STATE OF ISRAEL
Ministry of Finance
International Affairs Department

Opportunity Israel

Enhanced Legislation, R&D Incentives, Grants and Support Programs

Fall 2012

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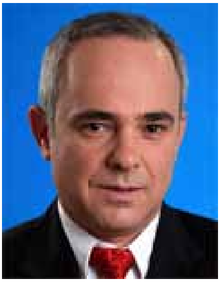

Dear Readers,

We are happy to present you with this booklet, portraying the fundamental characteristics of the Israeli government's support in entrepreneurs, R&D centers and investors, giving a historic perspective on major developments in the field throughout the years. This booklet is designed for both new investors in Israel as well as for savvy investors.

Years ago, the Israeli government and the Ministry of Finance recognized the significance of encouraging investors and firms to trust Israel with their funds. The financial crisis of 2008 only re-assured the country's success in the field, as governmental legislation encouraged investors and entrepreneurs to do business in Israel through diversified incentives. Israel was one of the only growing countries during the crisis much thanks to the 35% rise in the rate of investments.

How did we manage to do that? by keeping the macro-economic eco-system stable, maintaining our financial frameworks and lowering corporate taxes, investments went upward. Moreover, we are investing greater funds since the crisis in strengthening our already-greatest asset and advantage: the human capital. Considered innovative, educated, skilled and flexible, the Israeli scientists, researchers and executives are now getting better training due to our investments of NIS millions in our research institutes and universities which are amongst the finest in the world. In addition, we have launched a successful grants program in attempt to attract key Israeli doctors and professors to return to Israel after long stays abroad in order to enrich our "brain-pool".

This booklet focuses on legislation encouraging all of the above, and I hope you find it both insightful and useful.

Sincerely,

Y.S.

Dr. Yuval Steinitz
Minister of Finance

Dear Readers,

As the significance of investments to the development of the modern economy cannot be overlooked, it is utterly essential for the growth of an economy such as the Israeli one, with its unique geo-political situation and relatively small size.

In this booklet we have managed to gather the most vital and practical information for those who are interested in investing in the real economy of Israel, and highlighted exceptional investment incentives for innovative and hi-tech industries.

We, at the International Affairs Department, will see to update investors and other interested parties in the future developments of investments' incentives, through similar publications.

We also encourage you to visit our website at financeisrael.mof.gov.il and get updated in the current events and recent publications of the Ministry of Finance.

We hope this booklet will be of assistance and use to you.

Sincerely,

Mr. Roni Hershkovitz,
Director, Overseas Economic Information
International Affairs Department
Ministry of Finance

Preface

The development of the Israeli economy over the country's short sixty four years of history was accompanied by dramatic events and evolutionary changes. But as breakthroughs were witnessed and crises were overcome, the features of stability, resilience and solvency were always present, as well as the values encouraged by the Israeli government of entrepreneurship, innovation and liberalization.

Over the years the Israeli economy has established itself as stable and yielding, providing a solid investing environment for both local and international investors.

The Israeli foreign exchange market has been significantly liberalized by the Bank of Israel since the beginning of the 90's and today both Israeli and foreign residents may convert currency, open USD deposits or invest in bonds and interests and convert these investments at any time as well as to transfer funds overseas freely, which signifies a sweeping change in monetary policy. Nowadays, the Governor of the Bank of Israel tends to minimize the Bank's involvement in the foreign exchange market as much as possible, while adapting the monetary policy to local and global circumstances.

Another essential alteration that accompanied the Israeli economy in the past few decades is the processes of privatization. The Israeli government had privatized its properties since the 60's, but 1986 marked a year in which those processes were highlighted. Since then and up to these days the Israeli government has been privatizing its possessions and decreasing it's involvement in the markets. "Bezeq", Israel's main telecommunications provider is an example of such privatization as it went under the process in 2005. As a result of those privatizations the Israeli economy is currently considered more competitive and enjoys an increase in growth, freedom of occupation and property rights, as well as a decrease in the prices of goods and services and an improvement in their quality and suitability to the requirements of consumers.

The outcome of these privatizations was the emergence of the business sector, and its control and ownership over greater shares of the Israeli market as the process continued. Today the Israeli economy is considered as a technologically advanced market economy, including rapidly developing high-tech and service sectors. The World Economic Forum (The WEF) indicates that the Israeli economy is "Innovation Driven" which sets it at the highest stage of development rank according to this institute. The WEF also states in his most recent report from 2010-2011 that the Israeli economy is 5th in the strength of investor protection, 6th in the availability of latest technologies and 1st in the quality of research institutes. In its 2012 competitiveness report the IMD (International Institute for Management Development) ranks Israel as the 19th most competitive economy in the world and 10th in inward flows of direct investments with a total of 4.7% of investments as of the country's GDP and a total of USD 11.4 Billion. Israel is also considered 1st in the world in business and total expenditure on R&D in percentages, and its main strengths are mentioned to be a strong R&D culture, skilled workforce, high educational level, dynamism of the economy and open and positive attitudes towards business.

