Doing business in Israel
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Foreword

This publication has been prepared by Reuveni Hartuv Tepper & Co to provide our clients, associates and foreign investors with an overview of the economy of Israel, business structures, accounting and auditing and tax regulations and incentives.

The publication aims to cover, in summarized form, aspects of doing business in Israel.

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• Project investment feasibility studies

Public Companies and Government Bodies

• Accounting and taxation services
• Assistance with reporting to government authorities

International Investments in Israel

• Representation of international and foreign investors
• Project presentation to potential investors
• Management and assistance with government Approved Investment and Approved Enterprise grants and benefits
• Raising capital for foreign investors through private and public share issues

Individual Taxation

• Optimum utilization of benefits available to individuals
• Guidance to majority shareholders of public companies

Societies and Non-Profit Organizations

• Representation on behalf of members to authorities
• Maximization of available exemptions, rights and benefits
• Financial guidance and consultation

Ancillary Services offered by the Firm

• Preparation of business plans
• Provision of trustee services
• Preparation of business valuations
• Planning and facilitating listed share issues
• Raising capital from banks and private sources
• Preparation of applications for Approved Enterprise and/or Approved Investment status with ensuing follow-ups with the Investment Centre
• Costing analyses and budgetary controls
• Preparation of budgets and work schedules
• Systems improvement and management reporting
• Internal control reviews
• Provision of expert opinions on accounting and financial matters
• Bookkeeping
• Payroll services

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Investment in the Israeli Economy

Geography
Israel is situated along the Mediterranean coast--430 km long and between 110km to 10 km wide. It has borders with Lebanon in the north, Syria and Jordan in the east, and Egypt in the south. There are numerous ancient sites which act as major tourist attractions. The terrain varies from hilly landscape, with fertile agricultural land in the north to desert sites in the south. Major cities are Jerusalem the capital, with numerous historical and religious sites, Tel-Aviv, the financial, commercial, and industrial center, Haifa, principal port city, and Beer Sheva, the largest city in the Negev. In summer the climate along the coast is hot and humid, with a dry desert climate in the interior. Winter begins about November until March with mild and rainy weather.

Constitution
Israel is a secular democracy, whose parliament (Knesset) is elected at a general election every four years. The electoral system is based on nation-wide proportional representation, where voters elect a party list rather than individuals. All Israeli citizens over 18 are entitled to vote. The State President acts in a representative capacity.

Legal System
The judicial system is independent of the executive and legislative systems. The legal system is based on common and corporate law. The Supreme Court is the highest court of the State. There are district courts in major cities for certain judicial matters. The following subsidiary courts have a specific area of jurisdiction:
Administrative courts
Family courts
Municipal courts
Religious courts
Banking and Currency
Israel’s financial system is highly developed, computerized, and transparent. The Central Bank implements monetary policy, controls local banks, and manages foreign currency. The monetary unit is the New Israeli Shekel (NIS). Each shekel is comprised of 100 agorot. The representative dollar rate is an indicator for its exchange rate on the foreign currency market, based on the average buying and selling rates published by the banks. Other currency exchange rates are calculated at the dollar representative rate and the rate of those currencies against the dollar on international currency markets.

Immigration & Population
In terms of the “Law of Return” all Jews and persons considered to be Jews in terms of this law, are eligible for Israeli citizenship. In order to work in Israel, non-residents are required to obtain a work permit by application to the Ministry of Labour. Certain immigrants can by application, be granted temporary resident status. The county’s population is composed of approximately 75% Jews, and 25% Muslims, Druze and Christians. Over the past decade the population grew by 31%, derived partly from the massive wave of immigration from the former USSR, bringing with it skilled and educated people, and from Ethiopia.

Imports and Exports
Import Controls
The government levies customs duties on certain goods entering the country. Customs clearance must be obtained to import goods. There are import and quarantine controls on certain goods. Custom duty rates are usually based on CIF value. Various trade agreements with the USA, the European Community and efta reduce duties in comparison with imports from other countries.

Major Imports
These comprise motor vehicles, and manufacturing equipment.
Major Exports
These comprise agricultural equipment, chemicals, medical equipment, military hardware pharmaceuticals and diamonds.

However, Israel`s main export is its human capital- the intellect, the ability and the expertise of its people.
Since the founding of the State, the Israeli economy has been transformed from a largely agriculture based economy into a **hi-tech powerhouse**.
Israel`’s rapid economic expansion over the last 15 years has brought it to the forefront of hi-tech innovation and today, Israel is recognized as one of the most important technology centers in the world.
The ongoing expansion of groundbreaking innovations in fields such as information technology, software, medical equipment, biotechnology and security give cause for optimism.
In these times as investors rethink their investment strategies, we are comforted by the fact that so many Israeli companies are based on solid and innovative technologies.

A major factor in this great success has been a clear government policy of leadership, support and encouragement of industrial R& D, together with innovative entrepreneurship.

Investments
**Legislation encouraging investment** will continue to play an important role in attracting foreign businesses to Israel. Israel is determined to maintain its growth and increase its already strong position in the global economy. The continued policy of accelerated privatization, liberalization and developing free trade agreements with additional countries and regions will enhance its success.

**Foreign investment** has played an important role in Israel`’s economic growth. There are over 60 active Venture Capital Funds in Israel, pumping a steady stream of the necessary resources into the technology sector, and there are more Israeli companies traded on NASDAQ than those of any other country outside of North America. Leading global companies that have invested in Israel, benefit from an entrepreneurial, dynamic labor force creating cutting-edge technology.
Other sources of finance include local commercial and savings banks, banks specializing in the granting of mortgages, financial institutions, and the stock exchange.
Why Top Companies Choose Israel
A highly educated, talented and diverse workforce, an impressive track record of developing profit driving technologies, high level of scientific research, modern infrastructure, and supportive government programs, create a fertile environment for innovation.

Microsoft-Cisco-Motorola-Intel-Siemens-Phillips-Medical, IBM, Comverse, ECI Telecom, Keter Plastic, Iscar, Netafim, Amdocs, Orbotech are just a few of the world-renowned multinational companies that have already chosen to invest in Israeli technology.

