



Legal Update

February 2016

Tax Department

Amendments to the "Angels Law"

Dear Clients and Friends,

We write to inform you about amendments to the "Angels Law" that were recently enacted with the aim of encouraging private investment in new start-ups in the seed stage (the "**Amendment**").

The "Angels Law" refers to the provisions of section 20 of the 2011-2012 Economic Policy Law, which was passed as a temporary order and was in force during 2011-2015 (the "**Law**").

The Law provided a number of incentives for investments in early-stage companies, including treating investments meeting certain criteria as a deductible expense for tax purposes, regardless of the source of the investor's funds (e.g., salary, capital gains etc.). The amount of the deduction was up to NIS 5 million over a period of three tax years (the "**Tax Benefit**" and "**Benefit Period**," respectively).

In practice, however, investors took advantage of the Law infrequently, in part, because of the uncertainty as to whether the investment would actually be entitled to the Tax Benefit (as this was in doubt until the end of the Benefit Period).

In light of this situation, the Amendment sets forth a series of conditions that, if satisfied, ensure the investor of his entitlement to the Tax Benefit at the time the investment is made. The Amendment will also extend the existing tax benefits track in the Law until the end of 2019.

The Amendment is a temporary order and will remain in force from January 1, 2016 until December 31, 2019.

The principal changes to the Law

- According to the Amendment, an investment made by a partnership, in which all partners are individuals, and whose purpose is to invest in one specific company, also will be eligible for the Tax Benefit (according to the previous version of the Law, the Tax Benefit was available only for an individual's investment).
- In order to receive the Tax Benefit, an investment must be effected in cash only. The Benefit Period of three tax years will start from the later of the date of the investment or the date of issuance of shares in consideration for the investment.
- A new, alternative tax track - investment in a "Start-up Company": A company will be a considered to be a "Start-up Company" if it meets the following cumulative conditions (which will be tested at the date of the investment in order to provide certainty for investors in regard to their entitlement to the Tax Benefit):

1. The company is incorporated in Israel, and the control and management of its business is conducted in Israel.
2. From the date of incorporation until the date of the investment, no more than four years have passed (if the company is located in Development Area A under the Encouragement of Capital Investments Law, 1959, no more than five years have passed), or if the company received support from the Office of the Chief Scientist ("OCS") no more than 12 months have passed since the end of the period in which support was received from the OCS, whichever is later.
3. The company's total sales between the date of incorporation and the date of the investment did not exceed NIS 4.5 million, and the total sales in each of the tax years preceding the date of investment did not exceed NIS 2 million.¹
4. The total expenses of the company from the date of its incorporation until the date of the investment did not exceed NIS 12 million, and the total expenses for each of the tax years prior to the date of investment did not exceed NIS 3 million.²
5. Loans provided to, and investments made in, the company, from the date of its incorporation to the date of the investment do not exceed NIS 12 million.
6. The company's auditor certifies that the conditions outlined in items 2-5 above are satisfied at the date of the investment.
7. Prior to the date of investment, the OCS must confirm that, for the current tax year, the following two conditions are satisfied: (a) at least 70% of the expenses of the company in the period from the date of its incorporation until the investment related to a product under development (b) the company has owned the product under development, and all rights regarding that product, since inception (or in certain conditions, the Tax Benefit will be granted also if the company acquired/received the product from a research institution, hospital or other governmental entity, as defined in the Amendment).

Please contact us in relation to any questions or clarifications. We would be delighted to assist you in any way.

Sincerely,

Tax Department

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¹ For these purposes, a portion of a tax year will be considered to be a tax year.

² For these purposes, a portion of a tax year will be considered to be a tax year.