



Zysman, Aharoni, Gayer & Co. Law Offices
An International Joint Venture Law Firm

Connecting you with global opportunity



DOING BUSINESS IN ISRAEL





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1. Firm Overview

ZAG-S&W Law Offices is one of the largest and leading commercial law firms in Israel. The firm provides its clients with efficient legal services, profound business knowledge, innovation, and enterprise.

The firm constitutes an international one-stop shop for all commercial legal services required. Its global deployment and diversity of practice areas afford clients with a variety of legal services, all under one roof.

The firm provides legal services in various fields, including hi-tech and internet, life sciences, corporate, venture capital funds, capital markets and securities, international transactions, publicly traded companies in the U.S., mergers and acquisitions, litigation and dispute resolution, arbitration and mediation, Israeli and international taxation, real estate development and construction, infrastructure and energy, sports, liquidations, receiverships and corporate rehabilitation, administrative law and

tenders, banking and debt collection, and more. Each specialty field is headed by a senior partner having substantial experience in his or her area.

The firm's activities are conducted through offices in Israel as well as several offices in the U.S. (ZAG-S&W) and China (ZAG/JunZeJun), branches in Europe, and a desk in India.

The firm's clients include a large number of key Israeli and foreign corporations operating in the Israeli market, Israeli and foreign public corporations traded on stock exchanges around the world, private companies in all areas of industry, technology companies, entrepreneurs, venture capital funds, investors, holding companies, financial institutions, civil and administrative institutions, and well known private clients.

2. Israel at a glance

- Israel is located in the Middle East, it lies at the intersection of three continents: Europe, Asia and Africa. Israel is about 290 miles (470 km.) in length and 85 miles (135 km.) in width at its widest point.
- Israel's population is approximately 8.1 million - Jews comprise some 76% of the country's population, while the country's non-Jewish citizens, mostly Arabs number about 24%.
- The official languages of Israel are Hebrew and Arabic. However, English and Russian are also widely spoken. The major language commonly used for business culture purposes is also English.
- The capital city of Israel is Jerusalem, having a population of approximately 804,400. Tel-Aviv, the second most populated city in Israel has a population of approximately 414,000.
- Israel is the only democracy in the Middle East. The head of the State is the president, but the position is largely an apolitical ceremonial figurehead role. The Knesset, Israel's legislative authority, is a 120-member ("120-seat") unicameral parliament. The elections take place once every four years, or earlier if the Knesset so directs. The leader of the party receiving the most Knesset seats is given the first opportunity to form a government and becomes the Prime Minister if he/she succeeds. To form a government, a party must have the support of the majority of the 120-seat Knesset.
- The judicial system in Israel is divided into two main categories:
 - A. General Law Courts: The judiciary establishes a three-tier court system: The Supreme Court (an appellate court which also functions as the High Court of Justice), District Courts and Magistrates Courts.
 - B. Specific tribunals and other authorities having judicial powers, such as: Labour Courts, Family Courts, Patents Design and Trade Marks Office, Antitrust Tribunal and others.

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3. Starting a Business

The following information represents only the main issues relating to the subject of starting a business in Israel.

3.1 Setting up Israeli Business entities

3.1.1 Company

A limited liability company is the most common type of business entity in Israel.

All companies must be registered with the Registrar of Companies, the Tax Authorities and The National Insurance Institute. The entire procedure of registering a new company can be completed within 3-5 business days. The main costs of establishing a new company are the registration fee (around US\$ 750), and legal expenses for preparing the registration forms and tax guidance. Israeli law does not require payment of a minimum registered capital, or submission of a feasibility study report, which reduces the cost of establishing an Israeli company.

3.1.2 Foreign Company

A foreign company wishing to maintain a place of business in Israel (including a share transfer office or a share registration office) must be registered as a foreign company with the Registrar of Companies of Israel.