Entrepreneurial Spirit
Israeli entrepreneurs are driven to be the next global success story like Checkpoint and Teva Pharmaceuticals. Israel is one of the largest centers in the world for start-up enterprises.

Track Record
Israel`s track record has captured the attention of the global investment community. Foreign direct investments grew from $600 million in 1993 to nearly $15 billion in 2007 with total Venture Capital investments since 1993 exceeding $11 billion. International rating agencies have consistently sustained Israel`s credit ratings and reaffirmed their confidence in Israel`s economy.

Always Innovating
Israel has the highest rate of research and development investment per GDP in the world. Deeply committed to nurturing entrepreneurship and innovation, Israel`s many high tech incubators support young companies with over 200 active projects, and over 735 graduate projects in the last few years.

Top Academic Education
With one of the most highly educated workforces in the world, it`s no surprise so many profitable innovations come from Israel. Israel enjoys the highest ratio worldwide of engineers in the workforce, and the highest ratios in the world of university degrees and academic publications per capita.
Solving Problems-Creating Opportunities
Converging excellent problem solving skills with exceptional creativity, many of Israel’s finest innovations have their roots in the Israel Defence Force (IDF). Highly trained graduates of the Israel Defence Force apply cutting edge defence technology to market changing civilian applications.

Israel Speaks Your Language
Understanding your language and business culture, most Israelis speak English and many other languages. The annual flow of tens of thousands of well educated, ambitious immigrants further eases cross border communications.

Where Israel Excels
Agrotechnology
Biotechnology
Data Security
Computer aided education
Internet technologies
Medical equipment
Nanotechnology
Optics
Property investment
Safety and security
Semiconductors
Software
Telecommunications

International Trade and Economic Cooperation
Israel has an extensive network of agreements with countries throughout North America, Europe and Asia, including:
Free Trade Agreements that cover close to 80% of Israel’s foreign trade.
Joint R&D programs to promote industrial cooperation that provide up to 50% of costs for projects.
Treaties for the avoidance of double taxation.
State Comptroller
This office audits and inspects the activities of government ministries, local municipalities, and various other institutions governed by law.

Modern Infrastructure
Israel offers a modern infrastructure and the services required to conduct business efficiently and effectively, including:

- Efficient, sophisticated communications systems. Reliable energy infrastructure.
- Well developed transportation system with modern, international gateways. Israel is linked to the rest of the world via air and sea.
- Advanced domestic transportation system, with an extensive inter-urban highway network.
- Protection of trademarks, patents and other intellectual property.
- Active and sophisticated capital markets: companies can dual-list on the Tel-Aviv Stock Exchange, and other foreign exchanges.

Main sources of finance are foreign investment capital, commercial and industrial banks, savings banks, finance companies and the Stock Exchange. Israel adheres to the OECD Declaration on International Investment and Multinational Enterprises. The declaration creates a framework of good practices for international investment.

Government Support
The Israeli government is committed to encouraging the success of foreign direct investment. Israel has liberalized its economy through a series of regulatory changes:

- Implemented liberal foreign currency regulations that eased the raising of capital both in Israel and abroad.
- Reduced both tariff and non-tariff barriers.
- Reformed tax laws to reduce labor tax, capital income tax and global taxation.
- Created incentives for investments in the hi-tech sector.
- Privatized state-owned companies to promote the growth of the private sector and to enhance competitiveness.

Israel offers substantial investment grants, tax benefits and exemptions for foreign investors through the Law for the Encouragement of Capital Investments.

The Law for the Encouragement of Industrial R&D offers conditional R&D grants of up to 50% of approved programs.
Taxation and Investment Incentives

Taxes Payable
A gradual reduction of tax rates for both individuals and companies has been implemented.

Tax Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>26</td>
</tr>
<tr>
<td>2010</td>
<td>25</td>
</tr>
<tr>
<td>2011</td>
<td>24</td>
</tr>
<tr>
<td>2012</td>
<td>23</td>
</tr>
<tr>
<td>2013</td>
<td>22</td>
</tr>
<tr>
<td>2014</td>
<td>21</td>
</tr>
<tr>
<td>2015</td>
<td>20</td>
</tr>
<tr>
<td>2016</td>
<td>18</td>
</tr>
</tbody>
</table>

Company Tax: Israeli resident companies are liable to Israeli taxes on their worldwide income and capital gains. A non-resident company is only liable to Israeli tax on income sourced in Israel.

A Company resident in Israel is one that is incorporated in Israel, or managed and controlled in Israel.

The Corporate tax rate in Israel will decrease gradually as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>29</td>
</tr>
<tr>
<td>2008</td>
<td>27</td>
</tr>
<tr>
<td>2009</td>
<td>26</td>
</tr>
<tr>
<td>2010</td>
<td>25</td>
</tr>
</tbody>
</table>
The financial year runs from 1 January to 31 December. A company must normally submit tax returns within five months of the end of its accounting period (This period may be extended for up to 13 months). Companies must make monthly advance tax payments of company tax, based on the previous year’s tax liability. In addition, monthly payments must be made within 15 days of the month’s end at the rate of 45%, in respect of certain expenses, which are not allowable for tax purposes, such as excessive travel and entertaining costs. Where the company has taxable income, such payments are treated as advanced payments.

**Capital Gains Tax:** Capital gains are divided into two elements. That part of the gain which is inflationary by nature is taxable at the rate of 10% in respect of the inflationary gain which was earned up to 31.12.93 and at zero rate thereafter and the real gain is taxable at the corporate tax rate. Thereafter capital gains are taxed at the rate of 25% for companies and for individuals holding more than 10% of the shares in a company, and 20% for individuals. These rates are calculated in proportion to the period from the date of acquisition of the asset to the date of disposal. Non resident companies are liable to Israeli tax on capital gains derived in Israel. Foreign residents have the option of having the chargeable gain calculated by reference to changes in the exchange rate of the U.S. Dollar as related to the Israeli currency. Capital Gains on the sale of foreign securities is taxed at the rate of 20%.

**Branch Profits Tax:** The profits of an Israeli company’s foreign branch are taxed in Israel. Similarly, the losses of an Israeli company’s foreign branch may be set off against its income and capital gains in the same way as domestic losses.

