

# Doing Business in Israel



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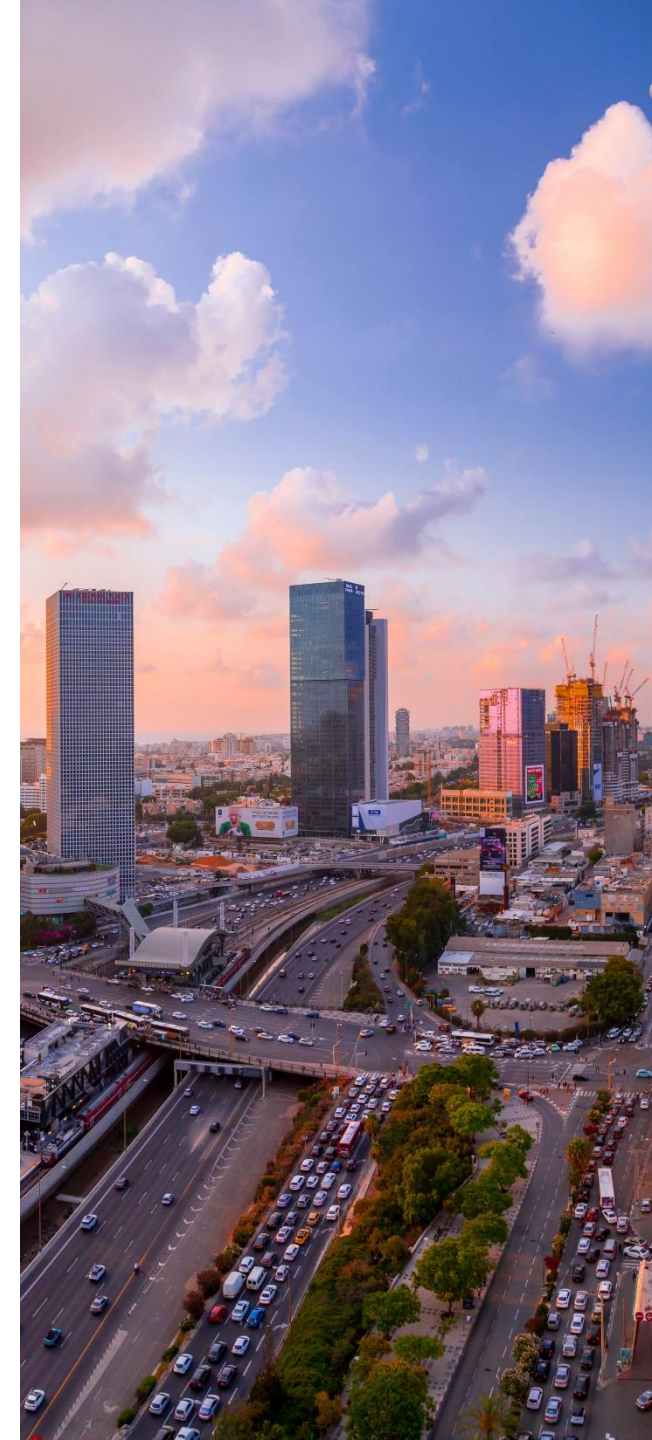
## PREFACE

This publication has been prepared by BDO Israel to provide our clients, associates and foreign investors with an overview of Israel's economy and business environment.

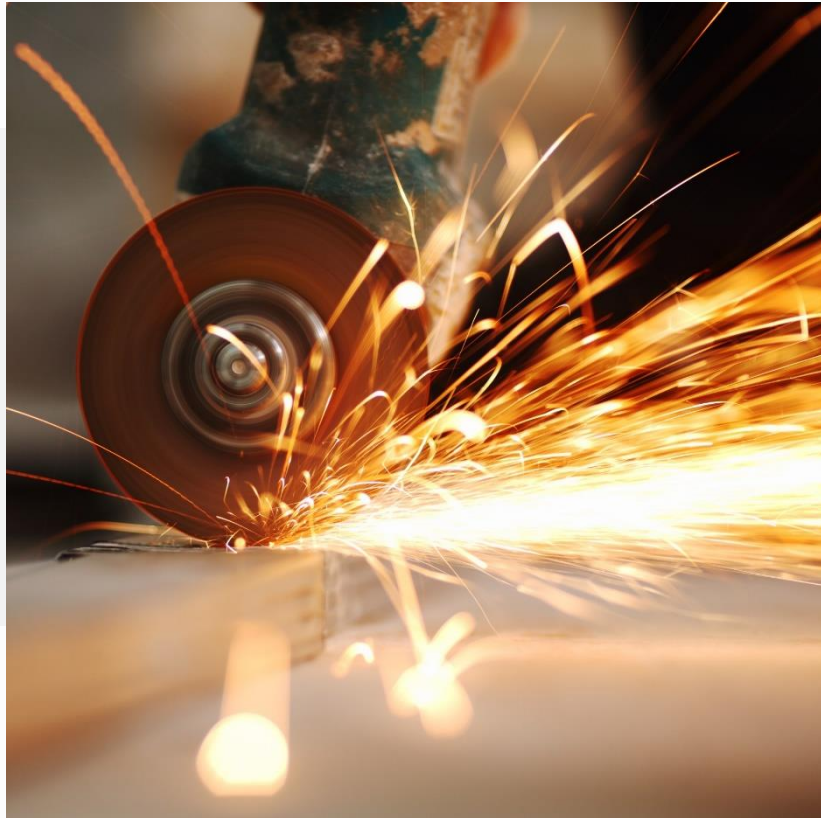
Our goal in this publication is to summarize useful information, so as to provide our readers with a "taste" of Israel. The publication aims at covering most, but not all, aspects of doing business in Israel and should therefore not be regarded as a manual or a textbook on the subject.

Prior to making any investment decision, it is recommended to seek the advice of Israeli financial consultants in the relevant sectors. Our partners and associates at BDO Israel provide reliable and professional services to all investors who are considering making investments in Israel. BDO Israel is one of the leading accounting firms in the banking and financing sectors, in addition to our proven leadership in other areas such as health care, real estate and high-tech. We also act as a principal financial service provider to government ministries in Israel. BDO Israel is the fifth largest international network. The firm has 1,654 offices in 167 countries worldwide, with a total of approximately 91,174 partners and professional staff.

The information presented in this document was updated in February 2021, based on data available at the time of printing. The publication is intended for information purposes only and does not in any way constitute a replacement or amendment of any of the laws and regulations mentioned herein. Although we have conducted extensive research to prepare this publication, we bear no liability with regards to any inaccuracies that may have been made.



# THE ISRAELI ECONOMY IN 2020



## 01

### FOREWORD

In 2019, Israel showed a solid economic performance compared to most developed countries. While the average annual growth rate of OECD countries in 2019 stood at 1.6%, Israel showed a rapid growth of 3.3%. This figure is not surprising, as the Israeli economy has proven its stability in the past. Such was the case during the global financial crisis of 2008-2009, where the Israeli economy persisted through the global economic recession relatively unharmed. This was due to a solid economic basis, a prudent fiscal policy and a resilient banking sector.

Israel's major exports includes cut diamonds, high-technology equipment & services, chemicals and pharmaceuticals, while imports include raw diamonds, crude oil, grains, raw materials for industry, and military equipment.

In 2019, the Gross Domestic Product in Israel grew at a pace of 3.3% similar to the previous year of 3.4%. In addition, the unemployment rate has dropped between 2019 and 2018 from 4.0% to only 3.8%, resulting from recruitments in the private sector due to high foreign investments. Government deficit was higher than expected due to lower than expected tax revenues and higher government spending and totaled at 3.7% from GDP.

As a result of the COVID-19 pandemic, Israel's GDP in 2020 is expected to decline by 3.7% according to Bank of Israel ("BOI") estimations, a moderate decline compared to other countries. The BOI foresees two scenarios for growth in 2021, one of rapid recovery with a 6.3% growth rate and the other, foresees a prolonged recovery and a 3.5% growth rate due to difficulties in the vaccination progress and/or increase morbidity due to virus mutations.

In order to support the Israeli economy the government has increased spending and thus the government deficit in 2020 totaled at 11.7%. In order to further support the Israeli economy, in April 2020 the monetary committee of the BOI has reduced the interest rate to a historically low rate of 0.1% to help weather the COVID-19 pandemic.

Below is a summary of Israel's' main economic indicators. This chapter includes a forecast of major economic developments based on several sources, including, inter alia, the Bank of Israel's Research Department, the Ministry of Finance, the Israel Central Bureau of Statistics, the IMF and a number of commercial banks.

# MACRO-ECONOMIC DEVELOPMENTS

## Gross Domestic Product (GDP)

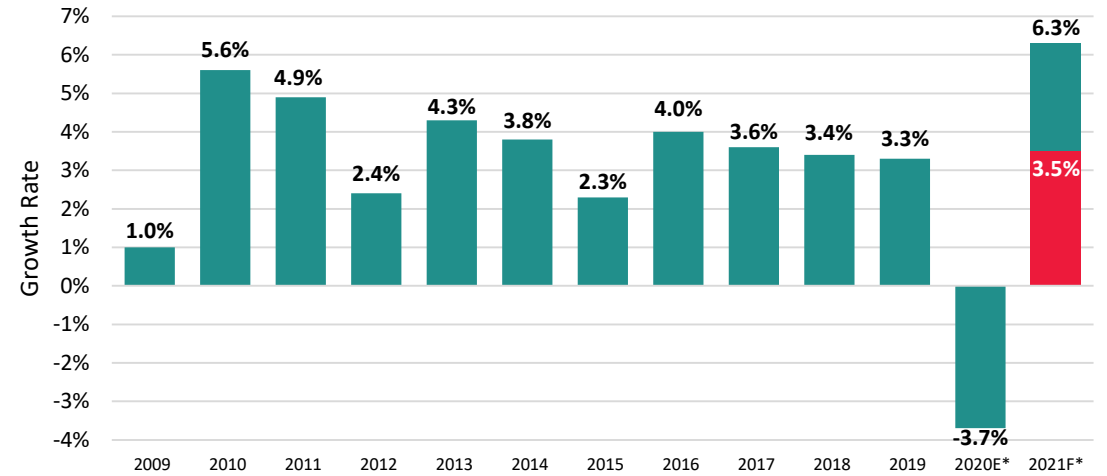
In 2019, Israel's GDP rose by 3.3%, compared with a growth rate of 3.4% in 2018 and 3.6% in 2017. Due to the COVID-19 Pandemic, and according to BOI estimates, Israel's GDP has declined by 3.7% in 2020 while the OECD average forecast for OECD countries in 2020 predicts a decline of 5.5% in GDP.

In 2021, the BOI foresees two scenarios, one of a rapid recovery with a 6.3% growth rate and the other, foresees a prolonged recovery and a 3.5% growth rate due to difficulties in the vaccination progress and/or increase morbidity due to virus mutations. The OECD foresees an average growth rate of 3.3% in GDP for OECD countries.<sup>1</sup>

Israel's population grew by 1.9% in 2019 and 2020. GDP per capita increased in 2019 by 1.5%, compared to 1.4% in the previous year and 1.6% in 2017. By comparison, based on OECD data, GDP per capita in OECD countries increased by 1.1% in 2019. In 2020, GDP per capita is projected to decline by 5.9% compared to 2019.

In nominal terms, GDP per capita for 2019 amounted to NIS 147.9 thousand (USD 42.8 thousand NIS). GDP per capita for 2020 is expected to amount to NIS 139.8 thousand (USD 43.5 thousand) based on the ministry of finance forecast.<sup>2</sup>

GDP Annual Growth Rate



\*2020-2021 BOI forecast

Source: Central Bureau of Statistics Israel.

<sup>1</sup> OECD Economic Outlook No 108 - December 2020

<sup>2</sup> USD = 3.456 NIS 31.12.2019, 1 USD=3.215 NIS 31.12.2020

## Investments

Investments in fixed assets in the Israeli economy grew by 2.9% in 2019, after an increase of 8.5% in 2018. Total investment in fixed assets in 2019 was 294 NIS billion, or NIS 203 billion excluding residential construction. Investments in various fields of the economy (including the non-residential construction sector, machinery, equipment and vehicles, but excluding ships and aircraft) rose by 3.2% in 2019, 7.2% in 2018 and 4.6% in 2017.

The year 2020 is expected to show a decline in investments in fixed assets due to the fall in GDP as a result of the COVID-19 Pandemic. During the first, second & third quarters investment fell by 3.5%, 7.6% and 6% respectively regarding the previous year. From January 2020 to September 2020, Investments in fixed assets has declined by 5.6% compared to 2019.

According to BOI estimates, investments in fixed assets has fallen by 7.5% in 2020 and are expected to grow by 3.5% in 2021.

Investments in new residential construction increased by 3.5% in 2019, compared to 1.4% in 2018. Investments in new residential construction is expected to show a decline in 2020, as a result of the COVID-19 Pandemic. Investments in new residential construction fell by 1.4%, 17.1% and 7.7 in the first, second and third quarters of 2020 respectively. Investments in new residential construction declined by 8.3% from January 2020 to September 2020, a decline of NIS 5.6 billion in comparison to 2019.

