RAVEH RAVID.

DOING BUSINESS IN ISRAEL

2023

Russell Bedford

taking you further

Contents

PAGE	CHAPTER /SECTION
01	**About Raveh Ravid & Co.**
02	**Background**
03	**Business Environment**
03	Labor market
04	Population trends
04	Education
04	Language skills
05	Labor costs
06	**Establishing a Legal Presence**
06	Laws on foreign investment
06	Investment incentives
06	Creating a permanent establishment (PE)
07	Company obligations/compliance requirements
07	Bankruptcy and business disposal
08	**Taxation**
08	Corporation tax
08	Tax incentives and exemptions
08	The tax benefits track
09	Grants track
09	VAT and indirect taxes
09	Taxation of foreign companies
09	Personal income tax
09	Taxable income
10	Taxation of non-residents
10	Double taxation treaties
10	Tax exemptions for new immigrants and returning residents
10	Customs regulation
11	Land and property taxes
11	Intellectual property
11	Research and development (R&D) concessions
12	Currency regulation

PAGE	CHAPTER /SECTION
13	**Real Estate**
13	Ownership of property and/or land
13	Land and property taxes
13	Land and property ownership by non-residents
14	**Banking**
14	Background
14	Regulation and regulatory bodies
15	**Capital Markets**
15	Regulation
15	Regulatory bodies
15	Tel Aviv Stock Exchange
16	Private equity
17	**Labor Regulation**
17	Statutory legislation
17	Employment contracts - standard terms
17	Minimum wage regulation
18	Maternity leave entitlements
18	Sick leave
18	Work permits and visas
19	Termination of employment
20	**Dispute Resolution**
20	Key regulation
20	Litigation
20	Arbitration

The information contained in this publication is provided for general purposes only and does not constitute professional accounting, tax, business or legal advice. It may not be applicable to specific circumstances. Laws and regulations change rapidly, so information contained herein may not be complete or up-to-date. Please contact your professional adviser before taking any action based on this information.

© Raveh Ravid 2023. All rights reserved.

About Raveh Ravid & Co.

Raveh Ravid & Co. is a certified public accountantsand tax experts firm, offering a wide range of professional services designed to meet the diverse needs of our clients.The firm's extensive capabilities and unique approach enabled a solid base for strong, long-lasting relationships with clients from diverse segments around the world.

Our team of experienced and senior professionals, consisting predominantly of CPAs, tax experts, internal auditors and economists, brings forth a direct, hands-on approach, providing the added benefit of vast experience merged with a corporate culture of personalized attention. Operating in Israel since 1986, and a member of the Russell Bedford International network, we have been working diligently to provide customized, high-quality solutions aimed at promoting long-term client success.

We are a business-oriented firm, designed to provide cross-discipline, collaborative services that create real value.

We offer a synergetic spectrum of accounting solutions, from auditing and accounting services, through tax planning and tailored advisory services, to ongoing consultation and internal auditing.

We are driven by our commitment to each and every one of our clients, and with a proactive passion for innovation. We always provide a valuable business perspective and meticulous professional attention, to ensure their financial goals are achieved and even exceeded.

Raveh Ravid Family Office is an independently operating entity that serves as a prominent addition to our firm's scope, while enabling us to provide significant added value to our portfolio of clients.
Our dedication to excellence within the community is also brought to life through the **Raveh Ravid Fund**, which targets talented university students and promotes leadership skills and involvement in social activities. The fund provides significant scholarships to exceptional students that are pursuing their studies across a wide range of disciplines, and throughout all stages of their higher education path.

We strive to create a better future for all of our clients, and employees, keeping the dynamics of today's world in mind at all times.

Local insight. Global reach.
Today's international business environment is one of unprecedented opportunity. But moving into new markets is never without its challenges. Whether you're a new start-up taking that first step cross-border, a medium-sized business looking to expand your reach abroad, ora multinational company looking to optimize tax efficiencies and manage your global accounting compliance obligations, successful expansion abroad demands advisers you can trust.

As a member of Russell Bedford International, a global network of independent firms of accountants, auditors, tax advisers and business consultants, we are able to deliver the range of services our clients demand, wherever they need them. Strict adherence to the Russell Bedford network's stringent quality standards means our clients can be confident of the same world-class services, wherever they operate.

01

Background

Established in 1948, Israel is the world's only Jewish state and the sole democracy in its vicinity. Israel is composed of many different nationalities and cultures and is home to religious and ethnic minority populations such as Muslim Arabs, Christians, and Druze.

The city of Jerusalem is the nation's capital, the seat of the Knesset (the Israeli Parliament), the Israeli Government, the Supreme Court, and the Israeli President. The city of Tel Aviv, situated on the beautiful beaches of the eastern Mediterranean Sea, is considered Israel's financial capital.

Israel has a diverse open market economy. Being a relatively young state in the modern era, Israel is recognized as a developed market by many major indices. Israel has been a member of the high-income sector of the OECD (Organization for Economic Co-operation and Development) since 2010, and a member of the FATF (Financial Action Task Force on Money Laundering) since December 2018.

Israel has one of the most resilient and technologically advanced market economies in the world and is home to many international high-tech companies. Its skilled workforce and concentration of venture capital allow the country to lead in innovative industries such as high-tech and life sciences.

Natural gas fields discovered during the past decade off Israel's Mediterranean Sea coast have brightened Israel's energy outlook. The production from these fields is expected to meet most of Israel's energy demands for decades ahead.

Israel's population is about 9.6 million people, 74% of which are Jews; its GDP is approximately US$ 488 billion and the GDP per capita is about $52K (2021 Data).

02

Business Environment

Introduction

Israel has a developed free-market economy, the country's major economic sectors are high-technology and industrial manufacturing. Israel commodities and services export have reached $140B annually.

