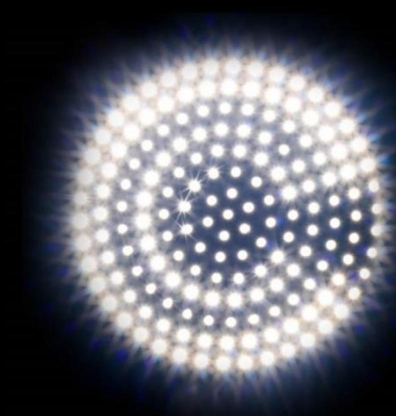
International Tax
Israel Highlights 2019



Updated January 2019

Investment basics:

Currency – New Israeli Shekel (NIS)

Foreign exchange control – There are no foreign currency restrictions.

Accounting principles/financial statements – Accepted accounting principles according to the Israeli accounting standards board/IFRS apply. Financial statements must be prepared annually (quarterly in the case of a public company).

Principal business entities – These are the public and private limited liability company, partnership (registered and nonregistered) and branch of a foreign corporation.

Corporate taxation:

Residence – A corporation is deemed to be resident in Israel if its activities are managed and controlled from Israel or if it is incorporated under the laws of Israel.

A foreign corporation managed and controlled by a new Israeli resident or a senior returning resident (i.e. an individual who spent at least 10 years abroad) generally will not be classified as an Israeli resident company for 10 years from the date of the individual's arrival in Israel.

Basis – Israeli resident companies are subject to tax on worldwide profits and gains, with credit granted for overseas taxes paid. A nonresident company is subject to tax only on Israeli-source profits, which include income derived from an Israeli permanent establishment (PE) or income accrued and produced in Israel, as well as capital gains from the sale of Israeli assets.

Taxable income – An Israeli resident corporation is subject to corporate income tax on its worldwide income and to capital gains tax on worldwide capital gains.

Taxation of dividends – The tax rate on dividends distributed by an Israeli resident company to another Israeli company is 0%, provided the dividends arise from income produced or accrued in Israel by a company that is subject to corporate income taxation. The tax rate on dividends from income produced (or accrued) abroad, or from dividends received from abroad, is 23%; a tax credit will be granted for tax withheld abroad. Alternatively, the gross dividend will be subject to the regular corporate tax rate (23%), with a direct and an indirect foreign tax credit if the Israeli company qualifies for the indirect tax credit mechanism.

Dividends distributed by a "preferred enterprise" are taxed at a 20% rate. Dividends distributed by an "approved/benefited enterprise" generally are taxed at a 20% rate if the distribution is made from profits attributable to the approved/benefited enterprise (a reduced rate of 4% on the alternative incentive track ("Ireland track") applies only to distributions to nonresident companies).

Dividends distributed by a "preferred technological enterprise" or a "special preferred technological enterprise" out of "technological earnings" (earnings derived in the enterprise's ordinary course of business from a qualifying intangible owned by the enterprise) are taxed at a 20% rate (or at a reduced rate of 4% if distributed to a nonresident company).

Dividends distributed from a revaluation of assets will be taxed as a sale of the assets, and subject to capital gains tax, levied on the difference between the original purchase price of the assets and the gross amount distributed.

Capital gains – The capital gains tax rate depends on the purchase date and the nature of the asset. The general capital gains tax rate for a corporation is the standard corporate tax rate. The inflationary component of the gain (accrued as from 1 January 1994) is exempt from tax.

An Israeli resident is subject to capital gains tax on the disposal of its assets, regardless of whether the assets are located in Israel. Capital gains derived from the sale, exchange, transfer or other disposition of tangible and intangible capital assets located in Israel or constituting a direct or an indirect ownership interest of assets in Israel are treated as Israeli-source income and are subject to capital gains tax, regardless of whether the seller is a resident of Israel for Israeli tax purposes. Shares and other securities of Israeli companies, or shares and other securities of non-Israeli companies holding their main assets in Israel, also may be treated as Israeli assets.

