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ESTABLISHING A BUSINESS ENTITY IN ISRAEL

ILN CORPORATE GROUP

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ESTABLISHING A BUSINESS ENTITY IN ISRAEL

"Establishing a Business Entity in Israel"
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Introduction

While there are a few different forms of "corporate" entities in Israel, this guide will focus on companies and partnerships as these are the entities that the non-Israeli businessman is most likely to set up or invest in if they are inclined to penetrate the Israeli market directly (rather than by working through an agent, distributor, etc.). The end of the guide will take a very brief look at the other kinds of entities that exist in Israel.

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Types of Business Entities

Companies

Israeli companies generally limit the liability of the shareholders for the debts and obligations of the company. The precise form of the limitation of liability is set out in the company's articles of association. Normally, liability is limited to the subscription price of the shares held by the shareholders. It is possible for an Israeli company to decide not to limit the liability of its shareholders, but this is very rare and will not be considered further. There are private companies, which are companies whose shares cannot be publicly traded and public companies whose shares may be publicly traded on recognized stock exchanges, subject to applicable securities laws. The organs of an Israeli company are the general meeting of its shareholders and the board of directors. The most significant document of corporate governance for Israeli companies is the articles of association. Israeli companies formed after 1999 do not have a memorandum of association.

Partnerships

Partnerships are formed when two or more persons or legal entities decide to get together for the purpose of managing an enterprise in which they will share in the costs and profits of the enterprise. There are two main kinds of partnerships in Israel, general partnerships, and limited partnerships.

General Partnerships - Apart from partnerships formed for the purpose of providing legal or accounting services, general partnerships are limited to a maximum of 20 partners, whereas no similar limitation applies to a company. The partners of general partnerships are jointly and severally liable to third parties for all of the debts and obligations of the partnership. Amongst each other, the partners will be responsible to share in the debts and liabilities and enjoy the profits equally, unless they agree to a different division between them.

Limited partnerships – consist of at least one general partner (and limited to a maximum of 20 general partners), who is fully liable for the rights and obligations of the partnership and at least one limited partner, whose liability to the partnership is limited to the amount of capital he paid to the partnership upon formation of the partnership. Nevertheless, Limited partners can enjoy the profits of the partnership, according to their equity share in the partnership.

Limited partners may not participate in the management of the partnership, and they do

not have the authority to represent or bind the partnership. Any limited partner who does take part in the management of the partnership will be liable in the same manner as general partners for the period of time in which they participated in the management. A limited partner is authorized to review the books of the partnership, to examine its condition and risks and to consult on those matters with the other partners.

Foreign Companies and Partnerships

Rather than forming a new company or partnership or investing into an existing entity, non-Israeli companies and partnerships may simply open up office branches located in Israel, though this requires them to register as a "Foreign Company" with the Israeli Registrar of Companies or “Foreign Partnership” with the Israeli Registrar of Partnerships. The process for registering a foreign company requires:

- a copy of its articles of association or the equivalent document in its jurisdiction, together with a notarized Hebrew translation;
- a certified copy of the company’s certificate of incorporation, which must be apostilled. If the company originates from a country that is not a part of the apostille convention, then it must be verified by the foreign ministry of the originating country and then by the Israeli consulate in that country. If not in English or Hebrew, the certificate of incorporation must be accompanied by a notarized Hebrew or English translation. If the company’s home country does not issue certificates of incorporation, then the company must file as part of its registration application written confirmation of this fact and official confirmation from the country of origin that the company is registered in the country’s register of companies or another official means of proving the existence of the company if the country does not keep a register of companies;
- a certificate of good standing from the originating country translated into Hebrew;
- a certified copy of a power of attorney or letter of authorization that empowers an Israeli resident to act on-behalf of the company in Israel. The document must specify the resident’s full name, address, and Israel I.D. number.
- notice of an Israeli resident that is authorized to receive court notices and pleadings on-behalf of the company, which must provide the person’s full name, address, and ID number;
- a list of directors of the company, including the I.D. numbers of any Israeli director and the passport numbers of the foreign directors;
- details of the citizenships of each director and valid passport photographs for each foreign director.
- Payment of the Registrar’s fee, which currently is the same as the fee for registering an Israeli company (See below) may be made online following which a receipt is provided, and the receipt must be filed with the rest of the documents.

