

# Israel

## Contacts

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### What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

As part of the Israeli government's response to the COVID-19 pandemic, the Investment and Development Authority for Industry and Economy relaxed some of the conditions of existing grant programs, intended to prevent companies from losing some or all of the benefits of a program where a company was unable to meet the necessary business conditions. Relaxations to the requirements for new applications also have been introduced. The Israel Innovation Authority has announced several new grants and incentive programs intended to assist technology companies in funding and retaining employees and maintaining R&D activity. COVID-19 support measures are not addressed further in this survey.

### Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
<b>Technological Innovation Labs</b>	A Technological Innovation Lab run by multinational corporations to bridge the gap between multinationals and entrepreneurs, and provide entrepreneurs with unique and specific expertise that usually may be unavailable to them	Startups: 85% of qualifying R&D expenses Multinational corporations: up to 50% of approved expenses	Startups: salaries, marketing costs, subcontractor and advisor costs, costs of materials and consumables, depreciation of equipment, patent registration Multinationals: Lab infrastructure and operations	Varies according to the specific tender
<b>R&amp;D collaboration between foreign academia and an Israeli company</b>	Proof of concept for the commercialization of generic know-how developed by researchers in a foreign academic environment	66% of approved R&D costs	Startups: salaries, marketing costs, subcontractor and advisor costs, costs of materials and consumables, depreciation of equipment, patent registration	None
<b>R&amp;D incentives for manufacturing facilities</b>	R&D incentives for the development of new products and/or technologies for companies with industrial manufacturing facilities as part of the Industry 4.0 transition	50%, and up to 70% of qualifying expenses incurred in preferred areas and involves an approved research institute	Salaries, marketing costs, subcontractor and advisor costs, costs of materials and consumables, depreciation of equipment, IP purchase, patent registration	Program is open to all industries, but specific criteria apply to high-end industries and large companies applying for the program
<b>Preferred technological enterprise/ special preferred technological enterprise</b>	Reduced corporate income tax rate for Israeli companies engaged in R&D activities that own the IP rights	Corporate income tax rate of 6%–12%, reduced withholding tax rates on dividend distributions, reduced capital gains tax rate	Expenditure related to R&D: salaries, subcontractor costs	Specified quantitative and qualitative conditions regarding R&D activities



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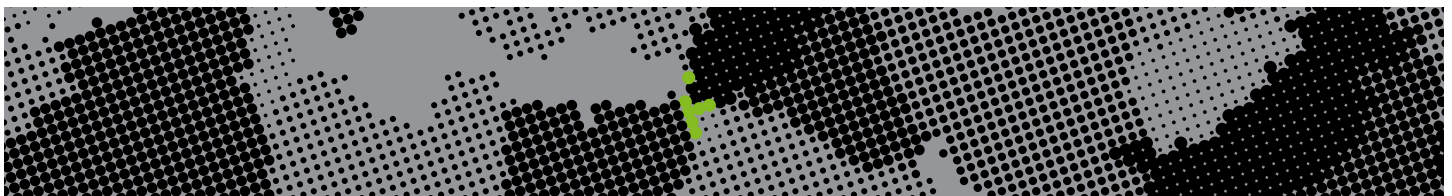
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### Industries most often affected by government incentives in country

<b>Technology, Media &amp; Telecom</b>	<b>Financial Services</b>
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
<b>Consumer</b>	Investment Management
● Consumer Products	Real Estate
● Retail, Wholesale & Distribution	<b>Life Sciences &amp; Health Care</b>
● Automotive	● Health Care
● Transportation, Hospitality & Services	● Life Sciences
<b>Energy, Resources &amp; Industrial</b>	<b>Government &amp; Public Services</b>
● Power & Utilities	● Health & Social Care
● Mining & Metals	● Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	● Transport