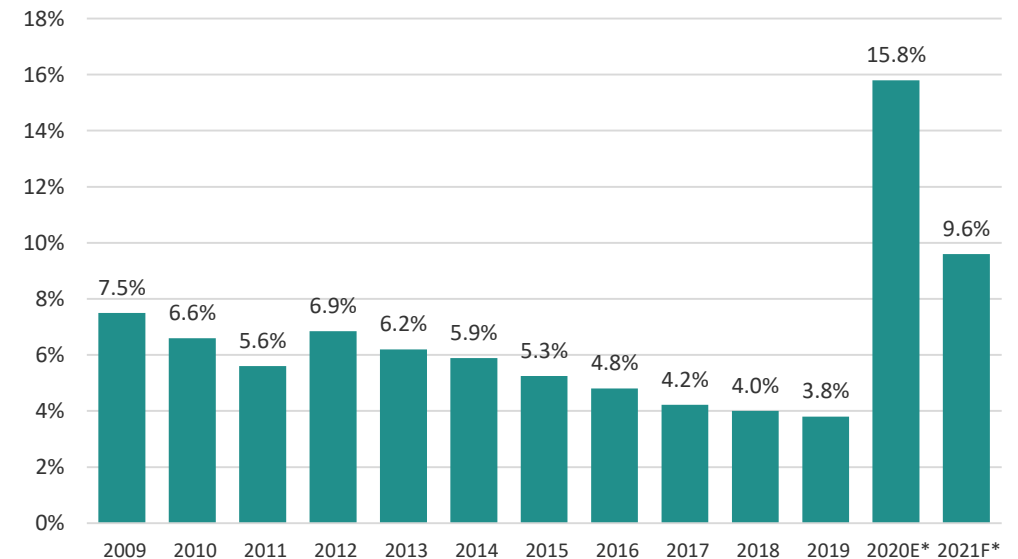
## Employment

The number of employed population in 2019 rose by 1.6% to 3.97 million people, compared with the corresponding period in 2018, while the average gross salary increased by 2.1%. The monthly average wage per employee in December 2019 amounted to NIS 10,174 (USD 2,945).

According to the Central Bureau of Statistics, unemployment rate in 2019 stood at 3.8% of the civilian labor force. In 2020, the unemployment rate rose to 15.8% due to the COVID-19 pandemic and the restrictions and lockdowns that followed, which forced many Israelis to be put on unpaid leave from work. In October 2020, the average wage in Israel amounted to NIS 11,018 (USD 3,220)<sup>3</sup>. The increase in Israel's monthly average wage is mainly due the fact that most employees who were sent on unpaid leave were from low paying industries such as food & accommodation, art & entertainment, etc.

In January 2021, the BOI published two scenarios regarding unemployment in 2021.<sup>4</sup> According to the rapid recovery scenario, the unemployment rate will reach 9.6% while base on the gradual recovery scenario, the unemployment rate will reach 12.5% (including people who were temporarily absent from work due to the COVID-19 pandemic and people who lost their jobs and are no longer actively looking for a job).

Unemployment Rate



\* based on the BOI rapid recovery scenario.

Source: CBS, 2020, BOI.

<sup>3</sup> USD = 3.422 NIS 30.10.2020

<sup>4</sup> Macroeconomic estimations for 2020-2021 published by the Bank of Israel on the January 4th 2021.

## Fiscal Developments

In 2019, the current balance of payments account in the government sector showed a deficit of NIS 45.1 billion, compared with NIS 38.1 billion in 2018. In terms of GDP, this amount equals to a 3.7% deficit in 2019, compared to a 2.9% deficit in 2018 - representing current income less current expenditure for all public sector bodies: the government, local authorities, national institutions and non-profit organizations, which obtain a significant portion of their funding from the government. In 2019, Israel's debt to GDP ratio stood on approximately 60%.

The rise in the government deficit in 2019 reflects a 3% increase in tax collection, compared to a 4.5% rise in government spending. Israel's government deficit in 2020 was 11.7%<sup>5</sup> due to the decline in GDP and in tax revenue due to the effect of the COVID-19 Pandemic and the increase in government spending to support the economy. Tax collection in 2020 fell by 2%, while government spending rose by 22.5% compared to 2019.

According to BOI forecasts, in 2021 & 2022 the government deficit will total at 8% & 3.6%, while the debt to GDP ratio will amount to 77% & 75% in 2021 and 2021 respectively.

Ministry of Finance, January 2021.

## Balance of Payments

The year 2019 marked an increase of 4.9% in exported goods and services, after an increase of 9% in 2018. Export of goods and services totaled at USD 115 billion in 2019 while import of goods and services valued at USD 92.1 billion, a surplus of USD 23.3 billion. In 2020, Industrial exports, excluding diamonds, declined by 5.4% and by 0.7% in 2019.

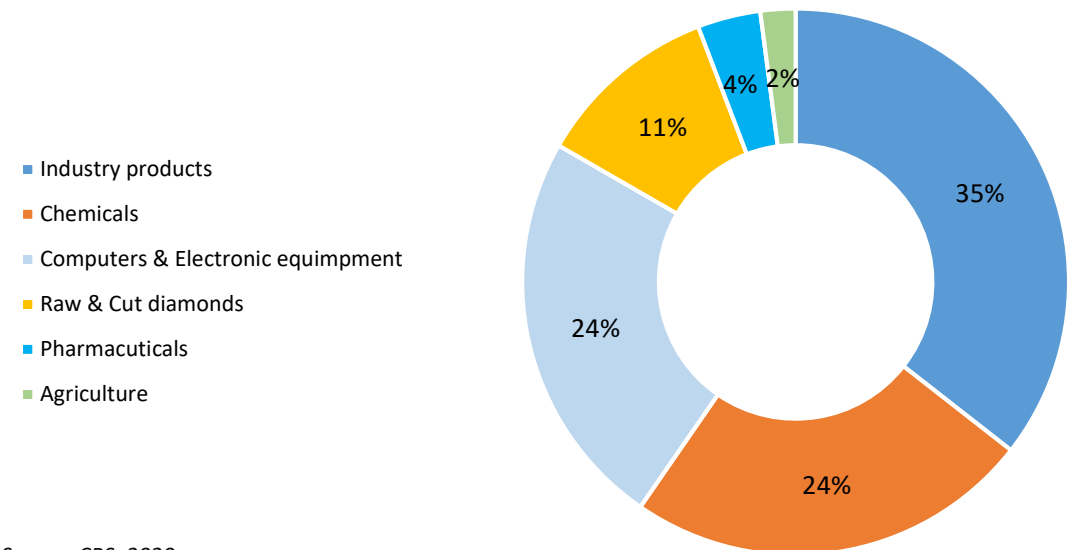
Export of services excluding tourism and start-up companies, that primarily include software and research services, rose by 9.3% in 2019, from USD 41.1 billion to USD 44.9 billion. In the first three quarters of 2020, Export of services excluding tourism and start-up companies rose by 11.5% compared with the same period in 2019 and totaled at USD 35.8 billion.

Import of goods and services (excluding defense imports, ships, aircraft and diamonds), rose by 2.1% in 2019, after an increase of 3.8% in 2018. During the period of January 2020 to September 2020, Import of goods and services declined by 7.9% and totaled at USD 63.3 billion.

According to the BOI forecast, Import (excluding defense imports) in 2021 is expected to grow by 11% while export (excluding diamonds & start-up companies) is expected to grow by 3.0%.

In 2019, Israel had a surplus in its balance of payments of USD 14.3 billion, compared to USD 11.5 billion in 2018. In the first nine months of 2020, Israel's surplus amounted to USD 16.3 billion, an increase of 50.4% compared to the relative period in 2019. This is due to relative stability in Israel's export of goods and services and a rapid decline in import of goods and services.

Composition of Israel's international export in 2020



Source: CBS, 2020

<sup>5</sup> Ministry of Finance, January 2021.

## Monetary Development and Capital Markets

During 2020 Israel's Consumer Price Index (CPI) fell by 0.7% following an increase of 0.6% and 0.8% in 2019 and 2018 respectively. In 2020, the BOI's annual inflation target of 1%-3% was not accomplished.

The low inflation environment over the recent years, alongside a continued moderation in private home prices, the Bank of Israel was able to realize its expansionary monetary policy.

Israel's interest rate has been stable for many years now, ranging from 0.1% to 0.25% since March 2015. The BOI has kept interest rates low in an attempt to reach an inflation target of 1%-3% while minimizing the negative influences of the global economic activity on the Israeli market and in order to encourage economic growth.

On March 2020 the BOI announced a NIS 50 billion plan to purchase government bonds in order to lower the costs of long term credit for companies and households. In October 2020, the BOI announced a further increase of the plan by NIS 35 billion and as of the December 31, holds NIS 46.2 billion worth of government bonds.

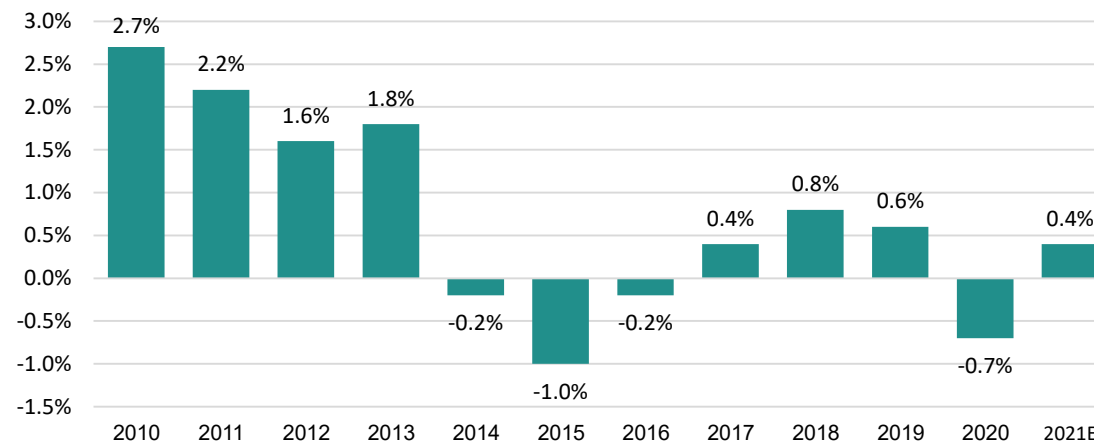
In April 2020, the BOI lowered the interest rate back to 0.1% from 0.25% in an attempt to support the Israeli economy during the COVID-19 Pandemic. According to BOI, Inflation in 2021 is expected to range from 0.1% to 0.6%.

The BOI also announced a new plan to supply the Israeli banks with 4 years loans at a permanent interest rate of 0.1% as a part of a NIS 20 billion plan, which will be valid until June 2021. The purpose of the plan is to provide credit to small and micro businesses at an interest rate of Prime + 1.3% (2.9%). As of the December 31, the BOI provided NIS 19.6 billion worth of loans to the Israeli banks.

In July 2020, the BOI announced a plan to purchase NIS 15 billion worth of corporate bonds in order to help maintain functioning bond market activity. As of the December 31, the BOI holds NIS 3.5 billion worth of corporate bonds.

On January 2021, the BOI announced it would purchase up to USD 30 billion in 2021 in order to support the NIS and prevent it from over-revaluing against the US dollar.

Inflation Rates



Source: Bank of Israel macroeconomic forecast january 2021

The TA 35 is Tel Aviv Stock Exchange Leading index, During 2020 TA 35 fell by 13% due to the COVID-19 pandemic, undoing the index 15% increase of the previous year 2019. Prior to that TA 35 suffered a drop of 3% during 2018, and an increase of 3% during 2017.

The daily trading turnover in the stock market (on and off the stock exchange, including ETFs in the stock market) in 2020 totaled NIS 1.9 billion a day, an increase from NIS 1.3 billion in 2019.

The corporate bond sector, both the high-yield bonds as well as the general corporate bonds provided a positive return. The corporate bond yield increased by 7.5% attaining a market value of NIS 387 billion in 2020.

The net amount of capital raised by the government in 2020 increased to a total of NIS 121.8 billion, compared to NIS 56.9 billion raised in 2019. NIS 51.8 billion were raised abroad from investors from Asia, Europe and the USA. The increase in capital raised the Israeli government is due to the COVID-19 pandemic and the rising governmental deficit that totaled at 11.7% in 2020.

The government is expected to raise more capital, both in the TASE and abroad in 2021 in order to support the Israeli economy in the aftermath of the COVID-19 pandemic.

Industry indices experienced a price increase in 2019. The TA 35 rose by 15%, the TA 125 index rose by 21.3%, the TA-Finance index marked a 23.7% increase over the year, alongside a leap of 73.2% in TA-Real Estate and a 19% rise in TA Global Blue Tech index.