Commodities comprise 47% of the total export and its main sectors are: Electrical and optical devices, chemical products and cut diamonds. Services comprise 53% of the total export and its main sectors are software, R&D and other business services.

Israel's Compound Annual Growth Rate (CAGR) over the last 10 years was **3.8%**.

Israeli high-tech sector continued to prosper and to account for the economy's primary growth engine.

With over 9,000 active startups, Israel is a hotspot for pioneering technologies attracting the world's leading multinational companies such as Nvidia, Microsoft, Motorola, Google, Apple (three R&D centers), Facebook, Intel, Siemens and many more.

High-tech is one of the most in-demand sectors of the Israeli economy, the number of employees in the Israeli high-tech industry continued to grow and reached nearly 400 thousand.

Following the hike in interest rates worldwide, and initial signs of a global, post COVID, recession, total volume of investments in the Israeli high-tech sector in 2022 decreased by almost one-half – from an unprecedented USD 27 billion in 2021 to about USD 15.5 billion in the year 2022.

Labor Market

The early foundations of Israel's economy were formedon a socialistic base: for the first decades of its existence, the Government of Israel was dominated by parties with social or socialist overtones. Israeli society has adopted these foundations, including a well-developed system of labor laws aimed at protecting the rights of workers, both during their employment and after retiring. The Israeli employee is entitled to at least 12 days of annual vacation, and this number increases with seniority at the workplace.

The employee is also entitled to payment during sick leave. Israeli law sets out a 42-hour workweek, for those with a five-day workweek, the length of a work day is set out as 8.4 hours, while those with a six-day workweek have a work day of 8 hours, with a half-day of work on Friday. Employers are required by law to allocate a fixed portion of the employee salary to a pensionfund and national insurance which may be up to 20% of gross pay.

Employees are entitled to advance notice prior to termination, the period of notice depending upon the duration and type of employment. Every Israeli is entitled to comprehensive healthcare within the healthcare organizations, in exchange for health insurance payments that are partly deducted from his salary, while most of the payments are made by his employer.

A number of labor organizations, headed by the New General Labor Federation, unionize workers in many sectors, primarily those in the government sector. Many employees in Israel are entitled to special safeguards in the form of 'collective agreements', providing them with a set of social and other benefits.

02

Business Environment
(continued)

Israel has a highly educated and innovative workforce. High-school education is routine, and almost every Israeli adult is capable of conducting a conversation in English and possibly in another language besides Hebrew. A large percentage of Israelis hold an academic degree, provided by dozens of academic institutions: the rate of Israelis holdingundergraduate and graduate academic degrees is one of the world's highest, and in certain fields such as medicine, the academic institutions in Israel are unable to answerthe vast demand. As a result, many young people acquire education outside of Israel.

Population trends

Israel's population growth rate, which was 2.2% in 2022, is one of the highest in OECD countries and total population is set to reach 10 million by the end of 2024, according to Israel's Central Bureau of Statistics (CBS).

The fertility rate in Israel for 2022 is the highest in the OECD with 2.95 children per woman, compared to an OECD average of 1.66.

Education

State-funded compulsory education is practiced in Israel according to law, from the age of 3 to 18. At the age of 6, children start to study at primary school, then they spend three years at middle school, and the last three years are spent at high schools, in various study tracks to which children are assigned according to their talents. Some vocational high schools continue their training for an additional year, at the end of which the graduate is awarded a 'practical engineer' degree. Following completion of 12 years of studying, students take final examinations. Those who pass them all successfully will be granted a 'matriculation certificate'. In 2022, the national rate of eligibility for matriculation certificates was 76%.

Upon graduation most Israelis will begin their mandatory military service, which lasts 32 months for men and 24 months for women. Soldiers who are either trained as officers or go through highly specialized training, such as aircrew and ship crew, will serve for longer periods of time, during which the officer gains academic training and usually completes his long service with an undergraduate or a graduate degree.

The proportion of Israelis who gain academic higher education is one of the highest in the world. Israel has ten universities and dozens of colleges that are qualified to award academic degrees under state supervision. In recent years, researchers and scientists produced by the Technion Institute of Technology in Haifa, the Hebrew University in Jerusalem and the Weizmann Institute of Science in Rehovot have made some major breakthroughs in economics, physics and chemistry. Some of them have received Nobel prizes for their contribution to global society.

These academic institutes produce tens of thousands of graduates in social science and technology fields each year. They also train nearly 3000 new lawyers and roughly 1,500 accountants per year: an unprecedented rate relativeto the size of the population compared to other developed countries.

Language skills

Hebrew is spoken by all sectors of the population, including the Arab population. Arabic and Russian are common mother tongues in the country. Israeli students acquire basic English skills and usually learn an additional, third language. Besides Hebrew, an enormous range of languages are spoken on the Israeli street, as a reflection of Israel diverse population.

The Israeli Companies Ordinance (ICO) defines a company as a corporation formed and registered in Israel, in accordance with the Israeli law. A company must be registered at the Registrar of Companies which is a relatively short and simple process. According to figures from the World Bank, the total cost of setting up a corporation in Israel may reach US$ 2,000 (depending on the complexity of the company's structure) and will take about two weeks, including registration of the corporation with the tax authorities in Israel.

Labor costs

Israel's labor laws as well as the quality of education and training are reflected in the cost of labor in Israel. However, the cost of employment of a skilled worker in Israel is still lower than that of his counterparts in North America or Europe.

In Israel, a minimum wage of about $1,600 per month is applied. Correspondingly, the minimum cost of employment per hour of work is approximately $8, considering the mandatory payments applying to wages in Israel. The cost of employment of a skilled engineer graduated from computer science and electronics faculties, may reach $70 per hour. The compensation of senior management workers is essentially the same as the compensation paid to equivalent executives in Europe and North America, and some of the senior executives in Israel earn millions of New Israeli Shekels per year.