**Value Added Tax (Vat):** VAT is charged at a rate of 16.5% as from 1 July 2009 (increased from 15.5%) on the supply of goods and services by Israeli business entities. The export of goods and certain services from Israel are either zero-rated or exempt from VAT.

**Fringe Benefits Tax (Fbt):** There is no separate fringe benefits tax in Israel. Fringe benefits are included in the employee’s gross income and are taxed as salary.
Local And Other Taxes

**Purchase Tax:** Purchase Tax is payable on the purchase of real estate at rates from 3.5% to 5.0%. A purchase tax ranging from 0.5% to 5% is payable if the building is a residential apartment.

**Sales Tax on Property:** The sale of property rights is subject to Sales tax at the rate of 2.5% for property acquired before 7 November 2001. There are a number of exemptions. Thereafter no taxes are payable, including the sale of dwellings, on property forming part of business stock, or on property which is part of an “approved project” in terms of the Law of Approved Enterprises.

**National Insurance:** Employers are required to pay a national insurance premium as well as payments in respect of health insurance. These payments amount to 17.43% of salaries. Of this amount, **12.0%** is recoverable from employees. The monthly ceiling for social security payments was doubled from the previous NIS 38,415 to NIS 76,830. The change effective from 1 August 2008 to 31 December 2009 relates both to employees and self-employed. Dividend income is exempt from social security payment.

**Rates:** Rates are levied by local authorities. The government decides the maximum rate of increase. The local councils set their own rates accordingly.

**Land Betterment Tax**
Tax on Land Betterment accrued until 7 November 2001 will be at the marginal rate of up to 46% for individuals, and up to 26% for companies. Tax on Land Betterment accrued after 7 November 2001 will be at the rate of 20% for individuals, and 25% for companies. The calculation of the tax is related to the period that the land was held. The sale of residential real estate by individuals is exempt from this tax if certain conditions are met.

**Estate Tax:** At present there is no Estate Tax in Israel.
**Determination Of Taxable Income**

Taxable income is generally based on income reported in the financial statements subject to adjustments as indicated in the tax law. Special regulations apply in respect of the matters referred to below.

**Depreciation:** Deductions for the depreciation of assets, which are used by a company, are inflation adjusted until 31 December 2007 and calculated on the straight line basis, at the following annual rates:

<table>
<thead>
<tr>
<th>Nature of Asset</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings of industrial companies and hotels</td>
<td>5</td>
</tr>
<tr>
<td>Other buildings</td>
<td>1.5-4</td>
</tr>
<tr>
<td>Hotel equipment</td>
<td>15-20</td>
</tr>
<tr>
<td>Plant and machinery of an industrial company</td>
<td>20-40</td>
</tr>
<tr>
<td>Other plant and machinery</td>
<td>7-10</td>
</tr>
<tr>
<td>Electronic equipment</td>
<td>15</td>
</tr>
<tr>
<td>Furniture and office equipment</td>
<td>6-7</td>
</tr>
<tr>
<td>Furniture and office equipment (restaurants and hotels)</td>
<td>9-12</td>
</tr>
<tr>
<td>Computers &amp; Software</td>
<td>25-33</td>
</tr>
<tr>
<td>Trucks and commercial vehicles</td>
<td>20</td>
</tr>
<tr>
<td>Cars</td>
<td>15</td>
</tr>
<tr>
<td>Patents and Know How</td>
<td>12.5</td>
</tr>
<tr>
<td>R and D expenditure</td>
<td>33-100</td>
</tr>
</tbody>
</table>

Approved Enterprises are eligible for accelerated depreciation for a period of 5 years from the date of commencement of operations.

**Stock/Inventory:** Inventory is valued using FIFO method, LIFO is not a permissible alternative.

**Capital Gains And Losses:** See information above. Capital losses must first be set off against real non-inflationary gains and then against inflationary gains, in the ratio of 1:3.5 respectively. Any balance remaining is available to be carried forward and set off in the seven years following the asset realization. Capital losses incurred from 1996 can be carried forward without a time restriction.
**Dividends:** Dividends received by an Israeli company from another Israeli company are exempt from company tax, except where the income out of which the dividend is paid is from a foreign source, then the rate of tax is 25%. Dividends received from an approved enterprise are subject to 15% company tax. Dividends received from non-resident companies are fully liable to company tax at the rate of 25%. Dividends paid to a non-resident shareholder are subject to withholding tax of 25%, unless a lower rate is provided for within the framework of a double-tax treaty. Dividends paid to Israeli or foreign individuals and companies are subject to withholding tax of 20%, however dividends paid to substantial shareholders by private companies are subject to withholding tax of 25%. This may be reduced according to a Tax Treaty.

Dividends received by an Israeli company which has been granted the status of a “Family Company” is taxed at the rate of 25%. Special considerations are however granted to this form of company.

With effect from 1 January 2003, in specific cases, taxes paid on foreign income, including both company tax and dividend withholding tax can be set off against taxes payable in Israel.

Dividends distributed to individuals during the period from 1 October 2009 to 30 September 2010, on profits accumulated until 31 December 2002 are subject to withholding tax of 12% (instead of 20% or 25% as before).

Provided that the share which gave rise to the dividend was acquired before 1 January 2003 (subject to further conditions).

**Interest Deductions:** Interest is normally deductible on an accrual basis. However, interest payable to a non-resident is effectively deductible only when payment is effected, since a deduction may only be taken if tax has been withheld at source from the interest payment, within three months of the end of the company’s accounting period. There is no curtailment of deductible interest by reference to debt/equity ratios.

**Losses:** Trading losses may be set off against all categories of income and capital gains in the same accounting period. Unutilized losses may be carried forward indefinitely against future income and capital gains which result from the business from any trade or business carried on by the company, but not against income or gains from any other source. Generally carry-forward of losses may be denied where there has been a change in the business and/or in the ownership of the company and one of the purposes of the change is tax avoidance. Losses may not be carried backwards. Losses incurred abroad are allowed as a deduction from Israeli income on certain conditions only.
**Foreign Sourced Income**

Entities controlled by Israeli residents (CFC)-tax is payable in Israel at the rate of 25% if the following conditions apply:

(i) The source of income of the foreign corporation is passive (interest, dividends, royalties, rentals)

(ii) The foreign corporation has paid tax in a “low tax territory” (less than 20%)

(iii) Israeli residents control more than 50% (in certain circumstances more than 40%) of the shares in the foreign corporation, or have the right to influence certain management decisions.