3.1.3 Joint Venture or a Partnership

Joint ventures and partnerships can be registered as either a general partnership or a limited liability partnership. Both require registration with the Registrar of Companies.

3.1.4 Other entities

- Self-employed.
- Partnership.
- Non Profit Organizations.

3.2 Steps to Starting a business in Israel

- **Complete corporate registration documents, and have them certified by an Israeli attorney, Israeli Consul or Notary at the country of residence (only one of them need to certify the documents).**
(Time to complete: approximately 1 day).
- **File registration documents with the Registrar of Companies and receive approval.**
(Time to complete: approximately 3 days).
- **Register for taxes at Ministry of Finance, Income Tax Department.**
(Time to complete: approximately 15 days).
- **Register for VAT at Ministry of Finance Customs and VAT Department.**
(Time to complete: approximately 1 day).
- **Register with the National Insurance Institute.**
(Time to complete: approximately 14 days).
- **Open a bank account.**
(Time to complete: approximately 2 days).

3.3 Main Forms – Company Registration

1. Company Article of Association.
2. Company Registration Application Form.
3. First Directors Declaration Form.
4. Statement of Shareholders.
5. Proof of payment of registration fee.
6. Registration Submission Form.

3.4 Main Forms – Bank Account (may differ from bank to bank)

1. Verified copy of the Company Certificate.
2. Verified copy of the Company's Article of Association.
3. Statement on beneficiaries in the account and the controlling Shareholder/s of the corporation.
4. A copy of I.D./passport of the company's authorized signatories.
5. Letter of approval signed by an attorney which approves:
 - a. Company signatories' rights, and
 - b. Resolution of the board of directors to open a bank account.



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4. Corporate taxation

4.1 Israeli Tax Structure

1. Corporate Tax.
2. Value added Tax (VAT).
3. Taxes on dividends.
4. Income Taxes.
5. Capital Gains Taxes.
6. Sales Tax.
7. Import Duty and Purchase Tax.
8. Tax Treaties.

4.2 Corporate taxation at a glance

Corporate Income Tax Rate	26.5%
Capital Gains Tax Rate	25%
Branch Tax Rate	26.5%

Withholding tax %

Dividends	0/25/30
Interest	15/25/35
Royalties from patents, know-how, etc.	25/26.5
Branch Remittance Tax.	0

Net operating losses (years)

Carry back.	0
Carry forward.	unlimited

4.3 Taxes on corporate income and gains

Resident companies are subject to Israeli tax on their worldwide income.

Nonresident companies are subject to Israeli tax on income accrued or derived in Israel, unless otherwise provided for in an applicable tax treaty.

4.4 Taxes on corporate income

A company is considered a resident of Israel for Israeli tax purposes if either of the following applies:

- a. It is incorporated in Israel, or
- b. The control and management of its business are exercised in Israel.

4.5 Taxes on capital gains and losses

Resident companies are subject to tax on worldwide capital gains. Capital gains are divided into real and inflationary components.

Nonresident companies are subject to Israeli tax on income accrued or derived in Israel, unless otherwise provided for in an applicable tax treaty.

4.6 Taxes on Dividends

Subject to any foreign tax treaty, the standard dividend withholding tax is 25% for shareholders who hold under 10% of the company, and 30% for 10%-or-more "material shareholders". Dividends payable to Israeli companies are tax-exempt.

4.7 Interest

As of January 1, 2009, an exemption from Israeli tax is available for foreign investors who receive interest income on bonds issued by companies traded on the Israeli stock exchange.

4.8 Withholding taxes on overseas remittances

Israeli banks must withhold tax, generally at a rate of 25%, from most overseas remittances unless the remittances relate to imported goods.

An exemption or a reduced withholding rate may be obtained from the Israeli tax authorities in certain circumstances, such as when a treaty applies or when the payments are for services that are rendered entirely abroad.

To promote international trade and encouraging investment in Israel, the State of Israel entered into treaties with various countries for the avoidance of double taxation, which provides for offsetting tax paid in one country against the tax payable in the other country.



