



STATE OF ISRAEL
Ministry of Industry
Trade and Labor
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Investment Promotion Center

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Starting a Business in Israel

Inspiration
Invention
Innovation

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Starting a business in Israel

Establishing a business in Israel is a relatively straightforward matter. This brochure explains the variety of ways in which a company can be structured, the key steps which are required in order to do so and other useful information for operating a business in Israel.

1. Business Entities

Below are the principal types of business entities in Israel:

A. Company

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

It is necessary to register the company with the Registrar of Companies. While Hebrew and Arabic are the official languages of Israel, in practice, corporate documents in English will generally be accepted by the Registrar. However the Company Registrar does require that the Articles of Association be translated into Hebrew as well.

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

A company may be registered as a "**Private Company**" or a "**Public Company**", with securities registered on a Stock Exchange. Both types of companies must present annual reports, including audited financial statements to their shareholders.

A *private company*, consisting of 1-50 shareholders, and one director, may not offer or sell debentures or shares to the public and its articles of incorporation must contain restriction on transferability of its shares.

A *public company*, with a minimum of 7 shareholders, may offer stock or debentures to the public, but only after issuing a prospectus in accordance with the requirements of the ICO and the Securities Law. Also, a public company is obliged to publish an annual report that includes the audited financial statements and directors' report, all to be filed with the Register of Companies, where they are available to the public.

B. Foreign Company (e.g. a branch)

A company incorporated overseas may establish a branch or local office in Israel as long as it is registered as a foreign company with the Registrar of Companies within a month of its establishment.

If the company uses the term "limited" as part of its name, then it must display its name and the name of the country in which it is incorporated in every invoice, letter, announcement, advertisement or other official publication.

In order to register, a foreign company must submit all the necessary documents to the Registrar of Companies. There is no requirement to publish financial statements of a private company.

C. Partnership

The Partnership ordinance defines a partnership as an entity that consists of persons who contracted to form a partnership. Personal liability of the partners is not limited unless they are limited partners of limited partnerships. A foreign partnership is also permitted to do business in Israel.

D. Self Employed

A self employed person works entirely for himself and is entirely liable for the business. The same rules of registration apply.

E. Cooperative

This type of business entity is found mainly in agriculture, (cooperatives such as a kibbutz, or moshav), transportation and in certain types of marketing operations associated with agricultural products.

F. Non Profit Organizations

These entities operate mainly as academic institutions, hospitals, charitable organizations and municipalities. Non profits are subject to a special law dealing mainly with the formation of such organizations and the way they may operate as such.

2. Registering a Business

All companies in Israel must register with The Registrar of Companies and the Tax Authorities.

In order to register a business as a company with the Registrar of Companies the following documents must be submitted:

1. Form No.1 of the Company Registrar – an application form to register a company.
2. Memorandum of Association, which establishes the corporate identity and principal objectives of the company, shareholders' responsibility and shares issued.
3. Articles of Association, which set forth rules of conduct for the company. Should a company not submit its own articles of association, then the standard articles which are listed in the Companies Ordinance will be in force for this company.
4. The fee for registering a company which is currently 2,244 NIS.

After the registration is complete, the Registrar will issue to the company a certificate of incorporation and a company number (of 9 digits).

Important: an Israeli lawyer is required to verify the company documents. Usually a lawyer will handle the process for most requests and represent the company at the Companies Registrar office as well.

3. Taxation

Once the company has been registered with the Registrar, it must be registered with the appropriate Tax Authorities.

Registration as a company should be made at the Tax Authority upon commencement of operations. The filing number is usually the same one as the one issued by the Registrar of Companies. Registration is made using form 4436, which includes basic details of the company.

A. Monthly and Annual Tax Filings

The Israeli tax year is generally the calendar year. Subsidiaries of foreign public companies may sometimes use a different fiscal year.

All companies doing business in Israel are required to file audited annual tax returns and financial statements within five months after their fiscal year. Extensions may be obtained. Filings may sometimes be spread over a period of up to 13 months after the tax year-end. Companies must also file monthly returns on account accompanied by tax payments. Bimonthly returns are sometimes acceptable for small businesses.

Taxes to be filed include:

- Company tax installments- a percentage of the company's monthly sales revenue.
- Supplementary company tax installments with respect to certain non-deductible expenses.
- Tax withheld from salaries and remittances to suppliers when applicable.
- Value-added tax (VAT).
- National Insurance.

These filings and payments must be made by the 15th day after the month's end and can be paid at a bank or post office. Late payments of even a few days generate a computer penalty. Regulations require detailed bookkeeping and invoice requirements for income tax and VAT. Accounting records must be available for inspection in Israel by tax officials.

B. Israeli Tax Structure

(1) Corporate Tax

All companies registered in Israel are subject to corporate taxes.