One more key modification in Israel's attitude towards corporations and business entities is reflected in the persistent cutting of the Israeli corporate tax. From a peak of 66.1% taxation on corporations in 1985, the country has been cutting taxes in order to attract foreign investors to the Israeli market. By 1996 the tax was set at 36%, and remained unchanged until 2003. Since then and up until 2012, the tax has been gradually lowered to today's current level of 25%. In addition the income tax in Israel was also lowered systematically since the 1980's to allow nationwide economic growth, while the total tax burden in Israel is similar to the one in most OECD countries.

Another development to be mentioned in this context was the decentralization process (known as "The Bachar Reform") which the

Provident Funds and Advanced Education Funds have gone through in 2005: these vehicles which were controlled solely by the banks until then, were sold according to new regulations, and therefore created a wide diversity and competition within the Institutional Investors, while creating an improved and better managed capital market.

One more remarkable government initiative that reformed the Israeli economy is the "Yozma Program" (Initiative in Hebrew). The program launched in 1993 offered attractive tax incentives to any kind of foreign venture-capital investments in Israel and offered the matching of any investment with government funds. This resulted in a boom in the venture capital industry that is still thriving today, playing an important role since the early 1990's in the booming growth of the high-tech industry. As result of the program, between 1991 and 2000 Israel’s annual venture-capital outlays rose nearly 60-fold and today Israel is ranked 1st in the world in expenditure on R&D as a % of the GDP by the OECD.

This venture capital boom, as mentioned before, nurtured a prosperous high-tech industry in Israel. Today, Israel is a home to many high-tech companies which appricate its cultural and economic benefits, as well as its innovative spirit. Firms such as Apple, Microsoft, HP, Intel and SAP chose Israel as a home for their R&D centers and offices, enjoying governmental support and benefits for R&D centers and educated and skilled local minds. Along with local Israeli corporations which became an international success, both global and local firms make Israel worthy of its portrayal as "The Silicon Wady".

Yet another interesting governmental program regarding the Israeli high-tech industry roots in the early 1990s when the Israeli government created a technological business incubator program to leverage the skills of hundreds of thousands of scientists, engineers and physicians who had made Aliya (immigrated) from the former USSR. Israel's Office of the Chief Scientist (OCS), a division of the Ministry of Industry, Trade and Labor, launched six "incubators" designed to nurture and seed early stage technological developments through entrepreneurship. Today there are 24 such incubators situated across the country, and 65 percent of the projects are science-related research and development. Currently, the OCS allocates approximately USD 40 million per year to incubators, and varied sums to other programs that encourage technology development. Nowadays, all incubators have been privatized thanks to their success.

All of these are considered a result of past privatizations, the rise of the business sector, and the synergy between the business sector and government authorities in terms of encouraging capital investments, R&D incentives, employment grants and special supports making business-doing in Israel more accessible, simple and productive. This booklet aims to give you the most vital information regarding the enhanced legislation in Israel relating to investments, employment and the founding of new research and development centers, and it is up-to-date with 2012's data, statistics and the Israeli law.

Table of Contents

The Law for the Encouragement of Capital Investments*

Investment Incentives

The purpose of the Law for the Encouragement of Capital Investments is to strengthen the industrial capability of the country. Below is a short summary of the main points of the new law.

A. Qualification Requirements

To qualify for benefits under the law the company has to be an industrial company registered in Israel and has to be **internationally competitive** (i.e. having export capability). However, Biotechnology and Nanotechnology companies do not have to meet the "export" requirements to qualify.

An investment in a Priority Area recognized by the law will be termed an Approved Investment and the company will be designated as an Approved Enterprise.

B. Location

For the purposes of the law the country will be divided into two areas.

1. A Priority Area (including the Galilee in the north, the Negev in the south and Jerusalem).
2. The Center of the country (i.e. all locations unspecified in item 1).

C. Investment Incentives according to the Law

Companies that qualify will be entitled to corporate tax rates as detailed below. In addition companies located in the Priority Area will also be entitled to an investment grant which will be calculated as a percentage of their approved investment as indicated below.

