

# YOUR BRIDGE TO THE ISRAELI TAXATION

<u>Disclaimer</u>: This presentation provides general information only and does not have a pretention to be a full and complete guide to the Israeli Taxation. As such, it should not be used or taken as a legal advice for specific situations.

### Israeli Tax Benefits for Foreign Investors and Entrepreneurs

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### Major reasons to invest in Israel

- Start Up Nation.
- SRanked 1st in the world for innovative capacity and 1st in the world for entrepreneurship.
- Israel's creative, skilled, and ambitious workforce is one of the most obvious reasons leading executives turn to Israel to do business.
- Sconceived in Israel **1000+** innovative Startups per year.
- Second-largest **R&D center** is located in Israel.
- Microsoft, Google, Apple, Intel, Samsung, HP, Siemens, GE, Philips, Alcatel-Lucent, Cisco, Toshiba, Barclays, Hutchison and LG spark the long list of over 270 multinational companies have their centers in Israel.

**SA member in the OECD since 2010.** 



### Israeli Industries for Investment

- Health & Life Sciences Israel is ranked 1st for Medical Device patents and 2nd for Medical Device solutions per capita.
- Section 2007 Agricultural Technology Israeli AgroTech export more than 3 Billion USD annually. The Israeli AgroTech ecosystem fosters over 200 innovative companies, designing the future of the agriculture.
- Cyber Security Israel is a world-class leader in Cyber Security, with annual exports of more than 3 Billion USD. The Israeli Cyber Security ecosystem is estimated to represent 7% of global sales and 8% of global investments, with over 250 remarkably advanced companies. Israel hosts R&D centers for over 20 multinational corporations, such as IBM, Cisco, and GE. Israeli anti-virus software protects 1 in 6 computers worldwide.



### Israeli Industries for Investment

- Source and the Discovery of **giant gas fields** in the Levant Basin, in the past 15 years, Israel has transformed from being a net importer of fossil fuels to become self-sufficient in its gas consumption, already providing more than 50% of the country's electricity generation.
- Solution Water Technologies Israeli systems account for 50% of the world's low-pressure irrigation systems.
- New Media & Internet Israel is home for over 800 innovative companies, launching more than 250 new companies each year. Israeli New Media and Internet companies export advanced services worth several billion USD annually.
- CleanTech Israel serves as the base to over 100 start ups in the sustainable energy sector, developing innovative, alternative and sustainable solutions to combat the global need for renewable energies. Solar water heaters are used in over 90% of Israeli homes.





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# General Outline of the Israeli Corporation Taxation







### **Corporate Taxation**

A company is considered resident in Israel for Israeli tax purposes if either of the following applies:

It is incorporated in Israel.

∞Its business is **controlled and managed** in Israel.

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, unless otherwise provided for in an applicable tax treaty.

The determination of company's management and control takes into account, inter alia, the following considerations:

Some of the management of the company.

The actual place of the **strategic decision making** with respect to the company.

∞ The location of the **board meetings**.



### **Corporate Taxation**

#### **Corporation Rate – 24%**

∞ It has been reduced in 2017 to 24% (25% in 2016).

 $\gg$  It is aimed to be reduced further – to 23% — in 2018.

### Dividends

Sesident companies are tax exempt from inter-company dividends.

Foreign dividends (arrived from foreign company) – are taxed at the regular 24% Company tax rate (Subject to direct and indirect foreign tax credit).

∞ Dividends distributed by "preferred company" – 20% (see below).

VAT Rate – 17%



### The Capital Investment Encouragement Law (the "Investment Law")

#### The major terms to be qualified as Preferred Company are as following:

- An Israeli company, which was incorporated under the law of Israel, and the business of which is controlled and managed within Israel.
- Production activity: the main activity of the company in the relevant tax year is a "production activity", including the production of software and development products
- Preferred income: is an income that arose from the production activity in one or more types of income listed in the Law, including the following:

Income from granting permission to use know-how or computer software developed by the company, as well as income from royalties received for the said use.

∞Income from R&D services for a foreign resident.

Solts main activity is **bio-technology** or **nano-technology**.

25% or more of its revenue during the tax year are derived from sales in a specific country or in a separate customs duty territory that has a population of at least 14 million.



### The Investment Law

### Innovation box regime - Preferred Technology Company /Special Preferred Technology Company status

- On 1 January 2017 an Amendment No. 73 of the Investment Law took effect (the Reform No.73).
- ∞ The innovation box regime of the Reform No. 73 has two new R&D incentive tracks:
  - Preferred Technology Company an Israeli company with R&D activities which meets certain criterias and generates income from IP.
  - Special Preferred Technology Company a Preferred Technology Company that is part of a group with global consolidated revenue over ILS10 billion.
- Implementation of the Nexus Approach according to the BEPS Action 5 (Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance) on the Investment Law.
- Solve on 16 May 2017 New Regulations took effect in order to implement the Nexus Approach.



