

Establishing a business in Israel

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LEGAL SYSTEM

1. What is the legal system in your jurisdiction based on (for example, civil law, common law or a mixture of both)?

The Israeli legal system is mainly based on common law, but incorporates some aspects of civil law.

BUSINESS VEHICLES

2. What are the main forms of business vehicle used in your jurisdiction? What are the advantages and disadvantages of each vehicle?

Israeli business entities include companies, partnerships, co-operatives, and non-profit organisations. Individuals can conduct business without establishing any legal entity. Carrying out deals in Israel often resembles carrying out deals in the US with regard to the style of drafting transaction documents, except that standard terms and conditions are modified to meet local requirements and nuances.

Companies

The most common form of business entity in Israel is a limited liability company with capital stock (share capital). A limited company is a separate legal entity in which the liability of each shareholder for the company's obligations is generally limited to the par value of their shares.

Partnerships

A partnership can be a general partnership or a limited partnership. The personal liability of the partners of a partnership is not limited, unless they are limited partners of a limited partnership. A limited partnership must have at least one general partner. A limited partner is not allowed to take part in the management of the partnership (or will otherwise be liable as a general partner).

Co-operative

This type of business entity is found mainly in agriculture, transportation and certain types of marketing operations associated with agricultural products. Co-operatives are based on a social and ethical ideology of partnership and equality and are managed through democratic principles in favour of all their members. Co-operative members retain joint ownership of the means of production (for farming or industrial co-operatives) or joint purchasing power (for consumer co-operatives).

Non-profit organisations

Typically, academic institutions, hospitals, charitable organisations and municipalities are organised as non-profit organisations. Non-profit organisations are subject to a special law dealing mainly with their formation and the way they can operate.

ESTABLISHING A PRESENCE FROM ABROAD

3. What are the most common options for foreign companies establishing a business presence in your jurisdiction?

Foreign companies operating in Israel generally do so in one of two ways:

- By incorporating an Israeli corporate subsidiary.
- By registering a branch in Israel.

A subsidiary is a separate legal entity and its shareholder is the foreign company. The liability of the foreign company is limited to the amount of its investment in the subsidiary, subject to piercing the corporate veil considerations. As a separate legal entity, a subsidiary can take any legal action in its own name.

A foreign company can maintain a place of business in Israel if it is registered as a "foreign company" under the Israeli Companies Law 1999 (see *Question 4*). A branch (registered foreign company) is not a separate legal entity from the foreign company.

From a corporate structure and liability protection perspective, foreign companies tend to prefer to operate in Israel through an Israeli corporate subsidiary rather than a local branch, although other considerations, including tax, may affect structuring decisions.

4. How can an overseas company trade directly in your jurisdiction?

Foreign companies can trade in Israel by:

- Incorporating an Israeli corporate subsidiary (see *Question 3*).
- Setting up a local branch.
- Appointing a local distributor or franchisee.
- When jointly executing a project or engaging in business, establishing a joint venture (see *Question 6*) or partnership (see *Question 5*).

Under the Companies Law, a foreign company or foreign partnership that conducts business in Israel through a branch must be registered in the Companies Registrar/Partnership Registrar as a "foreign company"/"foreign partnership" (as applicable), and its activities will be subject to Israeli law.

The registration process of a foreign company requires:

- The submission of the foreign company's corporate documents.
- An original good standing certificate issued by the competent authority in the company's jurisdiction of incorporation.
- The appointment of an Israeli resident as a process agent.

5. What are the formalities for setting up a partnership?

Partnerships are subject to the Israeli Partnerships Ordinance (New Version) 1975. There are two forms of partnerships:

- General partnerships, which are unlimited liability partnerships.
- Limited partnerships.

Unlike companies, partnerships are pass-through entities for Israeli tax purposes.