03

Establishing a Legal Presence

In addition, Israel's laws regulate incorporation through partnerships. Whereas the partnership will be recognized as a separate legal entity to its partners, for tax purposes it is considered to be transparent, and its tax liabilities are assumed by its partners.

Non-profit organizations may be incorporated as a Voluntary Association, or operate as a Limited Liability Company that has been incorporated as a Public Benefit Company. These entities must make comprehensive reports to the Registrar of Voluntary Associations or the Registrar of Companies, as the case may be. By law, non-profit organizations may be exempted from income tax on their activity. The receipt of an exemption is subject to certain conditions, including meeting of criteria prescribed in the law and procedures.

All Israeli companies must submit audited annual financial statements to the Israeli Tax Authority. These financial statements will also include an adjusted tax return.

Laws on foreign investment

Israel has no unique laws concerning foreign investments nor foreign investors. The various laws of incorporation, regulations and orders applicable in Israel apply both to foreign investors and residents, but there may be specific regulations for foreign investors in existing legislations.

Investment incentives

According to the Israeli tax laws, there are several tax exemptions and forms of relief for foreign resident investors, such as exemption from capital gains tax in the following cases:

- Sale of a share traded on the Tel Aviv Stock Exchange;
- Sale of holdings in an R&D company;
- Sale or realization of derivatives;
- Sale of a mutual fund to an overseas resident.

In addition, an exemption from tax on revenue from foreign currency interest will be given subject to a number of conditions that are prescribed in the law.

Creating a permanent establishment (PE)

Any business activity carried out in Israel, which has a permanent place of business and results in revenue being generated, is likely to be deemed as having created a 'permanent establishment'. The definition of a permanent establishment in Israel is in accordance with the OECD Model Tax Convention. Article 5(1) of the OECD Model Tax Convention states this to be 'a fixed place of business through which the business of an enterprise is wholly or partly carried on'. According to interpretation of the OECD Model Tax Convention, three cumulative conditions must be fulfilled in order for the activity to be considered a permanent establishment: 1. There is a place of business in that country, such as premises or, in certain circumstances,machinery or equipment; 2. The business place is 'fixed', i.e.the company operates out of a specific place of business, with a certain degree of permanence; 3. Management of the enterprise's business is done through this 'fixed' place. Should a dependent representative be operating on behalf of a foreign company, it does not have to meet all three conditions in order to be deemed as having created a permanent establishment.

A dependent representative is one who is subject to the instructions of the foreign resident, does not bear any risks and has no additional occupations besides being a representative of that company.

Company obligation/compliance requirements

An Israeli company must submit annual financial statements that are audited by an Israeli CPA. These statements are submitted to the tax authorities following approval of the company's directors, along with an audited statement of the adjustment of the reported income to taxable income for income tax purposes. In addition, the company must submit an annual report to its shareholders and additional legal information to the Registrar of Companies.

All companies with employees must submit to the tax authorities' periodical reports (usually once a month) and an annual report of payments to employees and the tax withheld from them. In addition, a company must submit reports concerning the payments and the tax withheld from suppliers.

These duties apply to all companies that are incorporated in Israel, and with certain adjustments to overseas corporations operating in Israel as well.

Public companies must appoint an internal auditor and have two external directors on their board of directors. These companies are bound by broad provisions of law and regulations according to securities legislations in Israel. Among their other obligations, public companies must submit quarterly reports reviewed by their CPA and annual audited financial statements that are included in their comprehensive periodical report. These reports are open for inspection by the public, including through the XBRL standard via the Internet.

Bankruptcy and business disposal

The laws of Israel grant protection to holders of rights in corporations against creditors, as well as protection to creditors of a debtor against concealment of assets that are used as collateral for credit that it has given and goods that it has supplied to a failed corporation.

A company may ask the court for protection against creditors, within legal proceedings that allow for this protectionto be used, for a limited period of time, with the intent of reorganizing its assets and liabilities in a manner that will allow it to continue to run. In case of terminal business failure, the corporation will be liquidated, voluntarily or at the request of creditors, under court supervision. Holders of collaterals, such as liens on certain assets that have been registered at the appropriate registrars, may apply to the court and, in case of business failure, request enforcement of repayment of the debt by appointing a receiver for the company or its relevant assets. The repayment of a debt that is not secured may be enforced, in certain cases, by a system that operates in conjunction with the court – the execution (bailiff) office.

04

Taxation

Corporation tax

Israeli incorporated companies and foreign companies that have a permanent establishment in Israel are subject to Israeli corporate tax. The corporate tax rate is 23% in 2023 (Same as 2022).

Credit is given for tax that is paid by the Israeli corporation overseas.

However, in special circumstances, pursuant to the Capital Investment Encouragement Law, reduced corporate tax at rates of 5%-16% will apply to income originating from a 'preferred establishment' or a 'special preferred establishment'.

Tax incentives and exemptions

The State of Israel grants a broad number of support and incentive packages to help support stable, long-term growth of Israel's economy, creating new jobs in the economy and reducing unemployment.

Pursuant to the Capital Investment Encouragement Law in Israel, companies that meet certain criteria (e.g., at least 25% of its income must derive from sales to a market that has a population of more than 14 million) are offered incentives that may be divided into two primary tracks:

a) A reduced tax benefit track;

b) A Grants track.

The tax benefits track

A 'preferred company' pays corporate tax at a reduced rate of 16%. However, a company established in a type 'A' development zone pays corporate tax at a further reduced rate of 7.5%. In addition, a 'preferred company' is entitled to accelerated depreciation (under the conditions prescribed in the law) and reduced tax liability of 20% for dividends originating from preferred revenue.