**Repatriation of profits**

Profits can be repatriated to foreign individuals and companies by way of:

1. Dividends
2. Interest on loans
3. Management fees
4. Service fees
5. Royalties.

In all the above cases, payments made must reflect the arms length market value of the goods and services. If the tax authority determines that an excessive amount has been paid for goods or services, it can disallow the deduction claimed by the company making the payment, and substitute an alternate amount.

**Participation Exemption**

An Israeli holding company, under specific conditions, is exempt from tax on dividends received from foreign subsidiaries, from capital gains on the sale of such subsidiaries, and from interest on deposits made in Israel by the subsidiaries.

Foreign shareholders benefit from a reduced withholding tax of 5% on dividends distributed by the holding company.

An Israeli shareholder will pay between 20 to 25% withholding tax on dividends distributed.

**Incentives**

In order to encourage both local and foreign investment, Israel grants a number of significant tax incentives which have the effect of eliminating or substantially reducing the tax rate for companies.
Income Tax Ordinance Amendment 169
The Knesset has passed the above tax amendment which forms part of Israel’s own economic stimulus plan. It is part of the measures announced by the Finance Ministry on November 2008 for expanding the credit supply amid the international financial crisis.

The amendment is effective from the beginning of 2009.

The principle measures enacted are summarized below:

**Bond Interest paid to foreign investors**
To help revive the corporate bond market, an exemption is granted to foreign residents regarding interest, discount premiums, indexation and exchange differences on bonds traded on the Tel Aviv Stock Exchange.

This exemption does not apply to:

1. Income from a permanent establishment being a fixed place of business in Israel.
2. Shareholders holding 10% or more in the shares of the bond issuer company.
3. Related companies, being a 25% or more parent or subsidiary of the bond issuer.
4. Employees, service providers, product suppliers and other parties having a special relationship with the bond issuer - unless the Assessing Officer is satisfied that the rate of interest or discount premium was fixed in good faith.

**Capital Gains derived by foreign investors**
To encourage foreign investment in securities of Israeli resident companies, (public or private), an earlier limited exemption from Israeli capital gains tax has been expanded. The exemption is now available to any foreign resident investor, not only to persons who resided for 10 years in a country that has a tax treaty with Israel.
Also, there is no longer a requirement to notify the Israeli Tax Authority of the investment within 30 days after acquiring the securities.
As before, the exemption does not apply to:

1. Gains from securities in companies whose main assets are Israeli real-estate interests.
2. Gains attributable to an Israeli permanent establishment of the foreign investor.
Foreign Dividends paid to Israeli multinational corporations

To encourage Israeli multinational groups to repatriate money to Israel, they may elect a 5% rate of company tax (instead of 25%) for dividend income from a foreign source, which is “used in Israel” in 2009, or within one year after actual receipt of the dividend, whichever is later.

“Used in Israel” means the dividends cannot be paid to any 5% or more shareholder, but can be used for any of the following:

1. Payment to Israeli residents for services or work performed in Israel.
2. Purchase or lease of assets from an Israeli resident, or for assets used in Israel.
3. Improvement or maintenance of assets in Israel.
4. Research and development in Israel.
5. Debt repayment to an Israeli resident (if a related entity it must use the money in Israel).
6. Interest or discount premium on a bond traded on the Tel Aviv Stock Exchange, or purchase of such a bond.
7. Deposit at an Israeli resident bank for at least a year, or if sooner reinvestment in securities traded on the Tel Aviv Stock Exchange for the remainder of the year.
8. Purchase of securities traded on the Tel Aviv Stock Exchange and holding them or replacement securities for at least a year.
9. Payment of dividend to another Israeli resident company for use in Israel.

Dividends eligible for the 5% rate are reduced if the Israeli parent company effectively repays them to the dividend payor or its 25% affiliate in the period from December 1, 2008 to December 31, 2010, by way of loan, share investment or loan guarantee which is called.

If the election is made, the Israeli parent company cannot credit “underlying” corporate tax paid by the group abroad, nor can it carry forward any excess foreign tax credit under the regular Israeli tax rules.

The 5% tax rate overrides the 25% tax generally imposed on income of a “controlled foreign company” in 2009 if it is distributed in the same year to the Israeli parent company, and the 5% tax is paid.
The election is not available to Israeli parent companies which are “house property companies” or “family companies” (where shareholders are taxed instead of the company).

To sum up the above amendment contains some useful Israeli tax benefits for foreign investors in Israeli bonds and other securities, and Israeli multinational groups.

Other Incentives:
There are various other incentives available, such as in the fields of the Tourism Industry, employment incentives, international trading company incentives, the building of dwellings for rental, Research and Development where bi-national funds have been established to promote joint ventures, and incentive training programs with the granting of loans for the encouragement of small businesses.

The Israeli government has signed R&D cooperation agreements with the United States, Canada, the European Union and Asia.

A government Seed Fund has been established to encourage investment in start up companies by matching the capital of investors.

Special “Free Trade Zones” have been established with major tax benefits-exempt from VAT, lower tax rates, exempt from property tax.

Overseas Marketing Encouragement Fund
An Overseas Marketing Encouragement Fund has been established to provide grants to new, small, and medium exporters.

New exporter
- Exports up to US$2 million per annum, with total turnover not exceeding US$4 million.
- Exporter is entitled to a grant of up to 30% of actual expense, plus up to 50% of specific marketing expenses limited to US$ 40,000

Small exporter
- Exports up to US$7 million per annum, with total turnover exceeding US$4 million
- Exporter is entitled to a grant of up to 30% of actual expense, plus up to 50% of specific marketing expenses limited to US$ 150,000

Medium exporter
- Exports exceed US$ 7 million per annum but not more than US$15 million, with total turnover not exceeding US$ 30 million.
- Exporter is entitled to a grant of up to 30% of current marketing expenses not exceeding US$ 250,000, plus up to 50% of specific marketing expenses
INVESTMENT INCENTIVES
The program can be divided in two:
(1) The Grants Program
(2) The Automatic Tax Benefits Program

To qualify, investment projects must meet certain criteria, including: international competitiveness, minimal designated investment, high added value and the registration of the company in Israel.
Once these criteria are met, the enterprise gains Approved Enterprise status.