Registration with the Partnerships Registrar is a constitutive requirement for the establishment of a limited partnership. The approval of the Partnerships Registrar and the Minister of Justice are preliminary conditions for the commencement of activity of the limited partnership. The initial partners of a limited partnership must submit to the Partnerships Registrar a written partnership agreement (in Hebrew, or in English together with a Hebrew translation) and pay a registration fee.

Generally, a general partnership that carries on business must be registered with the Partnerships Registrar within one month from the date of its formation. However, registration is only a declarative requirement that does not affect the existence of the general partnership. The foundation of the partnership requires an agreement between the partners, which can be oral or written (and can be in English). A general partnership must have an address in Israel.

6. What are the formalities for setting up a joint venture?

Joint ventures (JVs) are not recognised in Israel as specific legal entities. Therefore, there are no specific regulations that apply to JVs. Most legal structures recognised in Israel can be used to form a JV, so that a JV can be formed by setting up a company or partnership (general or limited), or without incorporating a new entity (under a contractual engagement).

Parties to a JV sometimes prefer a contractual JV over a corporate JV or partnership because it enables them to retain control over their assets and business, as these are not transferred to a separate legal entity. A contractual JV is subject to fewer procedural requirements as:

- Registration is not required.
- It is easier to terminate a contractual JV than a JV operating through a separate legal entity.
- A contractual JV has no effect on the direct taxation of the JV parties.

The parties to a contractual JV set out their co-operation through a contract, which can be made for any purpose and any time frame (limited or not). However, a contract that creates a JV without defining its organisational form may be interpreted as the formation of an unregistered partnership.

JVs can operate in any sector, subject to applicable regulations, licences and permits. If a JV operates in a regulated sector, such as banking, electricity, or energy, the laws that apply to the sector also apply to the JV.

International joint ventures between foreign companies and Israeli entities are common business structures in Israel. These international joint ventures can take any of the forms discussed above.

7. Are trusts available in your jurisdiction?

Various types of trusts are available and are commonly used in Israel. They are drawn from Anglo-American models, but have specific features. An Israeli trust has no required form and can be created by contract. Foreign trusts are also recognised in Israel. Trusts are often used in Israel for asset management, tax and estate planning, and privacy protection.

FORMING A PRIVATE COMPANY

8. How is a private limited liability company or equivalent corporate vehicle most commonly used by foreign companies to establish a business in your jurisdiction formed?

Regulatory framework

The main law governing Israeli companies is the Companies Law 1999 and related regulations. Companies whose shares or bonds are publicly traded are also subject to the Israeli Securities Law 1968. Incorporation of a company must be effected through the Companies Registrar.

Tailor-made or shelf companies

Companies are usually tailor-made in Israel. While shelf companies can be used, the change in shareholders and directors must be registered in time with the Companies Registrar.

Formation process

To incorporate a company in Israel, the following steps must be taken:

- An incorporation form must be completed and filed with the Companies Registrar.
- Documents evidencing the identity of the director(s) and shareholder(s) must be provided. Where a foreign corporation is registered as a shareholder of the new company, it is necessary to submit certified copies of its incorporation documents and good standing certificate.
- Articles of association (in Hebrew, or in English together with a Hebrew translation) must be prepared and filed.
- The initial director(s) and shareholder(s) must sign a declaration.

These documents must be signed in the presence of an Israeli lawyer in Israel or authenticated (generally through notarisation and apostille).

It is necessary to provide an address in Israel to serve as the company's registered office.

The current (2018) fee charged by the Companies Registrar for the incorporation of a new company is about EUR600. Once the Companies Registrar receives the complete application, the registration procedure usually takes no more than five business days. Once the company is registered, a certificate of registration is issued with a nine-digit company number that must be used for company affairs. After registration, the company must open files with VAT and other tax authorities. All such procedures take about 15 business days.

Company constitution

The articles of association are the company's basic charter document. The articles must specify the:

- Company's objectives, which can be specific ("as agreed by the shareholders") or general ("any legal pursuit").

