

DOING BUSINESS IN ISRAEL 2018



**INVEST
IN ISRAEL**

MINISTRY OF ECONOMY
AND INDUSTRY
STATE OF ISRAEL

THE ISRAELI INVESTMENT PROMOTION AGENCY

Invest in Israel is an integrative body within the Ministry of Economy and Industry that serves as a one-stop shop for a wide range of potential and existing investors. Invest in Israel identify lucrative investment opportunities, map potential obstacles and help fast-track investment.

Our advantage lies in our ability to bridge between private client needs and to promote activities within the framework of the government.

Foreign Investment Promotion

Forward-thinking conferences and delegations with key figures, businesses and government officials

Investor Guidance

Expert sector managers that leads potential investors from initial interest to successful investments

Post- Investment Support

Providing ongoing assistance to overcome challenges, bureaucratic obstacles, expanding operations and promoting conducive environment for foreign investors

WHERE COMPANIES COME TO **SHINE**

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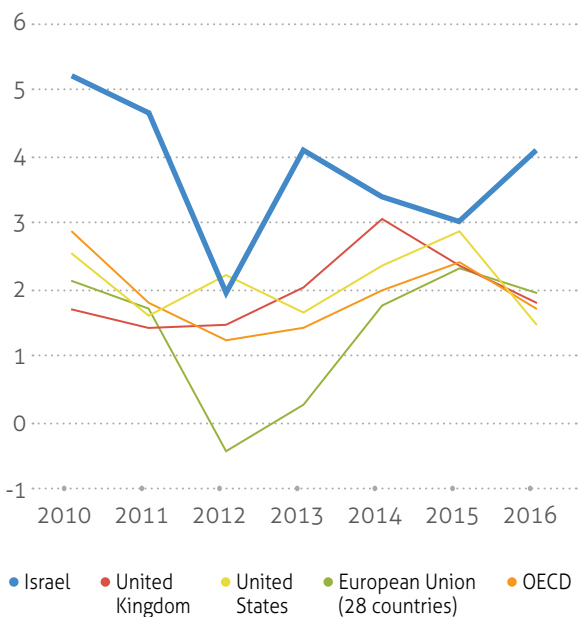
INTRODUCTION

Invest in Israel

Strong Economic Performance

Israel maintains a growth rate that is higher than most developed economies (4.1%; OECD – 1.7%).¹ This strong relative performance is supported by prudent fiscal policy resulting in a relatively low debt-to-GDP ratio (63.6%; OECD – 105.2%).²

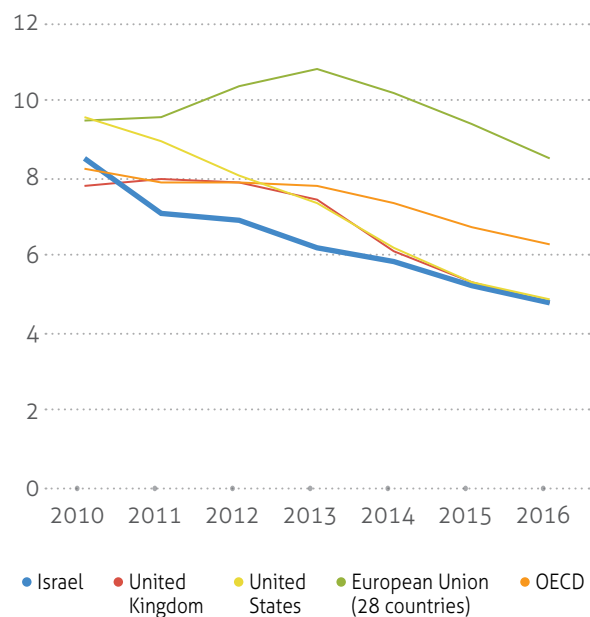
GDP Growth Rate (%)



High Level of Human Capital and Low Unemployment Rate

Israel's workforce is highly educated (49.9% with tertiary education; OECD – 35.7%).³ In addition, the robust economic performance manifests itself in a low unemployment rate (4.2%)⁴ as well as a high labor force participation rate (72.1%; OECD – 71.7%).⁵

Unemployment Rate (% of total labor force)



¹ 2016 | ² 2016 | ³ 2016 | ⁴ 2017 | ⁵ 2016



Innovative Environment

Israel is ranked high in recent innovation rankings (#3 in Global Competitiveness Index 2018). This is supported by being a world leader in R&D rate of investment (4.25% of GDP; OECD –2.38%),⁶ which leads to 45% of Israel's exports being high technology goods and services.⁷



Vibrant High-Tech Ecosystem

Israel is home to one of the world's most vibrant high-tech ecosystems with 5.2 billion USD capital raised by Israeli high-tech companies in 2017, 23 billion USD worth of exits (M&A and IPO) and 94 Israeli companies listed in NASDAQ in 2017.

⁶ 2015 | ⁷ 2017

Background

Geography

Israel is located at the junction of three continents: Europe, Asia and Africa. It's surface covering an area of approximately 20,072 square kilometers. It borders with Lebanon and Syria in the north, Jordan in the East and Egypt in the South-west. Israel's western border consists mostly of the Mediterranean Sea coastline, while Israel also borders a small part of the Red Sea coastline in the south.

Population

Israel has a total population of approximately 8.547 million people with an average life expectancy of 82.3 years. The majority of the population is Jewish, constituting 74.85% of the total population. The principle minorities are Muslims constituting 17.58% of the total population; Christians 1.96%; and Druze 1.62%.

The population is mostly young, with 50.36% of the population under the age of 30, and only 4.89% of the population over the age of 75. Israel is also characterized by a highly educated population with a tertiary attainment of 48.82% among 25-64-year olds⁸ (OECD – 34.97%).⁹

Population Concentrations

Israel's largest population concentration is in its central part which spans from the Sharon area in the north to the city of Rehovot in the south, and from the Mediterranean Sea on the west to the Petach-Tikva line on the east. The central part is comprised of two districts: the Central District and the Tel Aviv District and constitutes 40.6% of Israel's population. The rest of the population is divided between the Northern District (16.3%), the Southern District (14.4%), the Jerusalem District (12.5%), the Haifa District (11.6%), while 4.6% of the Israeli citizens reside in Judea and Samaria area.



⁸ 2016 | ⁹ 2017



Major Cities

Israel's major cities are Jerusalem, Tel-Aviv, Haifa and Be'er Sheva. Israel's capital, Jerusalem, is located in the heart of Israel. It has a population of 865,700 residents. Jerusalem is home to various holy sites, such as the Wailing Wall, Al-Aqza Mosque and the Church of the Holy Sepulchre. It is also home to all of the Israeli government's official offices, including the Knesset (the Israeli parliament) and the High Court of Justice.

Tel Aviv is Israel's cultural and economic hub and is known as the country's international global city. The city is located centrally on the Mediterranean Sea coastline. It has a population of approximately 433,000 residents. Most of the foreign embassies and consulates are located in Tel Aviv.

Haifa, located in the northern part of Israel's Mediterranean Sea coastline, is Israel's major sea-port city. It consists of a population of approximately 279,000 residents.

Be'er Sheva, also known as the southern capital of Israel, is located in the Negev (Israel's major desert area). Its population is of 203,600 residents. Be'er Sheva is home to one of Israel's seven universities – Ben Gurion University of the Negev.

Weather and Climate

The climate in Israel is characterized by two dominant seasons: Cool and rainy winters (November to May), and hot dry summers during the rest of the year.

There are some distinct differences among Israel's diverse geographical areas: The coastline area winters are moderate and its summers are humid; the hill regions (including Jerusalem) have dry summers and colder winters; and the Negev (situated in the south) has semi-desert conditions all year long, including relatively dry winters.

Temperatures in Israel are measured in Celsius.

Official Languages

Israeli law defines two official languages – Hebrew and Arabic. It is important to note that English is taught in most primary and secondary education institutions and it is well spoken by the vast majority of Israel's population.

Measurement System

The metric system is the standard measurement system in Israel.

