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## Your Taxes: Making money in hard times

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It is paradoxical that in a period when credit access seems to be in the final stages of rigor mortis, vibrant business investment activity is still taking place.

What has happened is that many in the private-investor community, as well as businesses looking for capital to expand, have gone under the radar screen to continue their regular pastime of swapping assets.

In the long term, it is obvious to all of us that markets will pick up after they have completed their adjustment to the new order of things. In the meantime, smart money continues to look for investment opportunities in enterprises whose technologies will be in demand when the recovery eventually gains momentum.

The areas that are attracting the most attention are those that President Barack Obama has repeatedly spelled out as being at the cornerstone of the US effort to recovery, namely environment and energy conservation. Health improvement is also high on the agenda, as are the more adventurous of traditional enterprises.

### What should an Israeli business do now?

Sensible enterprises in Israel are using the current market lull to reorganize themselves for accelerated growth in the near future. They are consolidating their internal resources or looking for external ones to enable them to implement their growth plans.

### How to match investors and companies

The understandable doubt and skepticism of the private-investment sector is forcing Israeli enterprises, more than ever, to improve their ability to match their expectations with those of potential investors. As a result, both investors and the enterprises now place greater reliance upon third-party professional brokers in Israel with international connections to help them bridge the initial expectation gap that usually exists between the two sides. Their mutual intention is to get efficient and timesaving help to establish their own effective and comfortable lines of communication to close the deal and move forward.

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## Who are the brokers?

Brokers must be highly competent in multifunctional disciplines to manage the complexity of modern international enterprises and the volatility of the investor market to fulfill the expectations placed upon them. A new kind of broker firm is emerging: hands-on expert in managing issues such as business and tax strategy and financial structuring, and the ability to bring willing investors and investees together.

## What are the tax issues?

Many Israeli companies are suffering losses due to the economic downturn. They need to budget ahead and check whether they can use those losses against future profits; there are no loss carry-backs in Israel, unlike the US, UK, etc. This may be difficult if the Israeli company incurs foreign taxes; for example, US royalty withholding tax (10 percent to 15%) on the receipts of many Israeli hi-tech companies.

The tax law requires past losses to be used first against profits, and then allows foreign tax to be credited against Israeli tax on any remaining taxable profits. But any unutilized foreign tax credits cannot be carried forward more than five tax years. In many cases this is not enough and foreign tax credits are wasted - unless careful upfront budgeting and tax planning is done.

Investors usually have one eye on their exit and the other on capital-gains tax. Foreign investors are now exempt in most cases from Israeli capital-gains tax upon a sale of Israeli shares or other securities. But often they are unaware of this.

As for the broker, his fee is liable to VAT at 16% (2010 rate) and is best billed to the Israeli investee company if it is registered for VAT and can recover the VAT on the fee.

## To sum up

There are many Israeli business opportunities out there in the market. With a little help from your broker and other advisors, there is no reason why you should not get in on the act before the others.

As always, consult experienced professional advisers in each country at an early stage in specific cases.

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