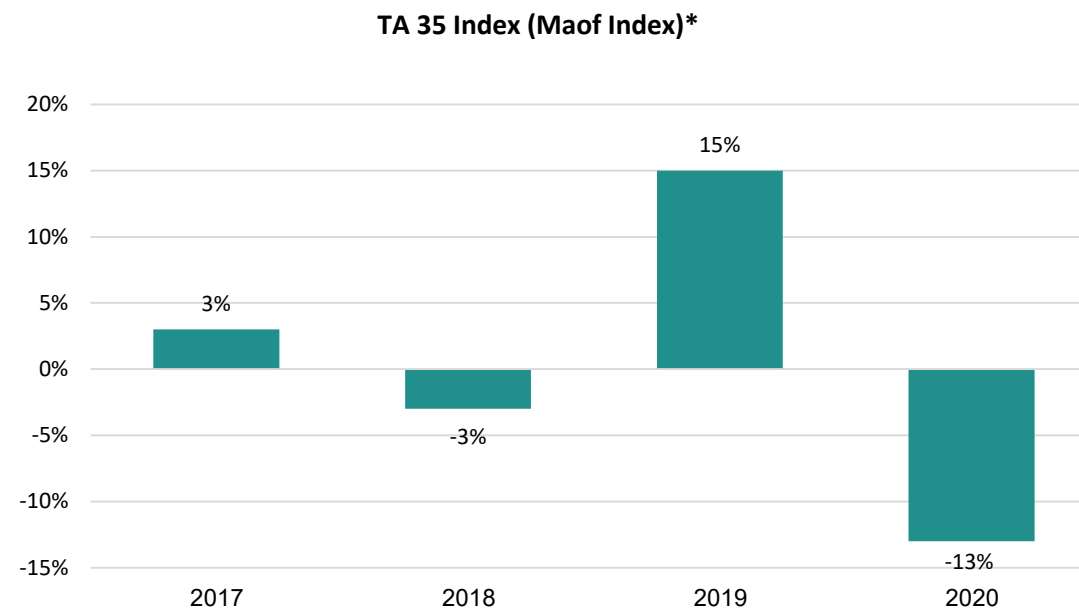
The effect of the COVID-19 Pandemic is visible in the TASE as the TA 35 dropped by 13% in 2020. The TA 125 index declined by 7%, the TA-Finance index marked an 11% decline over the year, alongside a fall of 13% in TA Real Estate.

The year 2020, has marked an increase in the number of IPOs and capital raised by IPOs and private placements in Israel, reaching NIS 16.1 billion – compared with NIS 13.3 billion in the preceding year.

The number of listed companies in the TASE rose in 2020 by 33, compared to 17 companies in the preceding year (including new IPOs, dual listing and mergers into shell companies). These companies include 10 health and Biotech companies, 8 technology companies, 6 companies from the industry sector, 4 energy companies, 2 companies from the finance and real estate sectors and 1 from the service industry.

During 2020, 5 companies joined the TASE through a merger into a shell company, 2 companies dual listed and 26 companies preformed an IPO and raising a total of NIS 4.5 Billion.

As of January 2021 there are 454 companies listed on the TASE, an increase from 442 companies in 2019. At present, there are 51 dual companies listed in the USA and Europe.



\* TA 35 Index was formed in 2017 and replaced the previous TA 25 Index.

Source: Tel Aviv Stock Exchange

# FORECAST OF ECONOMIC DEVELOPMANT

The main sources for the following table are publications of the CBS, Ministry of Finance and the Bank of Israel.

Annual Change in	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020E*	2021F*
Inflation	2.7%	2.2%	1.6%	1.8%	-0.2%	-1%	-0.2%	0.4%	0.8%	0.6	-0.7%	0.4%
Revaluation vs. US\$	-5.9%	7.8%	-2.1%	-6.5%	11.6%	-0.4%	-1.7%	-10.2%	8.4%	-7.7%	-7%	2.3% **
GDP	5.6%	4.9%	2.4%	4.3%	3.8%	2.3%	4%	3.6%	3.4%	3.3%	-3.7%	6.3%
GDP per capita	3.7%	3%	0.5%	2.3%	1.8%	0.3%	2%	1.6%	1.4%	1.5%	-5.9%	6%
Investment in fixed assets	12.7%	13.6%	4.4%	3.1%	1.9%	-1.0%	12%	4.9%	6%	3%	-7.5%	3.5%
Unemployment	7%	5.6%	6.9%	6.2	5.9%	5.3%	4.8%	4.2%	4%	3.8%	15.8%	9.6%
Export	15.0%	8.1%	-0.4%	4.9%	0.6%	-2.9%	0.9%	4.1%	3.9%	1.7%	1.5%	3%
Import	15.2%	11.1%	2.1%	1.3%	2.2%	-0.1%	10.0%	4.9%	6.7%	1.0%	-12%	11%
Public Consumption	2.8%	2.2%	3.7%	3.8%	3.9%	2.7%	4.4%	3.4%	4.0%	7%	3%	6.5%
Private Consumption	4.8%	3.9%	2.9%	3.7%	4.1%	4.1%	6.3%	3.4%	3.7%	4.8%	-11%	12.5%
New Residential Construction	14.8%	15.4%	-6.5%	9.9%	-0.3%	12.6%	5.3%	-3.0%	-2.7%	-0.2%	-8.9%***	-

\* According to BOI rapid recovery scenario

\*\* As of 1.2.2021

\*\*\* Q1-Q3 2020 data

# GENERAL OVERVIEW

## ISRAEL



## 02

### BACKGROUND

Since declaring its independence in 1948, Israel has been the home of Jewish immigrants from all over the world. The country's population - comprising approximately of 74% Jews, 21% Arabs, and 5% others - increased from 870,000 inhabitants in 1948 to over 9.29 million in 2020.

Over the past decade alone, Israel's population has grown by 20.7%, a 1.9% annual growth rate. Immigration accounted for 22% of population growth in 2019 with 37,700 new immigrants coming to Israel, compared with 31,700 in 2018. In 2020, mainly due to the COVID-19 pandemic, the number of new immigrants has declined to a total 17,518 new immigrants in the first 11 months of 2020.

An important economic landmark influencing the development of the modern Israeli economy was the intensified negotiations in the 1990's with its neighboring Arab countries, which attracted an increasing number of direct and indirect foreign investors to Israel. This was hindered by the hi-tech bubble burst at the beginning of the last decade and the deterioration of the geopolitical situation. Since then, the high-tech sector recovered and is one the leading sectors in the Israeli economy which attracts a great number of direct and indirect foreign investors to Israel. With the signing of the normalization agreement with the United Arab Emirates and Bahrain in August 2020, Morocco in December 2020 and the possibility for more agreements to follow, new and exciting markets are now open for the Israeli economy.

Global economic conditions continue to affect Israel as an open market economy that is exposed to economic trends. The effect of the recent events in the global environment had a profound Impact on the Israeli economy. GDP growth rate stood at 3.3% in 2019, while due to the COVID-19 pandemic and according to the Bank of Israel estimates, Israel's GDP is expected to decline by 3.7% in 2020. For 2021, the Bank of Israel foresees two scenarios, one of rapid recovery with a 6.3% growth rate and the other, foresees a prolonged recovery and a 3.5% growth rate due to difficulties in the vaccination progress and/or increase morbidity due to virus mutations.

## GOVERNMENT

Israel is a secular democracy whose parliament (Knesset) is elected through general elections every four years unless the Knesset or Prime Minister decide to dissolve the government. Under certain circumstances, the Knesset can also serve for more than four years.

Israel has an electoral system based on nation-wide proportional representation, and the number of seats that each party receives in the Knesset is proportional to the number of its voters. The only limitation is the 3.25% qualifying threshold. According to this system, voters vote for a party list and not for a particular candidate on the list.

Since the establishment of a 'primaries' system in some of the parties, these parties directly elect their candidates for the Knesset, in other parties, candidates are elected through the party's institutions. All Israeli citizens over 18 are entitled to vote, whilst those over 21 may be elected to parliament.

After each election, the Israeli President consults with representatives from all parties to receive their recommendation as to which party chairman will be selected to form the government, If he or she succeeds, he or she is nominated as Prime Minister and is responsible for forming a government and appointing ministers.

Israel has had three consecutive elections since April 2019 as no party chairmen was able to form a government. During that time, Benjamin Netanyahu served as interim prime minister. After the third elections in March 2020, an emergency coalition was formed between the Likud party and the Blue and White (Kahol Lavan) party to better handle the COVID-19 pandemic. The government was formed as a rotation coalition between the two parties with Benjamin Netanyahu serving as prime minister and Benny Gantz as minister of defense. In December 2020, the Israeli Parliament voted to on its dissolution and new elections are to be held on March 23rd. in the meantime, Benjamin Netanyahu continue to serve as interim prime minister until the elections and the formation of a new government.

The function of the President of the State is primarily a representative one. He is elected by the Knesset every seven years, for a limited period of one term. The President holds the statutory power to accredit diplomatic senior staff, pardon criminals, sign on laws and so forth.

The judicial system is independent from the executive and legislative systems. The Supreme Court is the highest court of the State, serving both as the High Court of Appeal and as the High Court of Justice. Below the Supreme Court are the District Courts (located in Jerusalem, Tel-Aviv, Haifa, Nazareth, Lod and Beer-Sheva). The District Court is the first court of submission for certain judicial matters - in addition to administrative courts, family courts, municipal courts, religious courts, etc. Each type of court has a clearly defined area of jurisdiction.

Israel's central bank, the Bank of Israel, serves as the economic advisor to the government. It defines and implements monetary policy, supervises local banks, supplies notes and coins, manages the State's foreign currency, etc. Another administrative institution is that of State Comptroller, responsible for auditing and checking all the activities of the ministries, municipalities and other institutions subject to inspection by law.



## FACTS AND FIGURES

Israel is situated along the Mediterranean coast, extending on an area of 22,000 km. (8,500 sq.). This is exclusive of the territory of the Gaza Strip and parts of the West Bank, which are governed by the Palestinian Authority in the context of the peace process and the Disengagement Plan.

Israel is about 430 km (265 miles) long and 110 km (70 miles) wide. It borders Lebanon in the north, Syria in the northeast, Jordan and the West Bank in the east, Gaza Strip and Egypt on the southwest. Israel's terrain varies from rich agricultural land in the north and center regions, to hilly mountainous landscapes and a barren desert in the south. The lowest place on earth, the Dead Sea, is located in the south of Israel. Israel is a young country with 36% of its population under the age of 20 and 50% under the age of 30.

Population (In Thousands, 2020)	Age range
917.1	4-0
870.0	9-5
782.7	14-10
722.5	19-15
657.3	24-20
620.3	29-25
601.2	34-30
585.1	39-35
563.1	44-40
517.7	49-45
434.2	54-50
398.5	59-55
377.2	64-60
358.2	69-65
296.0	74-70
166.2	79-75
142.5	84-80
80.1	89-85
50.6	+90

### Population in Israel's major cities, 2020:

**Jerusalem:** The capital of Israel and location of the Knesset, the supreme court and government ministries as well as numerous historic and religious sites; with a population of approximately 936,000.

**Tel-Aviv:** Israel's major city - a financial, commercial and industrial center, with a population of approximately 461,000.

**Haifa:** Principal port city in located on the northern coast, with a population of approximately 285,500.

**Ashdod:** Principal port city located on the southern coast of Israel, with a population of approximately 225,000.

**Rishon Lezion:** The fourth largest city in Israel, with a population of approximately 254,000.

**Beer Sheva:** The largest city in the Negev desert (in the south), with a population of approximately 210,000.



Israel has a Mediterranean climate, characterized by long, hot and dry summers (June to September), with temperatures ranging from 80-90 F (27-32°C). The climate varies significantly throughout Israel. Winters are short, mild and wet, 50-60 F (10-15°C) in most places, but in the '40s F (5°C) in Jerusalem

Israel's average annual rainfall varies from over 800 mm (31 inches) in the north (Upper Galilee) to less than 40 mm (1.6 inches) in the south (Eilat).

The prevailing system for measurement in Israel is the metric system.



# ISRAEL'S CURRENCY

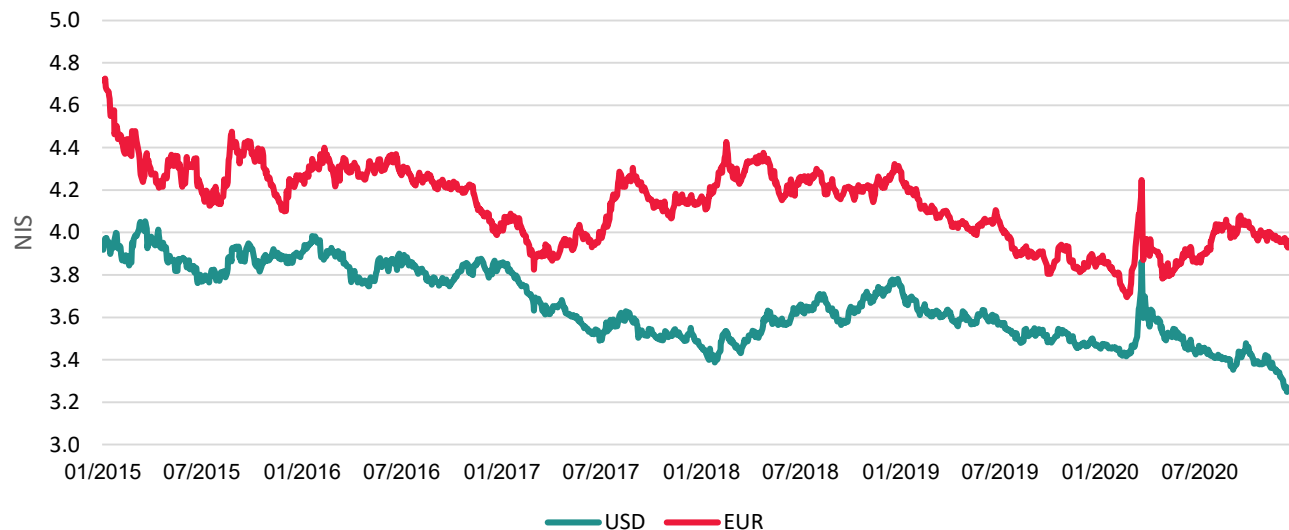
Israel's monetary unit is the New Israel Shekel (NIS). One NIS is comprised of 100 Agorot.

