Setting up your Business in Israel
Issues to consider

Israel is a global center for hi-tech design and R&D, providing opportunities for investment and co-operation. Most foreign companies are interested in doing business in Israel in the business of ICT technologies, safety and security equipment and services, agriculture technology, defense equipment, medical technologies and biotechnology.

What type of Business Structure should we use?

There are advantages and disadvantages in all possible business structures. It depends on the specific business circumstances, needs and strategy.

Establishment (a branch of your overseas business)

- Not a separate legal entity but an extension of the overseas parent company.
- No limited liability or ring-fencing of the Israel operations
- If have a permanent establishment in Israel then profits from this PE are liable to Israel Corporation tax, subjected to treaty between countries.

Limited Company:

- Provides limited liability and ring-fencing.
- Gives a perception of a local business, with longevity
- Corporation tax to be paid on company profits
- Each company should file yearly tax return audited by an Israeli CPA.

Limited Liability Partnership:

- Members (partners) have limited liability
- Profits are allocated to members who pay Income Tax on their share in the profits personally
- The tax residence of the member, and where the profits in the LLP originated will determine in what jurisdiction and how these profits are taxed, subject to treaty between countries.

How much Corporation Tax will the business pay?

Current Corporation Tax rates in Israel are:

Until 31.12.2013 tax rate is 25%. From 1.1.14 tax rate will be 26.5%.

According to the law for encouraging investments, foreign investors meeting certain criteria will be taxed only 15% and if the business is built in certain Development zones the tax rate will be only 10%.
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What if we use Israel to set up our holding company?

The tax rate for a Holding company in Israel is the same. Dividend paid between companies is not taxed.

What if we make cross-border transactions between group companies?

Israel follows internationally recognized Transfer Pricing (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm’s length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

Typical transactions between affiliated entities that are covered by TP regulations are:

- Sale and purchase of goods
- Provision of management services
- Property rental charges
- Transfer of intangible assets e.g. trademarks, patents
- Sharing of knowledge, expertise, business contacts etc.
- Provision of financial support e.g. inter-group loans and charging a “market” interest on loans

A business will need to prepare a Transfer Pricing study report proving the arm’s length basis of transactions. The report will include a functional and risk analysis, analysis of the adopted pricing model and benchmarking of the arm’s length basis.

What Employment Taxes and Social Security will need to be paid?

If an individual is an Israeli resident then they are subject to Israel tax laws.

We would advise any new entrant to Israel or person who spends time working in Israel to take professional advice to determine whether they are Israel tax resident.

Current Personal Income Tax rates in Israel are:

<table>
<thead>
<tr>
<th>Band of income (NIS)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 63,360</td>
<td>10</td>
</tr>
<tr>
<td>63,361 – 108,120</td>
<td>14</td>
</tr>
<tr>
<td>108,121 - 168,000</td>
<td>21</td>
</tr>
<tr>
<td>168,001- 240,000</td>
<td>31</td>
</tr>
<tr>
<td>240,001- 501,960</td>
<td>34</td>
</tr>
<tr>
<td>501,961- 811,560</td>
<td>48</td>
</tr>
<tr>
<td>Over 811,560</td>
<td>50</td>
</tr>
</tbody>
</table>
Employers and employees also have to pay Israel social security, which is called National Insurance:

**Current Social Security rates are:**

<table>
<thead>
<tr>
<th>Band of income (NIS)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employer Up to 63,564</td>
<td>0.49</td>
</tr>
<tr>
<td>Up to 509,220</td>
<td>1.69</td>
</tr>
<tr>
<td>Employee Up to 63,564</td>
<td>0.04</td>
</tr>
<tr>
<td>Up to 509,220</td>
<td>0.87</td>
</tr>
</tbody>
</table>

It is the legal responsibility of the employer to pay employee’s tax and social security deductions to the Israeli tax authorities.

Israel has a Reciprocal Agreement with the USA, EU countries and many others whereby when an overseas national of those countries is seconded to the Israeli for a defined period of time and continues to pay social security in their home Israel, then the employer and employee are exempt from paying Israel social security.

**What is Value Added Tax (VAT) and should the business be registered?**

VAT tax on goods and services 18%.
Any new business in Israel needs to consult with an Israeli CPA.

VAT paid in Israel is deductible.
Eilat is Tax free zone.
Goods and Services exported from Israel are VAT free.

**Can we provide Share option plans to our staff?**

Many companies see Share Option plans as being an important way of attracting, motivating and retaining key staff.

Israel has a number of “approved” share option plans which give tax benefits to employees and employers alike and it is often possible to adapt an overseas stock option plan to fit into one of these “approved” plans.

However this is a very technically complex area and careful planning needs to be undertaken as soon as share option plans are being considered for implementation in Israel.

**How else can we compensate our employees?**

Israel has a very comprehensive range of compensation and benefit options available for companies to offer their employees.
Pensions, private medical insurance, life and disability cover are now commonplace benefits provided by many Israel businesses to their workforce.
Flexible benefit packages are also gaining popularity, giving employees options on how they wish to “spend” their benefits allowance; which can range from “purchasing” additional holiday entitlement to obtaining full family medical cover. All benefits are taxed.

To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or email us directly.

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The information in this document was prepared as at 30 September 2013.