Macro – Economic Characteristics

Criteria		Amount	Year
Currency	Monetary Unit	NIS (New Israeli Shekel), one NIS comprises 100 Agorot	
	Exchange Rates	1 USD = 3.8406 NIS	2016
		1 EUR = 4.2495 NIS	2016
GDP	GDP ¹⁰	318.7 billion USD	2016
	GDP Per Capita	37,292.6 USD	2016
	Average Annual GDP Growth Rate	3.55%	2011-2016
Employment	Unemployment Rate	5.6%	2016
	Average Unemployment Rate	6.2%	2011-2016
	Labor Force Participation Rate	64.2%	2016
	Number of Employed Israelis	3,643,800	2015
	Percent of Employed Israelis Working in Positions Requiring High-Education	26.6%	2015
Wage	Average Gross Monthly Wage for Employee	2.5k USD	2015
	Average Gross Monthly Wage in the ICT Sector	4.75k USD	2014
	Average Gross Monthly Wage in the Financial and Insurance Sector	4.45k USD	2014
Foreign Direct Investments	Foreign Direct Investments Inflows ¹¹	12.32 billion USD	2016
	Foreign Direct Investments Inflows (% of GDP)	3.87%	2016
	Foreign Direct Investments Outflows ¹²	12.5 billion USD	2016
	Foreign Direct Investments Outflows (% of GDP)	3.92%	2016

¹⁰ Current USD | ¹¹ Current USD | ¹² Current USD



	Criteria	Amount	Year													
Foreign Direct Investments	Inward Foreign Direct Investments Stock ¹³	104.370 billion USD	2015													
	<p>Israel's Inward FDI Stock has grown Dramatically since the 1990s</p> <p>Israel Inward FDI stock</p> <p>Billion USD</p> <table border="1"> <caption>Approximate data for Israel's Inward FDI Stock (Billion USD)</caption> <thead> <tr> <th>Year</th> <th>Amount (Billion USD)</th> </tr> </thead> <tbody> <tr><td>1990</td><td>5</td></tr> <tr><td>1995</td><td>10</td></tr> <tr><td>2000</td><td>20</td></tr> <tr><td>2005</td><td>25</td></tr> <tr><td>2010</td><td>55</td></tr> <tr><td>2015</td><td>105</td></tr> </tbody> </table>			Year	Amount (Billion USD)	1990	5	1995	10	2000	20	2005	25	2010	55	2015
Year	Amount (Billion USD)															
1990	5															
1995	10															
2000	20															
2005	25															
2010	55															
2015	105															
International Trade	Exports of Goods and Services (% of GDP)	30.7%	2015													
	Average Exports of Goods and Services	33.9%	2009-2015													
	Imports of Goods and Services (% of GDP)	27.7	2015													
	Average Imports of Goods and Services	32%	2009-2015													
	Free Trade Agreements	EU, EFTA, MERCOSUR, USA, Turkey, Mexico, Canada														
Government Deficit	General Government Deficit (% of GDP)	-2.1%	2015													
	Average General Government Deficit (% of GDP)	-3.7%	2009-2015													

¹³ US Dollars at Current Prices and Current Exchange Rates | ¹⁷ US Dollars at Current Prices and Current Exchange Rates

Government

System of Government

Israel is a parliamentary democracy consisting of three branches – legislative, judicial and executive. A major principle in Israel's political system is the separation of powers – in which the executive branch (the government) is subject to the confidence of the legislative branch (the Knesset – the Israeli parliament), while the independence of the judicial system is guaranteed by law.

Main Democratic Institutions

Knesset

Israel's legislative branch, the Knesset, comprises 120 members of parliament (MKs – Members of Knesset) who are elected every 4 years, with each MK serving within the framework of a single party. The Knesset's major functions are to legislate and revise laws, review and monitor government activities and to serve as a stage for public debate.

Government

The Israeli government's function is to control all internal and external affairs mostly through its ministries. Each minister is usually appointed to head a certain ministry and reports directly to the Prime Minister.

Judicial Branch

The judicial branch consists of secular and religious courts, which function as independent units within the Ministry of Justice. An important judicial establishment in Israel is the Supreme Court, which also sits as the High Court of Justice. The High Court of Justice is of extreme importance as it exercises judicial review over the other branches of the government.

President

The Israeli President is chosen directly by the Knesset. The candidates for presidency are nominated for their public contribution and appeal. While most of his or her duties are formal and ceremonial, the President is in charge of appointing the party that attempts to establish a government following the official elections for the Knesset. In addition, the President is entrusted with pardoning prisoners and commuting sentences.

General Elections

Israeli general elections are usually held once every four years. However, elections can be held earlier in case the Knesset is dismissed, as in the case of a vote of no confidence.

Elections are general, national, direct, equal, secret and proportional, with the entire country constituting a single electoral



constituency. Voters cast one ballot for a single party which they support to represent them in the Knesset, with the different parties choosing their candidates internally. The number of Knesset Members is proportional to the number of ballots a party has received, as part of the general number of ballots cast on Election Day.

Every Israeli citizen over 18 is entitled to vote, and citizens over 21 can be elected as parliament members. Voting is not compulsory in Israel despite Election Day being a national holiday (the voter turnout for the 2015 election was 67% of all eligible voters). Once official voting results are published, the President nominates the leader of a single party to establish a government (usually, but not limited to, the leader of the biggest party), within 28 days of the nomination.

Transportation

Airports

Israel has four official international airports (Ben Gurion, Eilat, Ovda and Haifa) that are used for transportation of cargo and passengers. Ben Gurion Airport is by far the largest and most known airport in Israel with over 17 million international passengers in 2016 and a total of approximately 121,000 international flights for that year. An additional international airport, the Ramon

Airport, is currently under construction in the southern part of Israel and is designated to become the 2nd largest international airport in the country after Ben Gurion Airport, in addition to replacing the two existing airports in Eilat area (Ovda and Eilat Airports).

Ports

Israel's main method of transportation for goods is through its naval ports, accounting for over 99% of the country's total imports and exports markets. Israel has three major naval ports – Eilat, Ashdod and Haifa, with the latter being the major one, accounting for over 50% of all naval transportation in 2015.

Roads and Railways

Israel has a well-developed road network encompassing the entire country. Between 2011 and 2016, Israel's Ministry of Transportation has declared that almost 10 billion USD will be invested in improving existing roads infrastructure and constructing new highways and roads throughout Israel.⁵¹

Another major method of transportation in Israel is its strong network of railways, operated by the Israel Railways Company ("Rakevet Israel"), serving approximately 53 million passengers in 2015 and transporting over 7.5 million tons of cargo.

BUSINESS ENVIRONMENT

Business Entities

Companies

The Israeli Companies Ordinance defines a company as a corporation formed and registered in Israel, in accordance with Israeli law.

Most companies limit the personal liability of their owners, usually in the form of shares. In this case, the term "Limited" (or the abbreviation "Ltd.") must appear as part of the full name of the company.

Private Company

Consisting of 1-50 shareholders, may not offer or sell debentures or shares to the public.

Public Company

Company which registers its stocks at the stock market, or offered the stocks to the public in Israel by a prospectus in accordance with the requirements of the Israeli Securities Law.

Foreign Company

A company incorporated overseas may establish a place for business (branch office, Israeli subsidiary (Israeli Registered Company)) in Israel as long as it is registered as a foreign company with the Registrar of Companies.

Non-profit Organizations

Non-profit organization (NPO) is a general term encompassing public institutions, associations and companies that are dedicated to the public's benefit and use their funding to further advance those benefits, without sharing profits, if such exist, between its members.

Cooperatives

Cooperatives are a relatively new form of companies. A cooperative works to promote the welfare of its members, unlike NPOs, it does not deny the option to share profits between its members.

Partnerships

The Partnership Ordinance defines a partnership as an entity that consists of persons who contracted for the purpose of conducting a business in order to make profits. The personal liabilities of the partners are not limited unless they are limited partners of limited partnerships. A foreign partnership is also permitted to do business in Israel.

Intellectual Property

Israel Patent Office (IPO)

Patents, designs and trademarks registration



and legal protection granting are authorized by the Israeli Patent Office. The IPO operates under the auspices of the Ministry of Justice.

Patents

Patents in Israel are organized by the "Patents Law" (1967). According to the law, a person with an innovative, potentially useful and advanced in its field invention is eligible to apply for patent registration. The patents are granted legal protection in Israel by the IPO.

Israel is a member of the PCT (Patent Cooperation Treaty). Since its joining to the treaty in 1996, Israeli citizen or resident can file an international patent application in order to seek international patent protection for their invention. The IPO functions as a Receiving Office and also as a recognized International Searching and Examining Authority. Hence, an Israeli citizen or resident can also choose the IPO for international search and preliminary examination activities.

Designs

A registered design is a property right enabling protection on a new or original industrial product design. According to the Patents and Designs Ordinance (1926), a design can be registered for any object or industrial product with shape, design or decoration noticeable to the eye, that

is new or original and that has not been sold, marketed or published in Israel prior to the application. The design registration is under the authority of the IPO. A registered design at the IPO grants its holder exclusive right of use of the design only in Israel.

In addition, Israel is a member of the Paris Treaty. The membership enables an applicant who filed an application design in Israel to request the same priority date for the same design in other member countries.

Trademarks

The IPO is in charge of trademark applications as well. The registration of a trademark in Israel only provides territorial protection, and is applicable only under Israeli jurisdiction.

In addition, Israel has joined the Madrid Protocol; hence, an Israeli applicant may submit a single trademark application that can be automatically applied in over 90 countries. The filings are done under the Madrid System.

Antitrust Laws

Restrictive Trade Practices Law

Israel's Restrictive Trade Practice Law is the main law in the restraint of trade field. The law was legislated in order to prevent businesses from

disturbing the free competition in the markets. The law authorizes the Israeli Antitrust Authority (IAA) to take action when the free competition in a certain market or field might be negatively affected by a business activity.

The IAA may take action in the case of a merger as defined by the law, for additional information see the Mergers and Acquisition subchapter below.

The Law for the Promotion of Competition and Reduction of Concentration

The law was enacted in 2013 and deals with three aspects of competition promotion: Various market and state essential considerations regarding public assets allocation, limiting the control on pyramid companies and separating large non-financial corporations and large financial entities.