Grants Program
The amount of the government grant is calculated as a percentage of the original cost of land development and investment in buildings, machinery and equipment, including installation and related expenses. The percentages are:

<table>
<thead>
<tr>
<th></th>
<th>Priority area A</th>
<th>Priority area B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial projects up to</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>NIS 140 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial projects above</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>NIS 140 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment in hotels and</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>other accommodation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other tourist enterprises</td>
<td>15%</td>
<td>-</td>
</tr>
</tbody>
</table>

20% of the approved program for industrial projects should be completed within 24 months. The investment program should be completed within 5 years from date of approval.
Tax Benefits
Grants Program
Companies choosing the Grants Program receive tax benefits as well for a period of 7 years, starting from the first year that the company earns taxable income. (Grants are not considered income) Tax benefits are determined by the percentage of foreign control. The more foreign control in the enterprise, the higher the benefits.
If at least 25% of an Approved Enterprise owners are foreign investors, the enterprise is eligible for a 10 year period of tax benefits.

<table>
<thead>
<tr>
<th>Tax Rates by Ownership Stake (%)</th>
<th>Company Owned by Foreign Investors</th>
<th>Company Owned by local investor</th>
</tr>
</thead>
<tbody>
<tr>
<td>90 to 100%</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>74 to 90%</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>49 to 74%</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Less than 49%</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
<th>100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Tax</td>
<td>10</td>
<td>15</td>
<td>20</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Balance</td>
<td>90</td>
<td>85</td>
<td>80</td>
<td>75</td>
<td>74</td>
</tr>
<tr>
<td>Dividend Tax 15%</td>
<td>13.5</td>
<td>12.75</td>
<td>12</td>
<td>11.25</td>
<td>18.50</td>
</tr>
<tr>
<td>Total tax on distributed income</td>
<td>23.5</td>
<td>27.75</td>
<td>32</td>
<td>36.25</td>
<td>45.50</td>
</tr>
</tbody>
</table>

Automatic Tax Benefits Programs

There are 3 types of programs:
(1) Alternative tax program
(2) Priority area program
(3) Strategic program
(1) **Alternative tax program**
A company can choose this program by waiving the projects rights to a grant, and will receive complete exemption from corporate tax on its undistributed income as detailed below:

<table>
<thead>
<tr>
<th>Priority Area A</th>
<th>Priority Area B</th>
<th>Central Israel</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 years of complete tax exemption</td>
<td>6 years of complete tax exemption and 1 year of tax benefit at 25%</td>
<td>2 years of complete tax exemption and 5 years of tax benefits at 25%</td>
</tr>
</tbody>
</table>

(2) **Priority area program**
For companies investing in priority area A, benefits include:
- Corporate tax rate of 11.5%
- Dividend tax rate of 15%—Total tax rate of 24.5%
For a foreign investor the dividend tax rate is 4%—Total tax rate of 15%
For companies investing in priority area B
The benefit period is for 7 years. If at least 25% of the company is foreign owned, then the benefit period is 10 years.

(3) **Strategic program**
This program is intended for large multi-national companies meeting the following criteria:
- Annual turnover of at least $3 billion
- Minimum investment in the project of $130 million
- Location: Priority area A

Benefits include:
- (a) Corporate tax -0% (Complete tax exemption)
- (b) Dividend tax-0%
R & D Incentives
The Office of the Chief Scientist is responsible for implementing the government’s policy of encouraging and supporting industrial research and development in Israel. This office provides a variety of support programs which have helped make Israel a major center of hi-tech entrepreneurship. The R & D Fund offers grants of between 20%-50% to approved projects.
If the project is commercially successful, the company is under obligation to repay the grant by royalty payments.
Grants of up to 90% of costs are available for biotechnology research, and up to 85% for technological incubators.

Foreign Tax Relief
Foreign tax credits are given to Israeli resident companies in respect of foreign taxes borne on overseas sourced income and capital gains. There is no system of “global” foreign tax credits, each foreign source is treated as separate for the purpose of the consideration of credits. With effect from 1 January 2003, an Israeli company is allowed to deduct from taxes payable the tax paid on foreign company profits and also the withholding tax paid on dividends, provided it holds directly at least 25% (or at least 50% indirectly) of the shares in the foreign company.

Corporate Groups
In general there is no consolidation of profits and losses of a group of Israeli companies for tax purposes. However, consolidated tax returns may be filed for a group of industrial companies meeting certain criteria.

Related Party Transactions
The tax assessing officer has powers to impose arm’s length prices where arrangements between related parties are artificial or fictitious. With effect from 2003, the market value will determine the amount of the transaction. Market value can be determined by a prior ruling from the tax authorities. In November 2006 new legislation was introduced relating to “transfer pricing” for multinational groups.

Withholding Taxes
Withholding taxes are deducted from payments of interest, dividends and royalties made to non-residents, subject to Tax Treaty arrangements.
Exchange Control
There are no exchange controls enforced and foreign currency can be freely transferred in and out of the country

Personal Tax
Income tax is payable by Israeli resident individuals on income derived from all sources, including passive income irrespective of whether the income was derived or paid from overseas sources.
Non-resident individuals are only liable to income tax on Israeli sourced income.
An Israeli resident is determined as an individual who resides in Israel, except for temporary absences that seem reasonable to the assessing officer and do not contradict that individual's claim to be an Israeli resident. Factors determining residence also include situation of family, business and social activities.
Rental income is taxed in the hands of an individual at rates of 10% or 15%, with no allowance for the deduction of expenses, depending on whether the property is situated in or out of Israel. (Not including commercial rentals)
Rental income is exempt up to NIS 4,200 per month. Different regulations relate to the deduction of expenses.
Interest income, not previously taxed is now taxed in the hands of an individual at rates from between 15% to individual marginal rate depending on circumstances. Exemptions are provided for low income earners.

