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Doing Business in Israel

As of July, 2012

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Preface

Israel is a country that encourages foreign investment, both in the private and public sector. It enjoys a diversified economy. Leading sectors of the Israeli economy are mostly banking, financial and business services. Other important sectors include electronics, software, communications and other hi-tech industries, medical equipment, biotechnology products, military R&D, and safety and security equipment. Medium and low-tech industries such as food, chemicals, diamonds, plastics, and others, are also large portions of the economy.

This guide will give the potential investor an overview of the Israeli business environment, basic principals regarding possible legal entities and taxation, audit, and accounting implications of starting up an enterprise.

The information is presented for guidance purposes only. An effort was made to provide the most comprehensive and accurate information possible from the date of publication. Nonetheless the information contained is not complete; therefore cannot replace professional consultation.

Potential investors are advised to contact our member firm in Tel Aviv to obtain more detailed information with regard to their specific circumstances:

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The information in this booklet is current as of July 2012.

Contents

1. General Considerations

1.1 Geography, Neighboring Countries, and Climate

Israel is located in the Middle East bordered by Lebanon to the north, Syria to the northeast, Jordan to the east, Egypt to the southwest, and the Mediterranean Sea to the west. Israel lies in the midst of three continents: Europe, Asia and Africa. The capital city of Israel is Jerusalem; the main business area is the city of Tel-Aviv and its surroundings.

Mountains and plains, fertile land, and desert are often minutes apart. The width of the country, from the Mediterranean Sea in the west to the Dead Sea in the east, can be crossed by car in about 90 minutes; and the trip from the far North, to the country's southern tip takes about six hours.

Israel’s climate is characterized by constant sunshine, with a rainy season from November until March. Winter - temperatures of between 5-18 Degrees centigrade (41 to 65 Fahrenheit) in Tel Aviv. It may get colder around the Jerusalem and the Golan Heights mountains. Spring - Temperature in Tel Aviv is usually between 16 to 24 Degrees centigrade (61 to 75 Fahrenheit). Summer - Summer is hot and humid in Israel Temperature in Tel Aviv is usually between 28 to 36 Degrees centigrade (75 to 95 Fahrenheit). Autumn - Temperature in Tel Aviv is usually between 16 to 24 Degrees centigrade (61 to 75 Fahrenheit).

1.2 National Language

The official languages in Israel are Hebrew and Arabic, but English and Russian are widely spoken. English is the main language used for business.

1.3 Population

Israel is home to a widely diverse population from many ethnic, religious, cultural, and social backgrounds. A new society with ancient roots, it is still coalescing and evolving today. Of its 7.8 million people, 76 percent are Jews, 20 percent are Arabs (mostly Muslim) and the remaining 4 percent comprise Druze, Circassians, and others not classified by religion. The society is relatively young and is characterized by social and religious commitment, political ideology, economic resourcefulness, and cultural creativity, all of which contribute momentum to its continuing development.

1.4 Government and Legal Systems

A largely immigrant society, that celebrated its 64th anniversary of statehood, Israel is a parliamentary democracy and egalitarian society, electing its Knesset – a 120- seat unicameral parliament and Prime Minister every four years.

1.5 Currency

The Israeli currency is the New Israeli Shekel. English: NIS; code: ILS.

1.6 Business Hours

The work week starts on Sunday and ends early on Friday afternoon. The weekend, or Jewish Sabbath, begins an hour before sunset on Friday and ends at sunset on Saturday evening. Most businesses are closed on Fridays and Saturdays.

2. Economic Background

2.1 Economic Background

The country has a diversified economy, offering services, and manufacturing of goods. Since the eighties the economy was transformed and strongly influenced by the expansion in high tech industries. There has been an incessant demand for optical fiber, including devising new methods and applying unique tools (whether comprising software or hardware) to integrate, improve, enhance, and expand the mobile telephone industry, the provision of more improved internet services to Israeli subscribers, and the integration and development of internet-related activities.

Today, Israeli industry concentrates on manufacturing sophisticated, high quality products based on technological innovations, mainly in medical electronics, agro-technology, biotechnology, genetic engineering, solar energy, computer hardware and software, food processing, pharmaceutical products, telecommunications, and fine chemicals. Israel has an advantageous position in research and development (R&D) because of the population's high level of education and to the significant incentives and grants provided to R&D foreign investment. As a result, many multinational companies have a well established presence in Israel.