- Company's registered share capital.
- Limitation of liability of shareholders.

Model articles can be used, but there are no official model articles prescribed by law.

The articles of association are filed with the Companies Registrar and are accessible by the public on payment of a fee.

Shareholders' agreements are also commonly used. They need not be filed with the Companies Registrar and are not public documents. Shareholders' agreements can be drafted in any language and be used in addition to the articles of association.

FINANCIAL REPORTING

9. What financial reports must the company submit each year?

A company can be registered as a private company or public company with securities registered on a stock exchange. Private companies must present annual reports (including audited financial statements) to their shareholders, which are also submitted to the Companies Registrar. Public companies must submit to the public and regulatory authorities a full, audited financial statement once a year, and a condensed quarterly report reviewed by their certified public accountant. Reports of public companies must be drafted according to International Financial Reporting Standards (IFRS).

Branches must submit financial statements to the Israel Tax Authority on an annual basis.

TRADING DISCLOSURE

10. What are the statutory trading disclosure and publication requirements for private companies?

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

Generally, businesses are not required to display their name or have a sign at their premises. Official business documentation, such as letterheads and invoices, should include the full legal name of the entity. Where an entity adopts a trading/business name in addition to the entity's official name, the full legal name of the entity should appear on business documentation.

11. How do companies execute contracts or deeds?

Parties to a contract usually execute agreements in writing, with their respective authorised representatives signing them. Oral agreements are also enforceable. The execution of a document need not be witnessed.

Certain documents, such as irrevocable powers of attorney and powers of attorney to a non-lawyer, require notarisation.

Companies can authorise their signatories to obtain, on behalf of the company, an electronic signature from an authorised electronic signature provider.

MEMBERSHIP

12. Are there any restrictions on the minimum and maximum number of members?

Under the Companies Law, a company must have at least one shareholder. Single shareholder companies are generally governed by the same provisions as companies with multiple shareholders.

MINIMUM CAPITAL REQUIREMENTS

13. Is there a minimum investment amount or minimum share capital requirement for company formation?

Israeli law does not require any minimum equity, but a company's initial articles of association must include the company's registered share capital (in Israeli shekels), including the number and classes of registered shares. Companies can issue shares with no par value.

Special share capital rules apply to public companies and the listing of their securities on the Tel Aviv Stock Exchange (TASE).

14. Are there restrictions on the transfer of shares in private companies?

The Companies Law does not impose restrictions on the transfer of shares in private companies. However, it includes a statutory pre-emptive right that can be opted out of in the company's articles of association. Restrictions on transfers of shares can be included in a company's charter documents. It is common to see shareholders' agreements or articles of association granting pre-emptive rights, rights of first refusal, no-sale periods, and so on.

SHAREHOLDERS AND VOTING RIGHTS

15. What protections are there for minority shareholders under local law? Can additional protections be given?

The Companies Law imposes significant corporate governance requirements, including additional requirements applicable to companies that issue securities in Israel. These requirements include:

- A duty to appoint external directors.
- A right to submit class actions and derivative actions.
- Mechanisms for the approval of remuneration of company's officers and functionaries and transactions involving controlling shareholders.

Such requirements protect the company as well as its minority shareholders.

An Israeli public company must have at least two external directors, to be appointed by a majority of the minority shareholders (that is, excluding the controlling shareholder).

Shareholders also have information and inspection rights. All shareholders generally have the right to review:

- Minutes of the company's general meetings.
- The company's shareholder register and register of significant shareholders.
- The company's articles of association.
- The company's financial statements.

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- Any document that the company is required by law to file publicly with the Companies Registrar or Israel Securities Authority.

In addition, any shareholder who specifies the purpose of its request can request to review any document in the company's possession that relates to any action or transaction with a related party requiring shareholder approval under the Companies Law, subject to certain exceptions.

