within different areas of the same municipality. The Israeli Ministry of Interior sets minimum and maximum municipal tax rates for the different property classifications and the rates are determined mostly by the municipal authority itself. Different rates are applied for property in commercial or public use and residential property.

Customs Duty

The Customs Duty in Israel is under the authority of the Israel Tax Authority. Israel is a member of the World Customs Organization

and uses the HS (Harmonized System) for its customs classifications. It has also signed the GATT agreement stating that the invoice is the base for the customs calculation. Additional information about customs tariffs and classifications can be found in the “Customs Tariff and Purchase Tax” manual published by the Israel Tax Authority.

VAT

The current VAT rate in Israel is 17%.

Personal Income Tax

In general, employers are required to deduct income tax at source from salaries paid to employees for work performed in Israel.

The Israeli income tax rate is determined by individual’s personal income level. The income tax brackets increase gradually and span from 10% for monthly income up to 5,270 NIS (approx.1,318 USD) and to 50% for a monthly income above 66,960 NIS (approx.16,740 USD).

Employer / Employee Relations

Minimum Wage

Legislation changes in 2015 are set to gradually increase the minimum monthly wage in Israel throughout the years 2016 and 2017. The current minimum monthly wage is 4,650 NIS (approx.1,163 USD) and it is expected to rise to 5,300 NIS (approx.1,325 USD) at December 2017.

Working Hours

The working week begins on Sunday and ends on Thursday or Friday with standard office hours ranging from 08:00-09:00 to 17:00-18:00. A working day is defined as eight hours in places where employees work a 6-day working week, and nine hours where employees work a 5-day working week. Every additional hour to the working day is considered as overtime. Overtime compensation is defined by law as 125% for the first two overtime hours, and 150% for every additional hour.

Retirement Age

The current retirement age in Israel is 67 for men and 62 for women.

Early Notification of Termination of Employment Law

An advance notice is required by law before an employer can terminate a paid employee, with

the period of notice determined by the length and type of employment.

Monthly employees who have more than one year of employment are entitled to a one month prior notice. Hourly or daily employees have a shorter prior notice period during their first three years on the job. Once they have been more than three years on the job, they are entitled to a one month prior notice as well.

Labor Organizations

There are several labor organizations in Israel, the largest one is "The New Histadrut", also known as "Histadrut". The "Histadrut" operates in all areas of employee rights and is one of the most powerful organizations in Israel. It comprises different labor associations from various places of employment such as "The Transportation Workers Union", "The Engineers and Technicians Union", "The Social Workers Union" and many more.

Labor Related Costs

Basic Employee Benefits

Israeli law requires employers to allocate a fixed portion of the employee salary to a pension fund and national insurance. It is the employer's responsibility to allocate these funds prior to transferring the salary.



Pension Funds

The amount deposited each month to the pension fund comprises two components – a percentage of the employee's salary (deducted directly by the employer) and a sum paid directly by the employer (calculated as a percentage of the employee salary, but at the employer's expense). An additional component of pension fund is "severance payment" – an additional sum, calculated as a percentage of the employee salary, deposited monthly by the employer to be paid in case the employment is terminated. As of 2014, the employer has to allocate 6% of the salary to a pension fund and an additional 6% to the "severance payment" component.

National Insurance

National Insurance funds also include two components – a certain percentage is deducted from the employee salary while the other is paid by the employer. For the part of the salary up to 60% of the average salary (5,678 NIS, approx. 1420 USD), the employer is required to pay 3.45% of the salary. For the part of the salary which is over 60% of the average salary and below the maximum income subject to insurance fee (43,240 NIS, approx. 10,810 USD), the employer is obligated to pay 7.50% of the salary.

Annual Vacation Law

Every employee is entitled to annual vacation days by Israeli law. The number of vacation days is determined by the employee's seniority in the workplace. The minimum amount of annual vacation days is 12 for a 6-day working week and 10 for a 5-day working week. The maximum number of vacation days for a single year is 28.

Sick Leave

Employees are entitled for partial or full salary for missed work days due to sickness. Employees are not entitled to their salary on the first day of illness, but are entitled to 50% of their salary on the second and third day of sickness, and to their full salary from the fourth day of illness onward. Sick leave days vary for monthly-salary employees and for hourly-wage employees. The minimum amount of sick leave days per month is 1.5, and the maximum overall sick leave days in a year cannot exceed 90 days.