The representative dollar rate is an indicator for its exchange rate in the foreign currency market. It is based on the average buying and selling rates published by the banks.

Other foreign currency rates, besides the dollar, are calculated at their rate in international currency markets, when the representative rate is being determined. Accordingly, the ratios for the representative rates of various currencies reflect their exchange rates abroad at the time they are determined.

The Bank of Israel calculates representative exchange rates once a day on foreign currency business days only.

The following graph presents the foreign exchange rates in Israel during the years 2015-2020:



Source: BOI

The representative exchange rates of the Israeli Shekel in relation to some major currencies on February 1st 2021, were as follows:

Currency	NIS
US Dollar	3.288
Euro	3.971
UK Sterling Pound	4.506
Swiss Franc	3.671
Japanese Yen	3.134
Chinese yuan "Renminbi"	0.512
AED - Emirati Dirham	0.899

# INFRASTRUCTURE

Israel offers a broad and solid infrastructure for entrepreneurs, investors and business people in all sectors. The Israeli banking system is a modern, automated, highly computerized and a well-established part of the international financial system.

Diverse services required by businesses, such as insurance, legal, manpower, communications, IT systems, etc. are available in the most advanced formats.

There is an advanced domestic and international transportation system, with an extensive inter-urban highway network. New highways are constantly being built to enable fast and safe mobility throughout the country. Israel Railways, the government owned railway operator is currently investing in the modernization of Israel's railway system; placement of new railways, construction of the train stations, electrifying the whole network starting with the rail line between Tel Aviv and Jerusalem and the procurement of new trains and carts.

Israel has 3 major ports - Haifa, Ashdod & Eilat, the last one was privatized in 2013. Two new container ports are currently under construction and are scheduled to open in 2021 in Haifa and Ashdod by Shanghai International Port Group (SIPG) and the TIL Group respectively. Israel has 2 international airports, the first is Ben Gurion airport which located in the center of Israel and is the main gateway to Israel and the latter is Ramon international airport which located near Eilat. Another major airport is in its planning stages and is due to be located either in the north or the south of Israel. Israel is linked to the rest of the world via air and sea.

In addition, Israel has a fully developed cellular network with 3 independent networks operated by 4 mobile carriers. Full 3rd generation and an almost complete 4th generation service is available in all of Israel and 5th generation networks are currently under construction after new frequencies were allocated to the carriers.

Deployment of fiber optic cable networks (FTTH) in Israel is under way by 3 major players Bezeq, IBC, and Partner. As of Q3 2020 Partner has over 700 thousand homes connected to its network while IBC has over 500 thousand homes connected to its network, those networks overlap in many areas so the total is lower than 1.2 million homes connected (out of 2.5 million households in Israel). Bezeq, the largest communication company in Israel, has recently started connecting houses after the government approved an outline plan for the deployment of fiber optic cable networks and removing Bezeq's obligation to provide universal service and setting up a fund to finance of fiber optic cable deployment in the periphery.





## WORKING IN ISRAEL

In order to work in Israel, a non-resident is required to obtain a work permit (usually a B-1 visa) or hold a status other than “tourist”. To obtain a work permit, an Israeli employer is required to apply to the Ministry of Labor and Social Affairs and, where applicable, to the Investments Center. To obtain a B-1 visa the employer must provide a medical report of the applicant, a signed written contract between the employer and the applicant, define the job's requirements and assist with health insurance, living arrangements and so on.

According to the “Law of Return”, Jewish immigrants are entitled to a “permanent resident” status, or an A-1 visa, granting immigrants a “temporary resident” status.

## BUSINESS HOURS

Full time work hours are generally comprised of a 40-45 hours work week and a 5 - 5.5 day week, beginning on Sunday and ending on Thursday, or Friday at noon. Work hours in administrative offices are generally from 8:00-9:00 am to 4:00-5:00 pm. Some banks are open from 8:30 am to 12:30 pm from Sunday through Thursday and from 4:30 to 6:30 pm on two afternoons, while others are close on Sundays, but open on Fridays.

Stores are regularly open until 7:00 pm or later. On Saturday (the Jewish Sabbath) almost all businesses and offices are closed.

Legal holidays are determined in accordance with the Hebrew calendar. On the eve of Jewish holidays, business usually ends in the early afternoon.

Legal holidays in 2020 and 2021 are as follows:

Holiday	2020	2021
Passover	April 8 <sup>th</sup>	March 27 <sup>th</sup>
Independence Day	April 29 <sup>th</sup>	April 15 <sup>th</sup>
Pentecost (Shavuot)	May 28 <sup>th</sup>	May 16 <sup>th</sup>
Jewish New Year	September 18 <sup>th</sup>	September 6 <sup>th</sup>
Day of Atonement (Yom Kippur)	September 27 <sup>th</sup>	September 15 <sup>th</sup>
Feast of Tabernacles (Sukkot)	October 2 <sup>nd</sup>	September 20 <sup>th</sup>



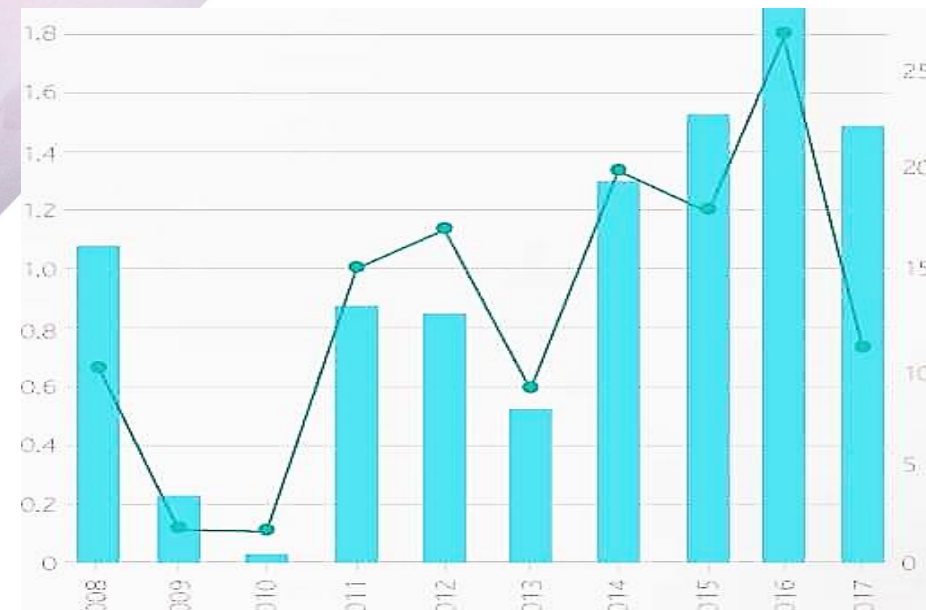
03

**M&A ACTIVITY IN ISRAEL**



Stage companies increased their share to \$2.1 billion in 2017, compared with \$1.8 billion in 2016. Seed and early stage companies raised \$1.36 billion in total throughout 2017, compared with \$1.43 billion gained in the previous year. In 2017, the volume of capital raising increased, continuing the consistent growth trend of the past five years. The high-tech industry matures and settles as the source of innovation and interest for investors and entrepreneurs from all over the world. At the beginning of 2017, over \$3 billion was available for investments (dry powder) by Israeli venture capital funds.

**Capital Raised by Israeli VC Funds by Vintage Year 2008-2017**



Source: IVC Research Center

## REGULATION AND LEGISLATION

Until recently, the Israeli corporate sector was dominated by large conglomerate groups. There were roughly 20 families controlling 25% of the companies registered in Israel, and 50% of the total market share in the Tel Aviv Stock Exchange (TA-25), one of the highest concentrations among developed economies. Concerns that the growth of market power and control might have an adverse effect on competition, have led to the creation of the Committee on Increasing Competitiveness in the Economy (CICE).

CICE's recommendations were published in the beginning of 2012, and in the six years since the law was enacted, a considerable amount of transactions have been excuted according to its requirements.

The law is divided into two main pillars:

### **Pyramid holding structure**

Holding companies must limit their pyramid structure to no more than three public layers. The Anti-Concentration Law has already significantly succeeded in reducing the number of layers in the pyramids of many Israeli public companies.

### **Cross-Holdings**

Holding companies must reduce cross-holdings in financial and industrial businesses. We are already witnessing many transactions and separation actions in the market.

For example, Delek Group attempted to sell its Phoenix Insurance Company numerous times. In another case, Bino Group, which was required by the Anti-Concentration Law to choose between retaining their holding in a non-financial asset (Paz) and retaining their holding in a financial asset (First International), chose the latter and ceased to be the controlling shareholder in Paz Oil Company.

The outcome of the new regulation and legislation will lower the risk of highly-leveraged companies and reduce their relative strength in the economy, while increasing the influence of minority shareholders. Furthermore, the new regulation and legislation would compel holding companies to divest some of their holdings, while bringing dynamism and change of ownership, thereby increasing competition among businesses, and reducing consumer prices in the market. Additionally, these restrictions create opportunities for new players. From the viewpoint of non-Israeli investors, the Concentration Law constitutes a jumping-off point, giving them an advantage over existing concentrated players.



## FOUNDERS

The Israeli business environment and culture has always supported entrepreneurship and start-ups. During the 70s, a significant number of businesses were established, encouraged by government regulations and economic reforms. Consequently, many business owners have now reached the age of retirement, in some cases without the emergence of the next generation to succeed them, thereby creating an inevitable need to sell their businesses.

## PRIVATE EQUITY ACTIVITY

Israel has recently been enjoying a growing interest in both local and foreign Private Equity Funds (PEs). According to an analysis by IVC Research Center, 41 Israeli private equity management companies are currently active, managing a total of \$13 billion in capital, with an estimated \$1 billion available for new investments.

In recent years, the successful local PE activity has also attracted large global PE funds and investment companies such as Berkshire Hathaway (Iscar). Apax Partners (Bezeq, Psagot.Tnuva), Permira (Netafim). Other companies, notably Blackstone, Blackrock, KKR, are expected to launch their operations in Israel in the near future.

PE activity is also expected to generate significant "sell side" opportunities. Most funds are obligated to exit their investments within 6 to 10 years of their accusation. In light of the significant PE fund activity during 2010-13, various opportunities are expected to come out into the market in the following years.

## VENTURE CAPITAL FUND RAISING

Israeli VC funds raised \$1.48 Billion in 2017 vintage. This rise was a result of a 58% increase in the VC's first investments. During 2017, investors poured more capital into fewer selected companies, providing portfolio companies with the necessary means to mature. Young technology companies are likely to enjoy this situation in the course of 2018. During 2017, as in the past two years, companies in growth stages (mid and late stages) attracted the largest portion of capital - raising \$3.9 billion, compared with \$3.4 billion in 2016. Mid-

## ISRAELI MARKET MULTIPLES

Developed countries tend to have lower multiples, supported by lower market expectations, even though the perceived risk is considered to be relatively low.

Although there are no formal sources tracking the Israeli market multiples over time, the domestic market traditionally "enjoys" lower EBITDA multiples most commonly in the range of 5-10, significantly lower than the global average. The main reasons are:

**Size premium** - Israeli companies are usually smaller than the average company in the global market, and thus get a negative size premium.

**Perceived Geopolitical risk** - Foreign investors perceive a higher geopolitical risk in Israel than in their homeland. Limited competition - Even though the Israeli market attracts various foreign investors, the local Israeli market has a relatively limited amount of potential bidders, which drives lower prices in M&A deals.

**Capital market** - The Israeli capital market provides a pricing reference for M&A deals. Since the market volume and attraction is globally limited, so is its pricing.



**BUSINESS  
ENVIRONMENT**

04



## HUMAN RESOURCES

### Education

Israel's labor force is relatively well educated. Israel is ranked 8th amongst OECD countries with graduates of higher education (Bachelor's degree, Masters and Doctorates) with a 38% of its adult population.<sup>6</sup>

The following table provides data regarding the years of schooling of Israelis aged 15 and over in 2019:

OECD Education at a glance 2020.

# of scholl years	% of population
0	1.5%
1-4	0.7%
5-8	5.2%
9-10	9.1%
11-12	33.3%
13-15	21.9%
16+	28.3%

Source: Central Bureau of Statistics September 2020

<sup>6</sup> OECD Education at a glance 2020.

### Distribution of Employees

The following data was taken from the year 2019 as a representative for a stable "steady state" for the Israeli economy as 2020 data reflects the effects of the COVID-19 pandemic on the Israeli economy and does not represent a normal business state.