Exemptions from personal tax for persons who became residents of Israel for the first time and for returning residents, are as follows:

Tax Relief for new and returning residents
The Israeli Knesset approved on 9 September 2008 a major tax reform for new and returning residents. Amendment 168 to the Israeli tax ordinance is in force retroactively from 1 January 2007.
The main provisions are as follows:
Change in the definition of a “foreign resident”: From 1 January 2007, individuals who leave Israel will only lose their Israeli residency status if they are outside of Israel for at least 183 days each year during two consecutive tax years, and their primary residence is outside of Israel for a further two years.
Change in the definition of a “senior returning resident”:
“Senior returning residents” are treated in the same way as new residents.
A “senior returning resident” is an individual who returns to Israel to reside, after being a foreign resident for: (a) at least 5 consecutive years if they return to Israel in the tax years 2007 through 2009 or (b) at least 10 consecutive years if they return to Israel after 2009.

Below is a summary of the prior benefits before the amendment 168, and the new benefits after amendment 168:

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Prior Benefit</th>
<th>New Benefit New resident and senior returning resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Passive income”-exemption from foreign assets purchased before and after becoming an Israeli resident</td>
<td>5 years exemption for new and returning residents, but only for foreign assets purchased before becoming Israeli residents</td>
<td>10 years</td>
</tr>
<tr>
<td>Exemptions from foreign business income and foreign salary</td>
<td>4 years, but only for new residents on a business that operated 5 years before the resident became a new resident</td>
<td>10 years</td>
</tr>
<tr>
<td>Foreign companies that are “managed and controlled” from Israel, CFC, or foreign professional company</td>
<td>N/A</td>
<td>Those companies will be considered as foreign for 10 years</td>
</tr>
<tr>
<td>Foreign allowance</td>
<td>Payment of tax as it would have been in the foreign country.</td>
<td>10 years exemption</td>
</tr>
<tr>
<td>Capital gains exemption</td>
<td>10 years exemption, but only for foreign assets purchased before becoming an Israeli resident</td>
<td>10 years</td>
</tr>
<tr>
<td>Tax return</td>
<td>Exemption –if certain conditions are met</td>
<td>No need to submit a tax return on the exempt income</td>
</tr>
</tbody>
</table>
No tax is payable on income arising outside of Israel and received by non-residents who are in the country temporarily, who do not intend to establish a place of residence and who have not resided in Israel for periods totaling six months in the tax year.

“Approved specialists” are foreign experts whose status is granted by the Investment Centre, where no Israeli resident could perform the job or possess the necessary skills to do so. Approved specialists are liable to a maximum tax rate of 25% on their income for a period of 3 tax years, with a possible extension for a further 5 years.

The rates of tax on monthly taxable income of individuals are currently:

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIS</td>
<td>%</td>
</tr>
<tr>
<td>0-4,590</td>
<td>10</td>
</tr>
<tr>
<td>4,591 -8,160</td>
<td>15</td>
</tr>
<tr>
<td>8,161-12,250</td>
<td>23</td>
</tr>
<tr>
<td>12,251-17,600</td>
<td>30</td>
</tr>
<tr>
<td>17,601-37,890</td>
<td>34</td>
</tr>
<tr>
<td>37,891 and above</td>
<td>46</td>
</tr>
</tbody>
</table>

The above rates relate to income from salary, trade, business or profession. The intervals between the above tax brackets will be reduced, and the top marginal rate will be reduced from 46% in 2009 to 39% by the year 2016.

Passive income – (interest and rental) received by an individual from a commercial enterprise conducted by him is taxed as follows:

<table>
<thead>
<tr>
<th>Monthly Income</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>NIS</td>
<td>%</td>
</tr>
<tr>
<td>Up to 12,250</td>
<td>30</td>
</tr>
<tr>
<td>12,251 -17,600</td>
<td>32</td>
</tr>
<tr>
<td>17,601-37,890</td>
<td>34</td>
</tr>
<tr>
<td>37,891 and above</td>
<td>46</td>
</tr>
</tbody>
</table>
## Treaty and Non Treaty Withholding Tax Rates