Financial Reporting and Auditing

The Israeli Accounting Standards Board

The main institute responsible for financial reporting standards in Israel is the Israeli Accounting Standards Board (IASB) which publishes the financial reporting standards

required for companies in Israel. The accounting principles published by the IASB are considered the Generally Accepted Accounting Principles (GAAP) in Israel. It is important to note that the IASB is not an official government entity, but is instead a non-profit limited liability company that was established in 1998.

Reporting Standards

“The Israeli Companies Law” states that private companies must report their accounting records by “acceptable reporting standards” which are not defined in the law itself. However, due to precedents set forth by Israeli Courts, it is agreed that the IASB is the authority in charge of determining these standards.

Since 2008, all public companies in Israel are obligated by IASB standards to use the International Financial Reporting Standards (IFRS), a set of accounting standards that have been developed by the International Accounting Standards Boards.

Private companies however can either use the International Financial Reporting Standards (IFRS), IFRS for Small and Medium Entities (IFRS for SMEs), or official standards published by the IASB. Each of these options is acceptable by the IASB as a proper accounting method. Of important note that private companies that are



owned mostly by foreign citizens can apply to use other accounting reporting standards (for example, standards used in the United States – complying with GAAP-US). Companies must be consistent with their choice of accounting method.

Audit Requirements

The Israeli law concludes that Israeli companies are required to appoint a certified accountant to audit their annual financial reports. Both private and public companies must present annual reports. Private companies are obligated to file an annual report to the Registrar of Companies once a year. Public companies are obligated to file annual, quarterly and immediate reports (upon the occurrence of certain events) to Israel's Securities Authority.

Stock Market

The Tel Aviv Stock Exchange (TASE), also known as "The Bursa", is a private company, which was established in 1953 in order to institutionalize and serve securities trading in Israel and is currently the only stock exchange operating in Israel. The TASE handles trading in a variety of financial instruments, including shares, government and corporate bonds, options, futures and more. As of June 2017 there are

576 publicly traded companies in the TASE with an annual (as of 2016) volume of trade of approximately 360 billion USD.

The TASE business week lasts from Sunday to Thursday, from 09:00 to approximately 17:25 – there is no trading on Fridays and Saturdays. In addition, trading hours are usually different during national holidays in Israel.

Companies interested to be traded on the TASE have to follow criteria set forth in its regulations related to the company's equity after its IPO and its public holdings value.

Top market indices in the TASE include "TA-35 index" which lists TASE's largest 35 market cap stocks and the "TA-125 index" which includes the top 100 traded companies by market cap.

STARTING A BUSINESS



Company Registration

Registrar of Companies

All companies in Israel are required to be registered with the Registrar of Companies. In order for a foreign company to legally keep a place of business in Israel it needs to register (An Israeli branch office and a subsidiary company are both registered legal entities). Therefore, a company wishing to have actual business activity through its investment in Israel will have to register.

The following documents should be submitted to the Registrar of Companies in order to legally register a foreign company in Israel:

1. List of the company's directors, including their passport numbers.
2. Power of attorney form bestowing upon an Israeli representative the responsibility for officially representing the company in Israel.
3. The full name, address and national identification of an Israeli representative appointed to receive legal notices on behalf of the company.
4. The company's Article of Association and its Hebrew translation certified by a notary.
5. Company certificate of incorporation from its country of origin signed by an apostille. In cases where the country of origin does not issue such certificates, the lawyer handling the registration should deliver a signed letter declaring that such certificates are not issued in the country of origin, in addition to an official documentation indicating that the company is registered with the Registrar of Companies in the country of origin.
6. Hebrew translation of the company's certificate of incorporation certified by a notary.
7. Status approval from the state of origin - document proving the company is active in its country of origin and the document's Hebrew translation.
8. Proof of payment of the registration fee (currently 2,606 NIS (Approx. 711.5 USD)).



A company may apply for registration by mail or in person, with the registration form. It is possible to apply online as well. Foreign company registration is handled within 14 working days.

Tax Authorities and National Insurance Institute

Once a company has been registered with the Registrar of Companies, it must also be registered at the Israel Tax Authority (VAT and Income Tax departments) and at the National Insurance.

Income Tax

The registering company must fill out form number 4436 of the Income Tax Department of the Israel Tax Authority. The form includes basic details about the company.

VAT

The registering company is also required to register at the VAT Department of the Israel Tax Authority prior to commencing business operations. In addition – a foreign entity that conducts business in Israel needs to appoint a local VAT representative whose permanent place of residence is in Israel and who will assume the responsibility of handling all VAT issues. The representative will be treated as the person liable for VAT. VAT form 22 (Application for Registration as

Foreign Dealer) and form 821 (Registration for VAT purposes) should be completed and signed by all parties.

In order to register as a local business, the registration should be effected at the local VAT office nearest to the company's office. The following materials are required in order to register:

1. Registrar of Companies certificate of registration.
2. The company's Articles of Association and directors' appointment protocols as approved by the Registrar of companies.
3. A contract regarding renting or buying offices for the company.
4. Document proving the possession of an Israeli bank account.
5. Company directors' details – ID numbers, addresses, phone numbers.
6. Company assets information: total investment, funding resources, estimated business cycle.

The National Insurance Institute

Separate registration at the National Insurance Institute is not required. A copy of the form submitted to one of the relevant tax offices is transferred to the National Insurance Institute and the same filing number is used for both authorities.

Corporate Income Tax

Resident and Non-resident Companies

The tax is imposed on the company's income (regardless of the tax imposed on the company's owners as individuals).

Israeli resident companies are subject to tax on worldwide profits and gains, with credit granted for overseas taxes in certain countries.

A non-resident company is subject to tax only on Israeli-source profits, which includes, among other, income deriving from an Israeli permanent establishment or income accrued and produced in Israel.

Rates

Since January 2018, the corporate income tax in Israel for companies is 23%. It is important to note that Israel offers lower corporate tax rate through its taxation benefits (Details at the investment incentives chapter).

For example, Special Priority Enterprises and Priority Enterprises are required to pay a lower corporate income tax ranging from 5% to 16% (depending on their exact location and definition by the Israeli Law for the Encouragement of Capital Investment).

Tax on Dividends

Companies

Dividends payable to company (foreign or

Israeli) by another Israeli company resulting from income produced or accrued in Israel are tax-exempt. Dividends payable to Israeli companies from income produced or accrued, or dividends received, from abroad are subject to a 25% tax.

Shareholders

Dividends paid to shareholders who hold under 10% of the company are subject to a 25% withholding tax. Dividends paid to more significant shareholders who hold over 10% of the company (or held over 10% of the shares of the company in the preceding year) are subject to a 30% withholding tax.

Capital Gains Taxes

Overview

The capital gain is the difference between the compensation the asset owner receives from selling the asset and the asset original price (Asset acquisition price minus accumulated depreciation till selling day). The capital tax rate is composed of the Inflation Component and the Real Component. In case the asset was purchased after the 31 of December 1993, all of the inflation component is tax exempt.

Companies

The capital gains tax rate for a company is usually the standard corporate income tax rate (23%).



Individuals

The capital gains tax will be the marginal tax rate in accordance with the individual tax bracket.

Municipal Tax

Municipal Property Tax is calculated per square meter of property and is levied upon the holder, regardless of whether the tenant owns or rents the property.

The municipality tax is imposed on building, agricultural land and occupied land. The Municipal Tax varies greatly between the different municipal authorities in Israel, and within different areas of the same municipal authority. The Israeli Ministry of Interior sets minimum and maximum municipal tax rates for the different property classifications and the rates are determined mostly by the municipal authority itself. The rates vary for property in commercial or public use and residential property.

Customs Duty

The Customs Duty in Israel is under the authority of the Israel Tax Authority. Israel is a member of the World Customs Organization and uses the HS (Harmonized System) for its customs classifications. It has also signed the

GATT agreement stating that the invoice is the base for the customs calculation. Additional information about customs tariffs and classifications can be found in the "Customs Tariff and Purchase Tax" manual published by the Israel Tax Authority.

VAT

The current VAT rate in Israel is 17%.

Personal Income Tax

The Israeli income tax rate is contingent upon the person's level of income. The income tax is imposed on the individual's yearly personal income. Tax rates' brackets increase gradually as follows:

Yearly Income (for every additional NIS)	Monthly Income	Tax Rate
Up to 74,640 NIS (20,581 USD)	6,220 NIS (1,715 USD)	10%
74,641 NIS up to 107,040 (29,515 USD)	6,221 – 8,920 NIS (2,459 USD)	14%
107,041 – 171,840 (47,383 USD)	8,921 – 14,320 NIS (3,948 USD)	20%
171,841 – 238,000 (65,626 USD)	14,321 – 19,900 NIS (5,487 USD)	31%
238,001 – 496,920 (137,020 USD)	19,901 – 41,410 NIS (11,418 USD)	35%
496,921 – 640,000 (176,473 USD)	41,411 – 53,333 NIS (14,706 USD)	47%
Over 640,001 NIS	53,333 NIS	50%

Employer / Employee Relations

Minimum Wage

The current (December 2017) minimum monthly wage is 5,300 NIS (approx. 1,447 USD).