Persons (entities and individuals) who are not residents of Israel for tax purposes are exempt from Israeli capital gains tax on gains from the sale of shares traded on the Tel Aviv stock exchange, unless the gain is attributable to a PE the seller maintains in Israel.

A broad exemption from capital gains tax applies to gains derived from the sale of securities in Israeli or Israeli-related companies acquired on or after 1 January 2009 by all nonresidents (both entities and individuals), regardless of whether the nonresident is eligible for benefits under a tax treaty. The exemption does not apply (1) to shares of companies whose assets consist primarily (directly or indirectly) of real estate (i.e. land or buildings) located in Israel or rights to exploit natural resources in Israel; (2) if the shares sold were purchased from a related party or by way of certain tax-deferred reorganizations; (3) if the shares were held through a PE; or (4) if the nonresident selling entity is 25% or more controlled by Israeli residents.

Capital gains derived by a preferred technological enterprise or a special preferred technological enterprise from the sale of qualifying intangible assets to a related nonresident company are taxed at a rate of 12% or 6% for a preferred technological enterprise or a special preferred technological enterprise, respectively, if certain conditions are fulfilled.

Losses – Trading or business losses may be offset against income from any source in the current tax year and carried forward indefinitely to be offset against business income and business capital gains. Losses may not be carried back.

Rate – The basic tax rate for companies is 23%. An Israeli company classified as a preferred enterprise is taxed depending on where its facilities are located (7.5% if located in "Area A" and 16% if located elsewhere).

An Israeli company classified as an approved or a benefited enterprise is entitled to a tax rate of between 0% and 25%, with the period of benefits depending on where the company's facilities are located and whether certain conditions are satisfied. The benefits will be revoked if profits derived from the approved/benefited income are distributed. Qualified companies may be eligible for both reduced corporate tax rates and grants from the investment center.

An Israeli company classified as preferred technological enterprise is entitled to a reduced tax rate of 12% (or 7.5% if its facilities are located in Area A) on technological earnings. Special preferred technological enterprises are entitled to a reduced tax rate of 6% on technological earnings.

There are no basic differences in the tax regime as applied to different forms of business organizations. However, partnerships are transparent for tax purposes.

Surtax – There is no surtax for companies, but a surtax may apply to individuals (see "Rates" under "Personal taxation").

Alternative minimum tax – No

Foreign tax credit – Israel grants a direct tax credit on foreign taxes paid on non-Israeli-source income. An indirect tax credit is granted in certain cases.

Participation exemption – A special tax regime applies to Israeli holding companies that invest in foreign corporations. An eligible corporation is entitled to an exemption from tax on dividends received from a qualified foreign subsidiary and on capital gains derived from the sale of shares in such a subsidiary, as well as a full exemption from tax on financial income derived from investments in the Israeli capital market. In addition, dividends paid by the holding company to a nonresident shareholder are subject to a 5% withholding tax, rather than the regular rates of 25% if paid to a noncontrolling foreign shareholder that holds less than 10% of the shares of the Israeli holding company or 30% otherwise.

Holding company regime – See under "Participation exemption."

Incentives – Various programs are available, e.g. foreign investment incentives (approved enterprise status, various tracks), a holding company regime and R&D incentives. See also "Taxation of dividends" and "Rate," above.

Withholding tax:

Dividends – Dividends paid to a noncontrolling foreign resident (i.e. a person that holds less than 10% of the shares of the Israeli payer) are subject to a 25% withholding tax; otherwise, the rate is 30%. These rates may be reduced under a tax treaty or incentives regime.

Dividends distributed by a preferred enterprise are taxed at a 20% rate. Dividends distributed by an approved/benefited enterprise generally are taxed at a 20% rate if the distribution is made from profits attributable to the approved enterprise, or at a reduced rate of 4% on the alternative incentive track ("Ireland track") if distributed to a nonresident company.

Dividends distributed by a preferred technological enterprise or a special preferred technological enterprise to a nonresident company out of technological earnings are taxed at a rate of 4%, which may be reduced under an applicable tax treaty.