<table>
<thead>
<tr>
<th>Country</th>
<th>DIVIDENDS</th>
<th>INTEREST</th>
<th>ROYALTIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Treaty Countries</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Treaty Countries:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Austria</td>
<td>25</td>
<td>15</td>
<td>10</td>
</tr>
<tr>
<td>Belgium</td>
<td>15</td>
<td>15</td>
<td>10-0</td>
</tr>
<tr>
<td>Brazil</td>
<td>15-10</td>
<td>15</td>
<td>15-10</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>10-12.5</td>
<td>5-10</td>
<td>12.5</td>
</tr>
<tr>
<td>Belorussia</td>
<td>10</td>
<td>5-10</td>
<td>5-10</td>
</tr>
<tr>
<td>Canada</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>China (People Repub)</td>
<td>10</td>
<td>7-10</td>
<td>10</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>5-15</td>
<td>10-0</td>
<td>5</td>
</tr>
<tr>
<td>Denmark</td>
<td>25</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>5-10-15</td>
<td>0-5-10</td>
<td>5</td>
</tr>
<tr>
<td>Finland</td>
<td>5-10-15</td>
<td>5-10</td>
<td>10</td>
</tr>
<tr>
<td>France</td>
<td>5-10-15</td>
<td>5-10</td>
<td>10</td>
</tr>
<tr>
<td>Germany</td>
<td>25</td>
<td>15-0</td>
<td>5-0</td>
</tr>
<tr>
<td>Greece</td>
<td>0-25</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Hungary</td>
<td>5-15</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>India</td>
<td>10</td>
<td>10-0</td>
<td>10</td>
</tr>
<tr>
<td>Ireland</td>
<td>10</td>
<td>5-10</td>
<td>10</td>
</tr>
<tr>
<td>Italy</td>
<td>10-15</td>
<td>10</td>
<td>10-0</td>
</tr>
<tr>
<td>Jamaica</td>
<td>15-22.5</td>
<td>15-0</td>
<td>10</td>
</tr>
<tr>
<td>Japan</td>
<td>5-15</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Latvia</td>
<td>5-10-15</td>
<td>0-5-10</td>
<td>5</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>5-10-15</td>
<td>0-5-10</td>
<td>5</td>
</tr>
<tr>
<td>Mexico</td>
<td>5-10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5-10-15</td>
<td>10-15</td>
<td>5-10</td>
</tr>
<tr>
<td>Norway</td>
<td>25</td>
<td>25</td>
<td>10</td>
</tr>
<tr>
<td>Phillipines</td>
<td>10-15</td>
<td>10</td>
<td>Up to 15</td>
</tr>
<tr>
<td>Poland</td>
<td>5-10</td>
<td>5</td>
<td>5-10</td>
</tr>
<tr>
<td>Rumania</td>
<td>15</td>
<td>5-10</td>
<td>10</td>
</tr>
<tr>
<td>Russia</td>
<td>10</td>
<td>10-0</td>
<td>10</td>
</tr>
<tr>
<td>Singapore</td>
<td>5-10</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Slovakia</td>
<td>5-10</td>
<td>2.5-10</td>
<td>10</td>
</tr>
<tr>
<td>South Africa</td>
<td>25</td>
<td>25</td>
<td>0-15</td>
</tr>
<tr>
<td>Spain</td>
<td>10</td>
<td>5-10</td>
<td>5-7</td>
</tr>
<tr>
<td>South Korea</td>
<td>5-10-15</td>
<td>7.5-10</td>
<td>2-5</td>
</tr>
<tr>
<td>Sweden</td>
<td>0</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5-15</td>
<td>5-10</td>
<td>5</td>
</tr>
<tr>
<td>Thailand</td>
<td>10-15</td>
<td>10-15</td>
<td>5-15</td>
</tr>
<tr>
<td>Turkey</td>
<td>10</td>
<td>10-0</td>
<td>10</td>
</tr>
<tr>
<td>Ukraine</td>
<td>5-10-15</td>
<td>0-5-10</td>
<td>10</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>15</td>
<td>15</td>
<td>15-0</td>
</tr>
<tr>
<td>U.S.A</td>
<td>12.5-15-25</td>
<td>10-17.5</td>
<td>15-10</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>10</td>
<td>10</td>
<td>5-10</td>
</tr>
</tbody>
</table>
Business Structures

Business Organisations
Israeli business entities include companies, partnerships, cooperatives, and non-profit organizations.
Individuals may conduct business without establishing any legal entity.

Companies
The most common form of business entity in Israel is a limited liability company with capital stock (share capital).

No requirements exist regarding the nationality or residency of stock holders and company directors. There are no restrictions regarding non-residents holding shares in Israeli companies.
In order to be incorporated, a company must register with the Registrar of Companies at the Ministry of Justice. An incorporated company is required inter-alia to have Articles of Incorporation, which define how the company is to be managed.

Public Company
A public company is a company whose stock is listed on a stock exchange, or offered to the public in a Prospectus, and held by the public.
The Articles of Association should not consist of any restrictions on the transfer of public company stock. If a public company’s stock is traded on the Tel Aviv Stock Exchange, the company is required to publish annual audited financial statements, and quarterly non-audited (but reviewed by a Certified Public Accountant) financial statements.

Private Company
A private company may have one or more stockholders.
Annual audited financial statements prepared according to Israeli GAAP should be presented at the stockholders annual meeting.
Stocks and other securities should not be offered for sale to the public.
Foreign Company
A foreign company wishing to conduct business in Israel is required to register with the Registrar of Companies, and to submit their Articles of Incorporation (Original and an authorized Hebrew translation), a list of directors, and other information.

Partnerships
The Partnership Ordinance (1975) governs the activities of partnerships. The partnership is required to be registered with the Registrar of Partnerships at the Ministry of Justice, and to furnish details of names of partners, identity numbers, and activities.
A partnership may not have more than 20 partners.
A partnership may be general or limited.
A partnership is not required to file reports. Profit or loss of the partnership is included with the financial report and income statement of the individual partners.
The partners are taxed in their individual capacity.

Co-operatives
Governed by the Cooperative Ordinance
Cooperatives are required to register with the Registrar of Cooperatives at the Ministry of Labor and Social Affairs.
Members may be individuals or other cooperative societies
Restrictions exist regarding membership in a cooperative society, and the contents of its Articles of Association.

Non-Profit Organizations
Non-profit entities may be established and operated within one of three frameworks:
Association under the “Amutot Law” (1980)
Corporation with public objectives, under the Companies Law.
Public Trusts.
The great majority function as “Amutot”.
The Registrar of Non-Profit Associations oversees the activities of these organizations, defined by the following characteristics:
Prohibition of profit distribution to association members
Limiting association activities to those stated and authorized
Prohibiting the sale or transfer of members rights.
Capital Structure

Securities
Several types of securities are commonly used by Israeli companies as listed below:

Common Stock
Entitles voting rights and participation in earnings and excess assets in the event of liquidation.

Preferred Stock
Provides preferred rights for both dividends and liquidation.

Management Shares
Issued to the founders of the company, entitles them to special rights, especially for appointing directors and voting rights.

Redeemable Shares
Permitted in terms of the Companies Act. Such shares may entitle their holders to exercise various rights, including voting rights and profit sharing.

Share Warrants/Convertible Bonds
Entitles the holders to convert into common stock at a pre-determined price.

Dividends
An Israeli company may distribute its retained earnings after tax by way of dividends. Distribution of dividends is subject to:
(1) Existence of retained earnings based on audited or reviewed financial statements, not earlier than 6 months prior to the actual distribution of dividends. If the profit of the last two years before distribution of the dividend is greater than the retained earnings, the company can distribute the net profit of the last two years
(2) Ability to meet all existing and future liabilities.
Sundry Business Regulations

Compulsory Contributions

**National Insurance**
5.68% of gross salary (in addition to the employees contribution)
The National Insurance Institute pays compensation in respect of unemployment, disability, retirement, military reserve duty, child allowances, maternity leave etc.

**Severance Pay**
8.33% of gross salary.
An employee dismissed from his/her place of work is entitled to severance pay calculated according to the amount of his/her latest monthly salary for each year of employment.