### **The Investment Law**

### Tax Rates according to the relevant track

	Company Tax Rate	Company Tax – Area A Rate	Capital gains tax (under certain conditions)	Withholding tax on dividend
Preferred Company	16%	7.5%		20%
Special Preferred Company (Large Scale Companies)	8%	5%		20% (5% in 2017-2019 to the parent company, which is a foreign resident
Preferred Technology Company	12%	7.5%	12%	20% (4% on dividend to foreign company, under specific conditions)
Special Preferred Technology Company	6%	6%	6%	20%(4% dividend to foreign company, under specific conditions)



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# Israel and the International Tax







### **International Tax Treaties**

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- Israel Joined the Convention on Mutual Administrative Assistance in Tax Matters on 24 November 2015.
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- Solution New Internal Law and regulations to implement FATCA Agreement and the CRS July/August 2016.
- Solution on 7 June 2017.



### Withholding Tax Rates in Israel's Tax Treaties

Jurisdiction	Dividends (%)	Interest (%)	Royalties (%)
Austria	25	15	0/10
Belarus	10	5/10	5/10
Belgium	15	15	0/10
Brazil	10/15	15	10/15
Bulgaria	10/12.5	5/10	12.5
Canada	5/15	5/10	0/10
China, People's Republic of	10	7/10	10
Croatia	5/10/15	5/10	5
Czech Republic	5/15	10	5
Denmark	0/10	5	0
Estonia	0/5	5	0
Ethiopia	5/10/15	5/10	5
Finland	5/15	10	10
France	5/10/15	5/10	0/10
Georgia	0/5	0/5	0
Germany	5/10	0/5	0
Greece	25	10	10
Hungary	5/15	0	0
India	10	10	10
Ireland, Republic of	10	5/10	10
Italy	10/15	10	0/10
Jamaica	15/22.5	15	10
Japan	5/15	10	10
Korea, Republic of	5/10/15	7.5/10	2/5
Latvia	5/10/15	5/10	5
Lithuania	5/10/15	10	5/10



#### Withholding Tax Rates in Israel's Tax Treaties

Jurisdiction	Dividends (%)	Interest (%)	Royalties (%)
Luxembourg	5/10/15	5/10	5
Macedonia - not yet ratified	5/15	10	5
Malta	0/15	5	0
Mexico	5/10	10	10
Moldova	5/10	5	5
Netherlands	5/10/15	10/15	5/10
Norway	25	25	10
Panama	5/15/20	15	15
Philippines	10/15	10	15
Poland	5/10	5	5/10
Portugal	5/10/15	10	10
Romania	15	5/10	10
Russia	10	10	10
Singapore	5/10	7	5
Slovakia	5/10	2/5/10	5
Slovenia	5/10/15	5	5
South Africa	25	25	0
Spain	10	5/10	5/7
Sweden	0	25	0
Switzerland	5/10/15	5/10	5
Taiwan (Republic of China)	10	7/10	10
Thailand	10/15	10/15	5/15
Turkey	10	10	10
Ukraine	5/10/15	5/10	10
United Kingdom	15	15	0
United States	12.5/25	10/17.5	10/15
Uzbekistan	10	10	5/10
Vietnam	10	10	5/7.5/15



### **Implementation of the BEPS Project**

On April 11, 2016 the Israeli tax Authority has published Circular 4/16 whose title is "The Activity of Foreign Corporation in Israel via the Internet" (the "Circular").

Influenced by Action 1 (Addressing the Tax Challenges of the Digital Economy) and Action 7 (Preventing the Artificial avoidance of Permanent Establishment Status) of the BEPS, the Circular main targets is to point out under what conditions it will be possible to attribute foreign corporation revenues from the sale of goods or provision of services via the internet, to a "permanent establishment" in Israel. In addition, the Circular sets out the conditions to classify the internet activity of the foreign corporation as subject to Israeli VAT.











### I. The "Angels" Law

- The "Angels" Law permits individual investors, or individual investors in a partnership, to deduct investments (up to 5 million NIS per target) made by 31 December 2019 to a qualifying R&D start-up company or target company.
- The deduction is spread over a three-years period starting with the tax year in which the investment is made.



### **R&D** expense deduction

- Section 20A of the ITO enables companies to deduct their R&D expenses on a current basis in the tax year in which they were paid, provided that the **ITA confirms** that the expenses qualify for the deduction.
- SR&D expenses are expenses incurred in scientific research in industry, agriculture, transportation or energy.
- Expenses incurred in scientific research that are not approved by the ITA are deductible in three annual instalments starting from the tax year in which they are paid.