The documents may be filed in person at the offices of the Registrar of Companies, and they may also be filed online by lawyers holding specially approved smart cards for the purposes of making online filings with Governmental institutions. Similar documents are required for the registration of foreign partnerships with the Israeli Registrar of Partnerships, except in so far as they relate to the partnership agreement

and identities of the partners, including details of the general partners and limited partners in the case of limited partnerships.

One should note that registration in Israel does not distance the foreign company from its Israeli branch with respect to any obligations entered into or debts taken on by the Israeli branch, all of which may be claimed against the foreign company as a whole and is not restricted to the Israeli branch.

Additionally, a branch is very likely to fall under the definition of "permanent establishment" for tax purposes, meaning that the branch will be taxed by the Israeli Tax Authorities on the income derived from its Israeli activities and according to Israeli tax laws, meaning it must register with the Israeli tax authorities and file annual Israeli corporate tax returns for the income generated in Israel.

Matters to be considered when choosing a particular business entity type

Exposure to Liability:

The fact that companies provide the owners with the protection of the "corporate veil", limiting their personal exposure and protecting them against the full consequences of potential failure of the business is a major selling point for companies. The very first shareholders of a company normally have to pay a non-significant amount of money for their shares, meaning that their total exposure can be very limited. On the other hand, general partnerships provide no protection for the partners against the debts and liabilities of the partnership. Limited partnerships must still have at least one owner who is at full risk over the partnership's debts and obligations. While limited partners enjoy protection from liability for the debts and obligations of the partnership, they cannot be involved in the management or representation of the partnership. Therefore, the influence that a limited partner may have on the partnership, even where their capital contribution was considerable, is significantly less than a shareholder may have on a company.

Once a shareholder has sold his shares and is no longer a shareholder in the company, he no longer has any exposure for debts and obligations of the company. However, a general partner leaving a partnership will continue to be jointly and severally liable for the debts and obligations of the partnership that arose during the time that he was a partner, unless the remaining partners and creditors agree otherwise.

It should be noted that the Israeli courts are empowered to pierce the corporate veil and hold shareholders personally liable for actions and debts of the company. Such occasion occurs when the court determines that the corporate veil was exploited in order to unjustly deprive or defraud a creditor or other third party, or for the purpose of taking unreasonable risks. While courts were once hesitant to use this sanction, in recent years the trend has changed, nowadays courts are trying to find reasons that justify piercing of corporate veil. However, generally, an element of wrongdoing is still required in order to justify the court decision, rather than simple bad business choices.

Taxation

The company is an entirely separate legal entity from its shareholders for tax purposes and its income is considered to be separate from the income of its shareholders. The Israeli Income Tax Ordinance imposes a two-level taxation system for companies. The first level is at the corporate level and involves the payment of corporate tax by the company itself on the profits of the company. During the year, companies must make monthly advance payments of the income tax, based on their current revenues, which will be finally

calculated at the end of the year. The percentage is set on an ad hoc basis by the Israeli Tax Authority and is based on past performance of the company. Once the company's bookkeeping is completed at the end of the year, the company will be required to make up any shortfall or will receive back any excess taxes paid. The current tax rate for Israeli companies in 2021 is 23%. However, in many cases the company's tax rate serves as a starting point and can then be reduced by using tax benefits available under various other laws.

The second corporate taxation level is at the shareholder level, which occurs when the company distributes dividends to its shareholders. This tax is paid by the company as a withholding tax and deducted from the dividend amount actually paid to the shareholders. The tax rate for dividend payments is set according to the shareholder's holding in the company, for shareholders holding up to 10% in the company's share capital the tax rate is 25% of their dividends; and for shareholders holding over 10% of the company's share capital the tax rate is 30% of their dividends. Dividend distributions paid to a shareholder that is an Israeli company is not taxed. However, in cases in which the shareholder is a foreign company, the dividend distribution will be taxed.