**Sick Leave**
Accumulation of 1.5 days per month. In many cases sick leave allowance may amount to 30 days per annum. Employees may accumulate up to 90 sick days.

**Vacation**
Israeli law prescribes a minimum vacation period of two weeks annually. The number of days increases according to seniority, reaching four weeks for those employed more than fourteen years by the same employer. The vacation allowance is payable in addition to legal and religious holidays.

**Recuperation Pay**
Employees are entitled to recuperation pay according to seniority at work and based on the Collective Work Agreement. The minimum amount for full time employees in the business sector is $440 per annum, and this may reach $740 per annum.

Optional Contributions

**Pension Funds**
The employer pays about 5% of the gross salary of the employee, who also contributes the same amount to a pension fund.
Sundry Regulations

Restrictive Practice Agreements
An agreement that determines prices, market share, profit margins or quotas is deemed to be a restrictive agreement. Participation in any restrictive agreement is prohibited, unless approved by the court, or by the Antitrust Authority. Enforcement of this law has become more evident, in view of the growing awareness of the advantages of competitive markets in Israel.

Exemptions granted by the Antitrust Authority include R&D agreements and franchises.

Mergers and Acquisitions
According to the Restrictive Business Practices Law, the following merger requires the approval of the Antitrust Authority:
If after the merger, the share of the merged parties in the production, sale, marketing or purchase of a single product or service in Israel exceeds 50%.

Trade Agreements
Israel has entered into several trade agreements in order to strengthen its position in international markets. The most significant agreements are:
Free Trade Area with the European Union
Free Trade Area with the United States
Free Trade Area with the European Association of States
These agreements place Israel in the unique position of being a free trade partner with the principle economic regions world-wide.
Israel has signed agreements with Canada and Turkey, and signed a GATT agreement with the World Trade Organization.
There are additional agreements with Australia, Austria, Finland, Japan, New Zealand, Norway, Sweden and Switzerland.

There are also further regulations in Israel relating to the protection of Patents, Trade Marks and Copyright.
Accounting and Auditing

Generally Accepted Accounting Principles

Background

Generally Accepted Accounting Principles in Israel (Israeli GAAP), and Generally Accepted Auditing Standards in Israel (Israeli GAAS) are basically similar to the corresponding principles and standards of the International GAAP and GAAS.

In November 2005 the Israeli Accounting Standards Board published a resolution regarding the adoption of the International Financial Reporting Standards (IFRS) in Israel. Persuant to this resolution, financial statements of public companies for the period from 1 January 2008, will be prepared and presented in accordance with International Financial Reporting Standards. Until all the International Financial Reporting Standards (IFRS) have been adopted by 1 January 2008, the Israeli Accounting Standards Board will attempt to adopt as many International Financial Reporting Standards as possible.

Israeli GAAP prescribes diverse standards and regulations on a broad range of subjects—such as presentation, accounting policy, and disclosure, including:

- Framework for preparation and presentation of financial statements.
- Principles regarding consolidation or proportionate consolidation of financial statements, and presentation of investments on an equity basis.
- Required accounting policy for interim financial statements.
- Accounting policy and reporting rules in respect of severance, retirement, pension and vacation pay.
- Disclosure requirements on balances and transactions with related parties.
- Special accounting treatment of transactions between a public company and its controlling shareholders.
- Presentation of marketable securities in the financial statements.
- Tax implications regarding the financial statements.
• Presentation statement of cash flows.
• Calculation of earnings per share..
• Accounting treatment of government grants in the financial statements.
• Format of financial statement presentation for industrial, commercial, publicly traded and other companies.
• Accounting treatment of share based payments.
• Accounting treatment of income.
• Financial instruments-disclosure and presentation in the financial statements.
• Accounting treatment of inventory.
• Accounting treatment of property plant and equipment.
• Accounting treatment of investment property.
• Accounting treatment of intangible assets.

Where no Israeli publications exist, the common practice in Israel is applied for determining the required policy on a certain issue. If no such common practice exists, International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) are applied.

**Generally Accepted Auditing Standards**

An auditor in Israel performs an audit in order to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the company, the results of its operations, changes in stock holders equity and cash flows, in conformity with generally accepted accounting principles (GAAP).

In performing the audit, the auditor is required to comply with the **Auditors Regulations** (Auditors Mode of Performance) professionally and independently.

**The Institute of Certified Public Accountants** in Israel regularly publishes guidelines for recommended auditing procedures to be applied by auditors, including examining factors of corporate risk.

**Israeli GAAS** contain diverse principles and procedures, comprising mainly the following:

• **Auditors opinion; a uniform format and departure therefrom in cases where accounting policy and/or reporting is inappropriate, or if the scope of the audit is restricted.**
• **Special accountants reports.**
• Audit of events subsequent to balance sheet date.
• Management representation letter.
• Auditing procedures for transactions with related party.
• Review procedures for interim financial statements.
• Evaluation of the business as a going concern.
• Quality control in accounting firm.
• Reliance on experts.
• Audit in a computerized environment.
• Objectives and general principles governing an audit of financial statements.
• Planning.
• Other information in documents containing audited financial statements.
• Initial engagement – opening balances.
• Comparative financial statements.
• Analytical procedures.
• Risk assessment and internal control.
• External confirmations.
• Communicating audit matters to those charged with governance.
• Audit of accounting estimates.
• Audit evidence.
• Audit evidence – additional consideration of specific items.
• Audit sampling and other selective testing procedures.
• Audit materiality.
• Documentation.
• Consideration of internal auditing work.
• Terms of audit engagements.
• An auditor`s responsibility to take into consideration fraud when auditing financial statements.
• Understanding the business and its environment and assessing the risk of material misstatement.
• Audit considerations relating to businesses using service organizations.

In addition to the above, specific regulations exist with respect to audits, such as the requirements of the State Controller, municipalities and local authority auditors, and the Auditors Regulations, published in accordance with the Certified Public Accountants Law.
Also, various opinions regulate the conduct of an auditor and his mode of operation during the audit of financial statements in Israel.

At present Israel is in the accelerated process of a general adoption of International Auditing Standards, following their adjustment to regulations and common practice in Israel.
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