Commencing 2017, 'preferred technology companies' pay company tax on profits derived from intellectual property at a rate of 12% if the enterprise is located in the center of Israel, and 7.5% if it is located in a type 'A' development zone. For companies with annual revenues above NIS10 billion, the company tax rate is 6% regardless of the company's location.

A company needs to meet additional terms in order to be considered a 'preferred technology company'. For example, the research and development expenses must be at least 7% of income (on average, in the three years preceding the first year that the benefit is required), or higher than NIS 75 million.

For Israeli resident recipients, the tax rate on dividends from preferred technology companies is 20%. If the recipient is a foreign resident and 90% of the shares are held by a foreign resident, then the tax rate on dividends is 4%.

The capital gains tax for preferred technology companies with annual revenues of up to NIS 10 billion, who sell an intangible asset to foreign related parties, is 12% if the intangible asset was bought from a foreign resident for a price of no less than NIS 200 million. For companies with annual revenues exceeding NIS 10 billion, the tax rate for selling an intangible asset to foreign related parties is 6%, if the Israeli company is the owner of the intangible asset from day one, or if the seller is a foreign company.

Companies that have a 'special preferred establishment' status will pay reduced corporate tax of 5% in a type 'A' development zone and 8% in the rest of the country. The conditions to fall under the definition of a 'specialpreferred establishment' are: total preferred revenue of the establishment is NIS 1 billion; the total revenues of the 'preferred company' and consolidated companies according to accounting rules add up to approximately NIS 10 billion; the company's business plan is in accordance with the conditions prescribed in the law.

Grants track

A company in this track, whose investment plan has been approved according to the Capital Investment Encouragement Law, will be entitled to a 20% grant on its approved investment in fixed assets (new equipment and infrastructure that will be included in the plan at the discretion of the director of the investments center).

VAT and indirect taxes

The standard VAT rate in Israel for 2023 is 17%. VAT is imposed at a uniform rate on the price of a 'transaction' in Israel or on the import price of goods into Israel. Israeli law prescribes types of transactions that will either be exempt from payment of VAT, or charged at a zero rate. In the first case, this will lead to prohibition of deduction of VAT that was paid by the supplier at the time of generation of the tax-exempt revenue, whereas charging the transaction VAT at a zero rate (for example, transaction of export from Israel) will allow for reclaiming of the tax that was paid when generated.

In addition to VAT that is imposed on imported goods, the transaction may be liable for customs and/or purchase tax payable by the importer, in accordance with the regulations on the subject.

Taxation of foreign companies

As a rule, a foreign company controlled and managed outside of Israel, with no permanent establishment in Israel, is not required to pay tax in Israel, except for special incomes such as gains from real-estate investments or generating profit from a natural resource of the State of Israel.

A foreign entity that operates in Israel must appoint a representative, a resident of Israel, to operate on its behalf and deal with its affairs with the VAT authorities.It must do so within 30 days of commencing its activity in Israel.

In accordance with a number of double taxation treaties, passive income, such as royalties income, dividends and interest, will be subject to tax at a limited rate that may be withheld at source, and against which credit will be credited in the country of domicile. In case of revenue of a foreign entity that operates overseas, through a permanent establishment, and the dividends are related to that permanent establishment's operations, the country of origin will be given a full taxation right.

Personal income tax

A resident of Israel is liable for tax on a personal basis, i.e., on income that he has generated inside or outside of Israel, including income from employment, business, interest, dividends, royalties, and capital gains.

The income taxation method in Israel is progressive; the initial tax rate is 10% and it gradually increases to a limit of 47% (plus surtax of 3% on income above 698,280NIS). The tax rate on dividends is 25%, but if the individual receiving the dividend is a significant shareholder in the distributing company (i.e., holds 10% or more of the company's share capital), the tax rate to be imposed on the dividends, at the time of distribution is 30%.

In addition to the income tax liability, an Israeli resident is required to pay National Insurance fees and Healthcare Insurance fees to the National Insurance Institute at rates of approximately 7-19% of income from employment or a business (employers partially bear amounts payable bytheir employees to the National Insurance Institute).

Taxable income

A resident of Israel is liable for tax on his income from employment, ancillary wages (such as the value attributable by law to benefits, e.g., a company vehicle, travel expenses, etc.) and from benefits (such as financing of academic studies) that he has gained from an employer in Israel or elsewhere in the world or as a self-employed person. In addition, he is liable to pay taxes on his income from interest, dividends, royalties or capital gains achieved.

An Israeli business, registered at the VAT office, is liable to pay VAT collected from its customers, after deducting VAT amounts paid to suppliers and service providers. Expenses

04

Taxation
(continued)

that have been used for generating taxable income will be deducted from that income. Expenses will include vehicle upkeep (insurance, fuel and more), services received from various service providers, commissions paid to agents and others. A self-employed resident working from home may claim deduction of part of his home maintenance expenses (electricity, water, municipal taxes and other) in accordance with the circumstances of the matter.

Taxation of non-residents

A person will be considered resident of Israel, for tax purposes, if his tax domicile is in Israel. At the time of determining tax domicile, all of his family, economic and social relations will be taken into account.

The law states that a person's tax domicile is presumed to be in Israel when:

- He has been in Israel during the tax year 183 days or longer;
- He has been in Israel during the tax year 30 days or longer, and his total stay in Israel in the tax year and in the two preceding years is 425 days or longer.

These tests may be refuted both by the payer and the assessment officer.

One who does not meet the criteria of being considered a resident of Israel will be liable for tax in the State of Israel for income that he has generated in its territory (territorial method). However, there are a number of reliefs and exemptions for a foreign resident, including exemption from tax on certain capital gains. The income of a foreign resident in Israel will be tested according to the tax treaty between the state of his residence and the State of Israel, including withholding tax at source on dividends that he receives.