1. Taxes

	Center of the Country	Priority Area
Corporate Tax rates		
Years: 2011 & 2012	15%	10%
Years: 2013 & 2014	12.5%	7%
2015 onwards	12%	6%
Dividend Tax rate	15%	15%

2. Investment Grants for Productive Assets

Investment Grant*	--	20%

* As a percentage of the approved investment.

D. Benefit Period

There is no termination period regarding the tax benefit. As long as the company remains internationally competitive and continues its productive activity in Israel it is eligible for the tax benefits as prescribed by the law.

E. Special Tax Benefits Program

Large companies that meet the following criteria will be entitled to the benefits as listed below.

Criteria:

1) Total annual income in Israel of at least NIS 1.5 billion.

2) The combined balance sheet of the company is at least NIS 20 billion.

3) The business plan of the company will include one of the following:

   a) Investment in productive equipment of at least NIS 800 million in the center of the country or NIS 400 million in a Priority Area over a three-year period.

b) Investment in R&D of at least NIS 150 million in the center of the country or NIS 100 million in a Priority Area.

c) Employing at least 500 new employees in the center of the country or 250 new employees in a Priority Area.

Tax Benefits

	Center of the Country	Priority Area
Corporate Tax	8%	5%
Dividend Tax	15%	15%

Disclaimer: A Legal consultant should be advised to establish the exact level of incentives to be offered.

* Source: Invest in Israel (http://www.investinisrael.gov.il/)

R&D Incentives

The Office of the Chief Scientist (OCS) in the Ministry of Industry, Trade and Labor, empowered by the "Law for the Encouragement of Industrial Research & Development – 1984" (The R&D Law), oversees all government sponsored support of R&D in the Israeli industry. It operates via the R&D Fund, as well as via a gamut of domestic and international programs, agreements and collaborations.

The OCS annually supports hundreds of projects, from incipient concepts within a pre-seed framework, followed by support of incubator and start-up companies, through autonomous industrial R&D enterprises.

In the following paragraphs you will find a description of the main OCS support instruments, which Israeli entities preforming R&D could be aided by. Some of these programs are also suitable for collaboration with foreign entities. Programs of relevance to US entities are marked with a star (★).

Domestic Support

The R&D Fund

The main OCS program, The R&D Fund, supports R&D projects of Israeli companies by offering conditional grants of up to 50% of the approved R&D expenditure. If the project is commercially successful, the company will be under the obligation to repay the grant through royalty payments.

Projects in the Nano-Technology and Biotechnology sectors may receive the maximal 50 percent of grant support. R&D projects conducted in geographical areas designated as Priority Area A are eligible for grants of 60 percent of the total approved R&D budget.

A special track is dedicated to Traditional Industries (industries characterized by relatively low investment in R&D). This track offers separate evaluation and discussion for projects. Private consultation is offered to Traditional Industry companies applying to the OCS for the first time. The Fund supports Traditional Industry R&D projects at the maximum level of 50%.

Other Domestic Programs

Alongside the R&D Fund, other OCS domestic support programs include:

The Tnufa Program

This is a national pre-seed fund. It assists individual inventors and nascent start-up companies during the earliest stages of their projects. This includes evaluation of the technological and commercial potential of a project, filing for a patent, building a prototype, drafting a business plan and initial business development. Grants of up to 85 percent of approved expenses are available to a maximum of approx. USD 65,000 per project.

The Technological Incubators

The primary goal of the program is to transform innovative technological ideas, that are too risky and in a too early stage for private investments, into viable startup companies that after the incubation term are capable of raising money from the private sector and operating on their own. For a period of 2-3 years, the program provides entrepreneurs, whose projects were approved by the Incubators Committee, with full financial support (USD 550,000 – USD 800,000, out of which 85% is granted by the government and 15% is invested by the incubator), infrastructure, technological & business mentoring, legal & regulatory advice, and administrative assistance. The program is subject to the R&D law with regards to manufacturing, royalties and IP rights.

The program, which had been privatized in 2002, has recently undergone a substantial reform: the Incubators' owners-operators★ now undergo a competitive selection process, opening up the investment opportunity to many new actors and making sure the early stage community is constantly at its best. An owner-operator may be a foreign entity.

The MAGNETON and ★ NOFAR programs

Those programs are designed to support applied academic research in all areas and especially in biotechnology and nanotechnology in order to promote the transfer of the technology to the industry via mutual cooperation between an individual company and a specific academic research group. Grants are up to 66% and 90% of the approved expenses respectively. No royalty payments are mandated.

★ The MAGNET Program

This program supports the formation of consortia comprised of individual firms and academic institutions, in order to jointly develop generic, pre-competitive technologies. The duration of a MAGNET Consortium is 3-5 years. Grants are up to 66% of the approved budget for industry and up to 80% for the academic institution. No royalty payments are mandated.