### II. <u>Deduction for the purchase of shares in other R&D companies</u>

- Company that purchases at least 80% from the shares of a qualifying R&D company may deduct the purchase amount for a period of **five years** starting from the year following the year of purchase.
- There are conditions and limitations for qualifying for the benefit.

### III. <u>Deduction for the purchase of shares in other R&D traded companies (IPO)</u>

Subject to specific conditions, an amount of investment in traded R&D, up to 5 million NIS, may deduct as capital loss in the investment or in the period of three years starting the investment year.



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### Special tax benefits to Foreign Residents







### Major tax benefits for Foreign Residents In Israel

- Sale of shares in Private Company: Subject to certain limitations, full Exemption is applied on the Capital Gain of foreign residents (entities and individuals) from the sale of securities of an Israeli private company.
- Sale of shares in Public Company: Foreign residents (entities and individuals) are exempt from Israeli capital gains tax on gains from sale of shares traded on Tel Aviv Stock Exchange, unless the gain is attribute to PE the seller maintains in Israel.
- Special Exemption Rulings from the Israeli Tax Authority ("ITA") are available to Foreign Tax investors in Israeli / Foreign Venture Capital Funds/ Hedge Funds.

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### Oil and Gas Project Tax Benefits





### **Oil and Gas Project Tax Benefits**

#### An Ongoing deduction of capital expenses

- A petroleum project is allowed to deduct exploration expenses on an ongoing basis (albeit being a capital investment), or alternatively, register those expenses as an asset that is entitled to accelerated depreciation.
- A petroleum project which purchased depreciable assets for the purposes of petroleum exploration and production, which ceased to be used as a result of the cessation of the activity, is allowed to deduct the depreciated cost of the assets (albeit being a capital loss).



### **Oil and Gas Tax Benefits**

- If a petroleum project cannot utilize all deductions in a particular tax year, it can be utilized in the following tax years without limitation.
- The said tax deductions resulted in the creation of tax losses for the petroleum project, at least during the first years of the project, in which the revenues, if any, are low. Hence, petroleum projects are incorporated as partnerships, which according to Israeli tax law are deemed as "transparent" entities. This enables the losses to "**pass through**" the entity and to be allocated to the partners, who can exploit the losses themselves.



### **Additional Tax (Levy Payment)**

- The levy on Oil & Gas project profits is imposed on the "economic surplus" of the petroleum project, that is, the ratio obtained from the net revenues of the project, divided by the investment in the initial stages of the project. This ratio is called the "Levy Factor ", and it is calculated at the end of each tax year.
- Payment of the levy shall begin when the factor reaches a value of 1.5 (i.e. full return of the investment, plus a yield of 50%). The levy rate is set according to the levy factor, and it varies from 20% (when the factor value is 1.5) to 46.16% (when the factor value is 2.3).
- The levy is calculated as the product of the factor and the petroleum profits. The petroleum profits are the difference between the total current revenues (revenues received during the tax year) and the total current payments (payments made during the tax year).



### Tax Benefits for First Time Residents and Veteran Returning Residents







# **Personal Taxation**

<u>An Israeli resident</u> is defined as an individual whose center of living is in Israel, including the following considerations:

- Permanent home
- Place of residence of the individual and his or her family
- Solution Habitual place of business or permanent place of employment
- Place where assets and investments are located
- Place of membership in organizations, associations and institutions
- The center of individual's life is considered to be in Israel in the following circumstances:
- ∞Individual remains in Israel at least 183 days in a year (first presumption).
- The individual remains in Israel in the relevant year at least 30 days and together with the two years before, his staying in Israel 425 days or more (second presumption).



### **Personal Taxation**

A Foreign resident is a person who is not an "Israeli resident" and also an individual for whom all the following applies:

- In stays abroad for at least 183 days in each year, in the tax year and in the subsequent tax year;
- It center of his life was not in Israel, during two tax years after the tax years said above
- A First Time Resident is defined as an individual who became an Israel resident for the first time.
- A Veteran Returning Resident is a person who were considered foreign resident for a period of at least 10 consecutive years.



# **10 Years Tax Holiday**

The major Tax Benefits for **<u>First Time Residents</u>** and **<u>Veteran Returning Residents</u>** (who arrives to Israel after January 1, 2007) are as follows:

- Exemption from Israeli income tax for a ten years period that accrued outside of Israel.
- Exemption from Capital Gains derived from the sale of an asset located outside of Israel Tax during the Ten Years Period.
- Exemption from Reporting their income, which is sourced outside of Israel, during the Ten Years Period.
- Son Application of the Definition "Israeli Resident" on corporations "Corporation" will not be considered as an Israeli Resident for tax purposes, if the control and management of its business are conducted in Israel by a First Time Resident or a Veteran Returning Resident, or by anyone acting on their behalf.

# **Questions?**

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