Israel has tax treaties with many advanced industrialized nations including the US, UK, Canada, France, Germany, Japan, Russia, China, and others. Not surprisingly, Israel is one of the largest centers in the world for start-up enterprises.

2.2 Banking System

The Israeli economy is dominated by the Israeli banking system. Commercial banks offer corporate and retail banking services including asset management and mutual funds, investment banking, mortgages, leasing, underwriting, brokerage in local and foreign markets, as well as other services. One of many roles of the Bank of Israel is to supervise the operations of the commercial private banks.

2.3 Foreign Currency Restrictions

There are no foreign currency restrictions in Israel. All activities in foreign currencies are permitted for legal activities.

2.4 Accounting System and Audit Requirements

Accepted accounting principles conform to the Israeli GAAP and IFRS. All companies must prepare audited annual financial statements; public companies must also prepare reviewed quarterly financial statements.

2.5 International Relations

Israel has entered into free trade agreements with the US, the European Union, EFTA (Iceland, Liechtenstein, Norway and Switzerland), Turkey, Jordan, Egypt, Canada, Mexico, Mercosur (Argentina, Brazil, Uruguay, and Paraguay). Free trade agreements with other countries are currently under negotiation.

2.6 Business Regulation

2.6.1 Contracts

The general Israeli contract law allows parties, including foreign investors, to contract as they choose. Nevertheless, some contractual issues such as: competition, employment, consumer protection, and health & safety are governed by strong public policy. Contracts formed in Israel can be governed by the laws of any jurisdiction, including foreign jurisdictions.

2.6.2 Monopolies and Restraint of Trade

The Israeli Antitrust Authorities considers a monopoly to exist when more than 50% of the provision or acquisition of a service or asset are concentrated in the hands of a single entity. Being a small country, the concentration in Israel is fairly high and, in some business segments, two or three entities control the entire segment. As a result, The Israeli Antitrust Authorities often interfere to protect competition. The Israeli Antitrust Authorities strengthen market power in three main ways by The Restrictive Trade Practices Law: the restriction of the activities of competitors by a dominant entity – referred to in the Law as “abuse of position by a monopoly”; coordinated commercial behavior of separate and independent companies- referred to in the Law as a “restrictive arrangement”; and the structural consolidation of such companies – referred to in the law as a “corporate merger”, which sometimes involves one business having been “absorbed” by the other (acquisition of full control).

2.6.3 Price Controls

The government can impose price controls on vital services and goods. It may do so when the goods or services are subsidized. In case of a situation as described in the Monopolies and Restraint of Trade section, price controls are not often imposed.

2.6.4 Mergers and Acquisitions

Mergers must be filed with The Israeli Antitrust Authorities which checks what effect the transaction will have on competition in one of three instances:

- One of the transaction's parties is a monopoly;
- The consolidated turnover in the merger's preceding year in Israel exceeded NIS150 million and each entity has a turnover of at least NIS 10 million; and
- As a result of the transaction, the merged entity gained control over 50% or more of a service or a product.

2.6.5 Intellectual Property

The Patents, Designs and Trademarks office in the Ministry of Justice, in accordance with relevant laws, protects industrial property by granting patents and the registration of designs, trademarks and appellations of origin.

3. Main Types of Entities

There are many ways in which a foreign investor can establish a company and start doing business in Israel. The main types of legal entities created in Israel are: (a) private and public limited liability company, (b) branch of a foreign corporation (c) partnerships (d) joint venture (e) trusts and other fiduciary entities. The most common for foreign investors in Israel are limited companies, private and public, and a branch.

3.1 Private and Public Limited Liability Companies

A private company, with two or three main organs: (1) the General Meeting, with authority to amend the company's articles of association and, usually, the authority to appoint the company's directors; (2) the Board of Directors, which must have a minimum of one director, whose primary function is to formulate the company's policy; and (3) optionally, the CEO or general manager, who may or may not be a member of the Board of Directors and who is responsible for the day-to-day operation of the company's affairs under the direction of the Board of Directors.

A public company, whose shares are listed for trading on an approved stock exchange (Tel Aviv stock exchange or outside of Israel), or which were offered to the public by way of a prospectus and are held by the public.