Double taxation treaties

The State of Israel has engaged heretofore in 77 double taxation treaties. These treaties lay down the manner of distribution of income between the member states. The taxation treaties include, inter alia, relief in the form of reduced tax payment in Israel for income of a foreign resident in Israel including profits of business, capital gains, royalties, dividends and interest.

Further information regarding taxation treaties to which Israel is a signatory may be found on the State Revenue Division website www.financeisrael.mof.gov.il .

Tax exemptions for new immigrants and returning residents

New residents and senior returning residents (lived abroad for at least 10 years) are generally exempt from Israeli tax on non-Israeli source income for 10 years.

Customs regulation

Customs duties are imposed on the import of goods into Israel. As commonly practiced in the world, Israel also has customs and purchase tax schedules that differentiate between types of goods by categories and sub- categories.

The correct classification of the goods that are imported is the key to determining the customs rate to be imposed. In addition, thought should be given to import licensesand approvals that are required, as well as additional import conditions if required, in accordance with the laws, regulations and provisions on the subject. Customs brokers are the ones who usually help businesses in dealing with customs and purchase tax issues.

Land and property taxes

The Land Taxation Law (Betterment and Purchase) 1963 and the regulations and orders ancillary thereto, lay down the tax that will be imposed at the time of purchase, sale or transfer of land and property. In Israel, progressive purchase tax is imposed on the purchase of a single home by a resident of Israel at rates of 0%-10%, according to its value. Progressive purchase tax rates ranging from 8%-10% will apply to the purchase of a residence that is not the only residence owned by a given resident of Israel and also the purchase of a home by a foreign resident.

Concerning a property that is not being used for residency purposes, a uniform purchase tax rate of 6% will apply, whether for an Israeli resident or a foreign resident.

Intellectual property

Many activities in Israel are performed in an environment that is knowledge and intellectual property intensive and are based on research and development. The Government of Israel encourages the creation of intellectual property.

The Israel Innovation Authority (formerly the Office of the Chief Scientist) and the various government ministries have budgets for state participation in these activities in exchange for royalties that will be paid by the developing entity at the time of completion of development. On the other hand, certain restrictions are imposed on taking the intellectual property out of Israel.

Naturally, this activity involves protection of the intellectual property which has been developed. Patents and copyrights will be registered at the appropriate registrars, both in Israel and in the main target countries for product marketing.

Pursuant to the IFRS standards that are applied by public companies in Israel, development expenses are to be capitalized, for financial reporting purposes, upon the fulfillment of conditions that are prescribed in the standards, unlike US GAAP that prohibits such accounting practice. In addition, expenses due to patent registration will be capitalized.

R&D capital expenses will be tax deductible for an Israeli taxpayer. Expenses incurred within a program that has been approved by the Innovation Authority will be deductible in the year incurred. In other cases, their amortization will be permitted as an expense over a three-year period.

Amortization of other intangible assets will also be deductible. Amortization rates have been established in a manner that is supposed to reflect the financial lifetime during which the property will be used in generating income. Amortization of intangible assets that have been acquired for generating income will be deductible upon the fulfillment of a number of conditions that must be carefully checked for, at rates of 10% (goodwill) or 12.5% (know- how, patent, copyright) per year.

Research and development (R&D) concessions

Israel is a major technology and development center, in a wide range of fields, some of which are world leaders. Israel has gained this status due to Israeli entrepreneurs' innovations and a significant number of technological and scientific breakthroughs that has been achieved in Israel.

The function of the Innovation Authority in Israel is to assist and encourage the development of novel technologies, from the initial stage, through product development to the stage at which it is considered a mature industrial or technological company.

Companies that fulfill the conditions and meet the criteria receive approval for a program by the Innovation Authority.

Once the program is approved, the companies are entitled to receive a grant of 20-50% of the approved research and development expenses. If the approved program is in a preferred area, as defined by the State, an additional grant of 10%-25% will be given. The grant is to be repaid by payment of royalties if the technology reaches the commercialization stage.

04

Taxation
(continued)

The Israel Innovation Authority runs bi-national cooperation tracks between Israeli and foreign companies. The funding rate for an approved plan in this framework may reach 50% of the approved budget. The program includes many European, Far Eastern, North American and South American countries.

In addition, there are a number of grants for generic research and development for which there is no royalty payment and that may reach 66%. Among others, there is a program for transfer of know-how from an academic research institution to an industrial company with the aim of commercializing the knowledge and a generic program for large companies.

Bi-national funds (such as BIRD, SIIRD, CIIRDF) help finance R&D and are subject to the R&D law in Israel, but they also require a return of investment, assuming that it matures.

Currency regulation

The movement of foreign currency to and from Israel is free. The Israeli currency The New Israeli Shekel is traded in many countries. Currency movement restrictions and controls apply to prevent money laundering.

In recent years, the Bank of Israel has been implementing a policy of protecting the Israeli currency by massive acquisitions of foreign currency in exchange for local currency. This has resulted in an accumulation of foreign currency balance on a very large scale compared to Israel's economic activity volume. At the time of writing, the foreign currency balances are equivalent to US$ 116 billion. These balances are invested by the Bank of Israel while implementing a risk dispersion policy.

Israel's current account surplus is approximately US$ 3.9 billion (approximately 1% of Israel's gross domestic product).

05

Real Estate

Ownership of property and/or land

The Land Authority is the entity which manages land owned by the State of Israel, the Jewish National Fund and the Development Authority, which constitutes about 93% of the entire territory of the State of Israel (which is approximately 22,000 square km), according to the policy that is made by the board of the Israel Land Administration. The remaining 7% of land in the State of Israel is privately owned.

