



Webinar:

Doing Business in Germany & Israel

Israel Tax System

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Topics for today's discussion



- Israel tax system in a snapshot
- Special issues and relieves
- Tax incentives to technological sector

Caveat: this presentation is in general terms and should not be regarded as tax advice.
Conditions and exceptions might apply to any of the below mentioned



Israel Tax System

General Overview



23%

CIT, Worldwide,
Management & Control



0% - 25% / 30%^(*)

Dividend



0%

Branch remittance



Losses

Carry forward
Indefinitely



**Thin-Cap or
Interest - N/A**



Pillar 2

N/A (2026)



Transfer Pricing

OECD like
No thresholds
Safe Harbors exist

^(*) DTT may be reduce WHT rate.

Israel Germany Tax Treaty

Payments from Israel to a German tax resident:

| % | Ownership | Dividend | Interest | Royalty | Capital Gain | Permanent Establishment |
|------------|-----------|--------------|-----------|---------|----------------|-------------------------|
| Tax Treaty | 10 | 5/10 regular | 5 general | 0 | 0 general | 12 months |
| | | 15/23 REIT | 0 special | | 23 real estate | |

In force since 2017

Choice of Entity (Ltd Vs. Branch)

| | Subsidiary | Branch |
|------------------------------|----------------------------------|---------------------------------|
| Legal Status | Separate entity | Extension of foreign parent co. |
| Share capital | No minimum | N/R |
| Liability | ✓ Limited Liability | ✗ Parent bears full liability |
| Local director | Not mandatory | N/R |
| Fiscal Representative | Might needed | ✗ Obligatory |
| Setup Time | Few days | Few weeks |
| Tax Treatment | Eligible for Gov'/tax incentives | Fewer tax incentives |
| Compliance/Tax | ✗ Same - but Div subject to WHT | ✓ Same – but no remittance WHT |

Registration and Compliance

Registration



Bank Account



VAT

- Fiscal Rep.
- An Office.



Income tax, Withholding tax, Social Security

Ongoing



Bookkeeping

Foreign software



Monthly Reports and Payment



Hebrew/English

Annual



Audited FS

- All companies
- IFRS/US GAAP



Tax Return

Adjustments



Currency (USD/ILS)

Capital Gain Exemption – Nonresident



General Exemption

Shares of Israeli private company

- Gains not attributed to **PE** in Israel.
- Company not **real estate “rich”**.



Publicly Traded Shares

- Shares of Israeli companies traded on
- Israeli or foreign stock exchanges



Private Equity & Venture Capital Funds (tax ruling)

- **0%** - Foreign investors (**LP**) in qualifying funds
- **15%** - Foreign managing partners (**GP**)

Special tax Incentives – Individuals

General



Individual

- **10% - 47%** + 3% surtax
- **25% / 30%** + 5% surtax



- No Wealth tax
- No Inheritance / Gift tax
- No stamp duty tax

Individual relief



10 Years Tax Holiday

- Individual new resident
- **Foreign** source income



Foreign expat relief

- Relocation to Isarel
- First year relieves
- Visa, annual extension

Employee Stock Option Plans

Equity Instruments: Shares, Options, RSU, and more

Exercise price: No minimum requirement

If issued according to section 102, not traded*, and held by a Trustee:

| “Track” | <u>“Capital Gain”</u> | <u>Regular Income</u> |
|--------------------|-----------------------|-----------------------|
| Min. Lockup Period | 24 month | 12 month |
| Max. Tax Rate | 25%* + surtax | 50% |
| Allowed Expenses? | No* | Yes |



Hi Tech Sector - Tax Incentives

Tax Benefits



Main Conditions

(1) Hi-Tech Company

- **IP owner:** Patent, Software etc.
- **R&D:** 7% from revenue
- **Employees:** 20% R&D

(2) Industrial Company

- **Manufacturing** activity
- **Export 25%** at least



Reduced CIT

7.5% ; 12%

6% - special NIS 10b Group

7.5% ; 16%

5% - special NIS 10b Group



Reduced Div

20% or DTT

4% - 90% Foreign Resident

20% or DTT

Tax Benefits



Main Conditions

(3) R&D Service Company

- **Innovative R&D**
- **To a Nonresident**
- ***Approval required (3 yrs)***



Reduced CIT

7.5% / 16%



Reduced Div

20% or DTT (Germany 5%)

