



PrimeGlobal

*An Association of
Independent Accounting Firms*



DOING BUSINESS IN ISRAEL





COMPANY FORMATION IN ISRAEL

Internationals are encouraged to visit Israel, meet with advisors and have the right conversations before establishing an Israeli business footprint.

MAIN FORMS OF COMPANY/BUSINESS IN ISRAEL

- A company - may be private or public and with limited or unlimited liability.
- A foreign company - may establish a branch for local operations, or alternatively a subsidiary.
- A partnership - may be formed with limited or unlimited liability.
- A Non-Profit Organization (*Amutah*) – is governed by special laws which, among other things, determine how the NPO will be structured at start-up, and managed subsequently.
- A Cooperative – formed primarily for the agricultural sector (seldom used in this day and age).

SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

- An Israel-resident company is generally subject to the standard corporation tax; certain businesses may enjoy reduced taxes and benefits.
- Dividends may be taxed at regular or reduced rates or as determined under the Double Tax Treaties.
- A branch of a foreign company is taxable at corporate rates but generally not subject to dividend tax.
- VAT is generally payable on transactions, including imports; consideration should be given to import and related duties.
- Due consideration should be accorded to issues such as transfer pricing, permanent establishment and double tax treaties.



LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

- A branch of a foreign corporation is required to register with the Registrar of Companies.
- Corporate entities are registered with the Israeli Tax Authority (ITA) and require a local resident representative.
- All corporate entities are required to submit annual audited financial statements.
- Specific conditions apply to the number of shareholders and directors, the Memorandum and Articles of Association, company name, and will vary according to status as a Private or Public Company.

CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

Israel provides attractive tax and other incentives to companies and investments in the high-tech and the bio-tech industries. The country's official languages are Hebrew and Arabic. While many professionals communicate in English, formal, legal and administrative forms, agreements and documents are generally in Hebrew. (All legal documents obtained relating to establishing a business, including registration with the Registrar of Companies, are required to be in Hebrew.)

Doing Business with other Israeli entities

Israelis tend to conduct business in an informal atmosphere, dressing casually. It is advisable to find out what is accepted where you will be meeting\conducting business.

In general, Israelis are direct and will expect a foreigner to be honest and direct, as well.

Address your Israeli business contact by his/her first name.

OTHER COUNTRY SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

Companies must register with the Israeli Tax Authority (ITA) for Income Tax, Value added tax (VAT) and payroll reporting, as well as with National Insurance Institute (NII) for health insurance and national insurance. Consideration must be given to the wide-reaching provisions governing with-holding taxes on payments and reporting thereon.

Employment is subject to stringent labor laws and agreements; it is advisable to consult with labor law counsel.

Substantial tax and other incentives are available for certain enterprises; proper application is required to obtain the required approval.



PERMANENT ESTABLISHMENT IN ISRAEL: BRANCH OR SUBSIDIARY?

DEFINITION OF A PERMANENT ESTABLISHMENT

- A Permanent Establishment is generally defined in the Treaties (with Israel) as the fixed place of business, where business operations are conducted.
- Israel is party to the OECD and acts generally in accordance with its proposals.
- A Permanent Establishment will be deemed to exist under the treaties where the physical place of business and the fixed place of business, including business activities, are located.

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

- A subsidiary is subject to the same legal provisions governing regular companies in Israel, including the tax laws (see above).
- The parent company of the branch is required to be registered with the Registrar of Companies; the branch is subject to regular tax registrations and reporting, including submission of annual audited financial statements and tax reports on its activities.

TAX AND ACCOUNTING OBLIGATIONS

In Israel, all types of businesses (company, partnership, foreign company) are required to pay corporate tax, capital gains tax, and VAT (value added tax). In some cases, a branch of a foreign corporation may be eligible for some exemptions and deductions. The tax reporting year is January through December.

Corporations must prepare annual audited financial statements.

Public companies are subject to the IFRS, other companies to the IFRS or US GAAP; small to medium-sized companies may adopt the above or Israeli GAAP.

In addition, companies make monthly payments to the National Insurance Institute (NII) for health insurance and national insurance. The company pays the equivalent of 4.5% of employee income to NII for national insurance (the employee contributes about 0.5% of his income to this payment).

For health insurance payments, employers deduct approximately 3.5% from their employees' paychecks to be sent to the NII.



REGISTRATION FORMALITIES

To establish a business in Israel, one is first required to submit an application, with accompanying application fee, to the Registrar of Companies.

All business entities are also required to open a file with the Value Added Tax (VAT) and Income Tax Authorities, unless qualified for exemption. In order to do this, the entity must provide a blank check from its business bank account and certified copies of its Articles of Incorporation and Certificate of Incorporation, plus various registration forms.

Once operating, a company is required to file an annual corporate (details) report, as well as income, payroll and VAT taxes to the Israeli Tax Authority (ITA). The local municipal authority also requires the payment of municipal taxes.

STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

- A branch may engage in business activities similar to its parent company.
- A branch is subject to regular tax registrations and reporting, including the submission of annual audited financial statements and tax reports on its activities.
- Appointment of legal representative in Israel is required.
- A business operating license may be required from the local municipality, depending upon the type of business activity performed. Because the types of businesses that would require a local operating license are so varied, a business owner should consult professionally.

HOW TO HIRE MY FIRST EMPLOYEE IN ISRAEL

Documentation issued in September 2017 by Broide & Co., an independent member of PrimeGlobal. The information provided is general information. Your company should check with a professional accountant to ensure that your issue is in line with the general information provided.



MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

- Obtain legal counsel from a labor lawyer
- Clarify legal requirements, including social benefits applicable and determine specifics of employment that are to be included in employment contract, before interviewing potential employees.
- Labor laws and regulations cover various conditions of employment, including work hours, annual leave, sick leave, pension, severance pay, training funds and the like.
- Register a payroll account with the Israeli Tax Authority (ITA) and National Insurance Institute (NII). Employers deduct an average of 3.5% from their employees' paychecks, to be used by the country's national health insurance program

For a foreigner to work in Israel:

A work visa (B-1 visa) is required, along with a bona fide job offer from an Israeli business, for any foreigner who will be working in the country for less than 30 days.

For employment that is to be for more than 30 days, a work permit is required, in addition to the initial work visa. The employer must sponsor the request for the work visa.

One can also apply for an extended work visa, to work for up to one year. An extended work visa must be applied for within 30 days of entering the country and permits multiple entries into Israel.

Legal counsel should be sought before proceeding with these matters.

DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

A written employment contract is required for all foreign employees, detailing the main employment terms and conditions of the job. The contract must be in a language the employee knows and understands, and must contain the specific terms and conditions of employment. (Although an oral agreement of employment is considered legally binding, the employer is still required to provide a written agreement).

The contract must be signed within 30 days of starting work, and contain specific information such as work hours, days off, rate of pay and related pay issues (overtime, sick pay, holiday, vacation time, and deductions taken (for unemployment compensation and insurance coverage, terms of the contract – severance pay, etc.)

CAN SOMEBODY DO BUSINESS FOR ME AND NOT BE AN EMPLOYEE?

Yes. In Israel, subcontractors (or independent contractors) are permitted.



It is important to note that independent contractors are not entitled to the social benefits of employees such as severance pay, pension and other related benefits.

Some companies with no permanent establishment in Israel prefer working with subcontractors since hiring employees may result in being considered a permanent establishment.

Advice should be taken from labour lawyers to clarify that the subcontractor will not be considered an employee and thus have rights to employee benefits.

HOW TO READ FINANCIAL STATEMENTS IN ISRAEL

You will find hereafter a translation of the model of a Balance Sheet, Profits and



Loss Statement and Cash Flow Statements.

DOING BUSINESS IN ISRAEL LIMITED

BALANCE SHEET

AT DECEMBER 31, 2016

	<u>NOTE</u>	<u>NIS</u>	<u>31.12.15</u> <u>NIS</u>
<u>CURRENT ASSETS:</u>			
Cash at Bank and on Hand		XXXXX	XXXXX
Short-term Time Deposits at Bank		XXXX	XXXX
Accounts Receivable		XXXXX	XXXXX
		-----	-----
TOTAL CURRENT ASSETS		XXXXXX	XXXXXX
		-----	-----
<u>FIXED ASSETS</u>			
		XXXXXX	XXXXXX
		-----	-----
		XXXXXX	XXXXXX
		=====	=====
<u>CURRENT LIABILITIES:</u>			
Notes Payable		XXXX	XXXX
Sundry Creditors and Accrued Liabilities		XXXXX	XXXXX
		-----	-----
TOTAL CURRENT LIABILITIES		XXXXX	XXXXX
		-----	-----
<u>LIABILITY ON TERMINATION OF EMPLOYER-EMPLOYEE RELATIONS</u>			
		XXXXX	XXXXX
		-----	-----
<u>SHAREHOLDERS' EQUITY</u>			
Share Capital		XXX	XXX
Capital Note		XXXXXX	XXXXXX
Accumulated Profit		XXXX	XXXX
		-----	-----
		XXXXXX	XXXXXX
		-----	-----
		XXXXXXXX	XXXXXXXX
		=====	=====

DOING BUSINESS IN ISRAEL LIMITED



STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>NIS</u>	<u>31.12.15</u> <u>NIS</u>
<u>INCOME</u>	XXXXXX	XXXXXX
<u>ADMINISTRATION AND GENERAL EXPENSES</u>	XXXXXX	XXXXXX
EXPENSES FROM PREVIOUS YEARS (Appendix)	XXX	--
	-----	-----
OPERATING PROFIT	XXXXX	XXXXX
<u>FINANCE EXPENSES</u> (Net)	XXXXX	XXXXX
	-----	-----
NET PROFIT (LOSS) FOR THE YEAR	XXXXX	(XXXX)
<u>ACCUMULATED PROFIT AT BEGINNING OF YEAR</u>	XXXXX	XXXXX
	-----	-----
<u>ACCUMULATED PROFIT AT END OF YEAR</u>	XXXXX	XXXXX
	=====	=====



DOING BUSINESS IN ISRAEL LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>NIS</u>	<u>31.12.15</u> <u>NIS</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net profit (loss) for the year	XXXXX	(XXXX)
Adjustments required to reflect the cash flows from operating activities (see Annexure following page)	XXXXX	XXXX
	-----	-----
Net cash used in operating activities	XXXXX	XXXX
	-----	-----
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Purchase of fixed assets	(XXXX)	(XXXXX)
	-----	-----
Net cash used in investing activities	(XXXX)	(XXXXX)
	-----	-----
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>	XXXXX	(XXXXX)
<u>BALANCE OF CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</u>	XXXXX	XXXXX
	-----	-----
<u>BALANCE OF CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	XXXXX	XXXXX
	=====	=====

Cash equivalents are considered by the Company to be highly liquid investments, which include short-term (up to three months) bank deposits.