These land properties are leased to home and property owners for long periods of time, resulting in land being traded as if it were privately owned. However, the indirect government involvement causes much higher bureaucratic and structural obstacles, which constitute a genuine barrier to the development of real estate properties and their preparation for construction. These barriers are considered as one of the key causes of soaring housing prices in Israel. In view of recent social protest and the inability of young Israeli couples to afford a home, the Government of Israel intends to instigate a comprehensive reform in land planning, development and trading rules in Israel.

Land and property taxes

In the State of Israel, taxes that apply to land transactions are: purchase tax, which is imposed on the purchaser, capital gains tax, which is imposed on the seller, and in certain transactions value added tax is also imposed.

The purchase tax rate in a real estate transaction is described above (see taxation section).

In the case of sale of a single home that is owned by the seller, which is being used for residency, there will be an exemption from betterment tax up to an amount of NIS 5,000,000 for a resident of Israel or a foreign resident (on the condition that he does not possess a residential property in a country in which he is not considered as a resident).

The capital gains tax rate on the sale of real estate is 25% if the seller is an individual and 23% if it is a company.

In a real estate transaction, VAT will apply if the seller or buyer is a 'dealer', at a rate of 17% (in 2021).

Land and property ownership by non-residents

There is no explicit legal restriction concerning the ownership of land in Israel by foreign residents. However, regarding land that is controlled by the Israel Land Authority, a board decision has been made stating that a foreign resident (who does not intend to immigrate to Israel pursuant to the right of return of the Jewish People) must receive approval from the Chairman of the Board according to a subcommittee that will discuss his request.

There is no restriction concerning the sale or transfer of privately owned land in the territory of the State of Israel to a foreign resident.

06

Banking

Background

Banking in Israel is characterized by a highly centralized structure, centered on two major banks; Bank Leumi and Bank Hapoalim, alongside three smaller banks – Bank Discount, Bank Mizrachi Tefahot and the First International Bank of Israel.

The current banking sector centralized structure creates failures such as charging of heavy commissions to the public, and centralization of banking activity in channels where generating profit involves relatively small risks and efforts.

These failures lead to the detriment of the banking activity that is aimed at financing business ventures that involves a higher level of risk. In addition, the fact that some of the major banks are controlled by wealthy family groups, adds another tier of problems lying in an oligopoly controlling core assets of economic activity.

During the year 2022, two new digital banks were licensed, One Zero Digital Bank, which became the first new Israeli bank in 43 years, followed by, “Esh Bank Israel”, which received a bank license in the end of 2022.

In the last decade, many foreign banks have opened representative offices in Israel. However, none of them has started genuine retail commercial activity in the country, and most of them work on recruiting customers for the investment banking and private banking sphere.

Along with licensing two new digital banks the Banking Supervision Department in the Bank of Israel (“BOI”), is working to increase competition in the banking sector by:

- Granting a license for two new companies to operate as credit card clearing companies.
- Incentivize the use of the Central Credit Register (CCR) to create competition in the retail credit market, expand access to credit, enable an expansion of the information available to credit providers wishing to evaluate a customer’s credit risk level.

Credit Rating

Israel’s government bonds have been rated since 1988 by the credit rating agency Standard & Poor’s (S&P).

Israel was first rated by credit rating agencies Fitch and Moody's in 1995. Israel's Foreign Currency Credit Ratings (as of mid-2022)

- S&P: AA-
- Fitch: A+
- Moody's: A1

Regulation and regulatory bodies

The regulation of banks constitutes a significant proportion of the activity of the central bank, the “Bank of Israel”. The well-developed regulation, alongside effective control ofthe activity of the banks, is what eventually ensured the ability of Israel’s banking system to weather the devastating effects that the global banking system suffered during the 2008 crisis. Due to strictly enforced regulation, the banksin Israel abstained from extending unsecured credit and made sure that suitable reserves would be included in the various aspects of their activity. When such problematic credit was discovered, the banks had sufficient reserves to cope with it during this crisis, as well as during aftershocks that stemmed from it.

Despite the above, some believe that Israel’s financial system has a major risk component because of the high volume of credit that is given to households for financing residential mortgages. The average composition of a mortgage in Israel is 40% at a variable rate based on the prime interest rate; 30% linked to the Consumer Price Index (CPI). The recent rapid increase in the Bank of Israel benchmark interest rate from 0.1% to 3.75% (Dec–2022) and higher inflation rate (5.3%) both have a significant effect on the average monthly mortgage payment.

07

Capital Markets

In Israel, there is a highly developed system of capital markets, which relies on local activity through the Tel-Aviv Stock Exchange (TASE), a well-developed venture capital industry, and vast international activity of institutional and technological investors in the form of significant capital transactions between Israel and overseas countries.

Israel's innovative R&D is recognized as a leading global center, second only to Silicon Valley. Many Israeli companies, particularly in the technology and biomedical fields, have raised capital through overseas exchanges, particularly US exchanges: the number of Israeli companies whose shares are traded on US exchanges is one of the highest (second to China). Each year, foreign investors pump into Israel billions of dollars, acquiring the control of startup companies, high-tech companies and other key firms. A set of local and foreign venture capital funds and other types of investors, help with the financing of ventures, from seed stage to transformation into independent companies ready for mergers, acquisitions or further independent development of their business.

In recent years, Israel has developed an extensive industry of hedge funds of various types and specialties.

Regulation

The activity of the capital market is regulated by the Securities Law as well as the banking laws and regulations promulgated thereunder.

Regulatory bodies

The Israeli Securities Authority (ISA), an independent governmental authority that operates under the Securities Law, in cooperation with the Capital Market Authority, Insurance and Savings are the one in charge of regulation and control of capital market activity in Israel.