The work force in 2019 was approximately 3.97 million employees. The following table summarizes the distribution of employed persons according to economic sectors for the year 2019:

Economic Sector	% of employed persons
Education	14.8%
Wholesale and retail trade	13.3%
Human health and social work activities	11.9%
Manufacturing	9.2%
Administrative and support service activities	8.0%
Professional, scientific and technical activities	6.9%
Accommodation and food service activities	6.3%
Information and communications	5.3%
Construction	5.2%
Transportation, storage, postal and courier activities	3.9%
Local, public and defense administration & social security, and extraterritorial organizations and bodies	3.8%
Other services	3.6%
Financial and insurance activities	2.9%
Arts, entertainment and recreation	2.1%
Agriculture, forestry and fishing	1.3%
Electricity and water supply, sewerage and waste management	0.8%
Real estate activities	0.8%
Mining and quarrying	0.1%

Source: Central Bureau of Statistics, Israel, January 2021

Salaries and wages paid to Israeli employees are highly diversified. The following table presents the average wages for an employee per sector. The figures are rounded and presented in 2019 US Dollar, per month:

Industry	Wages (USD Per Month)
Mining and quarrying	6,522
Information and communication	6,029
Electricity and water supply, sewerage and waste management	5,153
Financial and insurance activities	5,135
Local, public and defense administration & social security, and extraterritorial organizations and bodies	4,323
Professional, scientific and technical activities	4,091
Manufacturing	4,053
Real estate activities	3,242
Transportation, storage, postal and courier activities	3,197
Construction	2,733
Human health and social work activities	2,549
wholesale and retail trade and repair of motor vehicles	2,503
Education	2,275
Agriculture, forestry and fishing	2,068
Arts, entertainment and recreation	1,750
Administrative and support service activities	1,675
Other service activities	1,594
Accommodation and food service activities	1,421

Source: Central Bureau of Statistics March 2020

US\$1 = NIS 3.456 as of 31.12.2019



Israel's current monthly minimum wage is NIS 5,300 [NIS 28.49 per hour].

In addition to a base salary, employees are entitled to compensation for travel expenses to and from their regular place of work (public transportation tariffs).

For most employees, overtime is paid at the rate of 125% for the first two hours and 150% for subsequent hours each day. Employees are entitled to special compensation for work on Saturdays and holidays.

In addition to salary, the employer is required to pay/contribute various social benefits, as follows:

### Compulsory Contributions:

- **National Insurance (Social Security)** - Is 7.05% of gross salary (in addition to the employee's contribution). The National Insurance Institute pays compensation in respect of unemployment, disability, retirement, military reserve duty, child allowances, maternity leave, etc.
- **Severance Pay** - is 8.33% of gross salary. An employee dismissed from his place of work is entitled to severance pay based on her latest salary amount for each year of employment.
- **Sick Leave** - is accumulation of 1.5 days per month. In many cases, the sick leave allowance may amount to 30 days per annum. Employees may accumulate up to 90 sick days.
- **Vacation** - Israeli law prescribes a minimum vacation period of two weeks annually. The number of days increases according to seniority, reaching four weeks for those employed more than fourteen years by the same employer. The vacation allowance is payable in addition to legal and religious holidays.
- **Annual Reserve Military Service** - The employer usually pays the employee's regular salary, including all social benefits, for the entire reserve duty period. The National Insurance reimburses the employer for the amount of gross salary during the reserve duty.
- **Convalescence Pay** - Employees are entitled to convalescence pay according to seniority at work and based on the Collective Work Agreement if present. The minimum amount for full time employees in the business sector is USD 486 per annum and it may reach up to approximately USD 972 per annum.
- **Pension Insurance** - All employees are entitled to pension insurance after 6 months of employment. An employee with an active pension fund from his previous workplace is entitled to contribution from the first day of work, which is payable up to 3 months after the start of employment at the new workplace. Contribution by the employer is set at 12.5% and contribution by the employee is set at 6% for a total of 18.5%. The employer's compensation contribution is 6%, and altogether a minimum of 18.5%. As of July 2017, the contribution by the employer is set at 6.25% and contribution by the employee will be set at a minimum rate of 5.75%.

In addition to the above social benefits, other legislation and regulations exist to regulate working conditions, but they cannot be directly "converted" into money. Among these laws and regulations are the following:

- **Employment of Women Law** - The law protects female employees and specifies the terms and restrictions imposed on employers regarding their female employees in connection with night work, pregnant women's rights, maternity leave, etc.
- **Equal Opportunity in Employment Law** - Prohibits discrimination against employees in all matters and for any reason.
- **Equal Pay Law** - Legislates female employees' rights to equal pay for equal work with the same employer.
- **Youth Labor Law** - Regulates the work conditions of individuals under 18.



# ANTITRUST LAW

Business activity is subject to various laws and regulations, depending on the nature, scale and sector of the business, and requires licenses from ministries, municipalities, authorities, and other statutory authorities. In general, common business and trade practices are restricted by rules and regulations similar to those prevailing in other western countries. However, particular attention ought to be paid to the Antitrust Law, 1988, which was revised in 2019 and is enforced by the Israeli Competition Authority.

## Restrictive Practice Agreements

A restrictive arrangement is an agreement made between individuals conducting business, pursuant to which at least one of the parties restricts itself in a way that could obviate or reduce the business competition between that party and part or all of the other parties to the agreement, or between that party and an entity that is not a party to the agreement.

An agreement that determines prices, market share, profit margins, or quotas will be deemed to be a restrictive agreement. However, the law excludes some agreements from its general definition so that they are not considered restrictive agreements (e.g. entitlement to use proprietary rights, international transport, etc.).

Participation in any restrictive agreement is prohibited unless the agreement has been approved by court, received a temporary permit, by the Director-General of the Competition Authority or was granted an exemption.

In recent years, enforcement of this law has become more evident, in view of the expansion of the Competition Authority and the growing awareness of the advantages of competitive markets in Israel.

**Block exemption:** In 2000, the Director-General of the Competition Authority defined block exemptions that exempt specific agreements from the need for a permit.

These block exemptions include R&D agreements, joint ventures, franchises, etc.

Amendment No. 14 limits the statutory exemption from prohibition of the restrictive arrangement specified in the Competition Law, with respect to the arrangement relating to wholesale produce and marketing of local agricultural products, such that the ability of wholesalers to make arrangements among themselves is restricted. The exemption will only apply to an arrangement whose restrictions concern wholesale produce as abovementioned, where all the parties concerned grow products included under the arrangement or they are one or more growers purchasing agricultural produce from the same grower or growers.

## Mergers and Acquisitions

According to the Restrictive Business Practices Law, the following mergers and acquisitions require the approval of the Competition Authority prior to becoming effective:

- Subsequent to the merger or acquisition, the share of the merged parties in the production, sale, marketing, or purchase of a single product or a group of products or services will exceed 50%.
- Combined turnover of the merged companies (domestic turnover only) in the fiscal year prior to the merger exceeded NIS 360 million, index linked, (approximately USD 105 million<sup>7</sup>), and at least two of the merged companies have a turnover of more than NIS 10 million (approximately USD 3 million) each. If the turnover of the acquired party is less than NIS 20 million it is possible to submit a request for exemption from the Competition Authority, which is usually approved.
- In-case that one of the parties is already a monopoly.

Amendment No. 15 to the Law grants the Director-General the authority to conduct tests on the level of competition in various sectors of the economy, including testing the existence of competition failures and obstructions. The Director-General is also granted the authority to submit his conclusions and recommendations to the relevant minister where the subject being tested is within his area of responsibility, and also to the Minister of Finance, and also to an authority whose sector regulation according to law is under its responsibility.

Additionally, the Director-General may publish his/her conclusions on the Competition Authority's web site or in any other manner that he/she may consider appropriate. Amendment No. 16 is designed to deal with cartel problems and deficiencies in market competition, by extending the structural aid prescribed by law. Thus, the amendment enables a court to order the member of a cartel group or of a monopoly owner to sell assets. If necessary, in order to prevent damage or fear of causing substantial damage to competition or to the public, and in relation to a cartel – if this is required in order to substantially increase competition, the terms are stipulated by law.

Amendment No. 17 refers to the changes introduced in the law subsequent to the amendment of the Standard Contract Law – 2010, dealing with examination of a standard contract.

<sup>7</sup> 1 USD = 3.456 NIS 31.12.2019

# INTERNATIONAL TRADE

Israel has extensive business relationships worldwide. The table below summarizes Israel's international trade in 2020 (including Diamonds).

	Imports		Exports	
	US\$ million	%	US\$ million	%
<b>Grand Total</b>	70,006	100%	50,038	100%
<b>Europe</b>	36,737	52%	17,559	35.1%
<b>European Union</b>	27,133	39%	14,672	29.3%
Germany	5,205	7.4%	1,679	3.4%
Belgium	3,134	4.5%	1,452	2.9%
United Kingdom	2,986	4.3%	3,725	7.4%
Netherlands	2,873	4.1%	2,461	4.9%
Italy	2,686	3.8%	786	1.6%
France	2,148	3.1%	1,161	2.3%
Spain	1,525	2.2%	878	1.8%
<b>Other European Countries</b>	9,604	13.7%	2,887	5.8%
Switzerland	5,255	7.5%	445	0.9%
Turkey	3,497	5.0%	1,429	2.9%
Russian Federation	418	0.6%	666	1.3%
<b>Asia</b>	17,661	25.2%	11,324	22.6%
China	7,666	11.0%	4,224	8.4%
Hong Kong	2,128	3.0%	1,238	2.5%
South Korea	1,690	2.4%	779	1.6%
India	1,510	2.2%	1,581	3.2%
Japan	1,241	1.8%	947	1.9%
Singapore	1,071	1.5%	495	1.0%
Taiwan	936	1.3%	731	1.5%
Other Asian Countries	1,419	2.0%	1,329	2.7%
<b>America</b>	9,855	14.1%	15,682	31.3%
<b>North America</b>	8,967	12.8%	13,962	27.9%
USA	8,620	12.3%	13,078	26.1%
Canada	273	0.4%	564	1.1%
<b>Latin America and the Caribbean</b>	888	1.3%	1,720	3.4%
South America	816	1.2%	1,572	3.1%
Central America	72	0.1%	148	0.3%
<b>Africa</b>	323	0.5%	580	1.2%
<b>Oceania (AUS+NZ)</b>	201	0.3%	539	1.1%
<b>Unclassified Countries</b>	5,230	7.5%	4,355	8.7%

Source: Central Bureau of Statistics January 2021.

## Tourism

Incoming tourism in 2020 declined by 82% in comparison with the previous year due to the COVID-2019 pandemic and the travel restrictions that followed both in Israel and the world. In the year 2019 though, incoming tourism rose by 12% compared to 2018.

Most tourists came to Israel from the United States, Russia, France, Germany and the UK. The table below illustrates tourist traffic to Israel in recent years:

VISITORS ARRIVALS	
Year	Thousands
2005	1,916
2006	1,834
2007	2,296
2008	3,028
2009	2,740
2010	3,445
2011	3,362
2012	3,520
2013	3,540
2014	3,251
2015	3,109
2016	3,070
2017	3,863
2018	4,390
2019	4,905
2020	888

Source: Central Bureau of Statistics, January 2021

# TRADE AGREEMENTS

Israel has entered into several trade agreements in order to strengthen its position in international markets. The most significant agreements are the Free Trade Area Agreement with the European Union, Free Trade Area Agreement (FTA) with the United States, Free Trade Area Agreement with the European Union, Free Trade Association States (EFTA) and the Free Trade Agreement with MERCOSUR the South-American Common Market. The agreements with the European Union, the United States and South-American countries place Israel in the unique position of being a Free Trade Area partner with the principal economic regions worldwide. Thus, Israel is able to act as an intermediary for countries that do not have mutual agreements, provided that products comply with the provisions of each agreement. In addition, Israel has signed FTA Agreements with Canada and Turkey, a General Agreement on Tariffs and Trade (GATT) with the World Trade Organization, and has been granted preferences under the GSP (General System of Preferences) by Australia, Austria, Canada, Finland, Japan, New Zealand, Norway, Sweden, Switzerland, and the United States. As part of the peace process, Israel signed an Agreement for Economic Development with the Palestinian Authority.

## **Israel-European Union Free Trade Agreement**

In 1995 Israel entered into an Agreement for the establishment of a free trade zone with the European Union for industrial products and some agricultural products.

Under this Agreement, most Israeli-made products are exempt from import duties. On its part, Israel gradually reduced import duties on European-made products.

In general, to be eligible for exemption from import duties, products are required to comply with certain “rules of origin”. These rules require a minimum local-added-value depending on the origin of materials, manufacturing process, etc.

Tariff and non-tariff barriers still exist concerning agricultural products and processed foods in respect of international trade with the European Union.

## **Israel-USA Free Trade Area Agreement**

In 1985, Israel and the United States entered into the Free Trade Area Agreement. This Agreement was fully implemented on January 1, 1995.

The Agreement eliminates all import duties and non-tariff barriers between Israel and the United States. The Agreement allows non-tariff restrictions on agricultural products.

“Rules of origin” exist, which are different from those of the European Agreement, to determine products’ eligibility to benefits from this Agreement.

## **Israel-EFTA Free Trade Area Agreement**

The Agreement between Israel and EFTA countries became effective on January 1, 1993. The Agreement is intended to eliminate or reduce duties, mainly on industrial goods, and also to reduce non-tariff barriers.

This Agreement has its own “rules of origin” as well, different from those of the above mentioned agreements.