Differences between private and public limited companies included in the Israeli Companies Law are that:

- Private limited liability companies do not require a minimum number of directors while public companies need to have a minimum of three directors, one being the chairman, and the other two, outside directors; and
- Private companies do not need to have a minimum number of managers, but public companies need to have at least one, serving as Chief Executive Officer (CEO).

3.1.1 Setup Procedure

- There is no minimum capital requirement, but there is a filing fee for share capital.
- The company can provide capital in the form of goods or intangibles, valued under generally accepted accounting principles.
- Several documents need to be submitted to the Registrar of Companies and a registration fee must be paid.

3.2 Branch of a Foreign Corporation

Foreign companies may operate in Israel through a branch or through a local limited liability subsidiary. Branch managers are personally liable for some of the branch's liabilities. A local subsidiary will be taxed as a company. The taxation of a branch would generally be dependent upon the residence of the relevant company and on the nature and extent of its activities in Israel. When a company is a resident of a country with which Israel is party to a double taxation treaty, the provisions of the treaty supersedes the provisions of the local law. There is no branch tax in Israel with respect to transfer of profits (after first deducting Israeli companies' tax) from a branch to the parent foreign entity.

4. Taxation

4.1 Corporate Tax

Israeli resident companies are subject to corporate tax on their worldwide profits and gains (credit granted subject to double taxation treaties). Non-resident companies are subject to corporate taxes on income accrued and produced in Israel, and income of an Israeli permanent establishment, and to capital gains on sale of assets in Israel. A corporation will be deemed a resident in Israel if one of the following two conditions exists: if the company was incorporated in Israel or management and control of its activities is executed in Israel. A corporation managed and controlled by a new Israeli resident or a returning resident (a resident of Israel in the past that spent at least 10 years abroad) will not be classified as Israeli resident for a 10 years period.

Corporate tax rate is 25%. Tax rate on dividends to another Israeli company is 0%. Tax rate on dividends from income produced out of Israel is 25% -30% (credit granted subject to double taxation treaties).

Business losses may be offset against income of any source in the year it is created. Losses can be carried forward indefinitely and to be offset against business income and business capital gains.

Filings of consolidated tax returns are not permitted. Each company (parent and subsidiaries) should file its own annual tax return. When certain conditions are met, "industrial companies" can file a consolidated tax return.

4.2 Personal Taxation

Israeli residents are taxed on their worldwide income. Non-residents are taxed on Israeli source income. Determination of residency is when one's “center of life” is in Israel.

Israeli residents are subject to income tax and social security tax.

For purposes of determining whether a person’s “center of life” is in Israel, criteria may include permanent home, presence of family members, place where the primary economic and social contacts exist, number of days of presence in Israel during a year (an individual will be deemed a resident if spends at least 183 days in Israel or if in the current year spends 30 or more days in Israel and the total days spent in Israel over the current and two preceding years amounts to at least 425 days), the place from which the business is carried on, etc.

An individual is considered foreign if he left Israel for two consecutive years (at least 183 days for each year) followed by two consecutive years in with his center of life was outside of Israel.

The tax rate applicable to an individual (independent contractor or salaried employee) is progressive and begins from 10% and reaches a maximum rate of 48% in 2012. There are credits against the tax which reduce the tax burden on the individual and they are granted under certain conditions such as: credit for place of residence, support of parents or children who are unable to care for themselves, savings in pension funds, etc.

The following table presents the tax rates on the income of individuals not including social security.

Annual income in NIS	2012
Up to 62,400	10%
62,401 – 106,560	14%
106,561 – 173,160	21%
173,161 – 261,360	30%
261,361 – 501,960	33%
Above 501,960	48%

4.2.1 Investment Income

Most income from bank deposits and savings plans is subject to tax at 15%-25%. Taxes on dividends and capital gains received on all investments as "significant shareholder" (more than 10% of the shares) are 30%, otherwise 25%.

Regarding new immigrants and returning residents, special preferences are given with respect to their income from assets they held overseas before coming to Israel.

4.3 Capital Tax

Capital gains tax is imposed on gains from the sale of capital assets, in respect of the positive difference between the sale value of the asset and its depreciated cost.