Working Hours

The working week in Israel begins on Sunday and ends on Thursday or Friday with standard office hours ranging from 08:00-09:00 to 17:00-18:00. According to the Israeli law, the amount of working hours in a week should not exceed 45 hours. A working day is defined as eight hours in places where employees work for a 6-day working week, and nine hours where employees work for a 5-day working week. Working hours that exceed this standard should be compensated according to law.

Overtime and weekend wages

Every additional hour to the working day (and respectively additional working hours for the working week in total) shall be considered as overtime. Overtime compensation is defined by law as 125% of the base salary for the first two overtime hours, and 150% for every additional hour. Employees that work for 5-days a week shall not work more than 15 overtime hours a week, and employees that work for 6-days a week shall not work more than 12 overtime hours a week. In any case, employees shall not work more than 12 working hours on a week day and 6 overtime hours on weekends and holidays.

Working hours on weekends and holidays are

considered overtime and the compensation is defined by law as 150% for regular working hours and 175% for the first two overtime hours and 200% for every additional overtime hour.

Retirement Age

The current retirement age in Israel is 67 for men and 62 for women.

Early Notification of Termination of Employment Law

An advance notice is required by law before an employer can terminate a paid employee, with the period of notice determined by the length and type of employment.

Monthly employees who have more than one year of employment are entitled to a one month prior notice. Hourly or daily employees have a shorter prior notice period during their first three years on the job. Once they have been more than three years on the job, they are entitled to a one month prior notice as well.

Labor Organizations

There are several labor organizations in Israel, the largest one is "The New Histadrut", also known as "Histadrut". The "Histadrut" operates in all areas of employee rights and is one of the most powerful organizations in Israel. It comprises different labor associations from various places of employment such as "The Transportation Workers Union", "The Engineers and Technicians Union", "The Social Workers Union" and many more.



Labor Related Costs

Basic Employee Benefits

Israeli law requires employers to allocate a fixed portion of the employee salary to a pension fund and national insurance. It is the employer's responsibility to allocate these funds prior to transferring the salary.

Pension Funds

The amount deposited each month to the pension fund is compiled of two components – a percentage of the employee's salary (deducted directly by the employer) and a sum paid directly by the employer (calculated as a percentage of the employee's salary, but at the employer's expense). An additional component of pension insurance is "severance payment" – an additional sum, calculated as a percentage of the employee's salary, deposited monthly by the employer to be paid in case the employee is terminated. As of 2017 the employer should allocate 6.5% of the wage to pension fund and an additional 6% to the "severance payment" component.

National Insurance

National Insurance funds are also compiled of two components – a certain percentage is deducted from the employee's salary while the other is paid by the employer itself. For a salary or part of a salary that is up to 60% of the average salary (5,944 NIS, (approx. 1718 USD)) the employer is required to pay 3.45% of the salary. For the part of the wage that is over 60% of the average salary and below the maximum

income subject to insurance fee (43,240 NIS (approx. 12,500 USD) the employer is required to pay 7.50% of the salary.

Annual Vacation Law

Every employee is entitled to annual vacation days by Israeli law. The number of vacation days is determined by the employee's seniority in the workplace. The minimum amount of annual vacation days is 12 for a 6-day working week and 10 for a 5-day working week. The maximum number of vacation days for a single year is 28.

Sick Leave

Employees are entitled for partial or full wages for missed work days due to sickness. For the first day of illness employees are not entitled to any wages, for the second day and third day of sickness they are entitled to 50% of their pay, and full wages from the fourth day of illness forward. Periods of sickness to be deducted from the employee's quota are calculated differently for salaried worker and wage worker. A worker is entitled to one and a half sick leave day for every month he works for the employer, and the overall amount of sick leave days can't exceed 90 days.

Maternity Leave

An employee that is pregnant or that gave birth is entitled to a maternity leave. The employer is not allowed to employ the worker while she is at her leave. The maternity leave's length varies for partial or full maternity leaves:

Employee who has accumulated more than 12 months of employment on the same job before the beginning of the maternity leave is entitled to full maternity leave. The worker is entitled to overall 26 weeks leave from which she can use seven for leave before the estimated birth date.

Employee who hasn't accumulated more than 12 months of employment on the same job before the beginning of the maternity leave, is entitled only to partial maternity leave. In that case the worker is entitled to overall 15 weeks leave from which she can use seven for leave before the estimated birth date.

Reserve Military Duty

Employees may be required to perform reserve military duties during their period of employment. Reserve military duty cannot be

attributed to the employee's annual leave, and employers are required by law to allow employees to attend such duties.

Additional Employee Benefits

Employees who commute to the workplace are entitled to receive travel allowance in addition to their basic salary. The maximum travel allowance per day is currently (July 2017) 22.60 NIS (approx. 6.1 USD).

For most employees in Israel, once the employee has worked for an employer for over a year, he or she are entitled to a recuperation pay. Recuperation pay is calculated by the number of recuperation days the employee is entitled to, multiplied by the recuperation rate as determined by the Ministry of Economy (currently (July 2017) 378 NIS (approx. 103 USD) per day).



INVESTMENT INCENTIVES

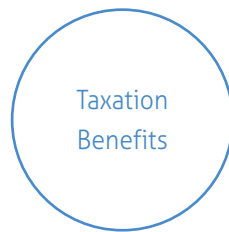
Introduction

Enshrined into its legislation through laws designed to encourage economic growth, the State of Israel offers maximally supportive conditions for companies seeking to invest in Israel. Among the numerous incentives there are grants for capital investment, employment aid programs, R&D activity and reduced tax rates,

tax exemptions and other tax-related benefits.

The incentives described in this chapters are divided into four types – employment, R&D benefits, grants for capital interments and taxation benefits. For each one of the types the benefits, eligibility criteria and application process are described.

Types of Incentives Described in the Chapter



Grants for Capital Investments

Background

Law for the Encouragement of Capital Investment

Objective and Means

The capital incentives provided by the Israeli government and also some of its tax benefits are specified in the "Law for the Encouragement of Capital Investment". The objective of

the Law is to attract capital to Israel and to encourage economic initiative and investments of foreign and local capital. There are two main programs established in order to attain the law's objective: The Grants Program (deals with capital investments) and The Tax Benefits Program.

History

Since its legislation at 1959 the law was changed many times, including during the recent 15 years, when it undergone three major changes: On 2005 amendment 60 to the law was enacted, and on 2010 amendment 68 was enacted. As a result of these amendments the

criteria for eligibility were changed, as well as the procedures for receiving the benefits. In addition, just recently at December 2016 the law was amended again and this time in the context of defining tax benefits that will be granted for technological companies. Hence, any investor intending on benefiting from the law must make sure he follows the updated version.

Grants Program

Eligibility

Applying companies must meet the following criteria:

- Industrial enterprise registered in Israel.
- The company's facility must have export capabilities (25% of its sales are derived from export).
- The Company's facility must be located in designated development region A.
- Must not be part of service industries, the agricultural industry (including refrigeration facilities), and the mineral and natural gas industries.
- Must not have simultaneously applied or been approved for an employment grant.

Benefits

- Grants are accorded at up to 20% of the

amount of investment in fixed assets, land development, production equipment or facilities.

- For investments in the Negev area in south Israel a grant addition of up to 10% percent might be added.

Grants' Approval

The grants are approved by the Investment Authority of the Ministry of Economy. The applications are reviewed either by the department for plans review at the authority or by professional reviewers. An "Approved Enterprise" status is granted at the conclusion of a review procedure that includes a submission of a detailed business plan, subject to various considerations. Applications are reviewed and scored based on a number of parameters that are periodically modified.

Taxation Benefits

This chapter reviews two kinds of taxation benefits: Taxation benefits empowered by the law for the encouragement of capital investment and Taxation benefits for research and development activity. Mentioned at the chart below are the taxation benefits according to the type of eligible entity



Taxation Incentives by Eligible Entity or Eligible Activity

Incentives According to 'the Law for Encouragement of Capital Investments'

Priority Enterprise
<ul style="list-style-type: none"> Companies tax rate: 7.5%-16% Dividend tax rate: 20% Accelerated Depreciation

Preferred Priority Enterprise
<ul style="list-style-type: none"> Companies tax rate: 5%-8% Dividend tax rate (dividends for foreign parent company): 5% Accelerated Depreciation

Technological Enterprise
<ul style="list-style-type: none"> Companies tax rate: 7.5%-12% Dividend tax rate: 20% Distribution of Dividends to board of foreign residents: 4%

Preferred Technological Enterprise
<ul style="list-style-type: none"> Companies tax rate: 6% Dividend tax rate: 20% Distribution of Dividends to board of foreign residents: 4%

Incentives for R&D

Incentives for R&D
<ul style="list-style-type: none"> Deduction of R&D expenses from current income

Single Investors in Early Stage Israeli Companies
<ul style="list-style-type: none"> Investments of early stage companies recognized as expenditure for tax purpose

Tax benefits Program for Priority and Technological Enterprises

Eligibility Criteria

A company is eligible to tax benefits (empowered by the 'The Law for Encouragement of Capital Investments') if its enterprise were granted the 'Priority Enterprise', 'Special Priority Enterprise', 'Technological Enterprise' or 'Special Technological Enterprise' status. The eligibility criteria and approvals needed for each one of the categories

Priority Enterprise:

Eligibility

- Exports 25% of its annual sales turnover.

