

# Israel



## Background

Israel's corporate tax rate is 25%. The Office of the Chief Scientist (OCS) of the Ministry of Industry Trade and Labor implements the government's policy encouraging and supporting industrial R&D. It is responsible for promoting industrial R&D that is likely to lead to new export products. Incentives may be available if an applicant is approved by the OCS and meets the following requirements: has proven technological skills, intends to implement the project in Israel (unless exempted by the research committee of the OCS), and meets the high technological innovation standard.

## Nature of incentives

**Alternative tax program:** Tax benefits are given to two kinds of companies. Companies located in Priority Area A, are eligible for a lower tax rate of 7% in 2013 and 9% for years 2014 and thereafter. Companies that are not located in Priority Area A are eligible for a lower tax rate of 12.5% in 2013, and 16% as from 2014.

If the company pays dividends during a tax year in which the full exemption is available, the dividends are taxed at 20% and any exempted taxes become immediately payable.

Companies located in Priority Area A may also qualify for grants for investing in their manufacturing facilities. Grants are distributed by the Investment Center at a rate of 20% of the total investment.

**Strategic program:** The program is intended for large multinational companies whose annual gross receipts exceed ILS 20B, whose preferred income exceeds ILS 1.5B, who invest a minimum of ILS 100M in R&D projects, and who hire at least 250 new employees.

Fulfilling the above requirements will allow the companies to benefit from a reduced tax rate of 5% in Priority Area A and 8% in areas that are not Priority Area A.

**Angel's law:** Angel's law is a tax benefit granted to individuals investing in qualified Israeli R&D companies, allowing them to be able to deduct their investment from any other income source. The amount of the deduction is capped at ILS 5M per target company.

In Israel, companies must apply to the Office of the Chief Scientist of the Ministry of Industry Trade and Labor for tax exemptions, reduced tax rates and cash grants.

## Eligible industries and qualifying costs

Companies engaging in qualified R&D activities in the following industries are generally eligible for R&D incentives:

- Pharmaceuticals
- Software and hardware development
- Energy and utilities

Qualifying expenditure generally includes in-house labor costs, capital investments, supplies, overhead, and contract costs.

The OSC's main program, the R&D Fund, supports R&D projects in Israel by offering conditional grants of up to 50% of the approved R&D expenditure, and up to 60% in Priority Area A. If the R&D project is successful, the company must repay the grant through royalty payments.

**Special benefits for selected fields:** Israel also offers special benefits for research undertaken in special fields, including: (i) traditional industries such as food and beverages, textiles, print, metal, and plastics, and (ii) non-traditional industries such as cyber security, the space industry, and alternative fuels. There also are special benefits for start-up and new companies.

A large corporation with over ILS 100M annual taxable income and more than 200 R&D employees in Israel, or R&D budget of at least ILS 20M per year, will be granted up to 50% of the approved R&D expenses.

A multinational corporation (over ILS 2.5B of annual revenues) investing (money or assistance) in R&D projects may be entitled to joint ownership in IP with the Israeli company.

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

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Technological incubators provide grants of up to 85% of approved expenses for nascent companies to develop 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 are offered up to 85% of the approved expenses for a maximum of ILS 210K for each project. Israeli companies can apply for grants in the European Commissions' Seventh Framework Programme (FP7), which is the main instrument for funding R&D activities, covering almost all scientific disciplines.

Israel is participating in the EUREKA funding platform, which is the world's largest program promoting industrial innovation, aiding and supporting industrial R&D projects aimed at developing new products and bringing them to the market.

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

## **IP and jurisdictional restrictions**

Restrictions are unique to each grant program.

R&D activities must occur in Israel. The Israeli company must incur the R&D-related expenditure.

The resulting IP does not have to reside within Israel, though location is considered in the granting process.

## **Other concerns**

R&D expenses generally are deducted in the year incurred, but some expenses are deducted in installments over three years.

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Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax rate reductions and grants	<ol style="list-style-type: none"> <li>1. Tax rate reductions through the Alternative Tax Program and Strategic Program.</li> <li>2. Several grant programs are available.</li> </ol>	Yes	N/A

  

R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
Yes	N/A	No, but could be a factor in evaluating grant applications.	While there are no industry eligibility requirements the Israeli government appears to favor applications submitted by companies in the following industries: pharmaceuticals, software and hardware development, energy and utilities.