Capital gains are taxed in Israel if the seller is an Israeli resident or where:

- The asset is located in Israel;
- The asset is not located in Israel; however it creates a right in an asset, inventory, or real estate located in Israel;
- The asset is a share or right in a share in an Israeli company; and
- The asset creates a right in a foreign corporation, which, primarily, holds the right to an asset located in Israel.

The tax rate on the real (inflation-adjusted) capital gain from sale of an asset, is 20% for individuals and 25% for companies with respect to gains accumulated from January 1, 2003 to December 31, 2011. The tax rate on the real (inflation-adjusted) capital gain from sale of an asset, is 25% for individuals for companies for capital gains accumulated from January 1, 2012. The inflationary component of the gain is exempt from taxes. Capital tax arising prior to January 1, 2003, with respect to individuals, is at the personal tax rate applicable to the individual and at corporate tax rate on corporate entities.

From January 1, 2009, non-residents are exempt from Israeli capital taxes on gains from sale of Israeli securities, provided the company's assets are mainly real estate (provided the gains are not of a permanent establishment of the seller in Israel).

Non-resident individuals are exempt from Israeli capital taxes on gains from sale of securities traded on the Tel Aviv stock exchange and on gain on sale of shares of Israeli companies traded outside of Israel purchased after listing (provided the gains are not of a permanent establishment of the seller in Israel).

Capital losses are offset against capital gains. Losses can be carried forward indefinitely and to be offset against future capital gains.

4.4 Withholding Taxes

4.4.1 Dividends

The rate of withholding tax on dividends distributed to Israeli individuals is 25% or 30% (depending on the percentage of ownership of the recipient), these rates can be reduced under double taxation treaties. In the case of dividends paid by an “Approved Enterprise” the rate of withholding tax may be reduced to 4% or 15%.

4.4.2 Royalties and Other Payments

The rate of withholding tax is 25%, this rates can be reduced under double taxation treaties.

4.4.3 Interest

Various withholding tax rates of 15%, 20% or 25% have been fixed with respect to payments of interest income, which are dependent upon the residency status of the recipient and whether the loan is linked to the index.

4.5 Tax Treaties

The tax treaties which Israel has signed take precedence over the provisions of the Income Tax Ordinance. The tax treaties represent an additional source, the proper use of which permits a foreign investor to reduce his liability for Israeli tax or even enjoy a complete exemption.

Israel has signed treaties for prevention of double taxation as follows:

Country	Royalties	Interest	Dividends
Austria	0	5	0-10
Belarus	5/10	10	10
Belgium	0	5	0/5
Brazil	10/15	0/15	10/15
Bulgaria	7.5/12.5	0/5/10	7.5/10/12.5
Canada	0/15	0/15	15
China	10	7/10	10
Croatia	5	5/10	5/10/15
Czech Republic	5	0/10	5/15
Denmark	0	0/5	0/10
Estonia	0	0/5	0/5
Ethiopia	5	0/5/10	5/10/15
Finland	10	0/10	5/10/15
France	0/10	0/5/10	5/10/15
Georgia	0	5	0/5
Germany	0/5	0/15	25
Greece	10	10	Domestic rate applies if it is lower
Hungary	0	0	5/15
India	10	0/10	10
Ireland	10	5/10	10
Italy	0/10	10	10/15
Jamaica	10	0/15	15/22.5
Japan	10	0/10	5/15
Korea	2/5	0/7.5/10	5/10/15
Latvia	5	5/10	5/10/15
Lithuania	5/10	10	5/15
Luxemburg	5	10	5/15
Malta	0	5	0/15
Mexico	10	0/10	5/10
Moldova	5	5	5/10
Netherlands	5/10	10/15	5/10/15
Norway	10	25	25

Philippines	15	0/10	10/15
Poland	5/10	5	5/10
Portugal	10	10	5/15
Romania	10	0/5/10	15
Russia	10	0/10	10
Singapore	5	0/7	5/10
Slovakia	5	2/5/10	5/10
Slovenia	5	5	5/15
South Africa	0/15	25	25
Spain	5/7	10	10
Sweden	0	25	0
Switzerland	5	0/5/10	5/10/15
Taiwan	10	0/10	10
Thailand	5/15	0/10/15	10/15
Turkey	10	0/10	10
Ukraine	10	5/10	5/10/15
United Kingdom	0	5	0/5
United States	10/15	10/17.5	12.5/15/25
Uzbekistan	5/10	10	10
Vietnam	5/10	0/10	10

4.6 Value Added Tax

Value Added Tax (VAT) is an indirect tax imposed on the consumption of goods and services in Israel. The VAT Law imposes tax at the rate of 16% on all transactions in Israel and on the import of goods. The tax is imposed at every stage of the sale on the added value of the product in its production process and is collected at the time of delivery of the merchandise to the purchaser.

