

DOING BUSINESS IN ISRAEL



PrimeGlobal

*An Association of
Independent Accounting Firms*



DOING BUSINESS IN ISRAEL

1. Main Forms of Company/Business in Israel

- A company may be private or public and with limited or unlimited liability.
- A foreign company may establish a branch for local operations, or alternatively a subsidiary.
- A partnership may be formed with limited or unlimited liability.

2. Specific Tax Concerns Related to Establishing a Company

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

3. Legal Issues Related to Establishing a Company

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

4. Cultural Concerns Related to Establishing a Company

- Described as the “start-up nation”, Israel provides attractive tax and other incentives to companies and investments in the high-tech and the bio-tech industries.
- Official languages are Hebrew and Arabic. While many professionals communicate in English, formal, legal and administrative forms, agreements and documents are generally in Hebrew.



5. Other Country-Specific Issues Related to Establishing a Company

- Company to be registered with the ITA for Income Tax, VAT and payroll reporting and National Insurance.
- Consideration to be given to the wide-reaching provisions governing with-holding taxes on payments and reporting thereon.
- Employment is subject to stringent labour laws and agreements; it is advisable to take labour law counsel.
- Substantial tax and other incentives are available for certain enterprises; proper application is required to obtain the required approval.

6. Definition of a Permanent Establishment

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

7. Definition and Main Difference between a Branch and a Subsidiary

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

8. Tax and Accounting Obligations

- Corporations must prepare annual audited financial statements.
- Public companies are subject to the IFRS, other companies to the IFRS or US GAAP; small to medium-sized companies may adopt the above or Israeli GAAP.
- The tax reporting year is January-December.



9. Registration Formalities

- Submission of annual corporate (details) report to the Registrar of Companies.
- With the ITA including income tax, payroll and VAT.
- Local municipal authority – business subject to municipal taxes.

10. Standard Legal Obligations and Formalities for a Branch

- Branch may engage in business activities similar to its parent company.
- See No. 7 above – Branches
- Appointment of legal representative in Israel.

11. How to Hire My First Employee in Israel

- Take legal counsel with labour lawyer
- Clarify legal requirements, including social benefits applicable before interviewing potential employees.
- Payroll registration with the ITA and National Insurance Institute.
- Labour law and regulations cover various conditions of employment, including work hours, annual and sick leave, pension, severance pay, training funds and such like.



HOW TO READ FINANCIAL STATEMENTS IN ISRAEL

DOING BUSINESS IN ISRAEL LIMITED**BALANCE SHEET****AT DECEMBER 31, 2016**

	<u>NOTE</u>	<u>NIS</u>	<u>31.12.15</u> <u>NIS</u>
<u>CURRENT ASSETS:</u>			
Cash at Bank and on Hand		XXXXXX	XXXXXX
Short-term Time Deposits at Bank		XXXX	XXXX
Accounts Receivable	4	XXXXXX	XXXXXX
		-----	-----
TOTAL CURRENT ASSETS		XXXXXXX	XXXXXXX
		-----	-----
<u>FIXED ASSETS</u>			
	5	XXXXXXX	XXXXXXX
		-----	-----
		XXXXXXX	XXXXXXX
		=====	=====
<u>CURRENT LIABILITIES:</u>			
Notes Payable		XXXX	XXXX
Sundry Creditors and Accrued Liabilities	6	XXXXXX	XXXXXX
		-----	-----
TOTAL CURRENT LIABILITIES		XXXXXX	XXXXXX
		-----	-----
<u>LIABILITY ON TERMINATION OF</u>			
<u>EMPLOYER-EMPLOYEE RELATIONS</u>	7	XXXXXX	XXXXXX
		-----	-----
<u>SHAREHOLDERS' EQUITY</u>			
Share Capital	8	XXX	XXX
Capital Note	9	XXXXXXX	XXXXXXX
Accumulated Profit		XXXX	XXXX
		-----	-----
		XXXXXXX	XXXXXXX
		-----	-----
		XXXXXXXX	XXXXXXXX
		=====	=====



DOING BUSINESS IN ISRAEL LIMITED

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

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



DOING BUSINESS IN ISRAEL LIMITED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

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

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