

The Enhancement Program includes a tax benefits package, which offers significant tax reduction in relation to repatriation of funds to Israel, as well as additional provisions aimed to encourage foreign residents to invest in the Tel Aviv Stock Exchange ("TASE").

The main tax benefits to be offered by the Enhancement Program are:

- Non Israeli residents will enjoy a full tax exemption on interest income from bonds / debentures traded in TASE.
- A full capital gains tax exemption to non-Israeli resident investor on gains from any Israeli securities, provided that these securities were not issued by "Israeli real estate companies" (i.e., companies the main assets of which are real estate assets located in Israel) and provided that the disposed securities may not be classified as an income of an Israeli permanent establishment of a non-Israeli head office / company.
- A reduced corporate income tax rate of 5%, instead of 25%, on dividends received by an Israeli resident company from a non-Israeli resident subsidiary. This reduced rate shall apply only to dividends received during 2009 (according to a planned Provisional Order) provided that the received dividend amount is used to invest in the domestic economy (as shall be defined by law). "Eligible investment" is planned to include salary payments, rental expenses for business purposes and the purchase of business assets.

In this respect, it should also be noted that the capital gains tax exemption under Section 97(b3) of the ITO, which is currently provided to non-Israeli residents, with respect to certain securities and rights in Israeli resident companies or non-Israeli resident companies which most of their assets are located in Israel, refers only to asset acquired between January 1, 2005 and December 31, 2008. Therefore, this provision does not apply to assets that will be acquired from January 1, 2009 onwards. However, the ITA examines the possibility to extend the purchase period in this provision, since such an extension is in line with the main principles of the Enhancement Program.

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Current Tax Benefits to Foreign Residents Investing in the Israeli Market

Following the recent changes in Israeli tax legislation with respect to investments and business activities of non-Israeli residents in the Israeli market, we provide you with a brief summary of the general tax benefits and reliefs to non-residents in relation to selected issues:

Interest on Israeli deposit accounts in local currency - according to the current Israeli tax law, interest income arising through a deposit account of a foreign resident individual in an Israeli