Interest – Corporate income tax (currently 23%) will be withheld from interest payments if the recipient is a "body of persons," although the rate may be reduced under a tax treaty. A 0% withholding tax may apply to interest on certain public bonds held by foreign residents.

Royalties – Withholding tax is levied on royalty payments to nonresident entities and individuals at 23% and 25%, respectively. The rates may be reduced under a tax treaty.

Technical service fees – See "Other," below.

Branch remittance tax – There is no specific tax on the remittance of profits; however, in the case of an approved enterprise, a branch may be subject to a tax rate of 15%, in addition to the corporate income tax.

Other – Other payments to non-Israeli corporations are subject to withholding tax at a rate of 23%, and a 25% rate applies to payments to non-Israeli individuals. The rate may be reduced under a tax treaty.

Other taxes on corporations:

Capital duty – No

Payroll tax – Payroll tax is levied only on nonprofit organizations (at a rate of 7.5% of wages) and financial institutions (at a rate of 17% of wages).

Real property tax – Property betterment tax is applicable to the sale of real property. The principles of the property betterment tax are similar to those of the capital gains tax. The betterment is calculated from the date of purchase until the date of sale, and the amount of betterment is subject to the corporate tax rate at the date of sale.

In certain cases (especially when real property is sold), the municipal authorities may impose a "betterment levy" at a rate of 50% on the betterment the real property has gained as a result of actions by the local municipal authorities. The betterment levy paid may be deducted from the betterment subject to the property betterment tax.

Social security – National insurance is required by law (covering allowances and stipends). Some employers pay part or all of employees' compulsory contributions to the national insurance scheme.

Stamp duty – No

Transfer tax – See under "Real property tax."

Other – The purchaser of real property is subject to a purchase tax (acquisition tax) of 6%. When the asset purchased is a residential apartment, the purchaser is subject to tax at progressive rates ranging from 0%-10%.

A purchase tax (also applicable to individuals) is levied on certain imports or local industrial production and is collected from local manufacturers 15 days after the end of the month in which the goods are sold. Importers are required to submit the collected tax when the goods are released from customs.

Anti-avoidance rules:

Transfer pricing – The transfer pricing rules, which are based on the OECD guidelines, apply to transactions between an Israeli resident and its related nonresident. A hierarchy of transfer pricing methodologies applies, with preference given to transaction-based methods over profit-based methods. Documentation requirements mandate that the taxpayer attach a statement to the annual tax return and provide a detailed transfer pricing study at the request of the tax authorities. An advance pricing agreement may be obtained.

Israel has signed the multilateral agreement for the automatic exchange of country-by-country (CbC) reports but has not yet introduced CbC reporting requirements. The Israeli tax authorities have announced that once introduced, the first transfers of CbC information will be in respect of 2016. Companies that are part of a multinational enterprise may submit a report voluntarily for 2016, before the legislative process is complete.

Thin capitalization – No

Controlled foreign companies – A foreign company that is "controlled" by Israeli shareholders and that has accumulated undistributed passive profits taxed at a rate lower than 15% will be considered a controlled foreign company (CFC). In such a case, the Israeli shareholder controlling the CFC will be treated as if it had received its proportionate share of the profits as dividends (deemed dividends). Upon the distribution of profits, the Israeli controlling shareholder will be eligible for a deduction in the amount of the gross notional dividends that were subject to Israeli tax (however, the deduction will not exceed the amount of profits being distributed), in addition to a tax credit for foreign tax paid.

Disclosure requirements – The taxpayer generally must disclose all facts relevant for taxation, especially with respect to transactions with related parties. Taxpayers are required to disclose certain tax positions adopted and certain tax opinions obtained.

Other – The Israeli tax authorities can challenge artificial transactions. Under certain circumstances, direct or indirect withdrawals of funds from a company by a substantial shareholder (including resident and nonresident companies and individuals) may be subject to taxation at the shareholder level as deemed dividends (or as employment or business income if the company has insufficient earnings to cover the amount of the dividends). Withdrawals of funds may include loans or other debts, or cases where a shareholder directly or indirectly makes use of a company's assets. Any direct or indirect withdrawal of funds that has not been returned by the shareholder within one year from the end of the year in which the funds were withdrawn will be included in the shareholder's taxable income.