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4.9 Israel has entered into tax treaties with the following countries:

Austria	Ethiopia	Japan	Poland	Switzerland
Belarus	Finland	Latvia	Portugal	Taiwan
Belgium	France	Lithuania	Romania	Thailand
Brazil	Georgia	Luxembourg	Russia	Turkey
Bulgaria	Germany	Malta	Singapore	UK
Canada	Greece	Mexico	Slovak Republic	Ukraine
China	Hungary	Moldova	Slovenia	USA
Croatia	India	Netherlands	South Africa	Uzbekistan
Czech Republic	Ireland	Norway	South Korea	Vietnam
Denmark	Italy	Panama*	Spain	
Estonia	Jamaica	Philippines	Sweden	

* Yet to be ratified.

As to the Israel-China Treaty for Avoidance of Double Taxation, enterprises located in the two respective countries enjoy a reduced tax on: (i) dividends (10%), (ii) interest (7%-10%), and (iii) royalties (10%), which is more than half of the applicable Israeli tax rate for non-treaty countries.

As to Tax & Labor laws issues, it is important to know that when engaging with an independent contractor, it is highly recommended, mainly for tax reasons, to draft the agreement in a manner that does not create a "permanent establishment" of the foreign business in Israel. According to the Double Taxation Treaties a "Permanent Establishment" can be established if the following criteria are met:

- a. The corporation has a fixed place of business within the target country, as defined under the language of a specific treaty.
- b. The corporation operates in the target country through an agent that habitually exercises the authority to conclude contracts on behalf of the corporation in the target country.

In the event the foreign business has a "Permanent Establishment" (as defined above) in Israel, it may be taxed twice: once in Israel (as a result of the "Permanent Establishment"); and again in the compnys' home country.



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5. Business incentives

5.1 Business Incentives and Benefits

5.1.1 Government Support

The State of Israel encourages local and foreign investment by offering grants, reduced tax rates, tax exemptions and other tax related benefits through various programs, including:

- a. The Law for the Encouragement of Capital Investments –
 - i. Competitive grant program;
 - ii. Reduced tax rates; and
 - iii. Tax exemption for manufacturing facilities.
- b. The Law for the Encouragement of Industrial R&D – conditional grants of up to 50 percent of approved research and development programs;
- c. Tax exemption for venture capital investments;
- d. Promoting R&D Centers in the Periphery (Negev & Galilee);
- e. Special Program - R&D centers for the financial sector;
- f. The Global Enterprise R&D Cooperation Framework; and
- g. Israel New Tech – supporting Israel’s clean-tech industry.

5.1.2 Conduct business efficiently and effectively

Israel offers one of the world’s most advanced infrastructures which are conducive to conducting business efficiently and effectively.

Israel boasts a sophisticated communications system; reliable energy infrastructure; well-developed transportation system with modern international gateways; protection of trademarks, patents, and other intellectual property; highly developed and transparent financial systems and a legal system based on common and corporate law.

5.1.3 Investment Incentives

- a. Approved / Privileged Enterprises Programs – available for companies which:
 - i. operate in the industrial sector;
 - ii. are registered in Israel, and
 - iii. are internationally competitive (i.e. have an export capability).

- iv. Biotechnology and nanotechnology companies do not have to meet the “export” requirement.
- b. Tax Exemptions.
- c. Investments Grants.
 - i. To qualify for the grant, the project must meet certain criteria such as: international competitiveness, minimum designated investment, high added value, and registration of the company in Israel. (Grants of up to 32% of Investment).
- d. Accelerated Depreciation Rates.

Foreign R&D Centers in Israel Include:





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5.1.4 R&D Incentives

- a. Support Programs by the Office of the Chief Science (OCS):

The OCS has an annual grant budget of approximately \$350million dollars. Grants are made for about 1,000 projects undertaken by 500 companies. The main OCS program, the R&D fund, offers conditional grants of up to 50% of the approved expenditure.