Employee Stock Option Challenges

Cost Plus

- Included in cost base
- Buy Not deductible

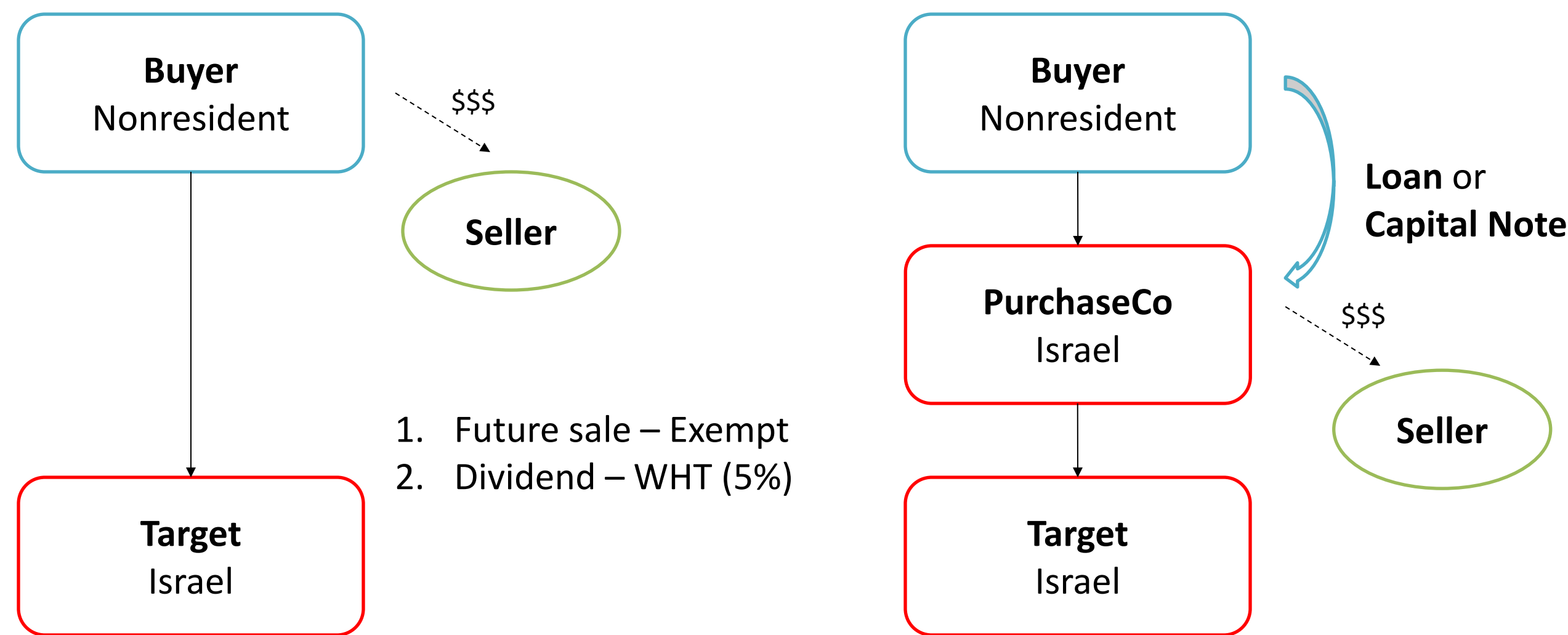
Recharge Agreement

- Debt Repayment (tax free)
or
- Dividend (WHT)
- Written agreement

A. Purchasing an Israeli Company

Structuring: Directly / Israeli Holdco

Financing: Interest bearing loan / Interest free (“Capital Note”)



B. Purchasing an Israeli Company

Taking the IP out of Israel:

1. **Valuation:** market value / ITA approach (100%-85% SPA)
2. **Qualified Losses:** Capital Gain from the IP sale



Thank You!