## **Israel-MERCOSUR Free Trade Agreement**

A free Trade Area Agreement between Israel and the Common Market of South America between the Argentine Republic, the Federative Republic of Brazil, the Republic of Paraguay and the Oriental Republic of Uruguay (MERCOSUR).

The Agreement was signed on December 8, 2005 and went into effect on June 1st, 2010, Israel is the Only non-South American country that has an FTA agreement with MERCOSUR, giving Israel a relative advantage in trade compared to other non-South American countries.

The "Rules of origin" of MERCOSUR apply to this agreement; these are uniform rules for all South-American countries that are part of MERCOSUR.

## **Israel-Canada Free Trade Agreement**

A Free Trade Area Agreement between Israel and Canada was signed in July 1996 and became effective on January 1, 1997. The Agreement expresses the parties’ intention to gradually eliminate duties on industrial goods and some agricultural products.

The Agreement with Canada offers special advantages, since both parties have entered into FTA Agreements with the United States, enabling Israel to include United States origin components in its exports to Canada, and Canadian components in its exports to the United States, without breaching any “rules of origin”.

Israel also has Free Trade Agreements with the following countries: Turkey, Czech Republic, the Republic of Slovakia, Poland, Hungary, Mexico, Romania, Bulgaria and Jordan.

# PROPRIETARY RIGHTS

Israel is a member of international agreements regarding intellectual proprietary rights. The following section summarizes legislation regarding patents, trademarks, copyrights, etc.

## Patents

The Patent Act, 1967, regulates the protection of patents in Israel. Regular patents are protected for 20 years from date of application, while “patents of addition” are protected for the unexpired terms of the main patent.

Patents may be granted on the invention of a product or process which is innovative, and which was never previously used or published.

## Trademarks

The Trademarks Ordinance, 1972, and its provisions regulate the protection of trademarks in Israel. This protection is granted for an initial period of ten years, and may subsequently be renewed for further periods of fourteen years each, indefinitely. However, a third party may challenge trademarks that have not been used for three years or more, and may request their revocation.

## Copyrights

The Israel Copyrights Law regulates the protection of original literary, musical, artistic, and dramatic works. The protection is granted for the lifetime of the creator plus 50 years for musical and artistic works, and 70 years for literary and dramatic works. Computer programs are protected under this law as well.

The 2014 Amendment provides the possibility of modifying a literary work so as to adapt it to disabled persons. Thus, reproduction of adapted works in compliance with the Law is applicable to a non-profit organization for disabled persons, and the organization may also deliver an adapted work to a disabled person or other organization in or outside Israel (subject to the restrictions prescribed in the law).

## Commercial Torts

The Commercial Torts Law 1999 is relatively new in the proprietary rights field, and still in its first years of exercise in Israel’s business and legislative environment. The Commercial Torts Law incorporates several commercial torts, mainly exercised as common law by the Israeli courts up until their reversal into legislation, such as unfair interference to a business, passing-off, false description and so forth. The innovativeness of the Commercial Torts Law applies especially in regards to the remedies enacted by it, for example the Anton Pillar court order.



# INVESTMENT INCENTIVES & TRADE ADVANTAGES

05



above, such as - 12% in Zone "other". In addition, there are special tax incentives for "huge multinational corporations", in accordance with the Law, operating in Israel through a subsidiary, such as - a corporate income tax rate of 6%, and dividend tax rate of 4%.

## **Transitional Orders:**

The previous law is applicable to enterprises whose investments started prior to December 31, 2010, and have notified the authorities that the "election" year for the benefit period would be no later than 2012.

The previous law also applies to old programs, based on the benefits prescribed by law on the "election" year or on the date of granting approval, as the case may be.

Notwithstanding the foregoing, enterprises wishing to apply the new Law may do so while at the same time relinquishing the remaining benefits available under the previous one.

Accordingly, a company eligible for tax breaks under the alternative track offered by the previous Law, may apply the new law by notifying the authorities. This notice must be sent no later than the date specified for filing their annual statement. The law will apply to the fiscal year following the one for which the statement was filed.

Following the foregoing, an enterprise may pursue the new tax track starting from 2011, provided that the authorities are notified accordingly in the context of the 2010 financial statement.

# GENERAL

## **IHotel and other tourism ventures remains under the previous law orders.**

According to the 2011 Amendment, the stipulation prohibiting multiple benefits (tax track and grants track) has been withdrawn. As such, industrial enterprises in compliance with the required export conditions may benefit simultaneously from both the grants and the tax benefit track, as discussed earlier. However, in the event that export conditioned applying to revenues are deemed as an "expansion" of previous activity, the enterprise may still benefit from the grant track even if tax benefits do not apply. Eligibility for investment grants are limited only to industrial enterprises located in Priority Zone A. The grant program is limited to the budget framework approved annually for this track under the budget law.

Approved Enterprises are entitled to receive 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 targets defined. Furthermore, the Investment Center Administration is authorized to grant State- guaranteed loans.

## **The Main Conditions**

The government provides grants as participation in financing the purchase of tangible fixed assets. The grants vary - depending on the type of enterprise and the National Priority Region. The amount of the grant is calculated as a percentage of the original cost of land development and investment in buildings, machinery, and equipment. Machinery and equipment must be new, or used imported machinery and equipment not previously applied in Israel, provided that the Investment Center Board had approved them (In practice, the Investment Authority usually does not approve these investments).

Their cost includes installation and related expenses. For self- constructed or self-created assets, a determined reasonable profit, at a rate set by Law, may be added to the costs. The investment program must be completed within 5 years of the date of approval.

The grants are not considered as income, but are deducted from the cost of the fixed assets. The terms stipulated by Law for obtaining a grant are as follows:

- The enterprise must be an industrial plant or a hotel.
- The enterprise contributes to the independence of the State's economy.
- The enterprise is competitive and contributes to the gross local production. An enterprise will be deemed to have complied with this condition if it is engaged in the fields of biotechnology or nano-technology and has obtained the Based on a broad view of the Israeli labor force, R&D potential and the desire to maintain professional and advanced workers within its borders, the Law also applies to industrial development centers located in inside Israel. These R&D centers can enjoy the full benefits granted by the Law, although they may not necessarily comply with the generally accepted definition of "industry".

Industrial R&D services rendered to a foreign resident will be recognized as industrial activity if approved by the Head of Industrial R&D Administration. It should be noted that a key condition for enjoying these benefits is compliance with an export rate of at least 25% of the industrial enterprise's turnover, as outlined below.

## **Tax Benefits Track**

As part of the 2011 Amendment, all the existing tax benefits were canceled, and a unified tax rate was introduced on the aggregate revenue generated from manufacturing activity, applying to industrial enterprises in compliance with the export threshold conditions established. The applicable tax rates are as follows (following a few amendments) -



### Conditions for Enjoying the Tax Benefits Program

An enterprise wishing to enjoy these benefits is not required to apply to the tax authorities, but may implement them independently in its income tax returns.

The terms stipulated by law for obtaining tax concessions are as follows;

- The enterprise must be owned by a company registered in Israel, whose business is controlled and managed in Israel, expecting "family companies", "transparent companies" or a Kibbutzim. The Law will also apply to registered partnerships, provided that the partners have all been incorporated in Israel. Factories and quarries for producing natural resources (minerals, gas, and oil) are excluded from the definition of "industrial enterprises" with regards to this particular activity.

Companies fully owned by the government will not be entitled to the benefits granted under the Law. The company must maintain admissible books and records, and file any reports required under Israeli law. The company and its officers must be free of previous convictions on tax fraud charges during the 10 years preceding the benefits periods.

Tax Year	Tax rate for companies - Zone 'A'	Tax rate for companies - Zone 'other'
2011-2012	10%	15%
2013	7%	12.5%
2014-2016	9%	16%
2017 and on	7.5%	16%

- The enterprise must have an industrial plant.
- The enterprise is competitive and contributes to gross local production. An enterprise will be deemed to have complied with this condition if it is engaged in biotechnology, nano- technology or renewable energy R&D, and has obtained the approval of the Head of Industrial R&D Administration. Alternatively, an enterprise will be deemed to have complied with this condition if its exports amount to at least 25% of its turnover in case of a new plant, or the expansion of an existing one. This is in contrast with the previous law, in which the minimum requirement for expanding a plant was a measurement of the increased turnover in comparison with the basic revenue. Under certain conditions, an enterprise with "indirect imports" may also be deemed as being in compliance with this condition.

Only income from operations in Israel may be considered as "preferred income".

As mentioned earlier, the tax benefit track does not require prior approval from the authorities. However, in order to provide greater certainty, an enterprise choosing the tax benefits program may apply to the tax authority for an advanced (or preliminary) ruling whereby the company complies with the terms stipulated by the Law, in addition to regulating other issues involved with the application of the Law. Under the new Law, a particular tax benefits track exists for "special industrial enterprises" (applicable to large companies and/or investments), setting the applicable tax rates at 5% in Priority Zone A and 8% in all other zones, for a period of up to 10 years.

In 2017, a new route was established for "Technological Preferred Enterprises", in which Israeli companies are receive a more favorable tax rate than that shown in the table preferred enterprises accelerated depreciation. The Income Tax Regulations (Inflationary Adjustments) (Depreciation Rates), 1986, provides special depreciation rates to industrial plants and hotels in respect of specific fixed assets. The regulations are valid despite of the annulment of the Income Tax (Inflationary Adjustments) Law. The terms "industrial plant" and "industrial company" are defined in the Encouragement of Industry (Taxes) Law. An "industrial company" is defined as "an Israeli resident company deriving at least 90% of its income in a tax year from an 'industrial plant' owned by it". An "industrial plant" is a term which applies to companies engaged primarily in production. This regulation offers a depreciation rate of 5% for buildings owned by industrial companies, which function as industrial plants.

Regarding equipment, section 2 of the Regulations provides depreciation rates as follows:

Alternatively, a company may choose the devalued balance method, in which depreciation is calculated as part of the devalued balance of the asset as of the beginning of the year: A taxpayer electing to use the declining balance method for a specific depreciable asset is bound by the election for the entire period during which the asset is in use. It should be noted that the accelerated depreciation mentioned above depends on classifying the plant as an "Industrial Plant" and the company as an "Industrial Company".

If the equipment is used in <b>one</b> shift	20% (or 15%)
If the equipment is used in <b>two</b> shifts	30% (or 18%)
If the equipment is used in <b>three</b> shifts	40% (or 22%)

If the equipment is used in <b>one</b> shift	30% for four years and the rest on the fifth year
If the equipment is used in <b>two</b> shifts	40% for three years and the rest on the fourth year
If the equipment is used in <b>three</b> shifts	50% for two years and the rest on the third year



### **Allowing Investments in R&D Company's Shares as a Tax Deduction**

In 2016, the Israeli legislator announced a new and more simplified route for this tax deduction. This route's scope is subject to many conditions and to the approval of the Chief Science Officer (CSO).

#### **Individuals**

An amount paid out by an individual or their relatives for investing in a "special purpose company", who is allotted company shares in an amount equal to no more than ILS 5 million. These are made deductible against the individual's overall income in three equal annual installments (or less), of the fiscal year in which capital had been invested. Among other things, it is required that the capital invested is paid between January 1, 2011 and December 31, 2019, and that most of it is applied by the special purpose company to cover R&D expenses incurred in Israel. The individual is required to hold shares in a special purpose company throughout the reduction period. The Chief Scientists' approval is required for the scope of R&D expenses. The law stipulates further conditions for allowing the said deduction.

#### **Companies**

A "preferred company" or "beneficial company" as defined in the Encouragement of Capital Investments Law, is entitled to deduct the cost of shares acquired during the period between January 1, 2011 and December 31, 2019, in an "entitling company" not related to it, to the extent of 20% per annum from the year after such acquisition. It should be noted that the entitling company's equity capital will be deducted from the cost of the acquisition. The Law specifies a number of conditions for applying the deduction, including a condition according to which the investment must involve the acquisition of at least 80% of the means of control (other than by way of allotment) in the entitling company; that in the year of acquisition and in each of the bonus years, the acquiring company and entitling company be a beneficial or preferred company; a minimum number of academic employees is required in the field of engineering, computers, natural or exact sciences, and a minimum amount of R&D expenses must be paid during the acquisition year and in each. In 2016, the Israeli legislator announced a new and more simplified route for tax deduction.

approval of the Head of Industrial R&D Administration to this effect. Alternatively, an enterprise will be deemed to have fulfilled this condition if exports amount to at least 25% of its turnover.

In the event that a plant was expanded, an enterprise will be deemed to have complied with this condition if its exports amount to at least 25% of the increased turnover as compared to the basic revenue. Nevertheless, an enterprise wishing to enjoy the tax track at the same time is required to export 25% of its turnover. An enterprise with "indirect exports" may, under certain terms, also be deemed to have complied with this condition.

It should be noted that under the grant program, is required to fund 24% of the scope of the approved investment in equity.

## Approval Procedure

As mentioned above, the Law includes two principal schemes for obtaining tax concessions: one is the grants program, and the other is the benefits program. To obtain the status of "Approved Enterprise" under the grant program, a company is required to submit a plan to the Investment Center.