- Defined as 'Industrial Enterprise': An enterprise which the majority of its activity is manufacturing.

Special Priority Enterprise:

Eligibility

- Total annual preferred income or the company in Israel meets or exceeds 1 billion NIS.
- Combined balance sheet of the company owning the Preferred Enterprise meets or exceeds 10 billion NIS.
- business plan will include at least one of the following:
 - Investment in productive equipment of at least 800

million NIS (approx. 200 million USD) in central Israel or 400 million NIS (approx. 100 million USD) in a development region A over a three years period from benefit approval's date.

- 1.3.2. Investment in R&D activity of at least 150 million NIS (approx. 37.5 million USD) in a 'Preferred Branch' in development region which in not development region A
- 1.3.3. Investment in R&D activity of at least 100 million NIS (approximately 25 million USD) in development region A.
- 1.3.4. Employment of at least 500 employees in a development region which is not A or 250 employees in development region A

Technological Enterprise :

Eligibility

For a technological enterprise the following conditions will hold true in each tax year:

- Conditions 1. and 2. Shall hold true together or condition 3.

- In addition, also conditions 4. and 5.

1. The R&D expenses of the enterprise, in the three years preceding to the tax year, were in an average rate of at least 7% a year from the total amount of the company's sales, or exceeded 75 million NIS a year.
2. The company who owns the enterprise have one or more of the following:
 - 2.1. 20% or more of its employees are employees which their total salary is referred to in its financial reports as 'R&D expenses or it employs more than 200 employees which have this characteristic (salary referred as R&D expense).
 - 2.2. A venture capital has invested in the company more than eight million NIS (2.2 Million USD) and the company did not change its field of occupation after the investment.
 - 2.3. Its income in the three years preceding the tax year has increased in 25% or more in average in relation to the tax year preceded it. As long as the scale of its sales in the tax year and in each one of the years preceded it exceeded 10 million NIS (2.75 million USD) or more.



- 2.4. The number of employees in the three years preceding the tax year grew in 25% or more in average in relation to the tax year preceded it. As long as the company employed more than 50 employees in the tax year and in each one of the years preceded it.
3. The company received an approval from the Innovation Authority confirming it is an "Innovation Advancing Enterprise". The conditions for this approval will be set in advance.
4. The total income of the company's parent group in the tax year will not exceed 10 billion NIS (2.75 billion USD).
5. The enterprise exports more than 25% of its annual sales turnover.

Special Technological Enterprise

Eligibility

Holds true for all of the conditions mentioned for 'Technological Enterprise' but for the following difference:

- For section 4. of the definition, instead of "Total income of the company's parent group in the tax year will not exceed 10 billion NIS" it will stand for: Total income will be 10 billion NIS or more.

Benefits

Designation as 'Priority Enterprise', 'Special Priority Enterprise', 'Technological Enterprise' or 'Special Technological Enterprise', entitles the companies who own the enterprise with reduced corporate tax rates, reduced dividend tax rates (and sometimes also reduced capital gains tax) for the enterprise's income as follows:

Priority Enterprise:

- For priority enterprise established in development region A: 7.5% corporate tax rate.
- For priority enterprise which is established in any other region: 16% corporate tax rate.
- Dividend tax rate: 20%.
- Accelerated Depreciation. .

Special Priority Enterprise:

- For special priority enterprise established in development region A: 5% corporate tax rate.
- For special priority enterprise established in any other region: 8% corporate tax rate.
- Dividend tax rate for dividends paid directly to parent company which is a foreign company: 5%.
- Accelerated Depreciation.

Technological Enterprise

For the income defined as 'Preferred Technological Income' the following benefits:

- Companies tax:
 - For a company owns a technological enterprise in development region A – Companies tax rate: 7.5%.
 - For a company owns a technological enterprise which is not in development region A – Companies tax rate: 12%.
- Capital Gains Tax:
 - Capital gains – for capital gains which are derived from R&D activity in Israel and in accordance to the minister of finance provisions.
 - The capital gains tax rate (for a company which owns a technological enterprise) for selling intangible asset to a foreign company will be 12%. As long as the asset was purchased from a foreign company for 200 million NIS or more.
 - The capital gains tax rate mentioned above is contingent upon the approval of the Innovation Authority.
- Dividends tax:
 - Revenues of a company which owns a technological enterprise will be taxed with 20% tax rate.
 - If the dividends are distributed to a board of foreign residents, the tax rate will be 4% (conditioned upon – 90% or more of the shares are owned by the board of foreign residents and that the shares were purchased before the revenues were generated).
 - The revenues base for taxation needs to be preferred technological income or capital gains tax (which is also entitled to benefits), after deducting the other tax paid for it as well.

Special Technological Enterprise

For the income defined as 'Preferred Technological Income' the following benefits:

- Companies tax rate: 6%
- The capital gains tax rate (for a company which owns a special technological enterprise)
 - For selling intangible asset to a foreign company will be 6%. Capital gains – that are derived from R&D activity in Israel and in accordance to the minister of finance provisions. The company will be eligible to the tax rate as long as one of the following holds true:
 - The enterprise is the first owner of the asset.



- The enterprise purchased the asset from a foreign company.
- The capital gains tax rate mentioned above is contingent upon the approval of the Innovation Authority.
- Dividends tax rate:
 - Revenues of a company which owns a technological enterprise will be taxed with 20% tax rate.
 - If the dividends are distributed to a board of foreign residents than the tax rate will be 4% (conditioned upon – 90% or more of the shares are owned by the board of foreign residents and that the shares were purchased before the revenues were generated).

Taxation Benefit's Approval and Application

Approval of taxation benefits to 'Priority Enterprise' and 'Technological Enterprise' is made by the Tax Authority and is possible in two ways: The Green Course or Pre-Ruling. Each enterprise may decide which one of the courses suits it best. The process for 'Special Technological Enterprise' benefits approval is the same as the process for Priority Enterprise (and Technological Enterprise). The process for 'Special Priority Enterprise' benefits approval

is not the same as the process for 'Priority Enterprise' and does not contain a green-course. The applications are reviewed in accordance with the different eligibility criteria listed above.

Research and Development

The Innovation Authority (IA) at the Ministry of Economy designs and operates variety of dedicated programs for private sector companies, promoting unique initiatives that translate policy into practical tools for the industry. In addition to the grant programs the IA also takes part in the approval of tax benefits for entitled companies. Multinational corporations (MNCs) may apply to the programs below with their Israeli subsidiaries. A central consideration is the IP rights for the knowledge generated in the framework of the programs described below. For some of the programs described below the IP rights must stay in Israel unless approved otherwise by the IA. Hence, for each support program the MNC must check the IP rights' arrangements.

Specified below are the IA's support programs most relevant for multinational corporations.

R&D Incentives

Early Stage Companies

- Innovation Visas for Foreign Entrepreneurs
- Technological Incubators
- Technological Innovation Labs

Growth Companies

- The R&D Fund
- Alternative Fuels for Transportation
- Generic R&D Arrangement for Large Companies

Technological Infrastructure Projects

- MAGNET Consortia
- Nofar – Industrial Application of Academic Research
- Advanced Technologies Users' Association

International Companies and Projects

- MAGNET Consortia
- Nofar – Industrial Application of Academic Research
- Advanced Technologies Users' Association

Societal Change Projects

- R&D Centers of Large Israeli Companies in Israel's Periphery

Sectorial Project & Companies

- Renewable-Energy
- Life Sciences
- Space Technologies
- Agriculture

Early Stage Companies

Innovation Visas for Foreign Entrepreneurs

The purpose of the innovation visas is to enable foreign entrepreneurs to develop their innovative technology project as an Israeli company, and receive a work permit visa.

Eligibility

- Entrepreneurs from abroad willing to establish a technologically innovative project in Israel.
- Entrepreneur who was approved by one of the 12 landing pads recognized by the program. To the landing pads list.

Benefits

- **Two years of staying and working in Israel:** Innovation Visa will be granted to the entrepreneurs. The innovation visa shall enable the entrepreneur to develop a technologically innovative project in Israel, for a period of up to 24 months.
- **Exposure to Israel's eco-system and support:** The foreign entrepreneurs will be hosted within a landing pad. The landing pad will offer exposure to Israel's Eco-System, working spaces, technological infrastructure as well as business and professional support.
- **Option for 5 years expert visa:** If the project turns into a company, a foreign entrepreneur can file a request to receive support from



the Innovation Authority and after receiving approval, can receive an expert visa to work in the company for a period of up to 5 years.

Application Process

- Entrepreneur will apply to one of the landing pads with the project he wishes to develop
- The landing pad shall approve/reject the project for development - provide Appendix 4 'Statement of the Landing Pad Regarding the Acceptance of a Foreign Technology Entrepreneur.
- In the event that the landing pad approves the project, the entrepreneur shall apply, with the landing pad approval attached, for the grant of an Innovation Visa - provide Appendix 5 'Application for recommendation to issue an innovation visa for a foreign technology entrepreneur'.
- The project will be evaluated by a professional evaluator and at the Israel Innovation Authority Committee, which will reach a decision on whether to approve the project.
- The entrepreneur will receive a reply from the Committee (with the relevant documents). In the event that the Committee approves the project, the entrepreneur will continue the application procedure as per procedure 5.3.0029 of PIBA - Residency Permit for foreign innovation entrepreneurs.
- In case the project turns into a company the worker could apply for an expert visa according to the described process.
- Final submission dates are changing along the year. It is recommended to be updated.