Tel Aviv Stock Exchange

In Israel, there is a single stock exchange located in Tel Aviv, which is jointly owned by commercial banks (including the First Digital Bank in Israel) in Israel and leading investment houses both in the country and overseas. The trade-in this exchange is conducted by fully computerized systems; the trading and control tools that are used in this exchange are satisfactory and the reporting and control standards practiced by it are very high.

In 2022, 548 equity corporations were traded on the TASE. Daily average turnover reached $650 million, an increase of 21% compared to the 2021 data. 52 companies are dual-listed entities.

During 2022 a total of $6.25 billion was raised on TASE in shares, 15% less than the total amount raised in the 2021, which was a record year.

Following the Abraham Accords, a Memorandum of Understanding was signed between the TASE and the Abu Dhabi Securities Exchange (ADX), which should enable new investments flow in the Israeli high-tech industry.

Public companies in Israel must submit to the Public and Regulatory Authorities a full, audited financial statement once a year, and a condensed quarterly report, reviewed by the company's CPA. The reports are drafted according to International Financial Reporting Standards (IFRS).

However, Israeli companies that are traded in Israel alongside their trading on recognized exchanges overseas (primarily in the USA) need to submit financial statements prepared in accordance with the GAAP applicable in such foreign exchanges (usually US-GAAP).

07

Capital Markets
(continued)

The cost of maintenance of a medium-sized public Israeli company easily reaches several hundreds of thousands of shekels per year, and includes, alongside payments of registration fees that are not burdensome, the following: legal counseling (NIS 100-250 thousand per year); independent auditing of annual financial statements and the review of quarterly condensed statements (NIS 80-250 thousand); employment of an internal auditor (NIS 25-100 thousand); employment of at least two external independent directors (starting at NIS 50 thousand per year per each); and applying appropriate procedures for control of financial reporting (SOX) (NIS 10-50 thousand). The scope of annual reporting is large and detailed, both due to the demanding requirements of the IFRS and the requirements of local regulation. Thus, the annual financial statement of a medium-sized company can easily reach a volume of 100 pages, whereas a quarterly report reaches roughly a third of this size.

Private equity

There are a fair amount of local and foreign investment funds and institutional bodies operating in Israel, which are financing resources forventures and corporations that need non-bank or high-risk financing

08

Labor Regulation

Statutory legislation

The socialist background of the State of Israel in the decades before and after its independence has left its mark in legislation that protects the rights of employees in Israel. Alongside strong trade unions, whose power is evident primarily in the governmental/public sector, the Israeli employee has a right to form unions with a given employer, and to be a member of a nationwide workers' organization. This right is strictly enforced by the labor courts that operate within the judiciary, with independence and clear separation of powers.

A range of labor laws regulate the right of the Israeli employee to a set of working and resting hours; to annual vacation; to receive payment during illness; to receive compensation in the case of termination of employment, etc. These rights are strictly enforced. An employer who fails to fulfill requirements of the various labor laws is liablefor fines and other penalties.

Each month, the Israeli employer transfers payment, in accordance with the amount of the employee's salary, to the National Insurance Institute (part of the payment is withheld from the employee's pay) alongside the income tax withheld from the employee's salary at source, which is transferred to the Tax Authority. Payments made to the National Insurance Institute, secure the right of the employee to healthcare services (in Israel there is a sophisticated, advanced medical care system for all residents), including nursing services, and receipt of pensions and allowances that include, inter alia, the right to receive compensation in the case of bankruptcy of the employer; sick pay and compensation for work accidents; and a modest pension upon retirement. In addition, employers in Israel must make a provision, starting a few years ago, with partial employee co-payment, of amounts for pension funds that will ensure the employee a pension upon retiring. This mandatory pension, along with the allowance paid by the National Insurance Institute, is supposed to secure the future of employees in Israel once they retire.

Conditions may be added to those prescribed in the various labor laws. However, omitting conditions is strictly forbidden. Senior employees usually get additional benefits, such as 'Incapacity to work' insurance and provisions for vocational study funds. The volume of the payments to which the employee is entitled upon retirement may be hedged and the sum of provisions actually, made each month may be restricted by enrolling the employee, with his consent, in a scheme that is prescribed in Section 14 of the Severance Compensation Law.

In many fields of occupation, 'collective agreements' are practiced, and they apply to all employers and employees in those fields. In addition to the threshold conditions prescribed in the various labor laws, these agreements also prescribe conditions that are unique to that sector. We advise people who are planning to establish a business in Israel to examine, with a well-versed consultant, the work conditions of employees in the field of activity of that business, in order to avoid surprises vis-à-vis the effective cost of employing workers after the business is already up and running.

Employment contracts – standard terms

Employment conditions must be vested in a written document, however short. This document will usually include an indication of the employee's gross salary; his degree of employment; individual fringe benefits (such as the right to a company vehicle or vehicle expense reimbursements) and more.

Minimum wage regulation

The minimum wage in Israel is NIS 5,300 per month.

08

Labor Regulation
(continued)

Maternity leave entitlements

A female employee who gives birth after having worked at least a year for an employer, is entitled to 26 weeks of maternity leave (15 weeks paid by National Insurance and the rest is unpaid). An employee who goes on maternity leave is entitled to payment of a birth benefit from the National Insurance Institute, which replaces her ordinary salary in the leave period. The employee is allowed to divide the maternity leave between herself and her spouse.

In certain cases, both of them are allowed to extend the maternity leave, for a period that will not exceed a quarter of the period of the mother's employment at that employer or workplace, or up to a year from the day of birth (whichever comes first), with no additional payment of salary. The employer will be required to receive the employee back to work at the end of the ordinary maternity leave period, or within four weeks of the day on which the employee announces her wish to return to work from an extended unpaid period of maternity leave. Termination of the employment of a female worker during her maternity leave and for 60 days after her maternity leave is prohibited.