The Investment Center Administration is authorized to approve applications received during the relevant budget year in the context of the current or the previous year's budget. Lately, in accordance with the comprehensive amendment of the Law, the terms for obtaining concessions were stipulated both in respect of grants and in respect of tax benefits. Consequently, the procedures for granting the status of "Approved Enterprise" differ. Whereas an enterprise applying for grants are required to submit a plan to the Investment Center, this will not be required of an enterprise wishing to benefit from tax concessions under the status of "Preferred Enterprise". If the enterprise complies with the threshold conditions stipulated by Law, it could enjoy these tax benefits and claim them under the income tax returns it files.

The determination by either the Investment Center or the tax authorities as to whether an enterprise is an "industrial enterprise" is binding upon both entities for a 5-year period, unless substantial changes are introduced, or if erroneous reporting has been discovered in the enterprise.

## Determining Priority Zones A and Other Areas

In accordance with the provisions of the Law for the

Encouragement of Capital Investments Law, development areas will be determined according to a number of criteria. These comprise a combination of the following factors: geographic location (priority given to Jerusalem, the South and North, Sderoth and the Gaza Envelope), socio-economic level, unemployment rate, location within Israel's industrial sectors or in minority settlements (settlements where 80% of the residents are non-Jews).

For a detailed review of the above, please see the Ministry of Economy's website: <http://www.tamas.gov.il/CmsTamat/lshuvim.aspx>

Asset	Depreciation rate
Equipment and machinery (general)	7%
Electricity plant (equipment)	7%
Buildings	2%-4%
Computers	25%-33%
Electronic and Computing equipment	15%
Vehicles	15%



## ENCOURAGEMENT OF CAPITAL INVESTMENTS IN THE TOURIST INDUSTRY

It should be noted that the previous law benefits (both in the tax benefit track and in the grant track) are applicable to hotels, accommodation facilities, and other tourist attractions. Since Amendment 60 to the Law (from 2005), only conditions for "foreign resident accommodation" are eligible to receive benefits under the Law. As a rule, and in order to comply with the above, at least 25% of overnight stays in an accommodation facility must be by foreign residents. This condition does not apply to tourist attractions.

According to the Law, benefits may be claimed on the construction or expansion of a "tourist facility for overnight stays".

The legislator provided a distinction for the meaning of the term "tourist facility for overnight stays", stipulating that such a facility must be; "A structure comprised of 11 or more rooms, providing overnight services to guests passing by, as well as for fixed periods of time, together with accompanying services including catering, entertainment and leisure services".

As indicated above, a wide range of overnight accommodation services and other facilities are eligible to receive the benefits provided under the Law. Thus, one may easily determine that hotels, motels, guest houses and even hostels are eligible for such benefits, provided they comply with the condition of the number of rooms stipulated by Law.

It should also be noted that the map of priority zones applicable to tourist facilities is different from the map of priority zones applicable to the industrial sector. Thus, with regards to hotels, it was determined that, among others, Development Zone A includes the Western and Upper Galilee, around the Sea of Galilee, Nazareth, Haifa, along the Carmel Shore, Nethanya, Ramla, Jerusalem and Jerusalem Corridor, and the Southern Region, not including Eilat and the Dead Sea.



## Investment Grants

An entrepreneur wishing to establish an 'overnight tourist facility' is entitled to receive an investment grant and a capital grant, which vary according to the facility's location. Investment grants vary from 10%-24% of the entrepreneur's investment expenses, minus land costs. The investment grant is not offered automatically; the entrepreneur must submit a detailed preliminary application to the Investment Center Administration at the Ministry of Tourism. Based on established criteria, the application must address various aspects to be considered by the Ministry (planning, minimum accommodation standards, etc.). In order to obtain the grant, the Ministry must issue a "letter of approval" for the plan. It should also be noted that the entrepreneur must submit the plan prior to proceeding with the actual investment, as grants are not approved retroactively on capital already invested.

In addition to the grants mentioned above, the regulations prescribe a number of tax benefits for approved tourist facilities, the main one, in our opinion, being accelerated depreciation on investments in a tourist facility structure.

**Tax Benefit Track for Overnight Tourist Facilities** As mentioned above, the tax track only applies to "overnight tourist facilities" and not to tourist attractions. Furthermore, this track does not require the authorities' prior approval, as it applies automatically, upon compliance with the conditions prescribed by Law. Legislation prescribes a number of conditions, beyond "accommodation of foreign residents" which, entitle the owner of the facility to claim tax benefits. The principal conditions for these are;

- The facility must be owned by an Israeli company not fiscally "transparent" for tax purposes.
- The capital financing the establishment or expansion of the hotel was invested there in a minimum amount prescribed by Law.

Under the tax benefit track, the owner of the facility is entitled to the following; a tax exemption on increase in turnover (deferring the tax until profit distribution) - currently a 10-year exemption in priority Zone A, a 6-years exemption in Priority Zone B, and a 2-year exemption in the rest of the country. Accelerated depreciation and reduced tax rates (tax on the shareholders' level for the receipt of dividends is to rental housing for a period of no more than 25 years.



### Encouragement of Rental Housing Law

**Rental Income:** at the corporate tax rate, which is currently 25%.

**Dividend:** Tax rate as stipulated in Section 125-b of the Ordinance or 126(b) of the Ordinance.

**Income from the Sale of a Building (Appreciation Tax):** Tax exemption on a sale will only apply if the rental building has been fully sold. No exemption will apply on the sale of individual apartments or on parts of a building, or upon the sale to a relative. The full exemption will apply only following a rental term of 25 years. If the building is sold earlier (provided this is not before the termination of such rental term of 10 years), it must be sold only to a company that undertakes to continue renting it for an additional term, such that the total of rental terms would reach 25 consecutive years.

**Accelerated Depreciation:** at the rate of 20%. The term "depreciation" refers to the structure component without the land. In regions where the land component is high, the benefit pertaining to depreciation will only amount to the cost of the structure - a fact likely to impact the feasibility of a project. To take the fullest advantage of accelerated depreciation, the company must show positive income in the amount of losses from the rental of structures throughout the first five years of rental at least.

VAT Benefit on the Sale of a Building: Non-existent.

VAT on Apartment Rental: The exemption specified in Section 31(1) of the Value Added Tax Law will apply with regards to the rental of residential apartments for a term of up to 25 years.

## OTHER INCENTIVE PROGRAMS

### Small Business Loan Fund

The Small Business Authority of Israel was established in 1993, to fill the need for a policy-making organization to encourage small businesses, entrepreneurs, etc. The

Authority's major roles include initiation and application of government policies for encouraging small businesses, setting up local, regional, and professional centers to assist them, and initiating the establishment of capital funds and other financial resources for small businesses, etc. Among its other roles, the fund helps to establish or expand small businesses, while the government provides bank guarantees to serve as collateral for commercial loans. Each loan extended to a single business is for approximately ILS 500,000, for a five-year period, to fund the purchase of equipment or one year's working capital. The borrower is required to furnish the bank with a lien on the equipment financed by the loan, as well as personal guarantees.

To be eligible for the loan, the business must meet certain criteria, as follows:

The annual turnover must not exceed ILS 100,000,000.

The loan must be used solely for new activities: establishing a new business or expanding an existing one. The funds should not be used for the purchase of real estate, construction activities, or an existing business.

Paid-in capital should not be 10-25% of the amount of the loan. The fund is currently managed by three commercial banks. The State guarantees up to 70% of each loan amount and up to 30% of the entire loan portfolio.

### State-Guaranteed Loans Offered to Medium Sized Businesses

The Fund for Establishing and Supporting the Operation of Medium-Sized Businesses, operated by the Ministry of Economy, offers State-guaranteed loans of up to 8% of an entity's annual turnover. The program is intended for medium sized businesses with an annual sale turnover of ILS 22-100 million. The scope of collateral security required is 25%, while the government extends a guarantee of up to 70% of the loan amount. In addition, the owners' personal guarantee is required. The loan is for a term of up to five years, with an extended grace period of one year for repayment of the principal. Interest is at the customary rate used by the banking system on such loans. The fund is generally 15%). An alternative track is available in Priority Zone A, with a final 11.5% tax on undistributed profits on the company's level for increase in turnover and (no additional taxation on the company's level with profit distribution) tax at shareholders level due to receipt of dividends 15% to shareholder resident in Israel and 4% to shareholder resident abroad.



# INCENTIVES FOR BUILDING RENTAL HOUSING

Building residential rental apartments is an essential social and economic goal. For this reason, those who build and rent out apartments are eligible to receive diverse benefits and incentives offered through the tax system. Beyond the exemptions and benefits granted to individual property owners who rent out apartments, there are two parallel laws to encourage large-scale construction of rental housing.

The first and oldest law code is contained in Chapter Seven-1 of the Encouragement of Capital Investments Law. The second and relatively new law is the Encouragement of Rental Housing Law, enacted in 2007. In effect, following its stipulation, two parallel legal systems were created to encourage the building of rental apartments, and an assessed may operate to apply one of them. According to Chapter Seven-1, tax incentives are granted in respect of a building in compliance with the terms of the "Rental Building" designation, or the "New Rental Building" designation. This is usually one whole or several buildings located in one complex, approved as such by the Investment Center Administration.

It should be noted that there are entitlement conditions for actual tax benefits, including, among others: the size of a minimum rental area, minimum rental terms, compliance with monthly rent limits, restrictions on the sale of part of a building for a specific term, etc. The Encouragement of Rental Housing Law, 2007, is designed to increase the inventory of apartments available for rent. The Law grants benefits only to companies, by way of enabling accelerated depreciation and granting them a full exemption from Appreciation Tax.

Unlike Chapter Seven-1, this track requires no prior government approval. It should be noted that this law, too, sets entitlement conditions for obtaining actual tax benefits, including among other things: minimum number of apartments in a building, minimum rental fee, minimum rental term, restrictions on the sale of a building etc.

Below is a review of the scope of tax benefits available between these two legislative systems. (This review will only address the provisions applying to a "New Rental Building" as per Chapter Seven-1).





**Rental Income:** Reduced tax on income derived from the lease of a "new rental building" - at a rate of 11 % for corporations, and 20% for individuals. Corporations are liable to a lower effective tax rate of 10% on foreign investments, where the foreign investment exceeds 90%.

**Dividend:** a 20% tax (since 2014) is applied to dividends distributed from the earnings of an approved enterprise which is a rental apartment building.

**Total "direct to house" tax under Chapter Seven: 1** is 28.8%.

**Income from the Sale of a Building (Appreciation Tax):** This is liable to tax at the rates mentioned above. It should be emphasized that these tax rates apply to betterment accumulated for the entire period, and not merely from the effective date (November 7, 2001). It should also be noted that Section 72A of the Property Tax Law denies such exemption for residential apartments, relevant only to individuals, in the sale of apartments in a rental building eligible for benefits under the Law.

**Purchase Tax:** There is a reduced purchase tax of 0.5%, where the Investments Center demands the transfer of title to a property which is a building or plot constituting a business inventory or fixed asset for a company held by the same owners, for purposes of a "rental building", with certain restrictions.

**Accelerated Depreciation:** at the rate of 20%.

**VAT Benefit on the Sale of a Building:** Section 31(a) of the Value Added Tax Law sets a tax exemption on the sale of such part of a building used for rent and having enjoyed the said tax benefits. The Section stipulates that if that part approved as a rental building had been rented for five years at least, the sale thereof would be exempt from V.A.T.

**VAT on Apartment Rental:** The exemption specified in Section 31(1) of the Value Added Tax Law applies with regards Priority Development Zones A and B, and designated towns for minority populations (Arab, Druze, Circassian) or the Ultra-Orthodox Jewish population.

**The enterprise must pay its employees the following minimum wages at least:**

Minority and Ultra-Orthodox towns - the minimum wages.

In all other eligible areas - ILS 6,750 ILS monthly wage.

Enterprises must hire a minimum number of employees, depending on the region and the track (new enterprise or expansion).

### **Intra-Plant Training**

The Ministry of Labor and Social Affairs assists companies (mainly manufacturers) with providing in-house training for unemployed people and undertaking to employ them. Training is provided either "on the job" for unskilled workers, or for those who completed vocational courses but lack experience.

### **Quality Management Project**

This project caters to industrial enterprises employing 50 to 500 people, for the introduction of modern management techniques. The grant covers 50% of consulting fees, up to 400 hours. The fee must be used within a period of 6 to 12 months.

### **"Preparation for Exposure" Fund**

This fund is designed to help industrial enterprises gear up for competition following exposure, and assists them in increasing imports and reducing customs and import duties.

Support will be provided for the establishment or expansion of industrial plants, telephone call centers, computer service support centers or logistic centers operated by commercial banks.

### **Assistance to Industrial Enterprises in Financial Difficulties**

In accordance with a government resolution, a committee of Ministry director-generals was formed to review industrial enterprises and submit recommendations to a ministerial team. Government assistance is conditional on an independent investment in the enterprise, or a recovery plan including additional funding from the owners. An external examiner appointed by the committee reviews applicant enterprises and their compliance with specific criteria, including;

A recovery plan, its economic feasibility, the financial justification of the enterprise's long term existence, and its ability to introduce recovery measures within a specific period of time.

- The lateral implications.
- The number of employees and a minimum employment period.
- The scope of assistance required.

The participation of other entities, including the owners.

The ability to reduce the number of employees according to the recovery plan.

