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Independent legal & accounting firms

Doing Business in Israel

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Doing business in Israel

MSI's guide on Doing Business in Israel provides current information about the financial, regulatory and legal considerations that could affect business dealings within Israel. For further assistance please contact our MSI member firms in Israel.

Country overview

Population
As of May 2024, Israel's population was approximately 10.1 million. The population's average annual growth rate is estimated at 1.5%, which is among the highest in the Western world.

Government
Israel is a parliamentary democracy. The President serves as head of state in a ceremonial capacity, while executive power rests with the Government, which is accountable to the 120 members of the parliament (the 'Knesset'). The ministers are the people's representatives with respect to the actions of the government.

Israel comprises six main administrative districts and 257 local authorities (municipalities/cities, local councils, and regional councils as of 2025). The law distinguishes between three types of local authorities: municipalities (cities), local councils, and regional councils, each with its own structure and responsibilities.

Languages
Israel has two official languages: Hebrew, which is the primary language of the state, used in government, education, and daily life, and Arabic, which holds a special status and is widely spoken by the Arab minority. English is not an official language but is widely used as a second language, especially in business, tourism, and academia. Over 85% of Israelis can communicate in English to some extent, reflecting its practical importance alongside Hebrew and Arabic.

Currency
The national currency is New Israeli Shekel (ILS). Monetary policy and benchmark interest rates are set by the Bank of Israel.

Economic summary
GDP: $513.6 billion (2023)
GDP per capita: $52,600 (2023)
Income per capita: $55,020 (2023)
Inflation: 3.6 % (Apr 2025)

Main sectors of the economy
Israel has established itself as a global leader in innovation and international trade. The country's robust technological infrastructure and strategic location have positioned it as a significant export nation, with the high-tech sector accounting for approximately 19.7% of GDP and 53% of total exports (2024).

Israel's economy is diverse and resilient, with a strong emphasis on R&D and advanced manufacturing. The country operates an extensive network of commercial seaports—including Haifa, Bay Port (Haifa), Ashdod, South Port (Ashdod), Israel Shipyards Port, and Eilat—which serve as key gateways for trade. Ben-Gurion Airport, Israel's main international gateway and one of the busiest airports in the Middle East, handled over 21 million passengers in 2023, though traffic has temporarily declined due to recent regional events.

Key industrial activities include chemicals (with Israel ranking sixth globally in potash production), polished diamonds (approximately USD 1.87 billion in exports; 2024), medical devices and pharmaceuticals (both major export sectors), and advanced agricultural technologies specializing in irrigation and desert farming.

OECD / EU / USA – Impact on Business and Investment
Israel is a member of the OECD since 2010. The EU-Israel Association Agreement (2000) creates mutually beneficial trade opportunities through tariff preferences. Israel's comprehensive Free Trade Agreement with the United States (1985) eliminates virtually all industrial tariffs and eases agricultural trade. With its world-class technological infrastructure, skilled English-speaking workforce and transparent regulatory environment, Israel positions itself as an attractive destination for international business and foreign investment.

Setting up a business

Under Israeli law, a foreign individual or company may operate in Israel through an incorporated entity with separate legal personality (such as a Limited Company), an unincorporated entity, or a branch. Israeli corporate law provides a flexible framework for the organization of subsidiaries or branches. While there are generally no broad foreign-ownership restrictions, certain sectors—such as banking, insurance, media, defence, and state-owned land—are subject to specific regulatory limitations or approval requirements.

Business operations can be set up in Israel with or without a separate legal personality. Entities with legal personality (such as Limited Companies) offer liability protection, where shareholders cannot be held liable for more than the sum they contributed to the company's capital, except in rare cases of fraud or misuse of the corporate structure.

Additionally, sole proprietorship (VAT-registered business) is a common structure for small businesses, including foreign residents.

Legal types of business entities

1. Private Company Limited by Shares (Ltd.)
2. Public Company
3. General Partnership
4. Limited Partnership
5. Public-Benefit Company (PBC)
6. Foreign Company / Branch
7. Co-operative Society
8. Non-profit Association ('Amutah')

For international business in Israel, the Private Company Limited by Shares (Ltd.) and Foreign Company/Branch are the most common structures. Incorporating a Private Company requires filing articles of association with the Companies Registrar, with no significant minimum share capital requirement. In this structure, shareholders' liability is limited to their investment amount.