One or more shareholders who hold at least 1% of the voting rights at a general meeting can request that the company's board include a matter on the agenda of a general meeting.

Minority shareholders can call for an extraordinary general meeting if they meet the following thresholds:

- In public companies, one or more shareholders holding at least 5% of the company's issued share capital and at least 1% of the voting rights, or one or more shareholders holding at least 5% of the voting rights in the company.
- In private companies, one or more shareholders holding at least 10% of the company's issued shares and at least 1% of the voting rights, or one or more shareholders holding at least 10% of the voting rights.

Articles of association can set different classes of shares with special rights, which can also give more rights to minority shareholders.

The Companies Law prescribes special mechanisms for the approval of transactions in which a controlling shareholder has a personal interest. Transactions deemed to constitute "extraordinary transactions" with a controlling shareholder or in which a controlling shareholder has a personal interest (generally, transactions not in the ordinary course of business, not on market terms, or likely to have a material impact on the profitability, assets or liabilities of the company) must be for the benefit of the company and require the approval of each of the audit committee, board of directors and shareholders. In addition to a simple majority, such transactions require the approval of a majority of the shareholders that are not part of the controlling group (and do not have a personal interest in the transaction). A controlling shareholder must promptly disclose to the company any personal interest that it has in a transaction, as well as all related material information or documents. The Companies Law also imposes on a controlling shareholder a duty to act fairly towards the company and its minority shareholders.

16. Are there any statutory restrictions on quorum or voting requirements at shareholder meetings? Must quorum or voting rights be proportionate to shareholdings?

Unless otherwise permitted by the company's bye-laws, a general meeting requires the presence of at least two shareholders who have at least 25% of the voting rights, otherwise the meeting must be postponed (*Companies Law*). There is no quorum requirement for a deferred meeting. The articles can provide other rules for the quorum of a company's general meetings.

Decisions at general meetings must be adopted by a majority of the votes cast, and each share must have one vote. However, a company can prescribe different voting rights for different categories of shares.

17. Are specific voting majorities required by law for any corporate actions (for example, increasing share capital, changing the company's constitution, appointing and removing directors, and so on)?

Unless otherwise provided in the company's articles of association or under the Companies Law, all resolutions of shareholders require

a simple majority of the voting rights represented at the meeting in person, by proxy or, with respect to certain resolutions, by a voting instrument, and presenting the matter for vote (excluding abstentions).

The Companies Law includes a statutory bring-along right that requires the consent of either 80% or 90% of the company's shareholders, depending on its date of formation. The percentage of shareholders required to consent can be amended through an amendment of the articles of association.

18. Can voting majorities required by law be disapplied to protect a minority shareholder (for example, through class rights or weighted voting)?

The Companies Law leaves the articles of association flexibility to determine the voting rights and majorities required for consents. The articles of association of a company can create different classes of shares with different rights (including voting rights) or weighted voting, to protect a minority shareholder.

SECTORAL RESTRICTIONS

19. What are the conditions or restrictions on establishing a business in specific industry sectors? Are there industry sectors in which it is not permitted to establish a business?

The principle is that foreign companies can freely establish a business in Israel. However, there are certain restrictions on ownership by non-Israeli entities or persons of interests in Israeli companies in certain sensitive industries (for example, banks or bank holding companies, insurance companies, telecommunications companies, companies managing pension funds, and companies controlling natural resources or essential services). The acquisition of control or of certain ownership percentages in these companies require special regulatory approvals.

The State of Israel may retain certain veto rights and other powers regarding the acquisition (primarily by means of privatisation of government companies) of companies controlling natural resources or essential services.

FOREIGN INVESTMENT RESTRICTIONS

20. Are there any restrictions on foreign shareholders?

There are no requirements regarding the nationality or residency of shareholders. There are no restrictions on non-residents holding shares in Israeli companies under the Companies Law. However, there are certain restrictions on ownership by non-Israeli entities or persons of interests in Israeli companies in certain sensitive industries (see *Question 19*).

