

exceeding 13 months from the date of issue) **are revoked, effective as of July 7, 2011.**

Following this date, such gains will be subject to tax at a rate of 15%, 20% or corporate income tax, as applicable. The rates may be lower according to a tax treaty.

The Israeli tax authority (ITA) has explained that those exemptions (as well as other exemptions relevant to investments in Israeli capital market), were intended to encourage foreign residents to invest in the Israeli capital market. Recently, it became clear that such exemptions were being used by players on the foreign exchange market for realizing short-term profits. Such activity caused currency appreciation that may impair the long term competitiveness of the Israeli market, mainly regarding short-term Bank-of-Israel notes ("Makam") and short-term Government bonds. This trend has increased its volume in light of the increase in the interest rate in Israel and the rising gap between the NIS and different foreign currency exchange rates.

Around that time, another bill was proposed (No. 186 to Income Tax Ordinance). This bill is intended to amend Article 97(b2) of the ITO, by revoking the current tax exemption granted to foreign residents on gains arising from direct sale of short term state loans and traded securities in the Israeli stock market.

If enacted, **this change should not affect sellers who are residents of states with which Israel has signed a tax treaty for the avoidance of double taxation, as long as such treaty allocates the right to tax capital gains arising from selling securities to the state of residence.**

However, this change may cause practical discomforts to foreign investors, since the Israeli financial institutions will request the ITA's approval in order to avoid withholding tax on such gains. If such approval is not presented to the bank, it will withhold the tax and the investors would have to apply to the ITA for a refund.

(July 2011)

Deductible Expense and Capital Loss for a Foreign Resident - The "Angels Law"

The provisions of the Israeli Income Tax Ordinance (hereinafter: "ITO") make the offsetting of a capital loss contingent upon the situation whereby had there been a profit, it would have been liable to tax. This stipulation is a basic principle in all matters pertaining to the possibility of the offsetting of losses, also with regard to losses from current income. Furthermore, a foreign resident is exempt from tax in the sale of shares of an Israeli company by virtue of the provisions of the ITO (with regard to shares that were purchased commencing from January 1, 2009) or the tax treaty with the country of the vendor's domicile, provided that the matter