

Due to regulatory requirements connected with the clearing activity in Israel, the Company has established an Israeli subsidiary (“**the Israeli Company**”) whose job it is to oversee compliance with regulatory requirements and other actions the nature of which is, apparently, auxiliary to the Company’s core activity.

Fund transfers are performed from one end point (in Israel, for example) to another end point in the destination country, through a chain of factors: the end point, the Company (through its bank account in Israel), the clearing company, an agent of the clearing company in the destination country and the end point in the destination country. All of the above receive a part of the fee paid by the customer for the transfer. In effect, the Company’s only income is the part of the fee remaining in its hands.

The taxation ruling determines that part of the Company’s income should be seen as if generated in Israel, both due to its activity in Israel through the Israeli company and the existence of end points in Israel. However, it is not a treaty country; if this were the case it could be claimed that the end points acting over the course of their regular business constitute in effect an “independent agent” as its meaning in the tax treaties, and therefore no Permanent Establishment has been established in Israel. It would subsequently be claimed that the activity of the Israeli company is only auxiliary to that of the Company, and nor does this type of activity establish a Permanent Establishment for the Company. In our opinion, even when not in a treaty country, it would still be appropriate to attribute less weight, if at all, to the role of the end points and the Israeli company.

Later on, the taxation ruling determines that the profit attributed to Israel will be determined according to the ratio of expenses made in Israel and total Company expenses with respect to activity in Israel (including expenses of purchases made abroad).

In our opinion it should first be clarified (and this matter is not clear from the taxation ruling) whether these expenses made in Israel also include the fee charged by the end points in Israel. Our position on this matter is that these are not Company expenses at all, since from the accounting standpoint it appears that its income includes only the fee to which it is entitled and not the total fee paid by the end customer after deduction of the fees charged by the other factors in the chain as stated above. If the intention is to include these fees as expenses of the Company, then the rest of the fees charged by the other factors in the chain are considered mainly as expenses outside of Israel.

Company expenses apparently include operation costs due to the activity of the Company described above, and the costs of the Israeli company. In light of the aforementioned circumstances, it would definitely be appropriate to attribute less weight to Company