For more information, please visit:
http://www.moital.gov.il/CmsTamat/Rsrc/MadaanEnglish/MadaanEnglish.html

International Support

★ Israel - US R&D Collaboration

The collaboration program is named BIRD - Bi-national Industrial R&D Foundation.

BIRD brings together promising Israeli and US companies focusing on emerging industries and novel technologies. Any pair of companies, one Israeli and one American, may jointly apply for BIRD support as long as they have the combined capability and infrastructure to define, develop, manufacture, market, sell and support an innovative product based on industrial R&D.

The BIRD Foundation offers conditional grants for joint development projects on a risk-sharing basis. The Foundation funds up to 50 percent of each company's R&D expenses associated with the joint project. Repayments are due only if commercial revenues are generated as a direct result of the project. BIRD requires no equity in the companies supported and no intellectual property rights to their products, nor does BIRD interfere in formulating or managing the relationship between the partnering companies.

BIRD's scope extends to communications, life sciences, electronics, software, cleantech and other technology sectors.

In 2009, a new program, "BIRD Energy", was initiated which funds renewable energy and energy efficiency industrial research and development between U.S. and Israeli companies or between a company and a university/research institution. The program is the implementation of a cooperation agreement between the U.S. Department of Energy's Office of Energy Efficiency and Renewable Energy (EERE) and the Israel Ministry of Energy and Water Resources (formerly Ministry of National Infrastructures) and is based on the Energy Independence and Security Act of 2007. "BIRD Energy" adheres to the same rules and procedures as BIRD. Areas of innovation include Solar Power, Bio-Fuels, Advanced Vehicle Technologies, Wind Energy, Smart Grid, or any other Renewable Energy/Energy Efficiency technology.

BIRD also manages TRIDE - a Tri-national Fund, bringing together Israeli, Jordanian and US companies for projects based on the BIRD model.

Industrial R&D Agreements with U.S. States

In order to expand the opportunities for Israeli companies to collaborate with American firms, the OCS has set a priority on reaching agreements with individual U.S. States. These agreements supplement and complement the BIRD Foundation program. Israel has recently entered into seven such agreements, with Massachusetts, New York, Wisconsin, Maryland, Virginia, Colorado and Oregon, and work is underway to begin collaborations within this new framework. In addition, negotiations are proceeding with Florida, California and Ohio.

The agreements offer a flexible "parallel support", based on the concept of each of the companies in the approved joint project having its R&D expenses supported by its home base, according to the respective internal laws, regulations, rules and procedures.

Calls for proposals may be periodic or continuously open and target designated priority areas only or may be open to all technologies.

US - Israel Science & Technology Commission and Foundation

This body, together with its implementation arm, the US-Israel Science and Technology Foundation, focuses on areas of bi-national strategic importance, such as the life sciences, space research and renewable energy. The Commission acts as a catalyst by identifying and removing impediments and building the bi-national infrastructure for mutually beneficial economic and technological cooperation.

★ The Global Enterprise R&D Cooperation Framework

This framework encourages cooperation in industrial R&D between Israel and multi-national companies (MNCs). This program shares the high risks and enormous costs inherent in hi-tech development with the partnering companies. Joint R&D projects between MNCs and Israeli companies, authorized by the OCS, could be entitled to financial assistance of 50% of the Israeli company's R&D approved costs. Direct investments in joint R&D project with Israeli companies will be credited with 150 percent % of the value of such investment for "Buy-Back" liabilities.

★ Financial R&D Centers Support Program

Israel has developed a highly dynamic and vibrant Financial Services IT sector. In order to capitalize on the capabilities of this sector the Ministry of Industry, Trade and Labor has devised an innovative support program directed at foreign Multi-National financial and banking corporations.

To qualify the following criteria must be met:

1. The applicant is a foreign company and does not conduct any R&D activities in Israel.
2. Operates in the financial sector.
3. Has a turnover in excess of $10 billion.

The type and level of Support

The support is an up-front **grant** and <u>no royalties will be required</u>. The grants will be paid as a percentage (%) of the total budget approved. The grant payments schedule will be as follows:

Year	Grant
1 & 2	40%
3 & 4	30%
5	25%

If the R&D Center is located in a Priority Area (namely the Galilee in the north and the Negev in the south) the grant schedule will be 10% higher, as follows:

Year	Grant
1 & 2	50%
3 & 4	40%
5	35%

The maximum period of support per R&D project submitted will be 5 years.