Funding must not exceed ILS 10 million, and may disqualify the enterprise's eligibility for further government assistance. However, should the enterprise apply for other financial assistance from a government entity, then it would be obliged to repay the loan.

The salaries of managers and employees must not exceed ILS 50,000.

If the applicant enterprise meets the above criteria, it will be eligible for a government loan. The amount is determined by the committee, while its terms are specified by the Accountant General at the Ministry of Finance, in the event of additional funding from banks. Repayment terms are equivalent to those stipulated by these banks.

The owners are required to provide guarantees for the loan. Business Tutorage.

The Minister of Economy focuses on assisting small and medium sized businesses by appointing "tutors" to cater to the specific requirements of each business (e.g. general management, financial management, production management, marketing, information systems, human resources, etc.). Eligible businesses are tutored by independent consultants, whose fees are paid by the Ministry (75%) and the business (25%) within an agreed time frame, based on the latter's needs and the Ministry's policy and budget.

Medium sized businesses (11-100 employees) are entitled to receive up to 150 hours of tutorship; small businesses (5-10 employees) are entitled to receive up to 100 hours. Very small businesses (up to 4 employees) are entitled to receive 20 hours only.

In addition, the managers of very small businesses may participate in special courses at Small Business Development Centers, designed to develop their managerial skills. The Ministry of Agriculture allocates funds for "tutelage" of agricultural businesses.



## Employment Grant Program

In order to complement the revised Encouragement of Capital Investments Law, the government has decided to establish an additional program to increase employment in remote areas of Israel, as well as specific centers with high rates of unemployment. Support will be provided for the establishment or expansion of industrial plants, telephone call centers, computer service support centers, or logistic centers. In order to qualify for this program, these enterprises are required to employ a minimum number of workers at a minimum wage, as detailed below. In order to be granted support from this program, companies are required to compete, and are invited to submit proposals twice a year.

The maximum amount of support offered is as follows;

All areas; 15% of the cost of average monthly wage for additional employees, but no more than ILS 120,000 per employee for the entire period. Minority and Ultra-Orthodox towns - as above.

Enterprises paying wages below ILS 6,750 are entitled to receive more than ILS 60,000. Notwithstanding the above, the total average support granted to each enterprise will not exceed ILS 100,000 per employee. The eligible areas are;

Full exemption from municipal taxes (including betterment tax) and any indirect taxes (except for passenger vehicles).

Capital gains on sale of shares are taxable at a rate of up to 15%, unless reinvested within six months - in which case, they are fully exempt from capital gains tax.

There are no custom duties or import restrictions (except in respect of health and environmental regulations, etc.).

No foreign currency control will be imposed.

# RESEARCH AND DEVELOPMENT

Numerous research and development programs provide a wide range of incentives to companies engaged in R&D activities.

## Chief Scientist's Office

The Israel government provides cash grants of usually up to 50% of approved R&D expenses. The approval of R&D programs and actual expenses is under the responsibility of the Chief Scientist's Office at the Ministry of Economy. The research committee may approve a participation grant of 20%, 30%, 40%, or 50% of total R&D expenses. Enterprises located in National Priority Zones are entitled to receive a 10% grant.

Startup companies may receive certain alleviations.

There are several incentive plans under the sponsorship of the Chief Scientist's Office. These include;

Regular grant programs, offering up to 50% of R&D expenses. The eligible program should be for know-how, processing and/or manufacturing procedures, the manufacture of new products or a significant improvement on an existing process or product.

**Magnet**; This program, intended for generic R&D technologies, encourages the formation of a consortia of industry and academic institutions, for the purpose of developing key technological infrastructure. Magnet also supports the integration of advanced technologies into the industry through user associations. Grants of 66% of the total approved R&D costs for industrial entities, and up to 80% of the approved costs for academic institutions are available, with no royalty requirements.

**Magnetom** This program is similar to Magnet; however, it encourages cooperation between a single academic institution and one industrial enterprise. The available grant is up to 66% of the approved research budget office, including the following;

**Nofar**: This program is designed to support applied academic research in biotechnology, and to promote the transfer of technology to industry. Grants are available up to 90% of the approved research budget.

**Kamin**: This program is designed to support applied academic research which is not yet ready for business involvement. Activity is performed at the academic research institute's labs, and the rest of the budget is financed by the institute. The grant is limited to up to 85%-90% of the approved budget.

Expenses are approved on an itemized basis, while salaries and wages are limited, particularly those of interested parties. A set of rules determines the nature and amount of each approved expense. Unapproved expenses are not entitled to receive grants.

If the R&D program is successful, royalties are paid to the Chief Scientist's Office. These usually range between 3% and 5% of the sale of products developed using government aid, and are paid until the grant is fully repaid, linked to the LIBOR+1%. If production is relocated overseas, the Chief Technological incubators provide a supportive framework, enabling innovative entrepreneurs to develop their ideas into a commercial product.

Grants may reach the equivalent of US \$500,000, and government guarantees are available as well.



### Approved Foreign Expert

A foreign resident approved by the Investment Center as a foreign expert, is liable to pay Israeli income tax at a rate of up to 25% during the first three years of employment. This period may be extended by one additional year. The reduced tax rate is applicable to a salary of up to US \$75,000 per annum, plus social benefits.

### Capital Intensive Companies

Under the Encouragement of Capital Investments Law, Israeli and foreign entities fully-owned by foreign investors, whose paid-in capital exceeds US \$30 million, at least 75% of which is applied for "qualifying activities", are entitled to receive a special status as a "capital intensive" company. The Income Tax Commissioner is authorized to amend the rules for attaining this status. Capital intensive companies are entitled to a series of tax benefits over a 30-year period, including:

- 25% corporate tax.
- 15% withholding tax on dividends.
- Corporate tax refunds in the event of distribution of dividends. In this case, the withholding tax on dividends will be 25%.
- Tax exemption from sale of shares.

The Ministry of Finance's approval is required for this status. An approved capital intensive company may also be an Approved Enterprise.

# SPECIAL FREE ZONES

## Eilat Free Trade Zone

Eilat and its surrounding area are declared as a free trade zone. The major benefits are as follows:

Companies which provide services and/or are residents of Eilat are exempt from value added tax.

Employers are reimbursed for part of labor costs paid in Eilat.

Providers of advisory services to hotels in Eilat are exempt from value added tax.

## Free Port Zones

The ports of Haifa, Ashdod, and Eilat contain areas declared as free port zones. Companies located (only) in the free port zones are eligible for benefits, granted in addition to other benefits to which these companies are entitled under other encouragement laws.

These additional benefits include:

- Lower corporate tax rates (in Eilat).
- Lower withholding tax on dividends (in Eilat).
- Exemption from property tax.
- Unrestricted use of foreign currency.

At present, the legislation in respect of free ports zones has not been enacted.





### Free Processing Zones

In June 1994, the Free Processing Zone Law was enacted. However, it's almost certainly expected to be amended in the near future. The first zone under this law is currently in its planning stages, and is planned to be located near Beer Sheva, in the Negev. Free processing zones may be developed by private concessionaires only, in compliance with a number of financial and organizational restrictions.

Some of the benefits to concessionaires and enterprises operating in these zones are as follows:

Companies are fully exempt from any direct tax for up to 20 years. Other entities are subject to a direct tax of 15%.

Withholding tax on dividends will not exceed 15%.

Research institutes and companies in associated EU countries are eligible to receive funding for joint projects, in partnership with EU countries. The projects must be trans-national, i.e., only consortia of partners from different member and associated countries can apply. The coordinating office is ISERD.

## Eureka

Eureka is a Europe-wide network for industrial R&D, uniting 40 countries by promoting 'market-driven' collaborative R&D projects in most fields of advanced civilian technology. An agreement signed in 1993 with the European Eureka Secretariat allows Israeli companies to join this prestigious program.

## Bi-National Funds

**BIRD-F:** The Israel-US Bi-national Industrial Research and Development Foundation (BIRD-F) assists R&D programs involving non-defense products and processes jointly implemented by Israeli and United States companies. BIRD-F finances 50% of R&D projects. As in the case of government programs, the grants, if successful, are repayable as royalties up to 150% of the amount of the grant.

**CIIRDF:** The Canada-Israel Industry and Research Development Foundation was founded in late 1994 and is similar to BIRD-F. CIIRDF funds 50% of joint Canadian-Israeli projects, encompassing several Canadian provinces.

**SURD.** The joint Israel-Singapore Fund began operating in 1997. In its initial stage, each country deposited an annual amount of US \$2 million to a grant fund, with the aim of increasing capital over time. SURD finances bi-national R&D projects up to 50% of R&D expenses or US \$750 thousand, and is similar in composition and activities to BIRD-F and CIIRDF.

**KORII RDF -** The Israel-Korea Fund was jointly initiated by the Chief Scientist and MOCIE (Korean Ministry of Industry and Commerce). This fund is a Korean non-profit organization run by representatives from both countries. Each country deposited an annual amount of US \$1 million into the fund for the first three years of activity, for the purpose of financing bi-national R&D projects. The fund finances 3-year R&D projects for a total of up to 50% of R&D expenses, or up to US \$500 thousand, and is designated as a "conditional grant".

If the project produces sales, the grant is repaid through royalty payments.

## Other International Programs

**US: Israel Science and Technology Commission** - the Commission was a joint initiative of the late Prime Minister Itzhak Rabin and United States President Bill Clinton. Its purpose was to further collaboration between Israel and the United States, and to add a new dimension to scientific and technological cooperation between Israeli and US high-tech companies. The Commission has two objectives: funding long-term projects with substantial technological impact, and removing any impediments - such as FDA regulations.

**BSF Israel-US Bi-national Science Foundation** provides assistance to scientists and startup programs. The grants are intended to support 18 months of a two-year research program, with the objective of providing seed money to young independent scientists.

**Bi-National R&D Agreements:** Promotes R&D cooperation between Israeli and foreign companies, while each company is assisted by its home country. These agreements were signed with 28 countries.

The Israeli government has entered into a number of R&D cooperation agreements, to foster ties between Israeli and foreign companies designed to facilitate joint ventures in the R&D, manufacturing, and marketing fields.

Scientist's prior consent is required, while 120%-300% of the grant must be repaid respectively, according to the production percentage being relocated. Additionally, the amount of royalties will increase.

In the event of projects, sponsored by the Chief Scientist, selling technology, know-how, or any other right derived from such technology, to enterprises outside Israel, then payment will amount to a portion of the remuneration for such know-how, set at a ratio of the total grant out of the overall investments in the project. However, the payment must not be higher than the amount of the grants given to the company, and up to 300% of the total grant received if, R&D activity stays in Israel but no less than 75% of salaries paid through 3 months prior the sale of the supported technology or know-how, and up to 600% of the grant received if R&D discontinue in Israel.



### **Aid to Individual Technology Entrepreneurs**

TNUFA-The Israel Idea Promotion Center is a non-profit Israeli, government-supported organization, dedicated to helping individual entrepreneurs successfully commercialize their new product ideas by providing seed money grants of 85% or up to ILS 200,000 in addition to free legal, marketing, and business management consultations. Most of TNUFA's budget is based on royalties from successful projects.

The Ministry of Absorption also provides financial aid to immigrant entrepreneurs.

### **Technological Incubators**

Technological incubators provide a supportive framework, enabling innovative entrepreneurs - Israeli nationals and immigrants alike - to develop their ideas into a commercial product, and reach the point at which they can attract capital investments from the private business sector. R&D activities conducted in technological incubators are entitled to receive grants of up to 85% of the approved program or 100% in peripheral incubators. The grant is limited to ILS 2.1 million for a two-year period.

### **Biotechnological Incubators**

Biotechnological incubators are aimed at supporting this type of research, given the specific nature and needs of this sector. In line with the current tendency for privatization, the private sector, in the form of franchisees, plays a key role in the project. The government's participation in such projects is through a convertible bond, while the incubators are actually managed by the franchisees.

The franchisee obtains, for each project, a government loan of up to 85% of the approved budget in the first year, up to 80% in the second year and up to 75% in the third year. The approved budget for up to 3 years cannot exceed ILS 8,100,000. The franchisee is responsible for raising supplementary funding to cover the rest of the approved budget.

For each incubator project, the franchisee negotiates with the entrepreneur the percentage of control in the company running the project. The franchisee provides a physical business with adequate infrastructure for biotechnological R&D, administrative staff and accessibility to consultation services. In return for covering the operating costs of the biotechnological incubator, the franchisee receives up to 5% of the shares of each company accepted by the incubator.

## INTERNATIONAL COOPERATION

The Israeli government has entered into a number of R&D cooperation agreements with foreign governments, as well as the European Union. These agreements were signed for the purpose of fostering ties between Israeli and foreign companies, designed to facilitate joint ventures in the R&D, manufacturing, and marketing fields. Agreements of this kind were signed with the United States, Canada, European Union member countries, and Asia.

### **The Seventh Framework Program of the European Union's Commission on Science and Technology**

The European Union's Seventh Framework Program for Research and Technological Development (FP7) was a 7-year program, active from 2007 to 2013. Its budget was Euro 50 billion. Priorities covered by FP7 include life sciences, genomics, and biotechnology for health, information society technologies, nanotechnologies, and nanosciences, "intelligent" materials, new production processes and devices, aeronautics and space, food quality and safety, sustainable development, global change and ecosystems, citizens and governance, and other promising research areas.



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