

# SETTING UP BUSINESS IN ISRAEL



## General Aspect

Israel is situated in the heart of Middle East, bordering Egypt at the South, Jordan at the West and Lebanon and Syria at North. Israel is an intersection between East and West, history and innovation, sophistication and simplicity. Its monetary unit is Shekel. The total population is around 8 million people. Israel has two official languages, Hebrew and Arabic. Hebrew is the primary language of the state and is spoken by the majority of the population, and Arabic is spoken by the Arab population.

## Legal Forms of Business Entities

Legal form	Feature	Remarks
<b>Israeli Companies Ordinance</b>	Defines a company as a corporation formed and registered in Israel, in accordance with Israeli law.	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.  Both types of companies must present annual reports, including audited financial statements to their shareholders.
<b>Private Company</b>	Consists of 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 restrictions on the transferability of its shares.	
<b>Public Company</b>	Consists of 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.	
<b>Foreign Company</b>	<p>A foreign company may operate in Israel through a branch or through a subsidiary formed under Israeli law.</p> <p><b>A fiscal representative</b> office may be established and operated by a local representative, which is responsible for all of the taxation activity, financial, legal and economic management, of the company in Israel. The representative office does not generally handle the operational-professional aspects of the transaction in Israel.</p> <p>*<b>A fiscal representation</b> in Israel requires personal liability for all of the parent company tax debts in Israel, and as a result, it is usual to give guarantees and to leave deposits in the representation's trust accounts until cessation of business activity in Israel.</p>	

<b>Partnership</b>	<p>The Partnership Ordinance defines a partnership as an entity that consists of persons who contract to form a partnership.</p> <p>A partnership may have neither less than two nor more than twenty members. The relationship between the partners is usually determined in accordance to the partnership agreement. In the absence of such an agreement, partners are entitled to their share of profits in proportion to their share in the partnership's capital.</p>	<p>Personal liability of the partners is not limited unless they are limited partners of limited partnerships.</p> <p>A foreign partnership is also permitted to do business in Israel, but it may not establish a place of business in Israel unless it has first registered with the Registrar of Partnerships and received a permit from the Ministry of Justice.</p> <p>The best way of establishing a foreign partnership in Israel is by using services of local representative. For additional information please contact us.</p>
<b>Self-Employed</b>	<p>A self-employed person works entirely for himself and is entirely liable for the business.</p>	
<b>Cooperative</b>	<p>This type of business entity is found mainly in the agricultural sector, (cooperatives such as a kibbutz or moshav), transportation businesses and certain types of marketing operations associated with agricultural products.</p>	
<b>Joint Ventures</b>	<p>Joint ventures are an effective method for conducting business between entities from different countries.</p>	<p>A joint venture can be formed by a contract or be structured as a partnership or a company.</p>
<b>Commercial Agencies</b>	<p>Agency arrangements may also be of interest to foreign investors.</p>	<p>There is no specific legislation dealing with commercial agents and distributors in Israel. Therefore, there are no statutory requirements regarding the form and content of an agency agreement.</p>
<b>Non-Profit Organizations (NPO)</b>	<p>These entities operate mainly as academic institutions, hospitals, charitable organizations and municipalities.</p>	<p>NPOs are subject to a special law dealing mainly with the formation of such organizations and the way they may operate as such.</p>



## Organizational Questions

Topic	Feature
<b>Commercial register</b>	It is necessary to register the company with the Companies Registrar. Incidentally, it is necessary to translate Articles of Association into Hebrew. The fee for registering a company is currently NIS 2,614.
<b>Monthly and Annual Tax Filings</b>	<p>All companies are required to file audited annual tax report and financial statements within 5 months after fiscal year ends.</p> <p>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 reports on account accompanied by tax payments. Bi-monthly returns are sometimes acceptable for small businesses.</p> <p>Taxes to be filed include:</p> <ul style="list-style-type: none"> <li>• Company tax installments - a percentage of the company's monthly sales revenue.</li> <li>• Supplementary company tax installments with respect to certain non-deductible expenses.</li> <li>• Tax withheld from salaries and remittances to suppliers when applicable.</li> <li>• Value-added tax (VAT).</li> <li>• National Insurance.</li> </ul>
<b>Bank Account</b>	It is necessary to open a commercial bank account through which all company finances will be conducted. When you open the account, you are obligated to present copies of the company's Articles and Registration Certificate, approved by an accountant or an attorney, as well as an accountant or attorney's approval of signatory rights for the company.
<b>Transfer of Goods and Machinery</b>	Israel has an open and transparent import and export regime. Almost all goods, equipment and machinery are allowed to be transferred according to Customs Duty regulations.
<b>Receiving a Business License</b>	<p>There is a list of the types of business that have "licensing requirement" status, meaning businesses that need a license to operate under the Business Licensing Law.</p> <p>Many commercial enterprises and professionals must have business permits in order to operate. Permits are usually issued by the municipalities after prior approval by other government departments such as the Ministry of Health. Permits must be renewed annually.</p>
<b>Transfer of Capital</b>	Israeli banking System is very modern and technology developed. It offers money transfer at any currency, innovative payment system, internet transfer and more.