Compliance for corporations:

Tax year – The tax year begins in January. Taxpayers may apply for a different tax year, but the application will be approved only in special circumstances.

Consolidated returns – The filing of a consolidated return generally is not permitted; each company in a group is required to file its own return. However, if certain conditions are satisfied, qualified "industrial companies" may file a consolidated tax return.

Filing requirements – Companies must file an annual tax return no later than five months following the end of the tax year (an extension to file may be obtained in certain circumstances). The tax authorities determine advance tax payments, with some taxpayers required to pay tax according to their monthly turnover.

Penalties – Penalties apply if advance payments are overdue or if tax returns are filed late. The balance of any tax due is payable as of the beginning of the following tax year. Overdue tax is subject to an annual 4% interest rate (both the interest and principal are linked to the Consumer Price Index (CPI)) until paid in full.

Rulings – A taxpayer may request a ruling on the tax consequences of a proposed transaction.

Personal taxation:

Basis – Israeli residents are taxed on their worldwide income. Nonresidents are taxed only on Israeli-source income.

Residence – An individual is resident in Israel if his/her "center of vital interests" is in Israel. The number of days spent in Israel and overseas also affects residence status: an individual will be deemed to be resident if he/she has spent 183 days or more in Israel; or if during the current tax year, he/she spends 30 days or more in Israel and the total duration of his/her stay in Israel in the tax year and in the two preceding tax years, on a cumulative basis, amounts to 425 days or more.

An Israeli resident who spends two consecutive years abroad (183 days or more each year) and whose center of vital interests in the two subsequent years was located abroad will be deemed to be a foreign resident as from the date the individual chose to leave Israel.

Filing status – A married couple living together may opt for separate tax assessment in certain circumstances; otherwise, they may file jointly.

Taxable income – All income from employment and/or a vocation is taxable, including the value of fringe benefits and cost-of-living allowances. Passive income from bank deposits and savings, both in Israel and overseas, also is taxable.

New Israeli residents and senior returning residents are entitled to a tax exemption for certain types of foreign-source income for a period of 10 years as from the date of immigration/return to Israel. The benefit period with respect to income from interest on foreign currency deposits may be extended for a maximum of an additional 10-year period, provided certain investment criteria are fulfilled.

Capital gains – "Real" gains (i.e. the portion of gains not derived from inflation) derived from the sale of shares are subject to a 25% tax rate if derived by noncontrolling shareholders (i.e. those holding less than 10% of the Israeli payer company's shares); otherwise, the rate is 30%. Gains derived from the sale of bonds, commercial securities or loans that are not linked to the CPI generally are subject to a 15% tax (however, a controlling shareholder that holds more than 10% of the Israeli payer company's shares will be taxed on both the real and the inflationary component of gains at a rate of 20%).

The tax rates on capital gains on all other assets range from 20% up to the individual's marginal tax rate, depending on the date of acquisition and the type of asset (the minimum tax rate for the sale of shares of nonpublic companies by an individual holding more than 10% of the company's shares is 25%).

The inflationary component of gains accrued as from 1 January 1994 is exempt from tax (except as noted above). The inflationary component of gains accrued up to 1 January 1994 is subject to a 10% tax.

See "Capital gains" under "Corporate taxation" for exemptions from capital gains tax.

Deductions and allowances – Deductions are granted for pension fund contributions, and individuals are entitled to various personal allowances and credits.