Shareholders also have to pay tax on capital profits made on the sale of shares. The tax rate is as per the rates applied to dividend payments.

Partnerships - Partners are taxed on an individual basis in accordance with Israel's income tax rates for individuals. The tax rates for individuals are currently a progressive tax rate varying from 10% to a maximum rate of 50%. The partner is taxed based on the income earned both within and outside the partnership. For a partner that is an Israeli company, the income derived from the partnership will be included in the calculation of the company's profits and will be taxed in accordance with the abovementioned provisions relating corporate tax.

The partnership must elect a "Head Partner" who will be responsible for preparing and delivering to the Tax Authorities a report of the partnership activity, its partners and the portion of the partnership's profits and losses that each partner is entitled to. The Head Partner must be an Israeli resident. Once a year, after a partner has received his part of the partnership income, he will report his income to the Tax Authority.

Raising Finance

The company format is more convenient for the purposes of raising finance than that of partnerships. Both companies and partnerships may borrow loans and lines of credit from banks, other lenders, and suppliers, but the corporate veil of the company described above provides more protection to the company shareholder than the partner in the event of default.

When looking to increase capital equity, adding new investors to a business as shareholders is an easier process than adding new partners. Persons that do not have a particularly close relationship with the owners of a business, but who are nonetheless interested in investing in the business for its potential, are likely to find the safety of the corporate veil more appealing than the risks involved in buying into a partnership.

For the types of business that have the potential for a valuable "exit" for the founders, the company format is much more suitable than the partnership for achieving mergers, acquisitions and going public.

Adding new partners to a partnership is considered as a tax event and might affect a tax payment by the existing partners.

Liquidation

As will be discussed in more detail below, the steps required for forming and registering a company, partnership or a branch of foreign company or foreign partnership all have relatively similar steps and costs involved. However, liquidation and dissolution of an Israeli company is much more complex than liquidation of a partnership.

Unless a partnership agreement provides otherwise, a partnership will dissolve upon a partner notifying the rest of the partners that he wishes to leave the partnership. Generally, partnership agreements will provide for a certain percentage majority vote of the partners for liquidation of the partnership, and this may be by regular majority. Upon liquidation of a partnership, the debts, and obligations of the partnership vis-à-vis third persons remain the debts of the partners, meaning that creditors still have a target for claims. Therefore, less regulation is involved in liquidation of partnerships. Upon liquidation of a partnership, the assets and profits of the partnership are first used to pay creditors. If there are not enough assets and profits for these purposes, then the partners must dig into their own pockets. Once all debts have been paid off, any remaining amounts are used to refund partners for their contributions to the capital of the partnership and any remaining surplus distributed to the partners according to pro rata rights.

Liquidation of a company, even voluntary liquidation, is a more complex process. Liquidation of a company is generally divided into two different procedures: liquidation by court, also known as forced liquidation, and a voluntary liquidation where the company adopts a resolution for its own liquidation. A forced liquidation involves strict supervision of the Court and so it is a lengthy process and expensive one. The process usually commences with a motion filed by a creditor of the company and is followed by appointment of a liquidator by the court and the involvement in the process of the official receiver. Voluntary liquidation is suitable to a solvent company and normally does not involve the court in the process (unless there is a reason for the court to take over and supervise the process). It is a process that is initiated by the company itself and supervised by the Registrar of Companies. Although it is much simpler and less expensive than a forced liquidation, the entire process usually lasts approximately a year until the company is declared dissolved by the Registrar of Companies. The process involves the convening of two general meetings, the filing of several notices and reports with the Registrar of Companies at different stages of the process, as well as two publications in the official gazette (in Hebrew "Reshumot"). The liquidation of a company as opposed to the liquidation of a partnership, even a voluntary liquidation, is therefore more expensive, complicated and time consuming.