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Type	National incentive?	State, provincial, regional or local incentives? <sup>1</sup>	Filing deadlines imposed?	Is the claim made in advance or arrears? <sup>2</sup>	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
<b>Innovation</b>							
<b>Research &amp; Development (R&amp;D)</b>	●	●	● ●	National: Arrears Local: Arrears	Relief against income for R&D costs that essentially are capital expenditure	Deduction over three years against current income, or in full in the year in which the costs are incurred where approved by the Israel Innovation Authority (IIA)	Deduction over three years against current income, or in full in the year in which the costs are incurred where approved by the IIA
<b>Preferred technological enterprise</b>	●	●	● ●	National: Arrears Local: Arrears	Lower tax rates under the alternative tax program and strategic program (additional benefits for companies located in priority areas)	7.5% corporate tax rate, 4% withholding tax rate on dividends	7.5% corporate tax rate, 20% withholding tax rate on distributed dividends
<b>Special preferred technological enterprise</b>	●	●	● ●	National: Arrears Local: Arrears	Lower tax rates under the alternative tax program and strategic program (additional benefits for companies located in priority areas)	6% corporate tax rate, 4% withholding tax rate on dividends	7.5% corporate tax rate
<b>Patent box</b>	●	●	● ●	National: Varies Local: Varies	Lower tax rates on the sale of an intangible asset to a foreign related corporation for companies subject to the preferred technological enterprise or special preferred technological enterprise regimes	6% corporate tax rate, 4% withholding tax rate on distributed dividends	12% corporate tax rate, 20% withholding tax rate on distributed dividends
<b>Technological Innovation Labs</b>	●	●	● ●	National: Varies Local: Varies	Grants for multinationals running labs (towards lab infrastructure and operational costs) and startups attending labs (towards salaries, marketing costs, subcontractors and advisors costs, costs of materials and consumables, depreciation of equipment, patent registration)	NIS 5.5 million	NIS 850,000

Key: ● = PERMANENT INCENTIVE (■) = TEMPORARY INCENTIVE (■) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

- Notes:
- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
  - If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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<b>Innovation (continued)</b>							
<b>R&amp;D collaboration between foreign academia and an Israeli company</b>	●	●	● ●	National: Varies Local: Varies	Grants to Israeli company for approved R&D costs (salaries, marketing costs, subcontractors and advisors costs, costs of materials and consumables, depreciation of equipment, patent registration)	NIS 1.8 million	NIS 1.8 million
<b>R&amp;D incentives for manufacturing facilities</b>	●	●	● ●	National: Varies Local: Varies	Grants towards qualifying expenses (salaries, marketing costs, subcontractor and advisor costs, costs of materials and consumables, depreciation of equipment, IP purchase, and patent registration) incurred for the development of new products and/or technologies for companies with industrial manufacturing facilities as part of the Industry 4.0 transition	NIS 3.75 million	NIS 3.75 million
<b>Angel investors</b>	●	●	● ●	National: Arrears Local: Arrears	Tax benefit for individuals investing in qualifying Israeli R&D companies prior to 1 January 2020 under which they may deduct their investment from any other source of income	NIS 5 million per investor, per eligible company	NIS 5 million per investor, per eligible company
<b>R&amp;D grants</b>	●	●	● ●	National: Varies Local: Varies	Grants towards costs of qualifying innovative R&D activities (salaries, marketing costs, subcontractor and advisor costs, costs of materials and consumables, depreciation of equipment, IP purchase, patent registration)	Varies depending on the program	Varies depending on the program
<b>Horizon 2020/ EUREKA</b>	●	●	● ●	National: Varies Local: Varies	Various grants for Israeli companies engaged in qualifying R&D activities and industrial innovation	Varies depending on the program	Varies depending on the program

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<b>Investment</b>							
Capex	●	●	● ●	National: Advance Local: Advance	Cash grants for establishing or expanding productive activities for qualifying industrial companies located in Priority Area A	20% of investment, 30% for companies located in preferred locations	20% of investment, 30% for companies located in preferred locations
Employment	●	●	● ●	National: Arrears Local: Arrears	Cash grants for (i) companies located in Priority Area A for recruiting new employees with high salaries, or (ii) companies in all areas recruiting new employees from populations with a high unemployment rate	(i) Varies, maximum 35% of salary (capped at NIS 30,000) (ii) 20% of salary	(i) Varies, maximum 35% of salary (capped at NIS 30,000) (ii) 20% of salary
Training	●	●	● ●	National: Advance Local: Advance	Grants for training new employees	NIS 18,000 per employee	NIS 18,000 per employee
<b>Environmental sustainability</b>							
Sustainability	●	▨	● ●	National: Not Applicable Local: Advance	Financial grants for energy efficiency such as replacing cooling systems, lighting, engines, etc.	40% of project costs subject to a grant cap of NIS 1 million	40% of project costs subject to a grant cap of NIS 1 million

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### Country background

Israel's standard corporate tax rate is 23%, and the standard withholding tax rate on dividends is 25% or 30%.