Foreign companies typically prefer establishing subsidiaries rather than branches primarily for liability protection. As a shareholder of a subsidiary, the foreign company's liability is limited to its capital contribution. In contrast, with a branch structure, the foreign parent company bears full responsibility for all obligations and liabilities of its Israeli operations and must appoint a local Israeli representative.

Note: Opening a company in Israel does not automatically grant residency or work permits for foreign nationals. In addition, Israel offers various investment incentives and tax benefits for eligible foreign investors, particularly in high-tech and industrial sectors.

Process of how to set up a business

To establish a private company in Israel, the founders must file articles of association and an online incorporation form with the Companies Registrar. The current registration fee is approximately EUR 650. After obtaining a corporate registration number, the company must register with the VAT Authority, the Income Tax Authority, and the National Insurance Institute ("Bituach Leumi"). These registrations are generally completed online.

If the company intends to employ staff, it is required to register as an employer with both the Income Tax Authority and the National Insurance Institute. This registration enables the company to report and pay wage tax, national insurance, and health insurance contributions on behalf of its employees.

A foreign company or branch operating in Israel must also register with the Companies Registrar. The foreign entity is also required to submit certified parent company documents as part of the registration process.

Financial year of taxes and financial accounts

The default tax year in Israel is the calendar year (January 1 to December 31). However, legal entities may request approval from the Israeli Tax Authority to adopt a different financial year, subject to certain conditions.

Companies incorporated in Israel are subject to corporate income tax on their worldwide income if they are considered Israeli tax residents, either by incorporation or by the place of management and control. Branches of foreign companies are also subject to corporate income tax in Israel, but only on income generated in Israel. In the case of a branch, the foreign parent company is directly liable for the branch's obligations in Israel.

Accounting and auditing

All companies in Israel must file audited financial statements, prepared and audited by a licensed Israeli CPA. Public companies are required to report under IFRS. Private companies may choose to apply Israeli GAAP (based on IFRS), full IFRS, or IFRS for SMEs; high-tech companies may also use US GAAP.

Public companies inherently require internal auditors and audit committees. Other specific obligations might be tied to company scale, but these particular appointments are not generally mandated for private companies by such thresholds.

Economic and fiscal incentives

The Israeli government offers several incentive schemes in various sectors to support companies in their business operations. Foreign entrepreneurs who set up companies in Israel can also apply for these incentive schemes.

The Encouragement of Capital Investments Law provides a special tax regime to stimulate innovation and investment, offering reduced corporate tax rates of 7.5% (Development Area A) or 16% (other areas) for Preferred Enterprises. For Preferred Technological Enterprises, corporate tax rates are 12% (in other areas) or 7.5% (Development Area A). Large multinational groups qualifying as Special Preferred Technological Enterprises may benefit from even lower rates, such as 6% (in other areas) or 5% (Development Area A), subject to detailed criteria. Dividend tax rates for distributions from these enterprises are typically 20%, with lower rates possible in specific cases for certain foreign shareholders and large enterprises, subject to conditions.

The Israel Innovation Authority offers R&D grants of up to 50% of eligible costs, repayable via sales royalties. This supports companies in developing innovative products and technologies.

Incentives foreign investors/ local investors

For foreign and local investors, Israel has historically offered incentives such as the 'Angel Investors Law,' which allowed individual investors to benefit from tax deductions on investments in eligible Seed-stage companies (the specific terms and current availability of such a law should be verified).

Additionally, Israel actively maintains numerous bilateral R&D Funds (such as BIRD with the US, SIIRD with Singapore, CIIRDF with Canada, and others). These funds provide joint financing and support for international R&D projects undertaken by Israeli and foreign companies, fostering innovation and reducing R&D risks.

Taxation

The tax system is a crucial factor for companies when selecting a country of incorporation. The Israeli government maintains that its tax system should facilitate, rather than hinder, business incorporation in Israel.