In order to receive this support the company must also obligate itself to employ the following number of R&D workers by the end of each given year:

Year	No. of R&D workers
1	25
2	50
3	80

The R&D Center may execute the project(s) through a subcontractor as long as the project(s) are executed in Israel and at least 90% of the subcontractor's employees working on the project(s) are Israeli citizens.

Other International support programs for Israeli companies include:

Bi-national funds for competitive R&D, enabling joint R&D programs with a foreign counterpart. In addition to BIRD, Such funds cooperate with firms from Canada, Singapore and South Korea.

Bi-lateral R&D agreements with countries such as Austria, Belgium, Ireland, Germany, Holland, France, Hong Kong and China, among others, provide access to sources of national funding. Israeli companies participating in the program are also entitled to receive R&D grants from the OCS.

Israel is the only non-European country fully participating in the **European Union's Framework Program (FP)** – Europe's prime vehicle for research and technological development. The FP provides funding for the following areas: health, food, agriculture and biotechnology, information and communication technologies, nano-sciences and nano-technologies, energy, environment and climate change; transport and aeronautics, socio-economic sciences and the humanities, space and security.

Israel is currently formulating new schemes aimed at attracting multinational companies in the life science field to establish substantial R&D centers in the country.

The Financial R&D Centers Support Program is administered by the Office of the Chief Scientist (OCS) at the Ministry of Industry, Trade and Labor, and is currently being re-assessed pending on future results.

Support for R&D Centers of Foreign Companies

There are two programs that enable High-Technology R&D Centers of Foreign Companies to receive government support.

1. **Funding of R&D projects from the Office of the Chief Scientist.**
2. **Tax Benefits for R&D Centers (entity operating on a "Cost+" basis).**

1. Funding of R&D projects from the Office of the Chief Scientist

A foreign company establishes an R&D Center in Israel as a subsidiary company registered in Israel with the IP registered as the property of the Israeli entity. Under these circumstances it could be eligble for the support of the OCS, via the above mentioned R&D Fund and all other relevant instruments for the different R&D projects it intends to execute. Registration of the IP as being the property of the Israeli subsidiary means that all income derived from the fruits of said R&D, including production income – even if conducted overseas- must flow back to Israel where they will be taxed accordingly.

The rate of funding is as follows: Standard rate is 20% - 40%. For a Biotechnology or Nanotechnology company the funding can reach 50%. Companies located in Israel's Priority Area are entitled to an additional 10% funding.

Should the Foreign Company request to have the IP of the technology developed in the Israeli R&D Center be transferred overseas it will have to receive approval from the Research Committee of the OCS and to compensate the OCS for the funding granted to it.

2. Tax Benefits for R&D Centers

A foreign corporation, setting up an R&D center in Israel, may submit a request to recognize this center according to the Law for the Encouragement of Capital Investments.

The basic requirements for approval are:

a) The employment of at least 10 qualified personnel (software engineers, systems analysts, biotech researchers, etc…)

b) Approval as an "Industrial R&D High-Tech" facility from the Office of the Chief Scientist, Ministry of Industry, Trade and Labor.

Preferred Enterprise Status according to the Law

Should the R&D Center, be located in the center of the country (Tel-Aviv, Haifa etc…) the company can apply to the Tax Authority to obtain "Preferred Enterprise"* for it according to the Law for the Encouragement of Capital Investments.(* No specific status/term is mentioned in the law, we use this term for convenience purposes only).

If granted "Preferred Enterprise" status the R&D center will have to operate on a "Cost Plus" basis according to the standard transfer pricing rate in the industry as this accounting method is usually applied between the mother corporation and its R&D subsidiaries. A foreign owned company will then be eligible to corporate tax according to the table below.

Approved Enterprise Status

Should the R&D Center, be located in the priority area of the country (e.g. The Galilee in the north, the Negev in the south…) then the company should apply to the Investment Center - a department of the Ministry of Industry, Trade and Labor- to gain "Approved Enterprise" status. It will then be entitled to an investment grant according to the Law for the Encouragement of Capital Investments.

If granted "Approved Enterprise" status the R&D center will be entitled to an **investment grant*** of up to 20% of the approved investment and will have to operate on a "Cost Plus" according to the standard transfer pricing rate in the industry. A foreign owned company will then be eligible to corporate tax and above mentioned investment grant according to the table on page 14.

* The grant is pending approval and budget allocation.

The Employment Grant Programs

1. The Standard Program

In order to complement the revised Law for the Encouragement of Capital Investments, the government has decided to establish an additional program to increase employment in the outlying areas of Israel as well as in specific centers with high unemployment.Support will be granted for the establishment or expansion of industrial plants, telephone call centers, computer service support centers or logistic centers. In order to be eligible for this program these enterprises will have to employ a minimum number of workers at a minimum wage as detailed below.