Technological Incubators

The primary goal of this program is to transform innovative technological ideas in their early, high-risk stages into viable startup companies capable of raising money and operating on their own. The state will finance projects in technological incubators via grants to the incubator operator (a licensee) and also grants for the early-stage companies in the incubator.

Eligibility

- Investors wishing to set technological incubators in Israel for the purpose of investment and support of start-up companies in its early stages.
- The IA will choose and approve a licensee who will operate the technological incubator

Benefits

The following benefits are for the incubator's licensee. There are additional benefits for the early-stage companies working under in the framework of the incubator.

- The state of Israel will finance 85% of approved project budgets for a project company.
- The licensee invests only 15% percent of the project budget and receives in return 50% from the shares of the companies in

the incubator.

- Certainty – the franchise is for eight years.
- For incubators in Israel's Periphery – the state also participates in the operation expenses (not only in a project budget).

Application Process

- A call for proposals for technological incubators' licensees will be published.
- Final submission dates are changing along the year. It is recommended to be updated.
- The applicator will need to prepare all the relevant documents and send the application according to the IA's procedures.
- The licensee will be chosen by the relevant IA committee.

Technological Innovation Labs

The purpose of this program is to encourage industrial corporations, especially those engaged in advanced manufacturing, to collaborate with technological companies as leverage for growth and as a basis for the development of a future strategy.

Eligibility

Central eligibility criteria:

- Israeli Company.



- The Industrial Enterprise employs at least 100 employees and have a sales turnover that will not exceed 100 million NIS (27.5 million USD) in the year preceded to the request.
- Applying company filed a guarantee of 100,000 NIS (27.5K USD).
- Applying company paid the 5,000 NIS (1.4K USD) application fee.
- Stands in the conditions set by the regulations for research and development in industry.
- The applying company will propose himself for setting and operating an innovation lab.
- Knowledge including IP rights will be owned by the Israeli company.
- Benefits
- An Innovation lab chosen by the IA will be eligible for a grant of up to 33% of approved expenses for setting up technological infrastructure (50% for innovation labs in the periphery).
- Grant will be up to 4 million NIS (1,100K USD).
- Grant rate will be contingent upon the number of companies operation in the innovation lab.
- Additional grant for up to 500,000 NIS (140K

USD) or 50% of approved expenses of the lab operations (in addition to the grant for technological infrastructure).

Application Process

- Validation of standing up to the program's eligibility criteria (among – the guarantee and application fee).
- Handing in application documents (in Hebrew) to the IA's offices at airport city.
- Eligible candidates will be invited to speak in front of the committee (chaired by the head of the IA and composed of ministry of finance and ministry of economy officials).
- 5 innovation labs will be chosen by the committee in a competitive process – according to preset criteria specified at the IA's procedure.
- The committee is not obligated to finish the election process after a certain time period. But if the election process is not finished after 180 days from the final submission date, the applicator may cancel his application and refund his guarantee.
- Final submission dates are changing along the year. It is recommended to be updated.

Growth Division Programs

The R&D Fund

This is the main incentive program designed for industrial R&D support for the development of competitive products and innovative processes.

Eligibility

- Israeli companies (registered in Israel) from all of the industry's branches who wish to develop or upgrade products or to improve local manufacturing processes.
- A company supported by this program is obligated to pay royalties when a government-assisted R&D project results in a commercially successful product.

Benefits

- The fund provides financial grants of 20%-50% of approved R&D programs.
- For companies in geographical areas designated as NPRs (mostly regions in Israel's periphery) the benefit can reach 60%.

Application Process

- On-line application with the relevant form.
- Additional forms on the IA's website.

- Applications will be approved or disapproved by the relevant IA committee.
- Final submission dates are changing each year. It is recommended to be updated.
- Decisions regarding application's acceptance will be made within three to four months of the application submission. The exact time period for decision is contingent upon the overall applications budget of the company (ranges between 10 million NIS (2.75 USD), 10-30 million NIS (2.75 USD – 8.27 USD) and over 30 million NIS 8.27 USD).

Alternative Fuels for Transportation

The incentive program offers favorable conditions to investors, as well as assistance to technology companies in order to advance the field of petroleum substitutes in Israel.

Eligibility

- Israeli technology companies engaged in the field of oil substitutes for transportation
- Israeli or foreign investors who wish to invest in Israeli companies engaged in the field of oil substitutes for transportation.
- Rights over the project's knowledge and IP will be owned by the Israeli company. For IP transfer the enterprise owner needs the IA approval.



Benefits

Investors supported by the program will receive:

- An option allowing them to receive additional shares in the company under the conditions of the original investment, in exchange for the repayment of the full loan amount to the Authority instead of the company.
- Substantial government participation in the risk involved in the funding of research, development and application of innovative technologies in the field of alternative fuels for transportation.
- Companies supported by the program will receive:
- Financial assistance in the form of a loan, matching up to 50% of the total amount invested by private investors:
 - For example – 750,000 NIS (205K USD) loan will be given against 1.5 million NIS (410,000 USD) invested by private investors.
 - Loan range – A loan for the investment in the company – from 750,000 NIS (205K USD), Up to NIS 12 million NIS (3.3 million USD).
- The maximum aggregate loan amount is NIS 30 million (8.3 million USD) which can be obtained by the company during its participation in the incentive program (until 2020).

- The companies will be obliged to repay the received funding via royalty payments only if the investors did not exercise the loan repayment option in exchange for additional shares in the company, and only if the project results in sales.
- The companies will be able to receive the incentive program's support together with the support of other programs offered by the Innovation Authority.

Application Process

- Application forms at the IA website.
- Final submission dates are changing along the year. It is recommended to be updated.
- Decisions regarding application approval will be made by an IA committee. The committee will assemble once every three months (contingent upon available budget) and discuss the applications submitted till its date of assembling.

Generic R&D Arrangement for Large Companies

The program goal is to encourage and support long-term R&D of large companies, which invest in the development of infrastructural knowledge that can be implemented in a series of products over a long time frame.

Eligibility

- Large Israeli companies with revenues of more than 100 million USD.
- Total R&D expenditures that are more than 20 million USD, or alternatively, Israeli companies that employ at least 200 employees directly in R&D.

Benefits

- A grant of up to 50% of the approved R&D expenditures for long-term R&D plans or for an R&D project executed in cooperation with another Israeli company.
- The company receiving the support will not be obliged to pay royalties to the Authority (full grant).

Application Process

- Application forms at the IA website.
- Final submission dates are changing along the year. It is recommended to be updated.

Technological Infrastructure Projects

MAGNET Consortia

The program supports the formation of consortia made up of industrial companies and academic institutions in order to jointly develop generic, precompetitive technologies.

Eligibility

- Israeli manufacturing companies developing competitive products and simultaneously seeking to develop innovative technologies, which can be used as a basis to develop a new and advanced generation of products.
- Israeli academic research groups engaged in scientific or technological research, seeking to promote applied research as part of a consortium, as well as to collaborate with the industry and study the market needs.

Benefits

- Industrial companies are granted up to 66% of their approved budget and academic institutions are granted up to 100%.
- The duration of a MAGNET Consortium is three to five years.
- No royalty payments are mandated for this program.

Application Process

- A notification about the creation of new consortium is published in the press and in the IA's website.
- Companies wishing to join the new consortium will follow the instructions published and apply to the IA accordingly.



- The IA technological infrastructure department will start a process for setting up the consortium and will approve or disapprove according to the application details.
- For additional information at the IA website.
- Final submission dates are changing along the year. It is recommended to be updated.

Nofar – Industrial Application of Academic Research

The program is designed to bridge the gap between know-how within academia and the needs of the industry. It does so by encouraging support of applied academic research activity by an industrial company. The main goal is to reach significant milestones by the end of the project, which will enable the industrial company to sign a technology commercialization agreement with the research institution.

Eligibility

- Academic research groups in Israel, operating as part of a higher education or research institution, seeking to carry out applied research, which is not mature enough to be supported by the industry or by the MAGNETON incentive program.
- The research should include a new and original idea that requires proof of concept,

with preliminary basic research and results that are applicable to Israeli industry.

Benefits

- Up to 90% of the approved budget with a maximum scope of 550,000 NIS (151K USD).
- Benefit for a period of 12 months, with an option to extend the support up to 15 months.
- At the end of the research, the supporting company receives the first right to negotiate a commercialization agreement with the research institution.
- NOFAR research conducted in collaboration with two different institutions is eligible for funding of up to NIS 660,000 (182K USD).
- The grant recipients are exempt from repayment of royalties.
- The supporting company serves as partner in professional guidance and in setting of research goals, as well as participates in the funding of 10% of the project cost.

