

questions that may arise in other cases of slightly different circumstances are described briefly below:

Firstly, it has been determined that relocation of the Foreign Company's residency does not constitute a deemed sale of the shares of the Foreign Company (by the Israeli Company) and does not constitute a tax event in Israel in general. However, the basis for this determination relies on "there being no tax event in any of the foreign countries", and that "Israel's taxation right is not adversely changed" following the move.

Concerning the possibility of deemed sale of the shares of the Foreign Company (by the Israeli Company holding it), we should point out that this determination of the tax decision corresponds with the provisions of the ITO, but it should not be conditional in any way to the absence of a tax event in the foreign countries or retaining Israel's right of taxation. The application of a deemed sale event in the context of change of residency is prescribed in Section 100A of the ITO (a section dealing with exit tax), and has been determined only when a resident of Israel relocates to a foreign country, and in no other case. It has also been determined in the taxation decision that no tax event related to the application of CFC provisions in the ITO has occurred, but in other circumstances, relocation of residency may lead to a tax event argument. For example, in the case of relocation of the residency from country A (which has a tax treaty with Israel) to country B, and following such relocation a deemed sale of assets of the company in country A were established (thus with capital gains in that country), would the controlling shareholder have deemed dividends? Such an argument is not devoid of doubts:

- Firstly, it is not at all certain that the tax laws in the previous country of residency should be applied, and it may be necessary to examine the tax events in the existing country of domicile at the end of the tax year (the taxation decision adopted a contrary approach).
- Regarding the definition of the "applicable tax laws" (as defined for a treaty country), in our opinion the same treatment should be applied, as follows: "real" capital gains (from actual realization) that are exempt in that treaty country are still considered capital gains for CFC purposes. On the other hand, one may argue that capital gains that are not "real" (such as deemed profit when changing residency as set forth), even if taxed in the treaty country, may well prove not to be capital gains for CFC purposes.

The taxation decision preserves the right of taxation of the ITA concerning a CFC as though the new country of residency is a non-treaty country (in contravention of the factual situation) in the upcoming years too. It is our estimate that this is a compromise within all of the issues that The taxation decision preserves the right of taxation of the ITA concerning a CFC as