<b>Visa and residence permit</b>	<p>Relocating to Israel can be an extremely difficult and complex process. There are three situations in which foreigners may be eligible to gain residency in Israel:</p> <ul style="list-style-type: none"> <li>• If they are in a relationship with an Israeli citizen. According to Israeli law, those in a genuine and monogamous relationship with an Israeli national may remain and work in Israel on this basis.</li> <li>• If they have a job offer in Israel and the employer is acting as a sponsor. There are two different types of Israeli work permits that a foreign worker may receive: <ol style="list-style-type: none"> <li>1. An open work permit, which allows a person to work without restrictions and is only granted to those of Jewish descent or an expat who is in a relationship with an Israeli citizen.</li> <li>2. A restricted work permit limits a foreigner to working for a particular</li> </ol> </li> <li>• If they are of Jewish descent (making Aliyah). The Law of Return states that all Jewish people have the right to settle in Israel. The process is conducted by the Jewish Agency and should be completed in your home country employer and that employer must act as a sponsor.</li> </ul> <p>Moreover there are a few more different types of visas: tourist, student and business types of visa.</p>
<b>Municipal taxes</b>	<p>Apply to the Municipality to find out what are the municipal taxes relevant to your business. These taxes are paid by the end-user and not the owner. Vacant property has a one-time 6 month exemption from municipal taxes.</p> <p>End users pay rates which vary depending on the region, type and size of the business property involved.</p>

## Taxation

<b>Tax</b>	<b>Tax rate</b>	<b>Feature</b>	<b>Remarks</b>
<b>VAT</b>	17%	VAT at the standard rate of 17% applies to the supply of assets or services that are in the scope of VAT law and on the importation of goods, unless zero-rate VAT or a specific exemption applies.	Zero-rate VAT allows input VAT deduction, but an exemption does not allow input VAT deduction.
<b>Corporate income tax</b>	23%	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.	<p>A company is considered a resident in Israel for Israeli tax purposes if either of the following applies:</p> <ul style="list-style-type: none"> <li>• it is incorporated in Israel</li> <li>• its business is controlled and managed in Israel.</li> <li>• It possesses permanent establishment according to double tax treaty and local tax law.</li> </ul>

<b>Capital gains tax</b>	23%	<p><b>Resident companies</b> are taxable on worldwide capital gains. Capital gains are divided into real and inflationary components.</p> <p>Unless a tax treaty provides otherwise, in principle, <b>nonresident companies</b> and individuals are subject to Israeli tax law on their capital gains.</p> <p>*Foreign residents not engaged in business in Israel may qualify for exemption from capital gains tax on disposals of securities traded on the TASE and securities of Israeli companies traded on a recognized foreign stock exchange.</p>	<p>The tax rate on real capital gains to <b>nonresident companies</b> is the standard corporate tax rate of 23%.</p> <p>The inflationary component of capital gains is exempt from tax to the extent and is generally taxable at a rate of 0%- 10%.</p>
<b>Withholding tax</b>	23%	The withholding tax may be reduced by applicable tax treaties and approval received by the tax authorities.	
<b>Dividends</b>	15%-30%	<p>A 30% withholding tax is imposed on dividends paid to individual shareholders holding 10% or more of the shares in an Israeli company.</p> <p>A 25% withholding tax is imposed on dividends paid to individual shareholders holding less than 10% of the shares in an Israeli company.</p>	The 0% rate generally applies to distributions to Israeli parent companies. In addition, effective from 1 January 2014, reduced withholding tax rates of 15% and 20% may apply under the Capital Investment Encouragement Law (15% previously).
<b>Dividends in fiscal representation</b>	0%	One of the added values of having a fiscal representation in Israel is the exemption from dividend withholding tax on the transfer of profits from the branch in Israel to the head office in your country.	According to Israeli local law transferring of profits from branch to head office is not considered as dividend transfer.
<b>Interest in companies</b>	23%	Israeli resident companies are taxable on worldwide interest, original discount and linkage differentials income. The tax rate for these types of income is the standard corporate tax rate of 23%.	<p>In principle, the withholding tax on interest is not final taxes.</p> <p>An exemption from Israeli tax is available for foreign investors that receive interest income on bonds issued by Israeli companies traded on the TASE.</p>
<b>General interest (including banks)</b>	10%-25%		
<b>Royalties from patent, know-how etc.</b>	25%	A 25% withholding tax is levied on royalty payments to non-residents. The rate may be reduced under a tax treaty.	In principle, the withholding taxes on royalties are not final taxes.
<b>Branch remittance tax</b>		There is no specific tax on the remittance of profits.	In principle, the withholding taxes on royalties are not final taxes.

<b>Net operating losses</b>	Trading or business losses may be offset against income from any source of the same year. Losses may be carried forward indefinitely can be offset against business income and business capital gains. Losses may not be carried back.	
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## Tax reductions and incentives

<b>Tax</b>	<b>Feature</b>
<b>Capital Investment Encouragement Law</b>	<p>The law has the following objectives:</p> <ul style="list-style-type: none"> <li>• Achieving of enhanced growth targets in business sector</li> <li>• Improving the competitiveness of Israel industries in international markets</li> <li>• Creating employment and development areas.</li> </ul> <p>The country is divided to national priority areas, which benefit from reduced tax rates and benefits based on the location of the enterprise.</p> <p>The law includes reduced tax rates, accelerated depreciation and fixed asset grants in developing areas.</p>
<b>Employment Grant Program</b>	Grants which objective is to create incentives for employment in the outlying areas of Israel. The average percentage of the grants is 40%.
<b>R&amp;D incentives</b>	The Office of the Chief Scientist at the Ministry of Economy provides these incentives. The company can obtain an R&D grant equal to about 30%-60% of its R&D expenses depending on the grant program, the company's technology innovation and its business model.
<b>Eilat free trade zone</b>	A VAT employment benefits are granted to enterprises in the Eilat free trade zone.

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