The maximum support per worker will be 135,000 NIS (~ $34,000) over a period of 30 months or 4,500 NIS (~ $1,100) per month.

The main points of the program are as follows:

The Format

In order to be granted the support from this program companies will have to compete via a tender-like system.

Eligible Areas

a. The "Furthest Periphery", south of 75 latitude (Beer-Sheba) and north of the 258 latitude (Carmiel).

b. Priority Area as designated in the Law for the Encouragement of Capital Investments.

c. Designated towns of Minorities population (Arab, Druze, Circassian) or the Ultra-Orthodox Jewish population (Elad, Modi'in Elite, Betar Elite, Immanu'el).

Wages Level

To qualify the enterprise must pay its employees the following minimal wages:

a. In the Minorities and Ultra-Orthodox towns, the minimum wage (about 4,100 NIS).

b. In all other eligible areas – 5,500 NIS average monthly wages.

Number of Workers

To qualify the enterprise should employ a minimum number of workers according to the following criteria:

a. Establishment of a new plant – at least 5 workers.

b. Transfer of a plant – the number of workers previously employed or 5 (whichever is higher).

c. Expansion of a plant – at least 5 new workers

Amount of Support:

The amount of support will be according to the following rates from the gross salary of the worker, but not more than the maximum salary of 15,000 NIS.

1. Businesses in the Sderot and Gaza envelope region.

Small Businesses (up to 50 workers or annual turnover of less than 25 million NIS):

a. First 10 months – 30%

b. 11^{th} – 20^{th}. month – 20%

c. 21^{st} – 30^{th}. month – 10%

Medium sized Businesses (from 50-100 workers or annual turnover of 25-100 million NIS):

a. First 10 months – 25%

b. 11^{th} – 20^{th} month – 15%

c. 21^{st} – 30^{th} month – 5%

Large Businesses (up to 50 workers, annual turnover of more than 100 million NIS):

a. First 10 months – 15%

b. 11^{th} – 20^{th} month – 10%

c. 21^{st} – 30^{th} month – 5%

2. Priority Area

Small Businesses:

a. First 10 months – 25%

b. 11^{th} – 20^{th} month – 15%

c. 21^{st} – 30^{th} month – 5%

Medium sized Businesses:

a. First 10 months – 15%

b. 11^{th} – 20^{th} month – 10%

c. 21^{st} – 30^{th} month – 5%

Large Businesses

a. First 15 months - 10%

b. 16^{th} – 30^{th} month - 5%

3. Special Population Groups

Employers employing workers from among special population groups (Ultra-Orthodox, Minorities, Invalids and Single Parents) will be entitled to the following rates per worker:

a. First 10 months – 35%

b. 11^{th} – 20^{th} month – 25%

c. 21^{st} – 30^{th} month – 15%

Remark: These rates also apply to employers employing workers that belong to these special population groups in The Gaza Envelope region, Sderot and a Priority Area as per paragraphs 1 & 2 above.

Allocation Method

The annual budget for this program is 100 million NIS. These funds will be allocated to participating companies by means of a public tender. Twice a year a tender will be announced and any interested company may apply. The proposals will then be evaluated and the proposals with the most merits will be chosen.

Criteria

Following is a breakdown of the criteria that will be used to choose the successful applicants:
Location - 30%, Average level of salary - 25% (up to a maximum of 15,000 NIS) , Socioeconomic classification of the town/location - 5%, Length of establishment period - 5% (the shorter the better), Length of operational activity with maximum no. of workers - 10%, Discount rate - 10%, Amount of investment - 5%, Location in Sderot, Gaza enevelope and periphery - 10%.

Procedure for presenting proposals

The proposals should be delivered in six copies, in a sealed envelope to the proposals box of the Israel Investment Center , 5 Bank of Israel Street (2nd floor), Jerusalem.

2. Employment Grant Program for High Salaries (R&D Centers)

The Ministry of Industry, Trade and Labor has launched a new incentive program for supporting industrial companies established in the Negev (south) and Galilee (north) that pay high salaries to their workers. This program is part of a long term plan to spread the prosperity the Hi-Tech community has brought to Israel, by providing these areas with high-paying quality work places.

Minimum Requirements:

- Minimum employees number required: 15.
- The average cost of salary of all new employees has to be at least 2.5 times the average cost of salary in Israel (about 20,000 NIS or $US 5,000).