Rates – The income tax rates are progressive up to 47%. An additional 3% surtax is levied on annual taxable income exceeding NIS 641,880. The surtax is not applicable to certain types of income.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Property betterment tax is applicable to the sale of real property. The principles of the property betterment tax are similar to those of the capital gains tax. The tax regime uses a linear tax model that taxes the real betterment at different tax rates, depending on the dates on which the betterment was accrued. Betterment accrued from the date of purchase up to 7 November 2001 is subject to the marginal individual tax rates; betterment accrued from 8 November 2001 to 1 January 2012 is subject to the marginal individual tax rates up to 20%; and betterment accrued after 1 January 2012 is subject to the marginal individual tax rates up to 25% (30% if the seller holds more than 10% of a real estate company).

If the asset is a residential apartment, all real betterment accrued before 1 January 2014 is exempt, and all subsequent betterment is subject to the marginal individual tax rates up to 25%, if certain conditions are fulfilled.

A purchaser of real property is subject to a purchase tax (acquisition tax) of 6%. When the asset purchased is a residential apartment, the purchaser is subject to purchase tax at progressive rates ranging from 0% to 10% (assuming the residential apartment is the only residential apartment owned by the purchaser).

In certain cases (especially when real property is sold), the municipal authorities may impose a "betterment levy" at a rate of 50% on the betterment the real property has gained as a result of actions of the local municipal authorities. The betterment levy paid may be deducted from the betterment subject to the property betterment tax.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – National insurance is required by law (covering allowances and stipends for pensioners, widow(er)s, disability, maternity, children's allowances, industrial accidents, military service pay and unemployment). Some employers pay part or all of employees' compulsory contributions to the national insurance scheme.

In addition, every individual is subject to health care tax.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – An individual must file an annual tax return no later than 30 April of the following year. An extension of the deadline or an exemption from filing may be granted in certain cases. An Israeli individual whose only income is salary income on which tax is withheld at source by the employer is not required to file an annual return.

A new Israeli resident or a senior returning resident will not be subject to the reporting requirements in Israel on income derived from or accrued outside Israel, or sourced from assets outside Israel for the 10-year benefited period.

Penalties – Penalties apply if advance payments are overdue or if tax returns are filed late. The balance of any tax due is payable as of the beginning of the following tax year. Overdue tax is subject to an annual 4% interest rate (both the interest and principal are linked to the CPI) until paid in full.

Value added tax:

Taxable transactions – VAT applies to most goods and services, and on imports.

Rates – The standard VAT rate is 17%. Certain items are subject to a 0% rate, including exported goods, intangible goods and the provision of certain services to nonresidents (i.e. tourism services), the transport of cargo to and from Israel, the sale of goods and services to the Eilat free-trade zone and the sale of fresh fruit and vegetables.

Payroll tax, which is levied on nonprofit organizations at a rate of 7.5% of wages and on financial institutions at a rate of 17% of wages, is imposed in lieu of the VAT for these types of entities.

Registration – An Israeli company, or a foreign company conducting business in Israel, generally must register for VAT purposes. A nonregistered foreign company operating in Israel generally must register within 30 days. Furthermore, a foreign company registered in Israel or a nonregistered foreign company that carries on an activity or business in Israel must appoint a local representative for VAT purposes within 30 days of commencing its domestic activities and must notify the VAT office closest to its place of business.

Filing and payment – The business is required to collect output VAT on the goods, services or assets it sells. The VAT collected is transferred to the VAT authorities either monthly or once every two months, whichever is determined to be more appropriate by the authorities based on the annual turnover projection (monthly if the annual turnover is greater than approximately NIS 1.5 million). The business may offset the output VAT against any input VAT paid in the course of doing business. The annual revenue threshold to qualify as an "exempt dealer" under the VAT law is NIS 99,003. Such businesses are exempt from output VAT and receive relief from filing periodic VAT returns (other than the annual declaration reporting the annual turnover). Exempt dealers are not entitled to recover their input VAT.

Source of tax law: Income Tax Ordinance 1961 and accompanying regulations

Tax treaties: Israel has more than 60 tax treaties. Israel has signed the OECD MLI and deposited its instrument of ratification with the OECD on 13 September 2018. The MLI will enter into force for Israel on 1 January 2019. For further information on Israel's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Ministry of Finance, Israel Tax Authority

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