At every stage, the tax is collected from the purchaser and is paid to the VAT authorities after the offset of VAT paid on account of inputs. Accordingly, the ultimate consumer bears the entire amount of the VAT charge with no possibility for a refund.

There are certain transactions on which the VAT charge is at the rate of 0%, such as:

- Export of goods;
- Sale of an intangible asset to a foreign resident;
- Provision of a service to a foreign resident;
- Services involving transport of merchandise and cargo to and from Israel provided at an airport or seaport;
- Provision of a service to a customer in a foreign country;
- Sale of fruits and vegetables;
- Provision of a usage right to a foreign resident in an exhibition site; and
- Hotel and car rental services to tourists paid for in foreign currency.

4.7 Taxes on Real Estate

4.7.1 Betterment Tax

Betterment tax is imposed on capital gains arising in a sale of rights in real estate. Betterment tax arising after November 7, 2001 and until December 31, 2011 is at the uniform rate of 20% for individuals (in 2007 and on), and 25% for companies. Betterment tax arising prior to November 7, 2001, with respect to individuals is at the individual's personal tax rate and at the rate of corporate tax on corporate entities. Betterment tax arising from January 1, 2012 is at a rate of 25% for individuals and Companies. The sale of residential real estate by individuals is exempt from this tax, subject to fulfillment of certain conditions.

4.7.2 Land Purchase Tax

Land purchase tax is imposed on the purchaser of a right in real estate. Purchase tax is an indirect tax, which is collected as a certain percentage of the purchase price. The rate of purchase tax on residential property is between 0% and 7%. The rate of purchase tax on non-residential transactions is 5%.

4.8 Municipal Taxes

In every region in Israel the local authorities collect annual taxes on real property located within their jurisdictional boundaries. The amount of the tax is based on the following parameters: the region (zone) in which the property is located, the size of the property, and the type of use of the property – private or business.

4.9 International Transactions

4.9.1 Controlled Foreign Companies

If Israeli shareholders hold more than 50% of a foreign company, and the foreign company accumulated undistributed passive earnings, at a tax rate of up to 20%, the shareholder will be deemed as if received the undistributed earnings and will be taxed at a rate of 30%. The Israeli shareholder will be tax credited on an amount equal to the taxes payable on the company's earnings had it distributed its earnings.

4.9.2 Transfer Pricing in International Transactions

The transfer pricing rules based on the OECD guidelines applies to transactions between an Israeli resident and a non-Israeli if there are special relations between the parties. Special relations are defined to include two parties being subject to control by the same third party, one party's control over the other, family relations, etc. In transactions between special relations parties, if the profit made on the transaction was lower than what it would have been had the transaction been made in the open market, then the transaction is to be reported to the Israeli tax authority as though it had in fact been made in the open market by reporting the price as being higher than it actually was. In calculating the fair value of the transactions, a preference is given to transaction based methods over profit based methods.

The tax payer must attach a statement regarding such transactions to his annual tax report and, in addition, provide a transfer pricing study at the request of the tax authorities.

5. Labor Relations and Conditions

Fundamental employee rights are regulated by mandatory provisions of law. Such statutes include inter alia, hours of work and rest, minimum wage, sick pay, paid leave, overtime, holiday pay, rest day, notice for dismissal, severance pay, pension, social security, wage protection, and maternity leave. Fundamental employee rights, such as recreational pay and travel expenses to and from work, are protected by extension orders of general collective agreements. Other fundamental rights, such as additional salary and fringe benefits granted to employees in various sectors of public institutions or private industries, may be protected by general and specific collective agreements. The labor laws apply to all employees. Individual work agreements may have the effect of vesting additional rights on employees beyond the rights set by labor laws.

5.1 Working Hours

The normal working week is five days – Sunday to Thursday. Overall working hours are 42.5 per week.