Sick leave

An employee who is absent from work due to illness for a period exceeding one day is entitled to payment from his employer for his days of absence. The eligibility of sick pay will not exceed a cumulative period of a day and a half per month of seniority at work for that employer, up to a maximum of 90 days of sick leave. For the second and third days of the period of absence, the worker is entitled to receive 50% of his ordinary wages. From the fourth day onward, the employee is entitled to 100% of his wages.

The employee will receive sick pay for a longer period of time in cases in which a collective employment agreement or an individual employment contract prescribing better conditions to those set in the law applies.

Work permits and visas

A foreign citizen wishing to work in Israel must receive a work permit and a corresponding entry visa. Usually, this is visa type B1. The Israeli employer assumes the processing of the application. Under Israeli law, he must arrange comprehensive medical insurance for the foreign employee throughout the period of his employment, and ensure that he has appropriate living quarters available. In addition, the employer assumes duties of reporting to the state, fee payments, providing sureties to the state, paying the fee for the employment permit and other payments that are prescribed in the law, according to the economic sector in which the foreign worker is to be employed.

The process of receiving the visa consists of four stages:

1. submitting to the Ministry of the Interior an application form for approval of employment;
2. submitting an application for an entry visa;
3. receiving the visa, which is temporary, at the Israeli consulate in the country of origin;
4. extending the visa: an action that is performed after arriving in Israel.

Upon its extension, the visa will allow the employee to enter Israel multiple times, throughout its valid period. Inappropriate cases, an 'approved expert' status may be requested and obtained, which grants certain tax benefits for the expert.

The foreign worker is entitled to the same conditions under Israel's labor laws as workers who are residents of the state. In addition, each child above the age of five who has been in Israel for more than three months is entitled to study in institutions that are recognized by the Ministry of Education at no cost. Pursuant to arrangements that the state has established through the Ministry of Health, in exchange for monthly payment to the National Insurance Instituteof a similar amount to that paid by a resident of Israel (approximately US$ 50 for the first child; double the amount for both children; exemption from additional payment for

additional children), the children of work migrants, legal and illegal alike, may receive the healthcare services that are granted under the laws of the State of Israel to all children.

Termination of employment

Subject to the provisions of a specific labor agreement with the employee, his employment may be terminated at any time as long as the provisions in the labor laws and collective labor agreements, if in force, have been fulfilled.

Israeli employees are entitled by law to a hearing from their employer before termination of employment. This hearing must be duly held, otherwise the employee maybe entitled to extraordinary compensation. The employee is entitled to receive early notice of his employment termination. After one year of full employment by that employer, the termination period stands at one month. During the first year of his employment, the early notice period is shorter, and the right to it is accumulated gradually. The employee is entitled to receive his full pay during the early notice period, evenif the employer opts not to continue his actual employment during that period.

Upon his employment termination, the employee will be entitled to receive severance compensation of one month's salary for each year of employment. From this amount, provisions made by the employer during the employment to a compensation fund in the name of the employer will be withheld (the employer will be exempt from any additional payment if the employee has joined a scheme prescribed in Section 14 of the Severance Compensation Law as described above). In addition, the employee will usually be entitled to redemption of accumulated vacation days.

09

Dispute Resolution

Key regulation

The law in Israel comprehensively covers execution and enforcement of contracts and agreements. It may be determined as a rule that agreements in Israel are honored by their parties, and the written word is assigned a genuine weight. The law, practice and case law of the courts that have attended to enforce and interpret contracts have all led to the formation of a stable business environment for executing and successfully realizing agreements.

Litigation

The Israeli Judicial system is comprised of three levels of courts: the Supreme Court, the District Courts and the Magistrates' Courts. Independence of the judiciary is guaranteed from intervention by the two other branches of state, the Legislative Authority and the Executive Authority. The Supreme Court, which resides in Jerusalem, heads the judicial pyramid. The Presidents of the Supreme Court enjoy dignified public standing, equivalent to that of the heads of the other arms of the democratic regime. The district courts, in which there are instances that specialize in taxation and economics fields, deal with large cases, including bankruptcy and receivership cases. Local courts deal with disputes of smaller scales. There is also a large network of small claims courts, in which the claims are adjudicated by the litigants themselves without the mediation of attorneys. In addition, there are labor courts, family courts and traffic courts. The Antitrust Court operates within the District Court in Jerusalem.

The accessibility of the courts is high. Proceedings are public, except for special circumstances. Verdicts may easily be retrieved from the courts' system. Both levels of compliance with verdicts and the level of their enforcement are high. On the other hand, proceedings tend to extend over quite long periods of time. This shortcoming of the system has been subject to constant public criticism, and the Court Administration is making significant efforts to achieve improvement and control to prevent the procrastination of proceedings. Despite these efforts, one should expect, in case of a significant lawsuit, to face a proceeding that will last several years.

Arbitration

Business arbitration in Israel is very common. The Israeli Arbitration Law and extensive case law from the courts of the various instances grant arbitration significant weight in resolving business conflicts. Business conflicts are often transferred to mediation or arbitration proceeding at the initiative of the courts, with the intent of expediting and streamlining the resolution of the conflicts brought to them.

Raveh Ravid & Co.
Certified Public Accountants

32A Habarzel Street, 4th Floor
Tel-Aviv 69710, Israel

T: +972 3 7676 999
E: Raveh-Ravid@Raveh-Ravid.co.il
W: www.Raveh-Ravid.com

Raveh Ravid & Co. is a member of
Russell Bedford International, a global network
of independent professional services firms.