

Press Release

Israeli Economy Becomes More Attractive:

Minister of Finance Decides on Tax Exemption for Foreign Investors in Private Equity Funds

Minister of Finance Dr. Yuval Steinitz has decided to exempt foreign investors from tax on profits derived from private-equity funds. This move, formulated due to the economic crisis and the implications of foreign investments for the economy, is designed to make the Israeli economy more attractive to foreign investors.

Profits of foreign investors in private-equity funds are currently taxed at a rate of 15% for individuals and 25% for corporations. By contrast, profits on investments in venture-capital funds are tax free. The tax exemption for investments through venture-capital funds has significantly increased foreign investments in Israeli venture-capital funds.

The approval of the exemption is congruent with the resolution passed recently and grounded in legislation this year to substantially expand exemptions for foreign investors, including exemptions for profits from the sale of shares of Israeli companies and exemptions for profits from investments in corporate bonds.

Unlike venture-capital funds, private-equity funds do not invest in early-stage start-ups. Instead, these funds invest in mature companies, with the aim of improving their efficiency, enhancing their quality, and subsequently selling them at a profit.

The private-equity fund industry has developed globally in recent years. In the second half of 2008, these funds raised more than USD 130 billion; however, Israel is still far from being a significant player in this arena. Although private-equity funds have operated in Israel for the last twelve years, and activity in this area has grown in the last few years, there are only ten active funds with an investment volume of about USD 2.5 billion. Currently, the main investors in private-equity funds in Israel are Israeli and foreign institutional entities (the foreign institutions enjoy tax exemptions), while other foreign investors have not invested in the Israeli market on a significant scale.

The Israel Tax Authority believes that the exemption from tax on profits in private-equity funds will attract foreign capital to Israel, thereby helping to alleviate the credit crunch, increasing employment in Israel, enhancing the sophistication of the capital market, reducing its concentration, and improving and streamlining business activity in the Israeli economy.