Employment Grants:

The program provides investors with Employment Grants that will be determined as a percentage of the employer's salary cost for each new employee, for a period of 4 years.
The following is an outline of the grants scheme:
Centers employing 15 -30 employees

- 35% - of each new employee's cost of monthly salary in the first year.
- 30% - in the second year.
- 10% - in the third year.
- 5% - in the fourth year.

Centers employing 30 -45 employees

- 40% - of each new employee's cost of monthly salary in the first year.
- 35% - in the second year.
- 15% - in the third year.
- 5% - in the fourth year.

Centers employing over 45 employees

- 45% - of each new employee's cost of monthly salary in the first year.
- 40% - in the second year.
- 20% - in the third year.
- 5% - in the fourth year.

If the company recruits 130 employees it will be entitled to a grant of 40% instead of the rates listed above, for 4 years.

3. The Employment Grant Program for Anchor (Large) Enterprises

The Ministry of Industry, Trade and Labor has launched a new incentive program for encouraging employment in large enterprises in the Negev (south) and Galilee (north).

This new program is part of a long term plan for the Negev and Galilee to increase employment possibilities in the north and south of Israel. To qualify industrial companies have to employ at least 100 workers in their plant.

The program offers investor employment grants that will be determined as a percentage of the employer's cost of salary for each new employee, for a period of 4 years.

Minimum Requirements:

- Minimum number of employees required: 100.
- The average cost of salaries of all new employees has to be at least 1.5 times the average salary in Israel (about 12,000 NIS or $3,000).

Employment Grants:

The following is an outline of the grants scheme:

- 35% - 45% of each new employee's cost of monthly salary in the first year.
- 30% - 40% in the second year.
- 10% -20% in the third year.
- 5% in the fourth year.

The precise grant level (within the ranges specified above) will be determined according to the number of employees in the center – the higher the number, the higher the grant level per employee.

General Conditions

The company establishing the center is required to have annual revenues of at least USD 25 million.

The center has to be established in a Priority Area (basically, the Negev and Galilee regions). This area includes most locations outside the central metropolitan regions. (Towns that qualify include, for example, Beer-Sheva in the south and Carmiel in the north).

At least 60% of all new employees should be residents of a Priority Area, namely the Galilee region in the north and the Negev region in the south.

Changes in these programs may be applied.

Film Law Benefits

The main aim of the law is to encourage the production of foreign films in Israel. To this end the law offers generous tax benefits that reduce the cost of production by up to 20%.
The Law for the Encouragement of the Production of Films was approved by the Israeli Knesset on October 28th, 2008.

The law recognizes two models:
a) Foreign Productions b) Co-Productions.
In both cases the benefits by law accrue to an Israeli production company who is expected to pass on these benefits to the foreign production company.

a) Foreign Production Model

Films or TV series produced by foreign filmmakers in Israel retaining the services of an Israeli production company.

An Israeli film production company that purchases Israeli goods and services on behalf of a foreign production company can withhold tax payments of 17%, which subsequently does not have to be transferred to the Tax Authority. Given the 17% value added tax rate, the effect is a savings of 19.6% in the cost of those goods and services as shown below.

Example:

• A qualified production expense of	$ 1,000	
• Value Added Tax (VAT) in Israel - 17%	$ 170	
Total	**$ 1,170**	
• Withheld tax of 17% according to the 17%*	($1,170) =	
Film Law Benefit		$ 199
• Expenses following tax reduction		$ 801

(i.e. – actual reduction of 19.6%)

To qualify for this benefit, the foreign production company needs to have an Israeli company purchase these goods and services on its behalf. This benefit pertains to films in which the local production costs exceed NIS 8 million (approximately USD 2 million).

b) Co-Production Model

This model refers to Films with Israeli co-producers and co-financiers who own certain rights in the film.

A Co-Produced film between an Israeli production company and a foreign production company is entitled to tax benefits as well. To qualify, the total production expense in Israel must be lower than 85% of the amount of the investment made by the Israeli residents in the film's budget, and the budget must be at least NIS 4 million (approximately USD 1 million).

1) When the foreign investor's share is at least 75%, the Israeli producer will be able to withhold tax payments of 13% over most Israeli goods and services purchased for the production of the film. Taking into consideration the VAT (see above example) this implies an actual reduction of 15% in the costs of the production in Israel.

2) When the foreign investor's share is 50% - 75%, the Israeli producer will be able to withhold tax payments of 9% on most Israeli goods and services purchased for the production of the film. Taking into consideration the VAT (see above example) this implies an actual reduction of 10.45% in the costs of the production in Israel.

Other important aspects of the Law:

The responsibility to pass on the benefit to the foreign company will be vested in the Israeli production company.