An Israeli company cannot merge with or into a foreign (non-Israeli) company. Therefore, acquisitions by foreign companies are commonly effected by way of stock acquisitions or reverse triangular mergers (where the foreign entity incorporates an Israeli subsidiary that merges into the Israeli target).

Additionally, acquisition by a non-Israeli resident of an Israeli company that benefits from certain governmental support (such as grants from the Israel Innovation Authority or specific tax benefits), or that leases land from the Israel Land Authority, may require approval of the relevant government agency.

Nationals of some countries that are or have been in a state of war with Israel cannot own securities in Israeli companies.

21. Are there any exchange control or currency regulations?

There are no exchange controls in Israel on inward or outward investment. Foreign currencies can be bought and sold freely. Foreign currency bank accounts can be maintained in Israel. However, anti-money laundering rules may restrict certain transfers.

22. Are there restrictions on foreign ownership or occupation of real estate, or on foreign guarantees or security for ownership or occupation?

The Israel Land Authority manages land owned by the State of Israel (and by the Jewish National Fund and Development Authority), which constitutes about 93% of the entire territory of Israel (which is about 22,000 square kilometres). These properties are leased to home and property owners for long periods of time, resulting in land being traded as if it were privately owned. The remaining 7% of land is privately owned.

There is no express legal restriction on ownership of land in Israel by foreign residents. However, to acquire land that is controlled by the Israel Land Authority, a foreign resident must receive approval from the Chairman of the Board of the Israel Land Authority. In certain cases, lease contracts with the Israel Land Authority contain provisions under which a transfer of shares in the lessee corporation to a foreign resident is subject to the Israel Land Authority's consent. There are no restrictions on the sale or transfer of privately owned land to foreign residents.

DIRECTORS

23. Are there any general restrictions or requirements on the appointment of directors?

A director can be a natural person or a body corporate. A corporate director must appoint a natural person to represent it as a director. There are no requirements on the nationality or residency of company directors.

A person cannot serve as a director if he or she is a minor, legally incompetent, or has been declared bankrupt and has not been discharged from bankruptcy. A body corporate that resolved on voluntary liquidation or against which a liquidation order has been made is also ineligible to serve as a director. Restrictions on the appointment of a person can apply because of a conviction or decisions of the Administrative Enforcement Committee.

Directors of public companies must have the necessary qualifications and be able to devote the appropriate amount of time to the exercise of their position.

BOARD COMPOSITION

24. What are the legal requirements for the composition of a company's board of directors?

Structure

In Israel, a company's board structure is unitary.

Number of directors or members

The company's articles of association can determine the number of directors, as well as minimum and maximum numbers of directors. A private company whose shares or bonds are not publicly traded can have a single director.

In public companies and companies whose shares or bonds are publicly traded, the board of directors must set the minimum required number of directors who have accounting and financial expertise. The board of directors of such companies must include at least two external directors and elect one of its members to serve as chairman, unless otherwise provided in the company's articles of association.

Employees' representation

Employees have no statutory right to board representation, although an employee can be appointed as a director.

REREGISTERING AS A PUBLIC COMPANY

25. What are the requirements for a business to reregister as a public company?

Membership

A public company can offer shares or debentures to the public, but only after issuing a prospectus in accordance with the requirements of the Securities Law.

A public company must have a board of directors and at least two external directors appointed by the non-controlling shareholders. It must also appoint an audit committee and a remuneration committee.

The general manager of a public company or his/her relative must not serve as chairman of the board of directors, unless otherwise determined by the general meeting under specific circumstances and with specific restrictions.

Share capital

Under the Companies Law, the authorised share capital of a company (whether public or private) must be specified in its articles of association. The TASE rules and regulations set out listing requirements, including minimum share capital requirements. New companies can list on the TASE by following one of several established procedures, each with its specific listing requirements. Companies for which the anticipated public float is less than ILS40 million must have either ILS25 million or ILS35 million of shareholders equity after the listing, depending on the type of listing procedure elected by the company.

