

does not concern shares of a company whose main value is attributable to real estate in Israel, or profits attributed to a permanent establishment of the vendor in Israel.

In a law which has been recently enacted in Israel, known as the "Angels Law", a special and precedent-setting statute has been determined which allows, upon certain conditions, the deduction of the cost of the investment in Israeli start-up companies as a regular expense, against any source of income, up to an investment amount of NIS 5 million in each company (approximately US\$ 1.25 billion). The Angels Law applies to investments made in "target companies", effective from the 2011 tax year and up until the expiration of the 2015 tax year. A "target company" is a company which meets the conditions set forth in the Law, and basically, it concerns start-up companies at the very initial stages, whose main engagements and expenses during the period of the benefits (three years, commencing from the year of the investment) are research and development, most of which is performed in Israel.

**The special statute determined in the said Angels Law also applies to a foreign resident, even though this is a person who would be exempt from tax in Israel on profit from a future sale of shares in a target company, and were it not for the Angels Law, he would not be entitled to deduct or reduce the cost of the shares for tax purposes in Israel as against any item of income.** Clearly, the very fact of the deduction of the expense by the foreign resident does not deny him the exemption in the sale of the shares, which is conferred, as aforesaid, pursuant to the ITO or the relevant tax treaty. This interpretation has also been given specific expression in the Income Tax Circular discussing this matter.

Below is an example to demonstrate the benefits with regard to a foreign resident: a foreign-resident individual intends to sell, in 2012, real estate which he owns to an Israeli venture, for a profit of NIS 5 million. Such a profit held by a foreign resident is liable to tax in Israel, also in accordance with the provisions of the tax treaty (which grants a first taxation right to the country in which the real estate is located). The said individual may invest in the shares of a "target company" in such a manner and upon such terms and conditions as included in the Angels Law, an amount of NIS 5 million. The said investment amount shall be deducted from the profit from the sale of the real estate, so that no appreciation tax whatsoever shall be paid. In the future, and not prior to December 31, 2014 (namely the last year for the period of the benefit set forth in the Angels Law, and during which the shares of the target companies shall be held), the individual may sell his shares in the target company with a full exemption from tax, without any restriction in amount.

We shall mention that the possibility of benefiting from the exemption on the sale of the shares also exists if the foreign resident comes to Israel and acquires the status of a "new