Application Process

- The academic technology transfer companies will apply to the IA in the name of the research groups.
- Commercial companies wishing to apply for the program will contact academic technology transfer companies directly.

- Final submission dates are changing along the year. It is recommended to be updated.
- For additional information in the IA website.

Advanced Technologies Users' Association

The program's goal is to encourage distribution, implementation, and demonstration of technologies or sharing resources in a way that contributes to R&D in the fields of practice of the companies.

Eligibility

- Companies engaged in R&D and interested in collaboration in the distribution and implementation of new technologies.

Benefits

- The association as a legal entity, receives a grant of up to 66% of the approved expenses. The members of the Association complete this sum to 100% of the Association's expenses.
- Companies do not receive any grants as part of this incentive program.

Application Process

- Following coordination with the Head of the Division, a group of companies wishing to cooperate is organized. These companies submit a proper request for support to the Head

of the Technological Infrastructure Division.

- Additional information at the IA website.

International Companies and Projects

The international R&D division facilitates benefits program by geographic location (for example – R&D collaboration between Israeli and Canadian companies) and by subjects (Program for R&D collaboration with MNCs)). Described below are the programs by subject and geographic location.

Programs by subject:

R&D Collaboration with MNCs

Within this framework the MNC will collaborate with Israeli technological companies which has R&D activity.

Eligibility

- Ability to finance 50%-80% of the R&D program.
- A contract between the MNC and the Israeli company which arranges the IP rights will be in accordance with the Israeli R&D law.
- Full eligibility criteria and conditions is specified in the R&D Fund procedures and at the Israeli R&D law.

Benefits

- Grant of 20%-50% of project budget.



- The MNC can invest in cash and/or in kind, i.e. it can provide the startup with facilities like: technological guidance, borrowing equipment, using labs, discounted software licenses, regulatory advice, etc., instead of or in addition to cash funding.

Application Process

- For full application process and forms – IA's instructions.
- Final submission dates are changing along the year. It is recommended to be updated.

MNCs Participating in the Collaboration Programs

A list of prominent MNCs enjoying the IA's collaboration Programs described above:

- 3M
- Abbot
- Alstom
- Arkema
- Audi
- Commonwealth Ban
- Cisco
- Coca-Cola
- Deutsche Telekom
- Monsanto
- Philips

Programs by Geographic Location

The assistance for international R&D projects is carried out by bi-national funds which finance Israeli and foreign companies joint projects or

by parallel support programs in which each side of the joint project offers support in accordance with the existing grant programs.

Cooperation with Countries and Regions

Israel has wide cooperation R&D network with different countries and regions.

Bi-national funds

- Israel has 4 bi-national funds with the U.S.A, Canada, Korea and Singapore. In this framework, two nations contribute a predetermined sum to a binational foundation intended to support cooperative projects.
- For additional information about specific bi-national funds:
 - BIRD: Israel–USA.
 - CIIRDF: Israel–Canada.
 - SIIRD: Israel–Singapore.
 - KORIL: Israel–Korea.

European Union R&D programs

- Israel also participates actively in several multinational European R&D programs. The suggested programs in this framework are: Eco-Innova, FetFlagships EraNets, M-ERA-NET, MANUNET II, ERA-NET TRANSPORT III, Era-Net RUS, ENIAC, Ambient Assisted Living (AAL), ESCAL, EUREKA, EUROSTARS. The programs are managed by ISERD (The

Israeli R&D Directorate for the European Research Area (ERA)) which is responsible for the integration of Israel in the ERA and in other European Organizations.

- Application procedures and schedules are available in calling for proposals which are published on the ISERD website.

Parallel support programs

- The Israeli IA facilitates parallel support program with other finance and research institutions from around the world which are dealing with R&D.
- The programs encourage cooperation between Israeli and foreign companies by helping in partner finding and by financial support of up to 50% from approved project budget.
- Most of the IA industrial R&D cooperation programs are implemented by MATIMOP an IA executive agency.
- For additional information about parallel support programs at the IA's website.
- Calls for proposals for parallel support programs at the IA's website

Societal Change Projects

R&D Centers of Large Israeli Companies in Israel's Periphery

The program goal is to encourage large companies to establish R&D centers in Israel's Periphery.

Eligibility

- Israeli companies who wish to set up a R&D center in Israel's Periphery.
- Annual sales of more than 100 million USD in Israel.
- 50% of the total products that will be produced as part of the program will be in Israel.
- The company's R&D center will employ workers living in outlying areas in the rate not less than 40% of all employees in the first year of operations, 50% in the second year, and 60% in the third year.
- Need to pay royalties in case the enterprise is profitable.
- IP rights will be located in Israel.

Benefits

- Qualified companies will receive multi-annual (24-36 months) support of 65%-75% for their R&D center's approved expenses. If the project is profitable than royalty payments are needed.

Application Process

- Relevant information through the IA website.
- Final submission dates are changing along the year. It is recommended to be updated.

Sectorial Projects and Companies

The innovation authority operates additional



support programs in several high-potential sectors:

- Renewable-Energy
 - Technological Center for Renewable Energies.
 - Additional Support for Cleantech Technologies.
- Life Sciences
 - Bio-technology.
 - Space Technologies.
- Agriculture.

Employment Aid Programs

The Ministry of Economy operates several aid programs intended to encourage the integration of workers from minority populations, populations with low labor participation rates and populations from national priority regions. The aid is given in the form of subsidizing the wage of new employees for a specific time period. The different aid programs are facilitated by the Authority of Investments and the Development of Industry and Economy. Described below are the application processes and approval for the programs. A separate description for each one of the programs is presented (including link for the exact application process instruction page).

Employment Aid Programs Based upon Geography or Population Characteristics

Population Based Aid Programs	Geographical Based Aid Programs
<p>Ethiopian Population</p> <ul style="list-style-type: none"> • "Tnufa in Employment" Promotion and Occupational upgrade for Workers of Ethiopian Origin • Integration of Workers of Ethiopian Origin as Apprentices in Knowledge Intensive Industries 	<p>National Priority Regions</p> <ul style="list-style-type: none"> • Aid Program for Hiring Additional Employees for High Salaried Positions in National Priority Regions (Including Cyber sub-program) • Aid Program for the Absorption of New Employees in Israel's Business (relevant also for population based aid programs)
<p>Minorities</p> <ul style="list-style-type: none"> • Aid program for the absorption of new employees in Israel's Business (relevant also for geographical based aid programs) 	<p>Dimona, Arad and Yeroham</p> <ul style="list-style-type: none"> • Aid Program for the Absorption of Employees in the Service Industries to Businesses Located in the Cities of – Dimona, Arad and Yeroham
<p>Disabled Employees</p> <ul style="list-style-type: none"> • Aid Program for the absorption of disabled employees 	<p>Jerusalem area</p> <ul style="list-style-type: none"> • Aid Program for the Absorption of Additional Workers in High Paid Salaries in Jerusalem Area
<p>Students</p> <ul style="list-style-type: none"> • Program "Best for Industry" 	

Application Process and Approval

Application Process

The applications are approved by the Authority of Investments and the Development of Industry

For the majority of the aid programs, there is a similar application process which goes as follows:

1. Filling "Details Form" or "Initial Request Form" according to the instructions specified in the relevant webpage.
2. Sending the form to the address - yazamim@inbal.co.il.
3. After sending the email to the address above, a reply email will be sent to the applicant. In the reply email there will be a link for the online system.
4. The applicant will be able to fill a request form via the online system and will need to attach all the relevant documents to the request.
5. After the applicant has filled the online request he will hand it back (by mail or physically, dependent on the aid program) to the Authority.

A link for the webpage containing the exact instructions for each program is attached for each one of the programs described below.

Applications' Approvals

The different aid programs are approved by a special committee. The committee is comprised of the Investment Authority's chief executive and additional position holders from the ministry of economy and industry and the ministry of finance.

The committee reviews the applications thoroughly and rates them according to several criteria. For example:

- **Wage characteristics:** average salary the employer will pay, salary in comparison to the average national salary.
- **Business' characteristics:** business owner's experience, financial stability, business plan and the business funding sources, the enterprise location and the length of the enterprise establishment period.

For each program the criteria might differ according to the program characteristics.

Population Based Aid Programs

"Tnufa in Employment" Promotion and Occupational upgrade for Workers of Ethiopian Origin

Promotion of quality employment among Israeli citizens of ethiopian origin.

Eligibility

- Employers which have recently (as of



1.7.2016) started to employ workers who are citizens of Ethiopian origin.

- The applying employer must employ at least two new employees of Ethiopian origin.
- The applying business will operate in one of the following branches: Financial services and insurance, industry, computer programming and computer consulting, other business services and architectural and engineering services.
- Monthly wage's cost for the new employees will exceed 10,500 NIS (2.9K USD).
- Monthly wage cost will not exceed 25,000 (6.9K USD).

Form of Aid

The aid will be given for a time period of 30 months or more, wage subsidy will be given in the following rates:

- For the first 10 months of employment – 37.5% of wage cost.
- 10th-20th months of employment – 27.5% of wage cost.
- 21st-30th months of employment – 17.5% of wage cost.

Applications

- Final submission dates are changing along the year. It is recommended to be updated.
- Additional information at the Investment Authority's website.