According to the tax reform program enacted in 2005, the Corporate Tax rate is scheduled to decrease according to the following schedule: 2008 – 27%, 2009 – 26%, 2010 - 25%.

(2) Value Added Tax (VAT)

VAT is an indirect tax based on consumption or import of goods and services in or to Israel. The VAT rate today is 15.5%.

Export income and sales of fresh fruits and vegetables are exempt from VAT.

Companies are required to register as dealers for VAT purposes no later than the commencement of operation.

Important: *It is possible to register for VAT purposes through a representative who is a lawyer, certified public accountant or certified tax consultant.*

After registration with the Tax Authorities, the company will receive a temporary certificate of registration for VAT purposes and a permanent one will follow in the mail. The VAT registration number is usually the same as that issued by the Registrar of Companies.

Important: *A foreign entity or person that starts to conduct any part of business in Israel must also appoint a local VAT representative whose permanent place of residence is in Israel, and who assumes the responsibility for handling all VAT matters. VAT form 22 should be completed and signed by all parties. The representative will be treated as the person liable for VAT.*

In order to register as a business, the registration should be made at the local VAT office nearest to the company's office.

The following documents are required in order to register:

1. Certificate of incorporation signed by the Registrar of Companies.
2. A copy of the Memorandum of Association and Articles of Association.
3. A contract regarding renting or buying offices for the company
4. A Lawyer's/Accountant's certificate with respect to
5. The authorized signatories of the company
6. The directors of the company
7. A photocopy of the director's identity card

VAT Exemptions for Exporters

Most export transactions, including export of goods, rendering of services to foreign entity or resident or sale of intangible assets to a foreign company which is situated abroad are **zero-rated transactions** provided certain conditions are met. Because of variations in how this provision is applied, exporters should make sure to check with their accountants for further clarification.

VAT Refunds for Exporters

All business companies in Israel, including exporters, are required to pay VAT on imports. However exporters are generally entitled to a VAT refund within 30 days after filing the relevant return.

Exporters are entitled to join **a quick refund arrangement** if they meet one of the criteria detailed below:

- At least 50% of the previous' years turnover was exports.
- The total amount for each VAT return is not less than 10,000NIS.
- There were at least \$10 million in exports in the previous year.
- The enterprise is an approved/beneficiary one.

(3) Taxes on Dividends

Subject to any foreign tax treaty, the standard dividend withholding tax is 20% for shareholders who hold under 10% of the company and 25% for 10%-or-more "material shareholders."

Dividends payable to Israeli companies are tax-exempt.

(4) Income Taxes

An employer is required to open a withholding tax file and withhold income tax from employment remuneration paid to employees, for work performed in Israel.

The withholding tax file should be opened with the tax authorities prior to making remuneration to employees or payments to other recipients.

Self employed individuals pay income tax on taxable income at rates ranging from 10% to 49%, plus national insurance up to 16.23% on the first NIS 35, 760 of monthly income. However, 52% of these national insurance payments are deductible for income tax purposes in the year they are paid, resulting in an effective combined maximum 57.3%, decreasing to 49% beyond NIS 35, 760.

Taxes of up to 50% are levied on most domestic Israeli expenses, unless the recipient holds confirmation from the Israeli Tax Authority allowing a lower rate.

Israeli banks must withhold tax, generally at rates of 25-31%, on remittances from Israel, unless the remittance is related to imported goods.

An exemption or reduction in tax withholding may be obtained for certain cases such as when a treaty applies or when the payments are for services that are rendered entirely abroad.

Failure to withhold will result in a denial of the relevant expense and possible penalties.

(5) Capital Gains Taxes

Subject to any tax treaty, capital gains on foreign residents are taxable on Israeli source "real" (inflation adjusted) capital gains at varying rates:

Individuals--20%-49%
Companies--25%-31%

(6) Sales Tax

Sales tax is imposed upon sellers of real estate. The value of sale is the basis for the tax. Whenever parties to a sale agreed that sales tax will be imposed on the buyer, there is a need to adapt the value of the sale and add the tax to the overall price. Sales taxes vary between 0-2.5% of the value of the sale.

(7) Import Duty and Purchase Tax

Duties and purchase tax are imposed upon imports mainly at a percentage of the value of the goods.

Israeli importers with the USA, EU, EFTA, Canada, Mexico, Turkey and the MERCOSUR countries benefit from bilateral duty free agreements. (See below). Reductions in purchase tax on imports are also available to companies producing in Israel for export.

(8) Tax Treaties

Currently, Israel has tax treaties with 44 countries. The treaties function to prevent double taxation by guaranteeing that the investor's state of residence will provide either a tax credit for tax which has been paid in Israel or, alternatively, that the Israel sourced income will be exempt from tax in Israel or in the country of residence of the foreign investor.