Within this framework, companies can obtain advance certainty regarding the tax treatment of international corporate structures through Advance Tax Rulings. Additionally, Israel has signed numerous tax treaties to prevent double taxation.

Israel's extensive tax treaty network provides valuable tools for international tax planning and ensures certainty for cross-border transactions.

Israel's tax regime comprises direct taxes - such as corporate income tax, personal income tax and property taxes - and indirect taxes, principally value added tax (VAT).

VAT

The general VAT rate is 18%. Certain transactions may be zero-rated or exempt, particularly those related to exports.

Income tax

Individual income tax is progressive. For the 2025 tax year, the highest marginal income tax rate for individuals is 47% on annual income between 560,281 ILS and 721,560 ILS. For annual income exceeding 721,560 ILS, an additional surtax ('Mas Yesef') of 3% applies, bringing the maximum marginal tax rate on earned income to 50%. For certain types of capital income (such as dividends, interest, or capital gains), an extra 2% surtax may also apply above this threshold, resulting in an effective marginal tax rate of up to 52% on those income components.

In general, income in Israel is classified into employment and business (self-employment) income, income from substantial interests (including dividends), and income from passive investments, capital gains and other sources. Each category has different tax rates and applicable deductions.

Corporate income tax

The standard corporate income tax rate is 23%. However, Preferred Technological Enterprises benefit from reduced rates of 7.5% (if located in Development Area A) or 12% (if located in other areas of Israel). The rate for nontechnological Preferred Enterprises is 16%.

Registration procedures

Private persons and companies are registered with the Israeli Tax Authority and are given fiscal registration numbers. Communication with the tax authorities by way of tax returns and tax assessments is largely done electronically. New electronic invoicing requirements are being phased in, with mandatory use for invoices over ILS 20,000 in 2025.

Participation exemption

Participation exemption is one of the main pillars of corporate income tax. The scheme was introduced to prevent double taxation. Under certain conditions, profit distribution between qualifying companies is exempted from tax.

A participation refers to a situation where an Israeli company (the parent company) is the owner of at least 10% of a foreign subsidiary. Subject to Section 94B of the Income Tax Act, both dividends and capital gains from such holdings may qualify for full exemption.

The participation exemption is designed to prevent double taxation on international corporate structures. This provides significant advantages for Israeli companies with substantial foreign investments or subsidiaries.

Wage tax

The basis and rates of wage tax follow the income tax brackets for individuals. Wage tax is a withholding tax and as such it is an advance payment on income tax. Employers must withhold income tax from employees' salaries according to the progressive tax rates.

Withholding taxes

The most common withholding tax is dividend tax with a standard rate of 25% (increased to 30% for controlling shareholders). Under various tax treaties, these rates may be reduced to as low as 5% for qualifying recipients.

The application of tax treaty benefits depends on the specific provisions of each treaty and requires proper documentation to be submitted to the tax authorities.

HR/ Labour Law

Employment law

An employment agreement in Israel may be concluded for either an indefinite (unlimited) or a fixed term. Indefinite-term contracts are the most common and continue until terminated by either party in accordance with legal requirements. Fixed-term contracts are used for defined periods or specific projects and automatically terminate at the end of the term. If a fixed-term contract is repeatedly renewed or the employee continues working after its expiry without a new agreement, the law may consider the contract as indefinite, triggering different termination requirements and entitlements.

While Israeli law does not strictly require a fully written employment contract at the outset, employers must provide employees with a written notification of the main terms of employment (such as salary, working hours, job description, and start date) within 30 days of employment commencement.

Collective bargaining agreements and extension orders may apply to specific sectors or to the entire labor market, setting minimum working conditions. In Israel, there is a statutory minimum wage that applies to all employees, and in some sectors, collective agreements or extension orders may establish higher minimum wages. The standard work week is 42 hours, with overtime compensation required for additional hours. Employees are entitled to annual leave, sick leave, severance pay, and other statutory benefits.

For termination, both employers and employees must provide advance notice. The length of the notice period depends on the employee's length of service and the terms of the employment agreement. Typically, the minimum statutory notice period ranges from one day per month during the first year to 30 days for employees with at least one year of service. Notice periods can be extended by employment contracts or collective agreements but not reduced below statutory minimums.

