

financial institution, would be subject to tax in a rate of 20%, provided that this is not his ordinary business activity. 15% tax rate applies in case the financial tool / asset is not indexed-linked (fully or even partly).

Interest on Israeli deposit accounts in foreign currency - according to the Income Tax Ordinance and specific regulations ("**ITO**"), an interest income arising in an Israeli deposit account which is held in Israel in a foreign currency of a "foreign resident" (i.e., not only an individual) shall be tax exempt, if certain conditions are met. These conditions include the following:

- the deposit is not (or shouldn't be) registered in the books of an Israeli permanent establishment ("**PE**") of a foreign resident and is not a business income or vocation income;
- there are no Israeli resident partners in the deposit account;
- the deposit is not used as a loan or to secure a loan provided by the financial institution to an Israeli resident who is "related" to the foreign resident.

Capital gains on non-traded securities - The ITO provides a tax exemption to non-residents on capital gains arising from non-traded securities and in case the gain is not of an Israeli PE of the foreign resident. The exemption does not apply to gains from the alienation of shares of a company, the property of which mainly consists (directly or indirectly) of immovable property situated in Israel.

Capital gains on traded securities - The ITO provides tax exemption on capital gains from traded securities (in the Tel Aviv Stock exchange) in case the gain is not of an Israeli PE of the foreign resident.

Dividends from traded and non-traded Israeli securities - It should be emphasized that generally, dividend income of a foreign resident from Israeli securities is taxable in Israel at a rate of 20% or 25%, depending on the rate of participation.

Ongoing income from debentures - interest, discount fees and currency differences income, which are generated by a foreign resident from Israeli traded bonds and debentures may be tax exempt in the hands of the foreign resident, subject to certain conditions, including the requirement that the foreign resident would not hold a "substantial shareholding" (10% or more).

Israeli participation exemption regime - under the ITO and subject to material conditions, an Israeli holding company may enjoy a tax exemption on dividend and capital gain derived from qualifying investments in foreign resident subsidiaries. Dividend distribution from such a company to its foreign resident shareholder is subject to a final withholding tax of 5%.