Integration of Workers of Ethiopian Origin as Apprentices in Knowledge Intensive Industries

Eligibility

- Company which incorporated and operates in Israel or a NGO or a governmental company.
- Business in one of the following branches: Industry, Information and Communication.
- The applying employer must employ an Israeli resident or citizen whose parents or himself were born in Ethiopia.
- The applying employer must employ a student for a bachelor or master degree in a scientific field.
- The employer will hire the apprentice within six months from the message about the aid approval.
- The employer will employ the apprentice for a time period longer than 12 months but less than 24 months. Position will be of at least 60 monthly hours
- Hourly wage will be higher than 30 NIS (8.2 USD)
- Wage's cost for the new employees will not exceed 13,000 NIS (3.5K USD)

Form of Aid

The aid will be given for a time period of 12 to 24 months, wage subsidy will be given (for each apprentice) in the following rates:

- For the first 12 months of employment – 40% of wage cost.
- 12th-24th month of employment – 30% wage cost.

Application

- Final submission dates are changing along the year. It is recommended to be updated.
- Instructions for application at the [Investment Authority's website](#).
- The applications will be discussed at the relevant Investment Authority committee's meetings. Meetings will be scheduled by the program manager.

Aid program for the absorption of new employees in Israel's Business

This aid program is divided into four different sub-programs:

- Aid for reception of new employees in aid areas (national priority regions) .
- Aid for reception of new employees in the Gaza border settlements.

- Aid for reception of new employees from low participation rate populations.
- Aid for reception of new employees from low participation rate population which lives in the Gaza border settlements.

Eligibility

Eligibility is contingent upon the exact sub-programs specifications. The general criteria for eligibility are one (or more) of the following:

- Company which incorporated and operates in Israel or a NGO or a governmental company.
- Business owners who will set up, expand or relocate a business to the aid areas or the Gaza border settlement
- Business owners who will set up, expand or relocate a business which will employ workers from population with low participation rate in Israel's workforce.
- Minimal number of new employees – 2-5. Dependent upon the relevant program.
- Monthly wage will be over the minimum wage or over 75% of the average wage in Israel (dependent upon the exact program).
- Monthly wage cost will not exceed 16,000 NIS (4.4K USD).

Form of Aid

- **Aid Timeframe:** The aid will be given for



a time period of up to 30 months, wage subsidy will be given (for each worker).

- **Aid Rates:** differentiating rates ranging from 10% up to 40% of the monthly wage cost. For each program, the rates begin at high rate and are diminished after several months. Each sub-program mentioned above has its own rates and rates' schedules.

Aid Program for the absorption of disabled employees

This program enables employers apply for aid in order to encourage the employment of disabled workers.

Eligibility

- Minimum employment of at least one new employee in 33% of full position.
- The new employee is regarded as disabled (disability level of 20% and more or approved as disabled by an authorized institution).
- Monthly wage cost will be equal or exceed the average monthly cost wage for employee in Israel.
- Monthly wage cost will not exceed 16,000 NIS (4.4K USD).

Form of Aid

The aid will be given for a time period of at least

36 months, wage subsidy for monthly wage will be given (for each worker) in the following rates:

- For the first 12 months of employment – 45% of wage cost.
- 13th-24th month of employment – 33% wage cost.
- 25th-36th month of employment – 22% wage cost.

Applications

- Final submission dates are changing along the year. It is recommended to be updated.
- Instructions for application at the Investment Authority's website.

Program "Best for Industry"

Eligibility

- The company employs a student which participate in the "Best for Industry" program.
- Monthly wage cost will not be less than 7,000 NIS (1.9K USD).
- The company has an industrial enterprise in which it is able to employ the relevant student.

Form of Aid

- Aid will be given for a period of 12 consecutive months (from the first day of the students' employment).
- Aid will be less than 20,000 NIS (5.5K USD)

from the student' wage for the entire aid period.

Applications

- Instructions for application at the Investment Authority's Website.
- Final submission dates are changing along the year. It is recommended to be updated.

Population Based Aid Programs

Aid Program for Hiring Additional Employees for High Salaried Positions in National Priority Regions

Objective

Facilitate the integration of high-skill employees exclusively in manufacturing and IT enterprises located in National Priority Regions.

Eligibility

- Companies will establish, expand or relocate high-salary facilities to NPRs.
- Annual turnover of 100 million NIS (approx. 25 million USD) or more.
- At least 60% of the new employees in the facility will be residents in NPR.
- The companies must hire a minimal number of new employees (between 15-80, contingent upon the specific program), but no more than 150 employees.

- Companies should pay a determined minimum wage (not below 1.5-2.5 times the national average salary, contingent upon the specific program).

Form of Aid

- Based upon specific sub-program.
- Subsidies will be given for time period of up to 48 months.
- Subsidy for each employee will be given in percentage of the employee wage cost, the percentage decreases over time for a 4 year period:

High-Salary

Grant's rate decreases from 35% to 10% of the employee wage. The monthly wage will be up to maximum of 30,000 NIS (approx. 7,500 USD).

Cyber

Grant's rate decreases from 40% to 25% of the employee wage. The monthly wage will be up to 30,000 NIS (approx. 7,500 USD).

Anchor

Grant's rate decreases from 35% to 10% of the employee wage. The monthly wage will be up to 20,000 NIS (approx. 5,000 USD).

Applications

- Instructions for application at the



Investment's Authority's website.

- Final submission dates are changing along the year. It is recommended to be updated.

Minorities in Knowledge-Based Industries

Facilitate integration of ethnic minorities into knowledge-based sectors, specifically: students, interns, and graduates from knowledge-based educational backgrounds (Chemistry, Physics, Computers, Engineering, etc.).

Eligibility

- An employer recruits at least one new employee from the specified minority population.
- The recruited employee's salary should be at least 30 NIS (approx. 7.5 USD) per hour over at least 60 hours monthly
- Employment period of at least 12 months and no longer than 24 months.
- The monthly wage will be up to maximum of 13,000 NIS (3.5K USD).

Form of Aid

Wage subsidy for monthly wage will be given (for each worker) in the following rates:

- For the first 12 months of employment – up to 40% of wage cost.
- 13th-24th month of employment – up to 33% wage cost.

Applications

- Instructions for application – Link.
- Final submission dates are changing along the year. It is recommended to be updated.

Aid Program for the Absorption of Employees in the Service Industries to Businesses Located in the Cities of – Dimona, Arad and Yeroham

This program enables employers to apply for aid in order to encourage the employment of residents of Dimona, Arad and Yeroham in the service industry.

Eligibility

- Business operates in a field regarded as "Service" by the Israeli Central Bureau of Statistics.
- Employer needs to employ at least 50 new employees in its business.
- New employees are residents of the south of Israel (as defined by the Ministry of Interior in Israel).
- The businesses are new or relocated businesses which will be located in the jurisdictions of one or the following local authorities – Dimona, Arad or Yeruham.
- Monthly wage cost will be of at least 75% of the average monthly wage in Isarel.

- Monthly wage cost will not exceed 16,000 NIS (4.4K USD).

Form of Aid

The aid will be given for a time period of at least 30 months, wage subsidy for monthly wage will be given (for each new employee) in the following rates:

- For the first 10 months of employment – 30% of wage cost.
- 11th-20th month of employment – 20% wage cost.
- 21th-30th month of employment – 10% wage cost.

Applications

- Final submission dates are changing along the year. It is recommended to be updated.
- Instructions for application at the [Investment Authority's website](#).

Aid Program for the Absorption of Additional Workers in High Paid Salaries in Jerusalem Area

The program aim is to provide aid for investors who wishes to set, expand or relocate businesses with high salary positions in Jerusalem.

Eligibility

- Annual turnover of 100 million NIS (approx. 25 million USD) or more.
- The companies must hire a minimal number of new employees (between 15-80,

contingent upon the specific program), but no more than 100-150 employees

- At least 60% of the new employees in the facility will be residents of Jerusalem.
- Companies should pay a determined minimum wage (not below 1.5-2.5 times the national average salary, contingent upon the specific program).

Form of Aid

- Based upon specific sub-program.
- Subsidies will be given for time period of up to 48 months.
- Subsidy for each employee will be given in percentage of the employee monthly wage cost, the percentage decreases over time for a 4 year period:

High-Salary

Grant's rate decreases from 35% to 10% of the employee wage. The monthly wage will be up to maximum of 30,000 NIS (approx. 7,500 USD).

Anchor

Grant's rate decreases from 35% to 10% of the employee wage. The monthly wage will be up to 20,000 NIS (approx. 5,000 USD).

Applications

- Additional information at the [Investment Authority's website](#).
- Final submission dates are changing along the year. It is recommended to be updated.

MULTINATIONAL CORPORATIONS LOCATED IN ISRAEL



*The above is a partial list of approximately 270 Multinational Corporations operating in Israel

APPENDIX

Useful Contacts

The Foreign Investments and Industrial Cooperation Authority

Phone: +9722-6662410

Email: InvestInIsrael@economy.gov.il

The information included in this guide is relevant for March 2018. The content included is intended to provide only a general outline of the subjects covered and it is necessary that specific professional advice be sought before any action is taken.



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