For this reason, the foreign production company must complete a form stating that they were informed that the provisions of the

Law for the Encouragement of the Production of Films apply to the production costs of the film in Israel. This form will be submitted to the Tax Assessment Officer by the Israeli production company.

These tax benefits relate only to costs "below the line". The provisions of the Film Law do not apply to payments to the film's director, producer, screen writer, lead actor (i.e. any actor whose income for acting in the film, excluding a share in the film's income, is at least NIS 150,000 [approximately $ 37,500]) and for the purchase of the copyright on which the film's script is based (if relevant).

"The Angels Law" – Israeli Tax Benefits for Individuals Investing in R&D Companies**

Last year the Knesset legislated an indirect amendment to the Income Tax Ordinance, which offers a substantial tax benefit to individuals investing in qualified Israeli R&D companies("the Amendment"), the Israeli Tax Authorities had recently published a Circular in which they present their position on certain issues regarding the Amendment ("the Circular").

The Amendment provides that Israeli and foreign[1] individuals who invest in private Israeli resident companies between January 1, 2011 and December 31, 2015, will be entitled to deduct the amount of their investment from their overall taxable income from all sources. The investment must be made in a qualifying "Target Company", as defined. The amount of the deduction is capped at NIS 5 million per Target Company (i.e. an investor can invest in more than one company and enjoy the benefit several times). The deduction may be taken over the specified "Benefit Period" which includes the year in which the investment was made and the two subsequent tax years. The investor must hold the shares in the Target Company for the duration of the Benefit Period.

The investment must be made by an individual (and not by a corporation) in consideration for an issuance of shares by the Target Company during the same tax year and not as a purchase of

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[1] The circular mentions that a qualified investment made by a partnership or a trust might also be possible. However, a pre-ruling from the tax authorities is required in such case.

outstanding shares from another shareholder, i.e. the investment must be paid to the Target Company in the same year in which the shares are issued. In addition, according to the Circular converting a loan into share capital or exercise of stock options will also be considered as an investment (in the amount of the loan/ exercise price).

The Amendment prevents “double dipping" by stating that the amount of investment deducted as an expense from the investor’s current income will be subtracted from the cost basis of the shares for purposes of calculating the capital gain when the shares are eventually sold. However, capital gains are generally subject to a 20% or 25% tax rate or are exempt from tax when derived by a non-resident, while the deduction may be set off against all sources of income (including income taxable at marginal rates of up to 45%), the tax benefit offered by the Amendment is substantial. It should be noted that an investor may elect whether or not to deduct the investment under the amendment. The definition of "Target Company" is very specific and includes the following requirements:

- the company was incorporated in Israel and its control and management are exercised in Israel.
- the company's shares or any other securities are not registered on a stock exchange in Israel or abroad during the Benefit Period.
- At least 75% of the amount invested must be used by the company for research and development (R&D) expenses within the Benefit Period ("R&D expenses" must be certified as such by the Israeli Office of Chief Scientist following a request by the Target Company).
- until the previous condition is met, R&D expenses must comprise in each year separately at least 70% of the overall expenses of the company.
- during the Benefit Period, at least 75% of the company's R&D expenses must be expended in Israel, this condition is examined at the end of the period.

- In the year in which the investment was made and in the following tax year, the company's revenues (from any source) cannot exceed 50% of the amount of its R&D expenses.
- During the Benefit Period all of the R&D expenses must be spent for the development of an enterprise owned by the Target Company - according to the Circular this requirement means that the R&D expenses must create IP belonging to the company itself and not to other companies. As a result, according to this interpretation companies that perform R&D services on a cost plus basis for other companies will not qualify as Target Companies. This requirement must be fulfilled in each year separately.

It should be noted that if the Target Company does not comply with the abovementioned requirements (which will be examined by the tax authorities at the end of the Benefit Period), the investor's deduction will be retroactively denied. As can be seen, the "Angels' Law" can provide the individual investor with a substantial tax benefit if the company in which the investment is made meets the definition of "Target Company". However, we recommend that anyone interested in taking advantage of the Amendment closely scrutinize any potential investee company, and ensure that the company makes a contractual commitment to meet all of the conditions stipulated by the Amendment.

The overview and translation of the "Angels Law" is under the courtesy of **"Yigal Arnon & Co. Law Firm", and is used with their authorization.

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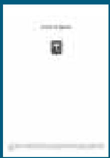

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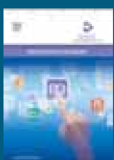

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By The office of the Chief Scientist in the Ministry of Industry, Trade and Labor

Credits

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Big parts of the content in this booklet are based on the publications of "Invest in Israel" and the OCS on the issue.
See http://www.investinisrael.gov.il
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