Now there is also an expedited procedure for voluntary liquidation for companies involving the filing of a single document with the Registrar of Companies. In order to use the expedited procedure, the company must meet the following criteria:

- The company is not active according to the definition of section 342(41) of the Companies Law, meaning that it has no assets or debts (with the exception of outstanding payments of annual fees to the Registrar of Companies), is not a party to any pending legal proceedings and there are no administrative enforcement proceedings against it under the Companies Law.
- The company must not have any liens registered against it or owe any fines or be the subject of any collection

procedures, except where the foregoing relate solely to defaults in payment of annual fees to the Registrar of Companies in respect of which the company is entitled to an exemption.

- The expedited procedure for voluntary liquidation was approved at a general meeting of the company's shareholders, with the consent of all the shareholders who participated in it.
- The invitation to the general meeting included on the agenda the proposal for an expedited voluntary liquidation. The invitation must have been delivered to the shareholders at least 21 days before the date of the meeting, although all of the shareholders may agree to a later time for delivery of the invitation.

Should the Registrar of Companies approve a company's request for an expedited voluntary liquidation, then the company will be liquidated without the need to submit additional documents at the end of 100 days from the date of approval of the request, provided that no objections to the liquidation are received by the Registrar of Companies in that time.

<u>New Insolvency Regime</u>

The Law of Insolvency and Economic Rehabilitation 2018, which came into effect in September 2019, is intended to provide the Israeli with a modern insolvency regime.

The law has three primary objectives:

1. to promote the debtor's economic rehabilitation;
2. to maximize the debt repayment to creditors;
3. to divide the debtor's pool of assets into a more equitable manner between the secured and unsecured creditors;

The key principles of the law are as follows:

A clear and simple definition of insolvency – An entity shall be deemed insolvent if it cannot actively pay its debts. By adopting this new definition of insolvency, the legislator abandoned, de facto, the current balance-sheet test according to which, creditors may not file applications preemptively.

Uniformity in the opening of proceedings – The law seeks to create a uniform and orderly procedure for opening proceedings against a corporation facing insolvency without the legal procedure for handling the insolvency being dictated by the technical manner through which the application was filed.

Creditors' debt repayment order and distribution of funds – According to the law, some of the debt repayments will be carved out from the sums owed to the State and to the strong secured creditors (i.e., banks). They will then be distributed among the general unsecured creditors holding no collateral whatsoever. In the majority of cases, these general creditors (usually suppliers, customers, and employees) receive only a tiny portion, if any, of the debtor's pool of assets. Within this context, the new law prescribes, inter alia, that 25% of the assets pledged under a floating lien (to differentiate from a specific lien on a specific asset) be carved out in favor of the debtor's general unsecured creditors. The new law also reduces the preferential right given to the State (mainly when it comes to debts to the tax authorities) when dividing up the debtor's assets.

Minimizing damages – The law imposes an obligation on the board of directors of the debtor corporation to take all reasonable measures to minimize the extent of the insolvency during the period prior to the opening of insolvency proceedings.

Shareholders and directors

Israeli law provides for various standards, requirements, and duties that shareholders, officers, directors, and partners must comply with. In certain cases, directors and officers can be held personally liable to their companies' shareholders, creditors, and employees for failing to meet those duties and standards. In a private company (which did not issue bonds to the public), the qualifications required of a director are very minimal, the law provides that for a person to be appointed as a director, they must not be a minor, incompetent or have been declared bankrupt.

Companies - Rights of Shareholders:

