BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile
There are around 8,675,000 people living in Israel. 52.5% are Sabras (Israeli-born Jews), 22.5% are immigrants (mostly from Europe and The Americas, but also from Asia and Africa) and 20% are Arabs. The density of population is 403 inhabitants/km². 92.6% of Israelis live in cities, with an average annual rate of urbanization of 1.64% in the last five years (CIA). The population is concentrated in and around Tel Aviv, as well as around the Sea of Galilee; the south remains sparsely populated with the exception of the shore of the Gulf of Aqaba. Israel's annual population growth rate stood at 1.46% in 2020, almost three times faster than the OECD average of around 0.65%. With an average of three children per woman, Israel also has the highest fertility rate in the OECD by a considerable margin and much higher than the OECD average of 1.7.

The median age is 30.4 years old, people between 0 and 14 years are 26.8% of the population, people from 15 to 24 years are 15.7% of the population, people between 25 and 54 years are 37.2% of the population, people aged 55 to 64 years are 8.4% of the population and people over 65 are 12% of the population (CIA World Factbook, 2020)

In Israel, 87% of adults aged 25-64 have completed upper secondary education, higher than the OECD average of 74%. This is truer of women than men, as 86% of men have successfully completed high-school compared with 88% of women. 1% of the labour force work in agriculture, 17% in industry and 82% in services (World Bank, 2020). The average household size is 3.1 people, 21% of the household count one person, 28% count 4 or 5 people, and 11% more than 6 people.

Purchasing Power

The GDP per capita (PPP) of Israel is USD 42,193 (World Bank, 2019), an increase from USD 40,261 the year before. According to data from the Central Bureau of Statistics, the average monthly salary in Israel in June 2019 was NIS 11,175, a 2.9% increase year-on-year. The average household net-adjusted disposable income per capita in Israel is lower than the OECD average of USD 33,604 a year. Private consumption rose 3.9% on a yearly basis in 2019, with non-durable goods accounting for the most part (Central Bureau of Statistics). The Gini Index of Israel was of 39 in 2016 (World Bank, latest data available).

A report by the Organisation for Economic Cooperation and Development, titled "The Pursuit of Gender Equality: An Uphill Battle," shows that Israeli women have a particularly steep hill to climb. The data was confirmed by the CBS, which showed...
that in 2018 women working full-time jobs earned on average 27.5% less than their male peers.

Consumer Behaviour

Israelis are responsive to advertising and branding. Shopping is a popular pastime and Israelis are interested in purchasing quality items, even if that means paying a higher, albeit reasonable, price. After-sales services and warranties are also mandatory, as Israeli consumers consider warranties to be a guarantee of the quality of the product. Israeli consumers enjoy new products and the Israeli legislation promotes national products. Israeli consumers are also quite interested in online shopping. According to the Israel Internet Association, 75% of Israelis (95% of total Internet users) shop online, making them the most connected shoppers in the world. Furthermore, 79% of online Israeli shoppers make purchases from foreign websites, according to a study conducted by PayPal and Ipsos.

According to a Nielsen survey for SIAL, 20% of consumers are ready to pay more for innovative products, whereas 34% declare themselves willing to reduce their shopping cart and 65% of them consider “health” to be the key consideration while shopping.

Collaborative platforms for transport such as Uber in Israel is not common. Instead, locals use mobile application called GetTaxi, which is connected to a licensed taxi or public transport.

Consumer Recourse to Credit

Israeli households live beyond their resources due to easy access to credit. It is common for Israelis to pay for their purchases with a credit card over several instalments or to give post-dated checks. Nevertheless, concerned about household insolvency, the Bank of Israel and several important banks took measures to limit the growth of consumer credit.

A report on the Israeli consumer’s access to credit published by researcher Kyrill Shraberman, in conjunction with the non-profit fiscal-responsibility group Pa’amonim, shows that: 35% of married couples and 39% of unmarried individuals between the age of 25 and 60 spend more than they earn each month. Singles between the ages of 50 and 60 also outspend their wages, more than any other demographic. Young apartment renters between the age of 25 and 29 also tend to outspend their entry-level salaries.