5.2 Wages

The minimum monthly wages is NIS 4,100. The average monthly wages on June 2012 is NIS 8,619.

Since foreign-owned firms usually concentrate in high-wage industries, wages are higher than the average wages.

5.3 Foreign Employees

Employment of foreign employees requires both a special work permit and work visa. A written application containing specific documents for a work permit must be made by the prospective employer with the Ministry of Industry, Trade and Labor. Once the work permit is issued, an application for a work visa must be filed to the Ministry of Interior. Foreign employees are only partially covered by Israeli labor laws. The National Insurance Institution does not cover foreign employees. The employer must procure medical insurance, provide other basic requirements for the foreign employee, and may also be required to provide the authorities with guaranties in order to ensure the employer's compliance with all legal obligations.

To reduce the number of foreign employees, the government set an initial registration fee and annual fee per foreign employee, high fines are imposed on employing an employee without a work permit.

5.4 Termination of Employment

Discrimination on the grounds of sexual inclination, gender, parenthood, country of birth, personal status, age, race, religion, nationality, political views, disability, or military reserve duty is forbidden. In addition, collective agreements which apply to certain sectors of industry prescribe procedures for hiring employees and dismissing them. Other laws provide protection to employees against discrimination or dismissal on grounds of filing complaints for exposure of corruption in the workplace or sexual harassment. Under the law, dismissed personnel are entitled to one month's notice after a completion of one year's employment and a shorter notice period in the first year of employment. Employees which have been employed for over one year are entitled to severance pay upon dismissal. In some cases, determined by law, resignation of an employee is treated as dismissal for the purposes of severance pay entitlement. Severance pay is due at the rate of one month's salary for each year of employment. A personal employment contract may prescribe a larger amount of severance pay and a longer period of notice.
In the beginning of 2008 a new law providing protection to employee rights came into force this is the extension order for obligatory pension in the market. This order obligates employers to make provisions for pension insurance for the employee.

5.5 Social Insurance

National insurance payments, which include payments for social security and for health insurance, are required by law. It covers allowances for: disability, maternity, child, old age, industrial work injuries, military reserve duty, and unemployment.

5.6 Unions

Many employees have collective employment agreements and some are affiliated with Unions. Unions are recognized for various aspects of labor law. The major trade union in Israel is the Histadruth. The Histadruth constitutes an umbrella for most of the trade unions in Israel. There are a few independent unions which are not affiliated with the Histadruth. Several industrial segments are governed by general collective agreements. Those agreements have been extended to apply to all operating in that sector.

6. Government Incentives for Foreign Investments

There are various ways which the Israeli government promotes investment in the hi-tech field and several other industrial sectors. Both Israelis and foreign' investments can benefit from a wide range of incentives and grants.

6.1 Investment Incentives

Qualification requirements –
To qualify the company has to: 1. be an industrial company registered in Israel 2. has to have export capabilities unless a Biotechnology or Nanotechnology company, in which case does not have to meet the export requirement.
An investment recognized by the law will be termed an Approved Investment and the company will be designated an Approved Enterprise.

Location of investments –
The country is divided into two areas for the purposes of the law: 1. A Priority Area (mainly areas in the south of Israel, north of Israel, and Jerusalem) 2. Other areas - all areas not specified in item 1.

Grants/Reduced Taxation Program-
Companies that qualify will be entitled to reduced company tax rates. In addition companies located in the Priority Area will also be entitled to an investment grant calculated as a percentage of their approved investment. As long as the company qualifies the requirements it is eligible for the tax benefits, there is no termination period.

	Priority Area	Other Areas
Company tax rate 2011 - 2012	10%	15%
Company tax rate 2013 - 2014	7%	12.5%
Company tax rate 2015 onwards	6%	12%
Dividend tax rate	15%	15%
Investment grant	20%	-

<u>Strategic Program</u> –
Large companies that meet the following criteria will be entitled to a company tax at a rate of 5% in a Priority Area and 8% in an Other Area.
1. Total annual income in Israel of at least NIS 1.5 billion.
2. The combined balance sheet of the company is at least NIS 20 billion.
3. The business plan of the company will include one of the following: a. investment in productive equipment of at least NIS 400 million in the Priority Area or NIS 800 million in Other Areas over a 3 year period. b. investment in R&D of at least NIS 100 million in the Priority Area or NIS 150 million in Other Areas. c. employing at least 250 employees in the Priority Area or 500 employees in Other Areas.