The TASE rules and regulations impose on public companies minimum public holding requirements that vary according to the public float value, under which a higher public float value will require a lower minimum percentage of shares to be held by the public. For example, the TASE rules and regulations currently provide that a public float value of ILS20 million requires a minimum public float rate of 25%, while a public float value of ILS200 million requires a minimum public float rate of 7.5%.

TAX

26. What main taxes are businesses subject to in your jurisdiction?

The main taxes applicable to businesses in Israel are as follows.

Corporate tax

Israel operates a customary system of taxation, under which taxation is imposed both at the corporate level and on distribution of income to shareholders.

Israeli companies are generally taxable at a rate of 23% on all types of domestic and worldwide income (that is, interest, capital gains, and operating income). Credit is generally given for tax paid overseas by Israeli companies. In certain circumstances, reduced corporate tax rates of 5% to 16% apply to income originating from

"preferred enterprises" or "special preferred establishments" under the Israeli Law on the Encouragement of Capital Investments 1959.

Income tax

Under the Israeli Income Tax Ordinance (New Version) 1961, Israeli residents are subject to income tax on their worldwide taxable income. Israeli residents are liable for tax on a personal basis on income that they have generated inside or outside Israel, including income from employment, business, interest, dividends, royalties, and capital gains. The income taxation method in Israel is progressive. The initial tax rate is 10% and it gradually increases to a maximum of 50%.

A person is considered resident of Israel for tax purposes if his/her tax domicile is in Israel. A person's tax domicile is presumed to be in Israel when he or she either:

- Has been in Israel 183 days or longer during the tax year.
- Has been in Israel 30 days or longer during the tax year, and his/her total stay in Israel in the tax year and in the two preceding years is 425 days or longer.

Non-residents are subject to tax on any income derived from an Israeli source. Any double tax convention between Israel and other countries may modify a person's taxable income.

Value added tax (VAT) and indirect taxes

The Value Added Tax Law requires the payment of VAT (currently at a rate of 17%) on goods sold and services rendered. VAT is collected from the buyer by the seller at the time of sale. VAT is imposed at a uniform rate on the price of a transaction in Israel or on the import price of goods. Israeli law prescribes the types of transactions that are either exempt from VAT or charged at a zero rate. In the case of VAT exemption, VAT that was paid by the supplier at the time of generation of the revenue cannot be reclaimed, whereas charging a transaction at a zero rate (for example, an export from Israel) allows reclaims of input VAT.

Generally, foreign residents that have business activities in Israel must register for VAT purposes within 30 days from the date of commencing their activities. A foreign resident must have a representative for VAT purposes who is an Israeli resident.

In addition to VAT imposed on imported goods, a transaction may be subject to customs and/or purchase tax payable by the importer, in accordance with the regulations on the subject. Israel also maintains customs and purchase tax schedules that differentiate between types of goods by subjects and sub-subjects. The correct classification of imported goods is the key to determining the applicable customs rate.

Real estate taxation

Land appreciation tax. Land appreciation tax is a capital gains tax imposed on the disposal of real estate located in Israel. The disposal of such an asset is subject to tax in Israel at the regular corporate tax rate (currently 23%).

Land purchase tax. The purchase of ownership in a real estate asset located in Israel or rights in a real estate company are subject to land purchase tax at the rate of 6%. Under the Real Estate Taxation (Appreciation and Acquisition) Law, the definition of "real estate right" includes ownership and leases (including permission to use land) for a period exceeding 25 years.

Municipal property tax. Municipal property tax is levied on real estate property by local municipalities based on the size, location, and purpose of the property. This tax is levied on the tenant, regardless of whether the tenant owns or rents the property.