The Israel Innovation Authority (IIA, formerly known as the Office of the Chief Scientist of the Ministry of Economy, or OCS) implements the government's policy to encourage and support industrial research and development (R&D) that is likely to lead to new export products and cross-border commerce. Incentives may be available where an applicant is approved by the IIA, meets the "disruptive technology" innovation standards, has proven technological and management skills, and intends to implement the project in Israel (unless otherwise exempted by the IIA).

Financial incentives provided by the government usually are provided by the Investment and Development Authority for Industry and Economy. Applications for incentives must be submitted in advance before making the capital investment or hiring new employees.

### Innovation incentives

#### Research and Development (R&D)

##### Nature of incentives

##### Preferred technological enterprise

Tax benefits are granted to industrial companies (including software companies) that export more than 25% of their total turnover to a market with a population exceeding 15 million. A corporate tax rate of 7.5% applies to companies located in "Priority Area A" and a 12% rate applies to companies located in other areas. The capital gains tax rate on the sale of an intangible asset to a foreign related corporation is reduced to 12% where the asset has been acquired from a foreign corporation for at least NIS 200 million.

##### Special preferred technological enterprise

The special preferred technological enterprise program is intended for multinational companies whose annual gross turnover exceeds NIS 10 billion, and whose exports exceed 25% of revenue.

Companies that qualify under this program benefit from a reduced corporate tax rate of 6%. The capital gains tax rate on the sale of an intangible asset to a foreign related corporation is reduced to 6% where the asset has been acquired from a foreign corporation or developed in-house.

Dividends paid by a preferred technological enterprise or a special preferred technological enterprise are subject to reduced withholding tax rates depending on the shareholder, as follows:

- Individual Israeli resident: 20%;
- Individual nonresident: 20% or the rate under an applicable tax treaty (whichever is lower); and
- Nonresident entity: 4% or the rate under an applicable tax treaty (whichever is lower) where at least 90% of the company's shareholders are nonresident entities and Israeli residents hold less than 25% of the shares; otherwise, the rate is 20% or the rate under an applicable tax treaty (whichever is lower).

##### Angel investors

A tax benefit is granted to individuals investing in qualifying Israeli R&D companies under which they may deduct their investment from any other source of income, capped at NIS 5 million per investor, per eligible company.

In addition, foreign companies with Israeli subsidiaries that invest in other Israeli companies may recognize the amount of the investment as an expense for tax purposes over a three-year period. This benefit is available for investments made through 31 December 2019 and has not yet been extended by the Israeli parliament.

##### Eligible industries and qualifying costs

To qualify under the preferred technological enterprise or the special preferred technological enterprise regimes, the enterprise must receive approval from the National Authority for Technological Innovation that it is promoting innovation or meet one of the following criteria:



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- Incur R&D expenditure that is not less than 7% of revenue or that exceeds NIS 75 million. In addition, the company must employ at least 200 R&D employees or at least 20% of its total workforce must be R&D employees;
- Have increased the number of employees by an average of 25% over the previous three years, and had at least 50 employees during each of those years;
- Obtain an investment of at least NIS 8 million from a venture capital fund; or
- Have increased revenue by an average of 25% over the previous three years, and had at least NIS 10 million of revenue in each of those years.

### IP and jurisdictional restrictions

R&D activities must be carried out in Israel and the Israeli company must incur the R&D-related expenditure. In the case of a preferred technological enterprise, an Israeli company must own the IP rights (in accordance with the OECD/G20 BEPS action 5 nexus approach).

### Relief for capital expenditure

Capital expenditure on R&D may be deducted over a period of three years unless approval is obtained from the IIA for the amount to be deducted in the year incurred.

### Patent box

Enterprises qualifying for the preferred technological enterprise or special preferred technological enterprise regimes benefit from a reduced tax rate on capital gains derived from the sale of an intangible asset to a foreign related corporation (12% and 6%, respectively).