The average level of the consumer debt for 25- to 29-year-olds is ILS 150,000, compared to ILS 315,000 for the 50-60 years old. Only the households making mortgage payments tend to be luckier than the rest, as they do not face a similar negative gap between their earnings and spending levels. Lower-income married couples outspend their income by 23%, while unmarried poor people incur on their credit card 37% extra expenses more than their earnings.

Israel’s consumer lending industry recorded a positive growth in 2019, with significant increases registered in both outstanding balance and gross lending terms. However, the COVID-19 epidemic may make it hard for many households to service debt. Meanwhile, the Bank of Israel launched the country’s first consumer credit database in 2019.

Growing Sectors

The fastest growth rates (averaging 8% annually in recent years) are to be found in the hi-tech sectors. Bottled water, soft drinks and juices are among the growing sectors, as well as apparel and footwear.

According to Storenext, Israel’s largest consumer market database, the fast-moving consumer goods (FMCG) segment is in its fourth year of sales stagnation.
Consumers Associations
Israel Consumer Council, Established by the Ministry of Industry and Trade in coordination with the Standards Institute.
Consumer Protection and Fair Trade Authority, The Consumer Protection and Fair Trade Authority is an independent, internal governmental authority, established by Consumer Protection Law, 5741-1981.

IMPORTING & DISTRIBUTING

Import Procedures
The Israel Customs Administration employees are in charge of enforcing the terms of legality of import and export, preventing illegal activity (frauds, narcotics, money laundering and intellectual property violations), and supervising all import to and export from Israel, as well as commercial import to the Palestinian Authority.

The following documents are required to import goods into Israel: invoice, packing list, delivery order (a document noting the freight’s physical location at the port of import), import declaration, importer’s custom declaration (a form that needs to be completed by the importer and is meant for indicating the relations between the importer and the supplier for the purpose of calculating the total value of the deal concluded between them including all auxiliary costs), certificate of origin, freight bills (according to the means of transport), import permit issued by the Ministry of Economy and Industry, certificate of the Standards Institution of Israel stating that the product complies with Israeli standards.

Information on detailed customs clearance procedure is available on the website of the Israel Customs Administration.

Specific Import Procedures
There are special certificates for certain imported products on demand from the competent authority (Health Ministry, Transport Ministry, etc.). The Kosher certificate is needed for food products such as beef, poultry, and other meat and products. However, in an effort to encourage food imports and lower prices on Israeli supermarket shelves, the Chief Rabbinate has decided to exempt importers from presenting a certificate of supervision from a recognized local kashrut agency as a condition for receiving a kosher stamp in the country.

Distribution channels
Consumer spending has been driving Israeli economic growth in recent years, but retailers in the country do not appear to have been the beneficiaries of booming private consumption. According to the latest data available from the US Trade Department, the fast-moving consumer goods (FMCG) segment sales reached USD 12.17 billion in 2018, of which USD 9.1 billion were from food products. The Central Bureau of Statistics estimated that in 2019 private consumption of non-durable goods increased by 3.9% and accounted for the vast majority of total private consumption.

The retail food market faces slow growth, limited competition, and high prices. Changes have been noted in the shoppers’ basket: facing high food costs (19% higher than the OECD average), Israeli consumers are opting for more affordable
products, with an increase in the sales of private label products. In addition, the introduction of the "Food Law", Law for Enhancement of Competition in the Food Sector, is a major government regulation which imposes various restrictions on retailers in term of pricing, number of outlets in the same area, etc.

Although small grocery stores are the most important retail channel in the country in terms of numbers of stores, they struggle to compete with the supermarkets, due to more competitive prices and longer operating hours. There are three main retail food sub-sectors in Israel: supermarkets located on the outskirts of the main cities (however, supermarkets chains are increasing their activity and presence in the centre of cities and online), traditional markets with a limited range of products located in the neighbourhood and convenience stores located on the high streets or gas stations. It is estimated that 16.9% of household expenditures are dedicated to food products (US Trade Administration).

Distribution market players
Foodstuffs are distributed through supermarkets, traditional markets, convenience stores and open air markets. Sales in supermarket chains account for over 60% of total retail food market sales. The top ten chains have over 700 outlets. The three leading supermarket retailers are Shufersal, Yenot Bitan and Rami Levi, which have an overall market share of 56% (US Trade Administration, 2019). Israel’s largest retail producer and seller of non-kosher products is Tiv Ta’am. Over the last decade, discounter stores have seen considerable growth. Convenience stores count around 900 outlets, while small independent neighbourhood grocery stores dominate the market in terms of number of outlets with approximately 5,000 outlets (although the number is declining).