The following are the countries which have tax treaties with Israel: Austria, , Belarus, Brazil, Bulgaria, Belgium, Canada, China, Croatia, Czech Republic, Denmark, Ethiopia, Finland, France, Germany, Great Britain and Northern Ireland, Greece, Holland, Hungary, India, Ireland, Japan, Jamaica, Luxemburg, Latvia, Lithuania, Mexico, Moldavia, Norway, Philippines, Portugal, Romania, Russia, Singapore, Slovenia, Slovakia, South Africa, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, United States, and Uzbekistan.

4. Social Security and Health Insurance Contributions

Social Security (National Insurance): The National Insurance Institute provides Israeli residents with a comprehensive system of social security benefits which are financed by national insurance contributions from both employers and employees.

Health Insurance: All Israeli residents are entitled by law to health services and are required to pay health insurance dues, determined on the basis of occupation and sources of income. The state of Israel is responsible for funding and subsidizing such services, while preserving the right to medical secrecy, privacy and human dignity.

According to Israeli law, employers are responsible for withholding employees' contributions from salaries and remitting these together with the employers' own contributions, to the National Insurance Institute. Separate registration at the National Insurance Institute is not required.

A copy of the form submitted to the withholding tax office is transferred to the National Insurance Institute and the same filing number is used for both authorities.

Rates of National Insurance (Social Security) and Health Insurance for salaried employees are as follows:

	Up to 60% of the Average Salary 4,678 NIS (US\$ 1,301)*			Over 60% and up to 5 times of the Average Salary *		
	Employee	Employer	Total	Employee	Employer	Total
Social Security	0.4%	4.98%	5.38%	7%	5.68%	12.68%
Health Insurance	3.10%	--	3.10%	5%	--	5%
Total	3.5%	4.98%	8.48%	12%	5.68%	17.68

5. Business Incentives

A. Investment Incentives

(1) *Approved / Privileged Enterprises Programs*

Investment incentives are outlined in the Law for the Encouragement of Capital Investment. The incentive programs can be divided into 2 main types:

- 1) The Grants program
- 2) The Automatic Tax Benefits programs.

Investments approved according to the Grants program are awarded **Approved Enterprise** status and **Privileged Enterprise** status if it chooses one of the tax benefits programs.

Approved Enterprises in a development (priority) area may receive fixed asset grants of 10%-32%. In addition, approved enterprises may benefit from low company tax rates of 10%-25% for a period of seven to fifteen years.

Privileged Enterprises owned by an Israeli company may elect a "tax holiday package" without obtaining approval if a minimum qualifying investment has been made in fixed assets in industry and in a hotel in Israel within a three year period. The tax holiday applies to undistributed profits for two to fifteen years depending on the location and foreign ownerships. The combined total benefit period for the tax holiday and low rates can range from seven to fifteen years.

Dividend Tax (Dividend withholding tax) is imposed at a reduced rate of 4% or 15%, depending on the package selected. As a result, the combined company and dividend tax rate ranges from 15.4% to 36.25%.

(2) *Tax Exemptions*

* Average salary in February 2008 was 7,798 NIS = US\$2,169 at an exchange rate of 3.594


Foreign residents not doing business in Israel may enjoy an exemption from Israeli capital gains tax (taxes paid in the investor's home country) in the following cases:

- Investments in Israeli securities made between July 2005 and December 2008 if the investors reside in a country that had a tax treaty with Israel during the 10 years before their investment and report it within 30 days to the Israeli Tax Authority.
- Shares in a research-intensive company that were issued to the foreign resident investor on or after January 1, 2003.
- Venture capital funds that obtained an advance tax ruling from the Israeli tax authorities.
- Securities from Israeli companies traded on a recognized foreign stock exchange.
- Exemption under any applicable tax treaty (restricted to fewer than 10% shareholders in the US-Israel tax treaty).

B. R&D Incentives

Research and Development grants are available from the Office of the Chief Scientist (OCS) at rates ranging from 20%-85%. International support programs of up to 50% include **Bi-National Funds** for joint R&D programs with a foreign counterpart. Such funds exist with: USA, Canada, Singapore, Korea, Australia (Victoria). In addition, numerous international **R&D agreements** with such countries as Austria, Belgium, Ireland, Germany, Holland, France, Hong Kong and China, among others, provide access to sources of national funding – Israeli companies participating in the program are entitled to receive R&D grants from the OCS. Multi-lateral funding is also available through the EU's Seventh Framework program for Research and Technology Development (RTD) in which Israel is a participant.

*Small Country
Big Impact
Infinite Promise*

 **Invest in Israel** is Israel's Investment Promotion Center and serves as the marketing agency for foreign investments in Israel. It is also a resource for foreign based companies and individuals who are interested in investigating direct investment and joint venture opportunities in Israel. The center works closely with potential and current investors before, during and after investment.

For more information, please visit: www.investinIsrael.gov.il E-mail: infoipc@moital.gov.il