27. What are the circumstances under which a business becomes liable to pay tax in your jurisdiction?

Tax resident

The Income Tax Ordinance applies to Israeli residents on a worldwide basis. A company is deemed to be a resident in Israel if either:

- It is organised under the laws of Israel.
- The management and control of the company is in Israel.

A company organised in a country with which Israel has a double tax treaty will be subject to tax in Israel on business profits arising from its permanent establishment in Israel.

Non-tax resident

Foreign residents are only taxed in Israel on Israeli sourced income (subject to any applicable double tax treaty). Therefore, a foreign company controlled and managed outside Israel, with no permanent establishment in Israel, is not required to pay tax in Israel, except on special income such as gains from real estate investments or profit from a natural resource of the State of Israel.

Under double tax treaties to which Israel is a party, passive income (such as royalty income, dividends and interest) is subject to tax at a limited rate that can be withheld at source and against which credit will be granted in the country of domicile. The country of origin has full taxation rights where the dividends arise from the operation of a foreign entity's permanent establishment.

28. What is the tax position when profits are remitted abroad?

Dividends distributed by an Israeli company to non-substantive foreign shareholders (that is, shareholders that hold less than 10% of the shares of the company) are generally subject to withholding tax at the rate of 25%, while substantive foreign shareholders are subject to a 30% withholding tax. A lower tax rate may apply under a treaty between Israel and the shareholder's country of residence. In addition, different withholding tax rates may apply for preferred, approved, or benefited enterprises under the Law on the Encouragement of Capital Investments.

Interest, original discount and linkage differentials income are generally treated as derived from Israeli sources if the payer is located in Israel. In principle, the same taxation rules apply to non-Israeli resident companies on Israeli-sourced interest, original discount and linkage differentials income, unless a tax treaty provides otherwise. However, an exemption from Israeli tax is available to foreign investors that receive interest income on bonds issued by Israeli companies traded on the TASE. In addition, interest paid to non-residents on Israeli governmental bonds that have been issued for more than 13 months is exempt from tax.

Additionally, certain income derived from investments in real estate and natural resources of the State are taxable even where the foreign entity does not have a permanent establishment in Israel.

There is no branch tax in Israel.

29. What thin-capitalisation rules and transfer pricing rules apply?

Transfer pricing

Under the Income Tax Ordinance, every transaction between related parties must reflect the fair market value according to the arm's

length principle. The Transfer Pricing Regulations determine the scope of inspected transactions and the necessary means for achieving a fair market value. The regulations are based on both the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations and the US main transfer pricing principles.

Thin-capitalisation rules

There are no thin-capitalisation rules in Israel.

GRANTS AND TAX INCENTIVES

30. Are grants or tax incentives available for companies establishing a business in your jurisdiction?

Israel offers substantial benefits and concessions to foreign investors through a number of laws and regulations, especially with regard to high-tech companies and research and development (R&D) activities.

To promote weaker economic regions in Israel, differential benefits are granted on a geographical basis, being substantially higher in the peripheral designated priority regions (A, B) than in the centre of the country. However, enterprises are eligible for benefits anywhere they are established, provided they comply with the relevant criteria.

Investment incentives are managed by the Israel Investment Center. The two main laws governing these benefits are the:

- **Law on the Encouragement of Capital Investment.** This law grants preferential tax treatments and various grants in relation to land development, constructions, and capital equipment.
- **Law on the Encouragement of Industrial Research and Development.** The main objective of this law is the development of science-intensive industry. The law provides grants, loans, tax exemptions and tax reductions.

The Israel Innovation Authority (formerly known as the Office of the Chief Scientist) of the Ministry of the Economy is responsible for implementing government policy regarding the support and encouragement of industrial research and development in Israel, and provides a variety of support programmes. Typically, grants under these programmes must be repaid through royalties and are subject to restrictions on transfers of funded know-how and related manufacturing outside Israel.