Retail Sector Organisations
Federation of Israeli Chamber of Commerce
Ministry of Economy and Industry

OPERATING A BUSINESS

Type of companies

Public limited company (business corporation)
Number of partners: Minimum 7 shareholders and 2 executives.
Capital (max/min): No minimum capital. Pour être coté à la bourse de Tel Aviv, minimum 25 millions NIS
Shareholders and liability: Liability limited to the amount of contributions in share capital.

Limited Liability Private Company (SARL)
Number of partners: Minimum 1 shareholder and 1 executive. Maximum 50.
Capital (max/min): No minimum capital.
Shareholders and liability: Liability limited to the amount of contributions in share capital.
General Partnership

Number of partners: Minimum 2 partners in the partnership.
Capital (max/min): No minimum capital.
Shareholders and liability: Unlimited liability for debts and obligations of the company.

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<th>Setting Up a Company</th>
<th>Israel</th>
<th>Middle East &amp; North Africa</th>
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<tr>
<td>Time (days)</td>
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<td>19.5</td>
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Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage
According to Government data, the minimum wage is ILS 5,300 per month as of 2020.

Average Wage
According to data from the Central Bureau of Statistics, the average wage in 2019 was ILS 11,175 per month.

Social Contributions
Social Security Contributions Paid By Employers: Contributions paid by the employer amount to 3.55% (up to monthly income of ILS 6,331), and 7.6% on the difference between ILS 6,331 and the maximum monthly income of ILS 44,020.
Social Security Contributions Paid By Employees: Employee contributions are at standard rate, 7% for National insurance and 5% for medical insurance and at reduce rate, 0.4% for National insurance and 3.1% for medical insurance.

Intellectual Property

National Organisations

Regional Organisations
Israel is a signatory to the European Convention on the International Classification of Patents for Invention, the European Convention relating to the Formalities required for Patent Applications, as well as the Universal Copyrights convention and the Lisbon Agreement. Nonetheless, it is best if foreign patents are registered in Israel.

International Membership

Member of the WIPO (World Intellectual Property Organization)
**TAX RATES**

Consumption Taxes

**Nature of the Tax**
VAT - (MA'AM in Hebrew)

**Tax Rate**
17%

**Reduced Tax Rate**
Certain items are zero-rated, including exports of goods; supplies of intangibles to foreign residents; supplies of services to foreign residents, subject to broad use and enjoyment restrictions; hotel accommodation for tourists; leasing private cars to tourists; tourist transportation; supply of monitor services, as well as inspection and coordination services, with regard to clinical trials conducted in Israel. Not-for-profit organisations pay VAT-equivalent tax (payroll tax) at the rate of 7.5% of their total payroll. The rate is 17% for financial institutions.

**Other Consumption Taxes**
Purchase tax on the purchase of real estate (0-10% for the first residential property owned in Israel; 8-10% if real estate is an additional residential home or 0.5-5% for Jewish making their "Aliyah"), municipal tax, land betterment tax (varies depending on purchase date). Certain goods are subject to excise taxes (including gasoline and diesel fuel used for transportation, tobacco, alcohol) at different rates. Not-for-profit organisations pay VAT-equivalent tax (payroll tax) at the rate of 7.5% of their total payroll. The rate is 17% for financial institutions. A luxury tax is levied on the purchase of certain yachts and luxury cars. There are no stamp duties in Israel, nor net wealth tax or net worth tax.

**Corporate Taxes**

**Company Tax**
23%

**Tax Rate For Foreign Companies**
Companies incorporated in Israel or managed and controlled in the country (determined on a case-by-case basis) are deemed to be resident in Israel.
Capital Gains Taxation

The real gain is generally subject to tax at the corporate tax rate applicable in the year of the gain (23% in 2021). An Israeli resident is subject to capital gains tax on the disposal of its assets, regardless of whether the assets are located in Israel. Capital gains derived from the sale, exchange, transfer or other disposition of tangible and intangible capital assets located in Israel are treated as Israeli-source income and are subject to capital gains tax. Those who are not residents of Israel for tax purposes are exempt from capital gains tax on gains from the sale of shares traded on the Tel Aviv stock exchange, unless the gain is attributable to a permanent establishment of the foreign seller in Israel. Exemptions apply to gains derived by non-residents from the sale of securities in Israeli or Israeli-related companies acquired on or after 1 January 2009 (exemption is subject to certain ownership conditions).