Maternity Leave

Pregnant employees are entitled to a maternity leave. The employer is not allowed to employ the worker while she is on her leave. The maternity leave's length varies for partial or full maternity leaves:

A worker who has accumulated more than 12 months of employment on the same job before the beginning of the maternity leave is entitled to full maternity leave. The worker is entitled to an overall leave of 26 weeks from which she can use 7 before the pregnancy due date.

A worker who hasn't accumulated more than 12 months of employment on the same job before the beginning of the maternity leave is entitled only to partial maternity leave. In that case the worker is entitled to an overall leave of 14 weeks from which she can use 7 before the pregnancy due date.

Reserve Military Duty

Employees may be required to perform reserve military duties during their period of employment. Reserve military duty cannot be

attributed to the employee's annual leave, and employers are required by law to allow employees to attend such duties.

Additional Employee Benefits

Employees who commute to the workplace are entitled to receive travel allowance in addition to their basic salary. The maximum travel allowance per day is currently 26.4 NIS (approx. 6.6 USD).

For most employees in Israel, once the employee has worked for an employer for over a year, he or she is entitled to recuperation pay. Recuperation pay is calculated by the number of recuperation days the employee is entitled to, multiplied by the recuperation rate as determined by the Ministry of Economy (currently 378 NIS, approx. 95 USD, per day).



INVESTMENT INCENTIVES

Introduction

Enshrined into its legislation through laws designed to encourage economic growth, the State of Israel seeks to offer maximally supportive conditions for companies seeking to invest in Israel. Among the numerous incentives are conditional grants, reduced tax rates, tax exemption and other tax-related benefits under the Law for the Encouragement of Capital Investments and the Law for the Encouragement of Industrial R&D.

The Law for the Encouragement of Capital Investment

Objective and Means

The objective of the law is to attract capital to Israel and to encourage economic initiative and investments of foreign and local capital. There are two main programs established in order to attain the objective: The Grants Program and The Tax Benefits Program.

History

Since its legislation in 1959, the law has been amended many times, including during the recent decade, when it underwent two major changes: In 2005 amendment 60 to the law

was enacted, and in 2010 amendment 68 was enacted. As a result of these amendments the criteria for eligibility were changed, as well as the procedures for receiving the benefits. Hence, any investor intending on benefiting from the law must make sure he or she follows the updated version.

Grants Program

Grants

Grants are accorded at up to 20% of the amount of investment in fixed assets, production equipment or facilities. For investments in the Negev area in south Israel, an addition of up to 10% may be applied.

Eligibility Criteria

Applying companies must meet the following criteria:

- The company must be an industrial enterprise¹⁸ registered in Israel.
- The company's facility must have export capabilities (25% of its sales derive from export), except for biotechnology and nanotechnology companies.
- The company's facility must be located in designated National Priority Region.¹⁹
- The company must not be part of the services industry, the agricultural industry (including

¹⁸ Definition of an Industrial Enterprise: *An enterprise in Israel which most of its activity is productive activity. Including: Research and Development for nonresidents and production of software but contingent upon approval from the relevant authorities. Excluding: Mines, oil production or search facilities, packaging, constructing, trade, depositing, communication services, sanitary services and personal services.*

¹⁹ National Priority Regions usually refer to Israel's peripheral areas or other places the government wishes to promote. The exact definition might differ according to the different laws.

refrigeration facilities), and the mineral and natural gas industries.

- The company must not have simultaneously applied or been approved for an employment grant.

Grants Approval

The grants are approved by the Investments Center Administration of the Ministry of Economy. The applications are reviewed thoroughly by the Investments Center Administration and "Approved Enterprise" status is granted at the conclusion of a review procedure that includes submission of a detailed business plan, subject to various considerations. Applications are reviewed and scored based on a number of parameters that are periodically modified.

Tax Benefits Program

Eligibility Criteria and Approvals

A company is eligible for tax benefits if its enterprise were granted the "Priority Enterprise" or "Special Priority Enterprise" status. The eligibility criteria and approvals needed for each one of the categories are as follows:

Priority Enterprise:

- *Eligibility* - Exports amount to 25% of annual sales turnover.