6.2 R&D Grants

Under the R&D law, companies that decide to invest in R&D activities can be granted benefits that usually reach up to 50% of the approved R&D expenses for the project. However, start ups may be eligible for increased participation grants.
The Office of the Chief Scientist provides a variety of support programs that operate on an annual budget of about US $300 million. This is spent on about 1,000 projects undertaken by 500 companies. These programs have helped make Israel a major center of hi-tech entrepreneurship.

Companies interested in receiving grants from OCS must submit a detailed proposal, together with an outline of the R&D program and the required budget including salaries, direct costs, and overheads amounting to 45% of the costs. The request must be submitted on special forms from the OCS or Ministry of Industry, Trade and Labor.

Once the application with other documentation is received, the OCS will prepare a professional opinion and conduct a financial examination to determine the applicant's ability to finance the R&D project. The Research Committee will then examine the application for approval. Upon approval, the Research Committee will issue a confirmation certificate detailing:

- The R&D expenses approved for the project;
- The approved grant; and
- The period for performance of the approved project.

When approving an R&D project, the OCS takes the following into account:

- The innovation of the project and if it includes proven developed know-how;
- The technological and business risk involved in the project;
- The the manufacture and implementation of the product is in Israel; and
- Assurances that the know-how remains in Israel; though a company may manufacture abroad, such manufacture is conditioned upon the approval of the OCS; furthermore, the OCS will usually require the intellectual property to be owned by an Israeli company, and that the know-how derived from an approved R&D program (which is not the product developed under such program) may not be transferred to another place outside of Israel without the OCS' prior written consent.

Alternative R&D grants may be obtained through numerous funds established expressly for bi-national cooperation. For example, the Israel-United States International Research and Development Foundation participate in the financing of R&D projects undertaken on a joint basis by Israeli and US companies. Israel is also a member of the European Union's Sixth Framework Program promoting joint Israeli–EU R&D ventures.

The OCS will usually require that intellectual property rights (IP) must be owned by an Israeli company. If saleable products are developed as a result of programs which received R&D grants, those same grants are generally repaid by the entity by way of royalties at an annual rate of 3%-5%.

There are also alternative R&D grants that may be obtained through numerous funds specifically established for bi-national cooperation. Israel has also established bi-national funds that provide financial assistance for qualified R&D projects between partners in Israel and participating countries - the US, UK, Singapore, Britain, Korea and Australia. For this purpose, Israel has allocated national priority zones for diversified geographic investments. In addition, numerous international R&D agreements with countries such as Austria, Belgium, Ireland, Germany, Holland, France, Hong Kong and China, among others, provide access to sources of national funding. Israeli companies participating in the program are also entitled to receive R&D grants from the OCS.

7. About BKR International

BKR International is a leading global association of independent accounting and business advisory firms representing the expertise of more than 135 member firms with over 300 offices in over 70 countries around the world.

Partners in member firms are experts in the accounting and taxation requirements of their own countries, and consider direct partner contact with clients to be the key to successful professional relationships.

BKR International is represented by member firms in each of the following countries:

Albania	Hong Kong	Pakistan
Argentina	Hungary	Palestine
Australia	India	Peru
Azerbaijan	Indonesia	Poland
Bolivia	Ireland	Portugal
Brazil	Israel	Puerto Rico
Bulgaria	Italy	Qatar
Canada	Japan	Romania
Cayman Islands	Jordan	Russia
Channel Islands	Korea	Saudi Arabia
China	Kuwait	Serbia
Colombia	Lebanon	Singapore
Congo	Lithuania	South Africa
Cyprus	Luxembourg	Spain
Czech Republic	Macedonia	Switzerland
Denmark	Malaysia	Taiwan
Dominican Republic	Malta	Togo
Ecuador	Mauritius	Tunisia
Egypt	Mexico	Turkey
El Salvador	Montenegro	Ukraine
France	Morocco	United Arab Emirates
Germany	Nepal	United Kingdom
Greece	Netherlands	United States of America
Guatemala	New Zealand	Uruguay
Honduras	Norway	Vietnam

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