Main Allowable Deductions and Tax Credits

Expenses incurred wholly and exclusively in the production of income are generally tax-deductible. Generally, pension fund contributions made to recognised funds are deductible for the employer, provided they are not above a certain level and are made regularly. Interest expenses incurred in the production of taxable income are normally deductible. Provisions for bad debts are deductible in the year in which it is evident that the debt has become irrecoverable. Goodwill purchased may be amortisable over a ten-year period (10% per year). Tax credit may be available for charitable contributions. Municipality taxes are generally deductible. Business losses can be offset against income from any source in the same year. Losses may be carried forward and set-off without time limit against income from any trade or business or capital gains arising in the business (but not against income from any other source), whereas loss carrybacks are not allowed. Payments of interest, royalties, and management fees to foreign affiliates are deductible (conditions apply).

Tax and cash incentives are provided for companies that qualify for the "Preferred Enterprise (PFE) regime", generally those who contribute to the development of the productive capacity of the economy, absorption of immigrants, creation of employment opportunities, or improvement in the balance of payments. The "Special Preferred Enterprise (SPFE) regime" applies to certain large corporations that can demonstrate their great contribution to the Israeli economy. Another regime is that of "Preferred Technology Enterprise", for companies engaged in the technology sector and that are part of a group of companies with aggregate annual revenues less than ILS 10 billion, among other conditions.

Other Corporate Taxes

Municipalities levy an annual tax on buildings, based on the size, location, and purpose of the property. Property taxes are generally imposed at the municipality level on the occupier of commercial and residential real property. Unoccupied property is generally taxed on the property’s owner. Capital gains on real estate are subject to the land appreciation tax law. The tax rate on the real gain is the applicable corporate tax rate (23% in 2021).

All property purchase is subject to tax, at rates varying between 0% and 10% depending on the status of the buyer (Israeli citizen, foreign resident in the process of obtaining Israeli citizenship, foreign citizens making Aliyah), the number of properties held (one or multiple) and the value of the real estate.
Social security contributions paid by the employer for Israeli-resident employees are 3.55%, up to a monthly income of ILS 6,331, and 7.6% on the difference between ILS 6,331 and the maximum monthly income of ILS 44,020. For non-resident employees, lower rates apply: 0.59% up to a monthly income of ILS 6,331, and 2.65% on the difference between ILS 6,331 and the maximum monthly income of ILS 44,020.

Non-profit organizations are subject to a tax of 7.5% of payroll in lieu of VAT. A similar tax is levied on financial institutions, at a rate of 17%.

Other Domestic Resources
Israel Tax Authority

Consult the Doing Business Website, to obtain a summary of the taxes and mandatory contributions in Israel.

Double Taxation Treaties
Countries With Whom a Double Taxation Treaty Have Been Signed
Israeli Tax Treaties

Withholding Taxes
Dividends: no withholding tax is payable on dividends distributed by an Israeli resident company to another Israeli company, provided the dividends arise from income produced or accrued in Israel by a company that is subject to corporate income taxation. Dividends paid from a foreign resident company received via an Israeli payer (e.g. bank) are subject to WHT at the rate of 23% when paid to an Israeli resident company and at the rate of 25% when paid to an individual. A 30% rate applies in the case of a ‘substantial shareholder’, which is, in general, a shareholder that holds 10% or more of the rights of the company.

Interest: 23% for interest payments to a resident or non-resident recipient that is a “body of persons”/Interest paid to a resident individual: 20% on interest paid by a provident fund; 25% on bank interest; 35% on interest paid on debentures or government bonds issued before 8 May 2000 (conditions apply); 47% where the recipient of the interest at the time of receipt of the interest or at any time during the preceding 12 months held at least 10% of the shares of the payer, is an employee of the payer, or provides services or sells products to the payer.

Royalties: payments made to resident entities and individuals are subject to withholding tax at 20% where the recipient can demonstrate that it maintains books of account and has filed returns; otherwise, the rate is 30%. Payments to non-resident companies: 23%. Payments to non-residents individuals: 25%.