

# **DOING BUSINESS IN ISRAEL**

By

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## **A Publication for the Commercial Law Group**



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Detailed legal, tax and accountancy advice should always be obtained before proceeding with any business activity in Israel.

## **1. GENERAL INFORMATION ON ISRAEL**

Founded in 1948, Israel covers an area of 22,072 km<sup>2</sup>. The triangular-shaped country is part of the Middle East with a coastline at the Mediterranean Sea and its southern tip connects it to the Gulf of Aqaba (Red Sea). Israel borders Egypt, Jordan, Lebanon, Syria, and the Palestinian territories (West Bank and the Gaza Strip) and it also shares maritime borders with Cyprus.

The country is known for its remarkable achievements in agriculture and agrotechnology, irrigation, solar energy and in many hi-tech industries and start-up companies. It is known as one of the most resilient and technologically advanced market economies in the world.

Offshore gas discoveries in the Mediterranean place Israel at the centre of a potential regional natural gas market.

In May 2010 Israel became a member of the OECD.

Israel has a Population of 9.15 million people. Spoken languages are Hebrew and Arabic. Yet almost all Israelis have a fair command of English.

The capital of the country is Jerusalem, but the country's financial center is Tel-Aviv.

Head of State is the president (this position is limited mostly to ceremonial duties).

Head of Government (cabinet of ministers) is the Prime Minister.

Executive power is exercised by the government.

## **2. GENERAL INFORMATION ON THE ISRAELI LEGAL SYSTEM**

Israel's government system is based on parliamentary democracy with a multi-party system - the Knesset (assembly), consisting of a legislative, an executive and a judicial branch.

The Israeli law is based mostly on a common law legal system. As Israel has no written constitution, the Basic Laws function as constitutional laws.

The Statement of Independence established Israel as a Jewish, democratic state, which grants "complete equality of social and political rights to all its inhabitants irrespective of religion, race or sex", and "freedom of religion, language, education and culture". Bearing no status of a formal constitution, this statement inspires the Supreme Court in his judgements.

Foreign and historical influences on modern-day Israeli law are varied and include the Majelle (the civil code of the Ottoman Empire), the German civil law, the religious law and the British common law.

Israel has 11 Basic Laws dealing mainly with institutional aspects of state and human rights (Basic Law: President of the State; Basic Law: The Knesset; Basic Law: The Government; Basic Law: The Judiciary; Basic Law: The Army; Basic Law: Jerusalem; Basic Law: Israel Lands; Basic Law: The State Comptroller; Basic Law: The State Economy; Basic Law: Human Dignity and Liberty and Basic Law: Freedom of Occupation).

According to Basic Law: The Judiciary, the system of the General Law Courts consists of three instances based on hierarchy: The Supreme Court, the District Courts, and the Magistrate's Courts. Each instance has its jurisdiction defined by the Courts Act [Consolidated Version] (1984).

Another part of the judicial system consists of tribunals of limited jurisdiction; each of them comprises an independent judicial system with an administration, permanent trained judges, and two instances. The two major tribunals are the Religious Courts and the Labor Courts.

### 3. BUSINESS TOOLS IN ISRAEL

The most common form of business organizations are private limited liability **companies** (Ltd) with capital stock (share capital). A limited company is a separate legal entity in which the liability of each shareholder for the company's obligations is generally limited to the par value of their shares. Another tool is a **partnership**. The partnership can be general or limited. The personal liability of the partners is not limited (unless they are limited partners of a limited partnership). A limited partnership must have at least one general partner. A limited partner is not allowed to take part in the management of the partnership (or will otherwise be liable as a general partner). Partnerships are typically reserved for accountants, law firms and investment funds.

There are also non-profit organizations, called "**Amutot**" (mainly academic institutions, hospitals, and charitable organizations) and **Cooperative societies** (mainly in agriculture, transportation and certain types of marketing operations associated with agricultural products. Cooperative members retain joint ownership/ purchasing power.

**Individuals** can conduct business without establishing any legal entity.

**Public companies** are also common in Israel, and Israeli companies can choose to float themselves on the TASE (Tel Aviv Stock Exchange) or on international exchanges.

Foreign companies can trade in Israel in many ways: by Incorporating an Israeli company (subsidiary), by setting up a local branch (foreign company registering directly in Israel), appointing a local distributor or franchisee etc.

When a foreign company or foreign partnership conducts business in Israel through a branch, it must be registered in the Companies/Partnership Registrar as a "foreign company" (or "foreign partnership"), and its activities are subject to the Israeli law.

The registration process of a foreign company requires submission of the foreign company's corporate documents, a good standing certificate issued by the competent authority in the company's jurisdiction of incorporation and appointment of an Israeli resident as a process agent.

#### **4. ISRAEL TOWERDS FOREIGNERS**

Israel is open to foreign investments and, in general, there are no restrictions on foreign ownership of Israeli companies or assets, with some exceptions regarding foreign entities that have connections with certain hostile nations and Target corporations that hold certain control permits that must be issued by the state.

As a member of the OECD, Israel is subject to broad legislation regarding anti-money laundering and terror financing as well as laws forbidding trade with "terrorist organizations".

Foreign companies can freely establish a business in Israel. However, there are some limitations on ownership by non-Israeli entities or persons of interests in Israeli companies in certain sensitive industries (banks, insurance companies, telecommunications companies, companies controlling natural resources etc.).

#### **5. TAXES IN ISRAEL**

The main taxes applicable on businesses in Israel are:

Corporate Tax - Israel operates a customary system of taxation, under which taxation is imposed both at the corporate level and on distribution of income to shareholders. Companies are generally taxable at a rate of 23% on all types of domestic and worldwide income.

Income Tax - Israeli residents are liable for tax on a personal basis on income that they have generated inside or outside Israel, including income from employment, business, interest, dividends, royalties, and capital gains. The income taxation is progressive, from 10% and increases to a maximum of 50%. Non-residents are subject to tax on any income derived from an Israeli source. Any double tax convention between Israel and other countries may modify a person's taxable income.

Value added tax (VAT) is a payment of VAT (currently at a rate of 17%) on goods sold and services rendered. VAT is collected from the buyer by the seller at the time of sale.

## **6. BUYING REAL ESTATE IN ISRAEL**

Several types of taxes and fees may apply regarding real estate in Israel:

Purchase tax is a tax paid to the Ministry of Finance by those who buy a right to real estate. This tax is progressive: the more expensive the apartment, the more tax will be paid.

It is the type of property being sold that affects the purchase tax (residential apartment, land etc.).

Increased Value tax is a tax on profits from real estate, paid by the those who sells a right to real estate. The Tax Authority publishes yearly a new executive order, including updated amounts.

Betterment tax is a tax paid to the local authority by the seller, due to an increase in real estate values following one of three options: program approval, providing relief or permitting unauthorized use.

City taxes ("Arnona") are determined by the size of the property and its location.

Buying a new apartment ("firsthand") is different than buying "second hand".

There are also some special requirements when one of the parties is a foreigner, especially regarding transferring money to Israel from abroad.

It is highly recommended to consult a real estate lawyer in Israel.

## **7. CONTACT INFO**

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