- *Approval* - The tax benefits must be approved by the Israel Tax Authority for each one of the requested tax years.

Special Priority Enterprise:

- *Eligibility* –
 - Total annual income in Israel meets or exceeds 1.5 billion NIS (approx. 375 million USD).
 - Combined balance sheet meets or exceeds 20 billion NIS (approx. 5 billion USD).
 - Business plan will include at least one of the following:
 - Investment in productive equipment of at least 800 million NIS (approx. 200 million USD) in central Israel or 400 million NIS (approx. 100 million USD) in a National Priority Region over a three years period.
 - Investment in R&D of at least 150 million NIS (approx. 37.5 million USD) in central Israel or 100 million NIS (approx. 25 million USD) in a National Priority Region.
 - Employment of at least 500 employees in central Israel or 250 employees in a National Priority Region.
- *Approval* –
 - Committee of senior administrators would verify, in writing, that upon review of the



business plan submitted, it is convinced that the priority enterprise will offer a significant contribution to the Israeli economy and national objectives.

- Israel Tax Authority approval.

Benefits

Designations as “Priority Enterprise” or as “Special Priority Enterprise” entitle companies which own the enterprise to reduced corporate tax rates and reduced dividend tax rates for the enterprise’s income²⁰ as follows:

Priority Enterprise:

- Companies established in National Priority Regions: 9% corporate tax rate.
- Companies established in central Israel: 16% corporate tax rate.
- Dividend tax rate: 20%.
- Accelerated Depreciation.

Special Priority Enterprise:

- Companies established in National Priority Regions: 5% corporate tax rate.
- Companies established in central Israel: 8% corporate tax rate.
- Dividend tax rate: 15%.
- Accelerated Depreciation.

Research and Development

The Office of the Chief Scientist (OCS) in the Ministry of Economy, empowered by the Law for the Encouragement of Industrial Research and Development (1984), oversees all government supported R&D in the Israeli industry. The OCS activates grant programs and also takes part in the approval of tax benefits for entitled companies.

Grant Programs

Industrial R&D

The R&D Fund

The R&D Fund is the main instrument of the R&D Law. The fund provides financial grants of 20%-50% of approved R&D programs. In geographical areas designated as NPRs the benefit can reach 60%. A research committee headed by the Chief Scientist is assigned with awarding the funds according to a predetermined set of terms and conditions. Israeli companies from all industry sectors which wish to develop, or upgrade, products or manufacturing processes may apply. A company supported by this program is obligated to pay royalties when a government-assisted R&D project results in commercially successful product.

²⁰ The standard dividend tax rate in Israel is 25%, and the standard corporate tax rate is also 25%

Large Companies' R&D Centers in Israel's Periphery

The target companies are Israeli companies that wish to set up an R&D center in Israel's periphery, and have annual sales of more than 100 million USD in Israel. Qualified companies will receive multi-annual (24-36 months) support of 65%-75% for their R&D center's approved expenses. If the project is profitable then royalty payments need to be paid.

Generic R&D Program (Long Term R&D Support)

The target companies are Israeli companies with annual sales of more than 100 million USD and over 200 R&D employees in Israel; or alternatively, with an R&D budget in Israel that exceeds 20 million USD. Qualified companies will receive financial support of up to 50% of their R&D approved expenses. No royalty payments are mandated.

International Cooperation in R&D

Global Enterprise R&D Collaboration Framework

This flagship program aims to encourage partnerships between multinational corporations (MNC) and startup companies in Israel, in order to maximize the synergy between the partners' strengths.

Within this framework, both the OCS and the MNC commit to invest equally in pre-selected R&D projects, conducted jointly by the MNC and the Israeli company. The MNC can invest in cash and/or in kind, i.e. it can provide the startup with facilities such as technological guidance, loan of equipment, use of laboratories, discounted software licenses, regulatory advice, etc., instead of / or in addition to cash funding. Eligible MNCs must have annual revenues exceeding 2 billion USD, significant investment in R&D, and worldwide presence. To date, over 40 corporations have joined the program. The participating MNC is not required to pay royalties.

Multinational Corporations Project Centers in Traditional Industry

The target companies are Israeli companies and MNCs which collaborate on an R&D project. The MNC must have annual sales of more than 2.5 billion USD and must be from the traditional or the medium technology sector. The Israeli partner must be an Israeli company or academic institution unaffiliated with the MNC. The financial support for qualified companies will differ between the projects. No royalty payments are mandated for the MNC.