- b. International Support:

International support programs include bi-national funds for competitive R&D, enabling a joint R&D program with a foreign counterpart. Additionally, numerous international R&D agreements (such as with China) provide access to sources of national funding.

- c. Global Enterprise R&D Cooperation Framework:

Encouraging cooperation with industrial R&D between Israel and multi-national companies (MNCs); Joint R&D projects between MNCs and Israeli companies, authorized by the OCS, financial assistance of up to 50% of the Israeli company's R&D approved costs.

In 2006 the Internet search giant Google opened an R&D center in Israel. The center

was opened in the northern Israeli city of Haifa and it was the first R&D center of Google in the Middle East. As of today Google is with offices in Haifa and Tel Aviv.

6. Israel Labor Law

- a. Employment relations in Israel are regulated by a number of sources:
 - i. constitutional rights, as determined by the Basic Laws;
 - ii. Statutory rights, as set out in statutes and regulations;
 - iii. Rights set by collective agreements and extension orders of collective agreements;
 - iv. Individual labor contracts and customs.
- b. Labor Courts – In 1969, the Knesset established a separate judicial system dedicated to individual and collective labor disputes and issues.
- c. The Labor Courts have jurisdiction over all work related disputes between an employer and employee. The existence of an employer-employee relationship is a question of fact and circumstances. The Israeli Labor Courts have ruled that being an employee is a status which the parties are not at liberty to contract out of.
- d. In determining whether an employment relationship exists, the Labor courts will generally look, among other issues, at the:
 - i. Amount of control and authority the employer has;
 - ii. Level of integration between the work performed by the employee and the employer's business;
 - iii. Existence of personal commitments by both parties;
 - iv. Payment method; and
 - v. Manner in which taxes are deducted.

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e. Notice to an Employee (Terms of Employment) Law, 5762 - 2000

There is no strict statutory obligation which requires a written and signed employment agreement. Pursuant to the Law of Notice to Employees (Employment Terms) 2002, however, an employer must provide an employee with a written notice of the employee's terms of employment within 30 days after commencement of employment. Such notice should include the identity of the employee and the employer, compensation terms, commencement date of employment, working hours, description of the job, the name of the employee's direct supervisor and whether the employer is a party to a collective agreement, together with the name of the applicable labor union.

f. Establishing a presence

A foreign company that wishes to hire employees in Israel is required to register with the applicable Israeli tax authorities. The most common structure that foreign companies register for hiring employees is establishing a subsidiary in Israel or being registered with the Registrar of Companies as a foreign company that is doing business in Israel. Such registration is required since the employer is solely responsible for tax deductions from any salary paid to the employee. The employer is also liable for social security payments, and in most cases, for maintaining a pension fund for the benefit of the employees. A foreign company will not be required to be registered in Israel if the persons are being hired as independent contractors and not as employees. However, in certain circumstances, such a relationship may be declared by the Labor Court to be an employment relationship, which would expose the foreign company to all applicable Israeli labor laws.

g. Employee Representation

Employee representation in Israel is governed by the Collective Agreements Law, 1957, and the Settlement of Labor Disputes Law, 1957. Such laws create a platform for employees to organize in order to negotiate and sign a collective agreement. The Minister of Labor

and Social Affairs may issue extension orders (administrative mandates) so that general collective agreements apply to certain groups of employees, or all employees in general. Collective agreements and extension orders often address issues of wages, social conditions, working hours, overtime and manner of dismissal of employees.

According to a recent ruling of the National Labor Court (Appeal Case File No. 25476-09-12), the Employer must avoid any intervention during the course of the initial organization of a labor union until the establishment of a representative labor union. A labor union must consist of a majority of an employer's employees, and not less than one third of such employees. Once this condition is met, the Employer will be obligated to recognize the labor union as the representative of the several employees, and the employer will be required to negotiate a collective agreement with the labor union.





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