On the international level, the executive agency of the Israel Innovation Authority, MATIMOP, offers international programmes in co-operation with foreign governments and institutions. These international support programmes provide support through bi-national funds, and facilitate joint R&D ventures with foreign counterparts.

EMPLOYMENT

31. What are the main laws regulating employment relationships?

Israel labour law is comprised of statutes, regulations, case law, collective agreements, and extension orders. Many employment provisions are mandatory and cannot be waived by employees. Generally, employment legislation applies to any employee employed in Israel, regardless of nationality. Specific legislation governs the employment of foreign employees, mainly setting out minimum rights and conditions for their employment and well-being.

The main Israeli labour laws are the:

- Minimum Wage Law 1987, which sets out requirements regarding the minimum wage in Israel.
- Work and Rest Hours Law 1951, which establishes the right of employees to receive compensation for overtime and restricts employment of employees on weekly rest days.
- Severance Pay Compensation Law 1963, which sets out severance pay requirements on termination of the employment relationship.
- Annual Leave Law 1951, which sets a minimum annual leave entitlement for employees ranging from 15 to 28 calendar days based on seniority.
- Sick Leave Law 1976, which gives the right to sick leave to all employees.
- Pension Extension Order, which provides that every employee in Israel is entitled to pension insurance.
- General Extension Order Regarding Payment of Convalescence, which entitles employees to convalescence payments based on their seniority.
- General Extension Order Regarding Payment of Employee's Travel Expenses, which requires employers to pay for the actual travel expenses of their employees, separately from any other payment.

32. What prior approvals (for example, work permits, visas, and/or residency permits) do foreign nationals require to work in your jurisdiction?

The Foreign Workers Law 1991 provides the legal framework for the employment of non-Israeli residents and foreign experts. This issue is also regulated under the Entrance into Israel Law 1952. Under these laws, the employment of non-Israeli residents requires permits from both the Ministry of Economy and Ministry of Interior Affairs.

Foreign experts employed by Israeli companies must be paid at least double the average Israeli wage and also require working permits and visas. In addition, the law regulates the housing of experts, medical insurance, and management of books and accountancy for hiring foreign workers.

PROPOSALS FOR REFORM

33. Are there any impending developments or proposals for reform?

Investment and tax benefits

New amendments to the Law on the Encouragement of Capital Investments (see *Question 30*) grant significant tax breaks to "priority technological enterprises" (as defined in the law).

Data protection and privacy

On 21 March 2017, the Protection of Privacy Regulations (Information Security) were approved. The Regulations represent a landmark change in the field of information security in Israel and impose substantial obligations on database owners. The Regulations impose requirements to adopt a comprehensive policy and procedures on information security and to implement information security practices in the area of human resources management. Additional rules apply to databases containing sensitive information. The Regulations entered into force in May 2018.

THE REGULATORY AUTHORITIES

Corporations Authority (including the Companies Registrar)

Main activities. The Corporations Authority is responsible for the registration, supervision, enforcement and control of corporations in Israel.

W www.justice.gov.il/En/Units/IsraeliCorporations/Pages/default.aspx

Israel Securities Authority (ISA)

Main activities. The ISA protects the interests of investors and is the principal regulator of capital markets in Israel. The ISA also supervises the operation of the Tel Aviv Stock Exchange, and the regulation of investment funds and investment advisers.

W www.isa.gov.il

Antitrust Authority

Main activities. The Antitrust Authority enforces anti-trust legislation to promote fair competition and protect the public from harm to competition.

W www.antitrust.gov.il

Israel Tax Authority

Main activities. The Israel Tax Authority is responsible for tax collection and related matters.

W <https://taxes.gov.il/Pages/HomePage.aspx>

ONLINE RESOURCES

Ministry of Justice

W www.justice.gov.il

Description. Certain laws and regulations can be found on this website (in Hebrew only).

Net Hamichpat

W www.court.gov.il

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