Cooperation with Countries and Regions

Israel has an extensive R&D cooperation network with different countries and regions.

Bi-national Funds

Israel has 4 bi-national funds with the U.S.A, Canada, Korea and Singapore. In this framework, two nations contribute a predetermined sum to a bi-national foundation intended to support cooperative projects.

International Industrial R&D Cooperation Programs

Israel has entered into more than 40 bilateral industrial R&D support programs all over the world. The programs encourage cooperation between Israeli and foreign companies by helping in finding a suitable partner and by financial support of up to 50% of the approved project budget. Most of the OCS industrial R&D cooperation programs are implemented by MATIMOP, an OCS executive agency.

European Union R&D Programs

Israel also participates actively in several multinational European R&D programs. The suggested programs in this framework are: Eco-Innova, FetFlagships EraNets, M-ERA, NET, MANUNET II, ERA-NET TRANSPORT III, Era-Net RUS, ENIAC, Ambient Assisted Living

(AAL), EUROSTARS. The programs are managed by ISERD (The Israeli R&D Directorate for the European Research Area (ERA)), which is responsible for the integration of Israel in the ERA and in other European Organizations.

MAGNET (Industry Academia R&D Cooperation)

A group of programs intended for industrial companies cooperating with academic institutions for a long term R&D process. Qualifiers can apply for grants covering up to 66% of the R&D project budget in an industrial company and up to 80% of the R&D budget in a research institution. A MAGNET project is usually approved for a 3-year period with extensions of 1 to 3 years possible. Main MAGNET programs include:

MAGNET Consortia

The program supports the formation of consortia made up of industrial companies and academic institutions in order to jointly develop generic, precompetitive technologies. Industrial companies are granted up to 66% of their approved budget and academic institutions are granted up to 100%. The duration of a MAGNET consortium is three to five years. No royalty payments are mandated for this program.

MAGNETON

The program promotes technology transfer from academia to industry. The program is intended for Israeli industrial companies wishing to receive new technologies from academia and for approved academic research groups wishing to conduct new applied research in cooperation with a relevant company. Qualified participants will receive a grant of up to 66% of the approved budget. No royalty payments are mandated.

Nofar – Industrial Application of Academic Research

The program is designed to bridge the gap between know-how within academia and the needs of the industry. It does so by encouraging the support of applied academic research activity by an industrial company. It is intended for academic research groups wishing to perform applied research which is still in its early stage, hence, is not fit to receive support under the framework of other OCS programs. The participating companies benefit from the option to influence academic research that might be useful.

The research institution is entitled to a grant of up to 90% of the approved budget (maximum budget of 500,000 NIS, approx. 125,000

USD). The time frame for the support is 12 months (with a 3-month extension option). The company is required to finance 10% of the project cost.

Technological Incubators

The primary goal of this program is to transform innovative technological ideas in their early, high-risk stages into viable startup companies capable of raising money and operating on their own. For a period of 2 to 3 years, the program provides approved companies with full financial support (approx. 500,000 USD – 750,000 USD) to be repaid to the government only upon generation of sales. The Incubator is operated by a licensee who was elected and approved by the relevant OCS committee. The licensee invests only 15% of the project budget (the state invests the remaining), and receives in return 50% of the shares of the companies in the incubator.

Sectorial Programs

The OCS operates additional support programs in several high-potential sectors: Cyber, Renewable Energy, LifeSciences, Alternative Fuels, Space Technologies, Dual Use (Military and Commercial) Technologies and Agritech. These programs offer support for companies and investors operating in these fields.



Tax Benefits

R&D Expenses Deduction

Clause 20A of the Israeli Income Tax Ordinance enables companies to deduct their R&D expenses in the year they were paid from their current income. The deduction is contingent on the Chief Scientist's confirmation that the expenses are indeed research and development expenses.

The Angel's Law

The law, which was first enacted in 2010 and then amended in 2016, provides tax benefits to single investors who invest in Israeli companies in their initial R&D stage (seed). The law's goal is to increase the available financing sources for Israeli early phase R&D-intensive companies.