Social security and Health tax

Participation in Israel's social security system is mandatory for all residents. Both employers and employees must contribute to the National Insurance Institute ("Bituach Leumi"), which provides coverage for unemployment, maternity, disability, work injuries, and other social benefits. The employer deducts the relevant contributions from the employee's salary and transfers them directly to the National Insurance Institute. The rates depend primarily on the level of the employee's income.

In addition, every Israeli resident is required to pay a statutory Health Tax ("Mas Briut"), collected together with national insurance contributions. This health tax entitles all residents to basic health services through one of the recognized health funds ("Kupot Holim"), as determined by the National Health Insurance Law. Supplementary private health insurance is available, but not mandatory.

The rates of National Insurance and Health Tax contributions vary according to income brackets and are set annually by the state. The employer is responsible for deducting the contributions from the employee's salary and ensuring their transfer to the National Insurance Institute.

Pension and Study Funds

According to mandatory Israeli legislation, employers are required to make pension contributions for almost all employees. While the legal minimum is to start contributions from the fourth month of employment (retroactively to the first day if the employee has no prior plan, or from the first day if the employee already has a plan), in practice, many employers in Israel choose to begin making pension contributions from the very first day of employment as part of competitive employment terms.

The minimum mandatory monthly pension contribution is 18.5% of gross salary: employer contributes 6.5% for pension savings and 6% for severance pay, making a total of 12.5%, while employees contribute 6% for pension savings. Enhanced pension arrangements are common , with employers often contributing 8.33% for severance instead of 6%.

The retirement age in Israel differs for men and women. The retirement age in Israel is 67 for men. For women, the retirement age is gradually increasing and currently ranges between 62 and 65, depending on the employee's year of birth.

Importantly, Israeli law and recent case law clarify that reaching the statutory retirement age does not in itself justify mandatory retirement. According to current court rulings, an employer cannot force an employee to retire solely on the basis of age, as this may be considered age discrimination (ageism). Instead, each case must be considered on its individual merits, and employers are required to engage in a fair and respectful process when considering termination at retirement age.

In addition to the pension arrangement described above, many employees benefit from a "Keren Hishtalmut" (Study Fund), which is widely considered a medium-term savings vehicle. Although this benefit is not required by law for all employees, extension orders and collective agreements in certain sectors do impose an obligation on employers to provide it. Where this benefit is granted, the typical contribution rates are up to 7.5% of the gross salary by the employer and 2.5% by the employee. A significant tax advantage is that the accumulated funds - both the principal and the investment gains - can be withdrawn tax-free every six years.

These pension and savings arrangements provide employees with meaningful financial security, insurance coverage, and substantial tax benefits, and are considered a central part of compensation packages in Israel.

Payroll

Upon deciding to hire employees in Israel, a company is required to register as an employer with the relevant authorities. This involves opening an official "Withholding File" with both the Israeli Tax Authority (ITA) and the National Insurance Institute (Bituach Leumi), a crucial first step before processing any salaries.

A company must pay its employees their salaries for the previous month's work by the 9th day of the following month. The employer is responsible for calculating and withholding several items from the employee's gross pay, including income tax, national and health insurance, and mandatory pension contributions. A consolidated report and the remittance of all these funds to the authorities are due by the 15th of the month.

To efficiently manage the specific requirements of the Israeli system, it is standard business practice for companies to use specialized services. This is typically handled either by hiring an internal payroll controller or by outsourcing the function to a dedicated accounting or payroll firm.

Visa and work permits

In Israel, the right to work is determined by citizenship status. Israeli citizens, including foreign nationals who obtain citizenship under the Law of Return, are entitled to work without any restriction.

Conversely, all other foreign nationals must obtain a specific work permit before commencing employment. This permit, known as a B/1 Work Visa, must be secured by the employer, who applies on the employee's behalf to Israel's Population and Immigration Authority (PIBA). The application process generally requires the company to demonstrate that the foreign national possesses specialized skills needed for the role.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Israel should seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Israel to discuss your requirements:

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