- Votes – Shareholders' voting rights are attached to their shares. Normally, the shareholders have the right to one vote per share, though the articles of association may provide for shares that have no votes attached, shares with more than one vote attached and shares that have veto rights in connection with certain decisions. Most shareholder decisions are made on a simple majority (51%) basis, although the company's articles may provide that certain decisions require a special resolution with a bigger majority vote. The Companies Law also requires that certain decisions require different voting majorities, for instance in the case of voting in favor of mergers. Moreover, some resolutions require the majority of the minority interests among the shareholders. As discussed above, the Companies Law also enables the court to overturn decisions of majority shareholders where the purpose of the resolutions was to unfairly deprive or exploit the rights of the minority.
- Dividends - Dividends are payments to the shareholders arising by reason of their shareholding. Dividends may be paid in cash or in kind. All shareholders are entitled to a share of the dividend distribution calculated in accordance with their pro rata shareholding in the company. However, where the company has different classes of shares, the company's articles of association can provide that certain classes of shares have preferences to receive dividend distributions prior to other classes. Dividends may only be paid out of the company's profits as defined in the Companies Law and set out in the company's audited financial reports; moreover, the dividend distribution is subjected to the solvency of the company. The company's board of directors has the power to declare dividend distributions, unless the articles provide otherwise. Under the Companies Law, the company's articles may prescribe that (i) dividends will be recommended to the shareholders by the directors and the shareholders may then approve, reject, or decrease the dividend distribution; or (ii) the shareholders in general meeting may prescribe a maximum amount for the dividend and the directors will then decide on the amount of the distribution.
- Rights to Share in Assets Remaining on Liquidation of the Company. Upon liquidation of a company, the company's affairs and assets are to be managed by a receiver whose task is to liquidate the assets and pay off all of the company's creditors. Should there be any amounts left following payment of all a company's debts, those amounts are to

be distributed to the shareholders in the same manner as division of dividend distributions described above.

Steps and Timing to Establish

Companies

Companies are principally governed by the Companies Law 1999 (the "Companies Law") and regulations promulgated thereunder.

Israel has a Registrar of Companies, which is run by the Ministry of Justice. All Israeli companies must be registered with the Registrar of Companies. Therefore, a person wishing to form a company must file an application to establish the company with the Registrar of Companies. The online application form is prescribed by regulations and may be downloaded from the Registrar's website. It is also possible to obtain a special smart card from Comsign confirming the identity of the applicant and providing for a secure and certified electronic signature. Holders of the smart card may complete and file the forms online.

Non-Israeli persons may establish companies in Israel. Where the application form requires an Israeli to enter their Israeli ID number, non-Israelis are required to provide their passport number, details of the country that issued the passport and a certified copy of the passport. Non-Israeli corporate entities may also file applications with the Registrar to establish Israeli companies. This will require the foreign entity to provide a certified copy of its certificate of incorporation or other formal proof of incorporation from the country of its incorporation, together with a notarized Hebrew or English translation thereof.

Formation of a company also requires:

- Filing of the company's articles of association, which sets out the rights and obligations of the shareholders, directors and officers and the rules of corporate governance of the company. Articles may be a simple one-page document or extremely detailed running into tens of pages. Any item of corporate governance that is not expressly prescribed within the articles or in a separate agreement like a shareholder's agreement, will be determined by the Companies Law. The articles must contain at the least, the company's name, the purposes of the company (which is usually drafted very widely to cover any legal activity), the authorized share capital of the company, detailing the number, classes, and nominal value of shares (although Companies may issue shares with no nominal value), whether or not the liability of the shareholders is limited and how it is limited, and the registered office address. A company's shares can be divided into different classes of shares, with the company's articles describing the rights attached to each class. In addition to Hebrew and Arabic, the articles of association may be filed in a foreign language, provided that: (i) articles filed in English must be accompanied by a Hebrew translation with a certification from the Company as to the accuracy of the translation and that the English version is the governing version; and (ii) articles filed in any other foreign language must be accompanied by a notary certified Hebrew translation.
- Filing of the Declaration of the First Directors of the Company, in which they declare their competence to serve as directors. Only one director is required.
- Payment of the registration fee, the amount of which depends on whether

the application is being filed online (NIS2,221) or by a paper application (NIS2,711). At the time of writing, the fee for a paper application is the equivalent of approximately US$834). Companies also have to pay an annual fee to the Registrar of Companies. In 2022 the annual fee is NIS 1,543 or NIS 1,162 if paid by the end of March of that year.

It normally does not take long to establish a new company, with times from filing the documents with the Registrar of Companies being normally 3 business days.

Partnerships

Partnerships are principally governed by the Partnership Ordinance 1975. The Ministry of Justice also runs a Registrar of Partnerships.