The law enables single investors' investments in eligible companies to be recognized as expenditures for tax purposes. Eligible companies are companies which fulfill certain criteria. For example, Israeli companies with R&D expenses that are at least 70% of the total company expenditures for the relevant tax year. Companies must receive approval from the OCS for their R&D expenditures.²¹

Employment Grant Programs

The Ministry of Economy operates several aid programs intended to encourage the integration of workers from minority populations, populations with low labor participation rates and populations from National Priority Regions. The aid is given in the form of subsidizing the wages of new employees for a specific time period. The employment programs include:

Special Populations

Objective

Facilitate integration of populations with low rates of participation in the labor force, namely: Ultra-Orthodox, ethnic minorities, individuals with disabilities and single parents.

Eligibility

Any person who wishes to start a business, or expands an existing one, in any location across Israel and who intends to hire employees from special populations. The special population could be characterized either by their social identity (Ultra-Orthodox, ethnic minorities, individuals with disabilities, single parents) or by their place of residency (NPRs).

In addition, the applying person must absorb

²¹ After the 2016 amendment there are two types of eligible companies, a "target company" and a "starting company". For each one of the company types there are different eligibility criteria, some of which will be published in the near future. The investor must follow the Tax Authority guidelines on the subject

a minimum number of new employees from special populations (2 to 5 employees, depending on the specific program), and also compensate the employees a minimum level specified by the program.

Form of Aid

A grant for at least 30 months given in the following format:

- Fixed participation as a percentage of employee wages, by particular group, up to a maximum monthly wage of 16,000 NIS (approx. 4000 USD).
- The rate of participation varies between 10 to 37.5%. The rate is determined by the social identity of the employees and their geographic location, with preference to a combination of the two.
- The rate of participation decreases over time.

National Priority Regions

Objective

Facilitate the integration of highly skilled employees exclusively in manufacturing and IT enterprises located in National Priority Regions.

Eligibility

Companies interested in establishing, expanding, or relocating high-salary facilities to NPRs.

The eligible company must be Israeli, with annual turnover of 100 million NIS (approx. 25 million USD) or more. At least 60% of the new employees in the facility will be residents of the NPR. The companies must hire a minimal number of new employees (between 15 to 80, depending on the specific program), and should pay a determined minimum wage (not below 150%-250% of the national average salary, depending on the specific program).

Form of Aid

Based on specific program, grants for each employee will be based on the percentage of his or her wage. The grant's percentage decreases over a 4-year period:

High-Salary

Grant rate decreases from 35% to 10% of the employee salary. The monthly salary will be up to maximum of 30,000 NIS (approx. 7,500 USD).

Cyber

Grant rate decreases from 40% to 25% of the employee salary. The monthly salary will be up to 30,000 NIS (approx. 7,500 USD).

Anchor

Grant rate decreases from 35% to 10% of the employee salary. The monthly salary will be up to 20,000 NIS (approx. 5,000 USD).



Minorities in Knowledge-Based Industries

Objective

Facilitate integration of ethnic minorities into knowledge-based sectors, specifically: students, interns, and graduates from knowledge-based educational backgrounds (Chemistry, Physics, Computers, Engineering, etc.).

Eligibility

An employer recruits at least one new employee from the specified minority population. In addition, the recruited employee wage should be at least 30 NIS (approx. 7.5 USD) per hour for a minimum of 60 hours monthly, for a period of at least 12 months and no longer than 24 months.

Form of Aid

Grants for each employee are calculated as a percentage of his or her wage. The grant rate decreases over a time period of 2 years from 30% to 20% of the wage. The monthly wage will be up to 13,000 NIS (approx. 4,250 USD).

Grants Approvals

The different aid programs are approved by a special committee. The committee reviews the applications thoroughly and rates them according to several criteria including the average salary the employer will pay, the enterprise location and the duration of establishment period. For each program, the criteria may differ in accordance to the program characteristics. For a requested program, the applications with the highest rating will be granted the assistance.



MULTINATIONAL CORPORATIONS LOCATED IN ISRAEL





ORACLE

Perrigo®

PHILIPS

QUALCOMM®



SanDisk



Johnson & Johnson



Kodak

APPENDIX

Useful Contacts

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The information included in this guide is relevant for January 2016. The content included is intended to provide only a general outline of the subjects covered and it is necessary that specific professional advice be sought before any action is taken.