### R&D grants

Companies in any industry (e.g., pharmaceuticals and medical devices, software and hardware development, and energy and utilities) engaging in innovative R&D activities are eligible for R&D grants from the IIA. Qualifying expenditure includes in-house R&D costs, materials and consumables costs, consultant and subcontractor costs, patent registration, application costs for regulatory approval, capital investments, and overheads.

The IIA supports R&D projects in Israel by offering conditional grants of up to 50% of approved R&D expenditure (up to 60% in Priority Area A and up to 75% in the area surrounding the Gaza Strip). If the R&D project is successful, the company must repay the grant by royalty payments from related revenue, until the grant is fully repaid, plus interest.

The R&D fund has many different programs, targeting both early stage startups and mature companies, in different stages of R&D.

A multinational corporation with annual revenue exceeding NIS 2.5 billion investing money or assistance in R&D projects may be entitled to joint ownership of IP with the Israeli company.

Startups supported by the Technological Incubators and Innovation Labs programs may be entitled to grants of up to 85% of approved expenses for nascent companies to develop disruptive innovative technologies.

The "Tnufa" program is designed to encourage and support an individual entrepreneur in the initial efforts to build a prototype, register a patent, design a business plan, etc. Grants of up to 85% of approved expenses are available up to a maximum of NIS 200,000 for each project.

The MAGNET program sponsors innovative generic industry-oriented technologies through synergetic collaboration between industrial companies and academic research groups.

Binational funds and bilateral agreements enable joint R&D programs with foreign counterparts worldwide.

### IP and jurisdictional restrictions

Restrictions are unique to each grant program. Under most grants, the IP must remain in Israel. However, the transfer of IP outside of Israel is possible, subject to the pre-approval of the IIA, and may require additional payments.



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### Horizon 2020

Israeli companies may apply for grants under the European Commission's Eighth Framework Program—Horizon 2020, the main instrument for funding R&D activities, which covers several disciplines including ICT, nanotechnologies, advanced materials, biotechnology, advanced manufacturing and processing, space, health, food security, energy, transport, the environment, and security. Israel also is a participant in the Ninth Framework Program—Horizon Europe that will begin in 2021.

Israel participates in the EUREKA funding platform, which is the world's largest R&D program that promotes industrial innovation by aiding and supporting industrial R&D projects that aim to develop new products and bring them to the market. Funding is contingent on budget and funding rates outlined by the specific call for proposals (generally 70% or 100% funding, plus a 25% overhead).

### Investment incentives

#### Grants for expanding activity

Industrial companies located in Priority Area A that export more than 25% of their total turnover to a market with a population exceeding 15 million may qualify to receive nonrepayable cash grants under either of the following tracks:

- Grants for investing in manufacturing facilities: 20% of the approved total investment (30% for companies located in preferred locations); or
- Grants for hiring new employees: usually 20% of salary costs.

### Grants for recruiting new employees

Companies located in Priority Area A also may receive nonrepayable cash grants for recruiting new employees with high salaries. Salaries of at least the average national salary and up to 2.5 times the average national salary can attract grants of between 10% and 35% of salary costs for the employment of at least 15 new employees (and no more than 100 employees) for up to 48 months. There is a cap of NIS 30,000 on salary costs per employee.

Companies located in all areas may receive cash grants for recruiting new employees from populations with a high unemployment rate. Grants of up to 20% of the salary costs are available for employment of at least five new employees from specific populations (ultra-orthodox, minorities, individuals with disabilities, single parents) for at least 24 months.

### Grants for training employees

Companies that wish to recruit new employees and need to provide them with on-the-job training may apply for a nonrepayable grant of up to NIS 18,000 per employee.

### IP and jurisdictional restrictions

There usually are no IP restrictions on grant programs related to capital investment or recruiting new employees.

### Environmental sustainability incentives

Companies located in the south of Israel may receive nonrepayable cash grants for making capital investments leading to energy efficiency such as replacing cooling systems, lighting, engines, etc. The tender is published only once a year and is managed by the Ministry of Energy. Successful companies are entitled to a nonrepayable grant of 40% of project costs, subject to a grant cap of NIS 1 million.