1. General Partnership

A general partnership comes into existence automatically when at least two persons commence a relationship that they intend to be in the form of a partnership. A partnership that is formed in order to conduct business must provide notice of its establishment to the Registrar of Partnerships within one month from the date of establishment. The notice must contain the following details: (a) Name of the partnership; (b) the business to be ordinarily conducted by the partnership; (c) full name, address, and definition of each partner; (d) names of the partners who are authorized to manage the interests of the partnership and to sign on-behalf of the partnership, unless all partners are so authorized; (e) term of the partnership, if it is to last for a defined period of time from its formation. A general partnership does not require a written partnership agreement for its establishment, though it is normally recommended. For instance, without a partnership agreement stating otherwise, partners cannot join or leave a partnership without dissolving the existing partnership and forming a new partnership with the new constitution of partners. Partnership agreements, for both general and limited partnerships must be filed with the Registrar of Partners in Hebrew.

Registration of a general partnership in 2022 costs a fee to the registrar of NIS 988 (app. US$297). In 2022, the annual fee is NIS 1,538 or 1,157 if paid by the end of March of that year.

2. Limited Partnership

Establishment of a limited partnership requires a written partnership agreement. The Registrar of Partnerships must be sent a notice of the establishment of the limited partnership. In addition to those details that must be contained in the notice concerning establishment of a general partnership, the notice must also state that the partnership will be limited, details of each limited partner and the amounts which each limited partner paid in to the capital of the partnership and whether the amount was paid in cash or details of the method of payment.

Registration of a limited partnership currently costs a fee to the registrar of NIS 2,701 (app. US$785) and payment of an annual fee which is the same amount as the annual fee for companies and general partnerships.

It normally does not take long to establish a new partnership, with times from filing the documents to the Registrar of Partnerships being up to 7 business days.

Non-Israeli Company Branch

A non-Israeli company may simply open up a branch in Israel rather than establishing a subsidiary. This requires the foreign company to file an application with the Registrar of Companies to register as a foreign company within a month after the company established business in Israel. Certified copies of the

company's relevant documents of incorporation from its home country and its documents of corporate governance such as articles, memorandum, etc. will need to be attached to the application together with a notarized translation. The foreign company would also need to provide a list of its directors and the name and address of an Israeli based person who is authorized to receive formal notices and service of court pleadings on-behalf of the company and a certified copy of a formal power of attorney authorizing a person normally residing in Israel to conduct business on-behalf of the company in Israel.

The fees payable to the registrar in order to establish an Israeli branch of a foreign company are the same as the fees payable to establish an Israeli company as described above.

Non-Israeli Partnership Branch

Partnerships formed and existing abroad may open up a branch in Israel. In order to conduct business in Israel through a branch, the foreign partnership must register with the Registrar of Partnerships, providing the same details to the Registrar as are required for registration of Israeli partnerships and the same fees must also be paid. Foreign limited liability partnerships must also include in addition to the above a notification that the partnership is limited with the details of the limitation as well as attach the partnership formation agreement, submitted with a notarized translation to Hebrew. The registrar will then apply to the Minister of Justice for approval to be registered in Israel, and the Minister of Justice has sole and absolute discretion to determine whether or not to approve such requests.

The fees payable to the registrar in order to establish a foreign partnership are the same as the fees payable to establish an Israeli partnership and described above in this section under "Partnerships".

Governance, Regulation and Ongoing Maintenance

Brief summary of regulation of each type and ongoing maintenance, reporting requirements

Companies

Both private and public Israeli Companies are principally governed by the Companies Law and regulations promulgated thereunder. There are also various requirements of public companies contained in the Securities Law of 1968 and regulations promulgated thereunder. As Israel is a common law jurisdiction, there is also a great body of case law interpreting and applying the requirements of the statutes.

Israeli companies have to comply with the following requirements on an on-going basis:

- Appoint an outside accountant as its auditor. However, private companies with annual revenue of less than NIS 615,408.73 (as of the time of writing, approximately US$189,029) may vote in a general meeting of shareholders to waive the requirement to appoint an auditor, provided that there are no more than 10% of vote opposing the decision.
- Pay an annual fee (see above for details).
- Hold an annual general meeting ("**AGM**") of shareholders at least once a year with no two AGMs being held more than 15 months apart. A private company may prescribe in its articles of association that it is not required to hold AGMs, but it must then convene a general meeting of shareholders anytime it is requested to do so by any director or shareholder.
- File an Annual Report to the Registrar of companies once a year within 14 days of the AGM unless the company is

exempted from holding an AGM, as described above. This is not a financial report, but rather a report in a form prescribed by regulations and downloadable from the Registrar's website. It is intended to provide the Registrar with up-to-date details of the Company's directors, shareholders, share capital, registered office, and other such details. Israeli Public companies also have obligations to publish financial reports in the manner set out in the Securities Law 1968. A company must also file with its annual report a balance sheet unless its articles of association contain restrictions on there being more than fifty shareholders, subject to certain exceptions – e.g., shareholders who acquired their shares as employees under an employee share option plan do not need to be counted in the fifty.

- Other reporting obligations to the registrar of companies such as: change of the company's name, purposes, and Article of Association, share issuance or transfer, capital increase, liens, changes in the board etc.

Partnerships

Israeli partnership law requires little ongoing maintenance and reporting.

Israeli and foreign partnerships have to comply with the following requirements on an on-going basis:

- Similar to a company, pay an annual fee (see above).
- Notify the Registrar within 14 days of any changes to the information contained in the documents delivered to the Registrar (e.g., addition or removal of partners and changes of name).

Requirements for local shareholders/directors

The law does not provide any requirement for a minimum number of local shareholders, directors, or partners for either companies or partnerships.

Foreign Investment, Capitalisation Requirements, Residency and Material Visa Restrictions

Generally, there are no significant barriers to foreign persons or entities setting up Israeli companies, being appointed as directors of Israeli companies or being shareholders of Israeli companies, though restrictions will apply in very limited cases. For example, a company seeking a license to manufacture firearms must not be owned by foreign shareholders.

Any capitalisation obligations

There are no specific capitalisation obligations in terms of minimum capitalisation for either companies or partnerships. Companies may now be formed that do not specify a specific share capital and merely provide for an authorized number of shares of no nominal value.

Any special business or investment visa issues

There are no special business or investment visa issues in terms of specific requirements for entities to conduct business or invest in businesses in Israel. There are work visas requirements for foreigners who wish to work in Israel.

Any restrictions on remitting funds out of the jurisdictions (withholdings, etc.)

Withholding tax is deducted from dividend distributions paid by Israeli companies to their shareholders (see above for more details).

Other forms of Israeli Entities

Cooperative Society (in Hebrew "Agudah Shitufit")

This is a form of entity that has many similar characteristics with a company, while having see through tax rules that are more closely related to partnerships. Cooperative societies are a form of entity that were designed with certain types of Israeli societies in mind such as kibbutzim and in fact, many Israeli kibbutzim are incorporated in the form of cooperative societies. Businesses set up by kibbutzim are often also set up as cooperative societies. In most cases those cooperative societies are wholly owned or almost completely owned by the kibbutzim. When outside investment is sought, they often first convert into regular companies.

Voluntary Association (in Hebrew: "Amuta")

This form of corporate entity is usually established for non-profit purposes. Such associations are normally established in order to run charities and other non-profit initiatives and enterprises, such as the operation of schools and colleges.

Public Benefit Company

This form of corporate entity ("PBC") is as its name implies, a company formed under a definitive set of purposes, for the benefit of the public. It is formed with an application filed with the Registrar of Companies, and its method of formation is similar to that of the company described above. As a company, it has a definitive share capital, shareholders, and rights of ownership. However, a PBC, by its nature, must strictly adhere to the specific standards and purposes for which it was formed. For example, the Company Law prohibits any distribution of dividends to the shareholders of a PBC, as this would mean a personal gain to its shareholders. For non-profit organizations wishing to employ the legal and organizational advantages of a company, this type of corporate entity is thus a popular alternative to a Voluntary Association as described above.