

# Business Format Options



## V.A.T Exempt Business

<b>Set up requirements</b>	Open accounts with: VAT, Income tax, National Health Insurance. You can do it yourself.
<b>Key Attributes</b>	No VAT on income up to 100k NIS. Limit on certain types of transactions (see list codified in law).
<b>Filing Requirements VAT</b>	Must file financial turnover annually
<b>Filing Requirements Income Tax</b>	Must file annually.
<b>Filing with Rasham HaChavarot/Amutot</b>	NA
<b>Taxation Requirements</b>	Income Tax and Bituach Leumi

### Key Advantages

You can open biz on your own. Easy to run. No VAT reporting throughout the year. Usually serves private clients (as apposed to business clients). Because there is no VAT collection, price to consumer is 17% cheaper than an Esek Murshe.

### Key Limitations

Residents need a citizen to represent. You cannot open more than one concurrently. Difficult to sell to larger companies and organization who require documentation. Losses to company are personal liability. Limited ability claim to ongoing expenses.

### Shut Down Requirements

Inform VAT and National Health Insurance that ceasing operations and file request to close file. Inform Income Tax Authority that ceasing operations, file will be closed after two years. Filing requirements continue in these two years.



## V.A.T Authorized Business

<b>Set up requirements</b>	Open accounts with: VAT, Income tax, National Health Insurance
<b>Key Attributes</b>	Any individual can open. Can offset VAT on income. No income limit. Revenue turnover of over NIS 1.9M. annually (depends on biz type) requires "double sided accounting" practices
<b>Filing Requirements VAT</b>	Must file monthly or bimonthly reports, depending on financial turnover.
<b>Filing Requirements Income Tax</b>	Must file annually.
<b>Filing with Rasham HaChavarot/Amutot</b>	NA
<b>Taxation Requirements</b>	Income Tax and Bituach Leumi

### Key Advantages

VAT offset, especially when turnover is big. From a marketing perspective, higher rating than Esek Patur. Cheaper than limited company and good for situations where income needs to be accessible.

### Key Limitations

Need professional assistance to open/report. Personal liability to business. When clients are individuals - absorb 17% tax.

### Shut Down Requirements

Inform VAT and National Health Insurance that ceasing operations and file request to close file. Inform Income Tax Authority that ceasing operations, file will be closed after two years. Filing requirements continue in these two years.



## Partnership

<b>Set up requirements</b>	Open an account for the partnership with VAT. Each partner must also have an account with Income tax and National Health Insurance Voluntary: Open a formal partnership account in the Partnership Registry (this must be done by an accountant and a lawyer).
<b>Key Attributes</b>	Any two people or organizations can establish a partnership. A partnership is a recognized entity for VAT. However income tax is each partner's individual responsibility.
<b>Filing Requirements VAT</b>	Must file monthly or bimonthly reports, depending on financial turnover of the partnership and partners.
<b>Filing Requirements Income Tax</b>	Each partner must file annual report.
<b>Filing with Rasham HaChavarot/Amutot</b>	NA
<b>Taxation Requirements</b>	Each partner files their part in the partnership as part of their tax requirements

### Key Advantages

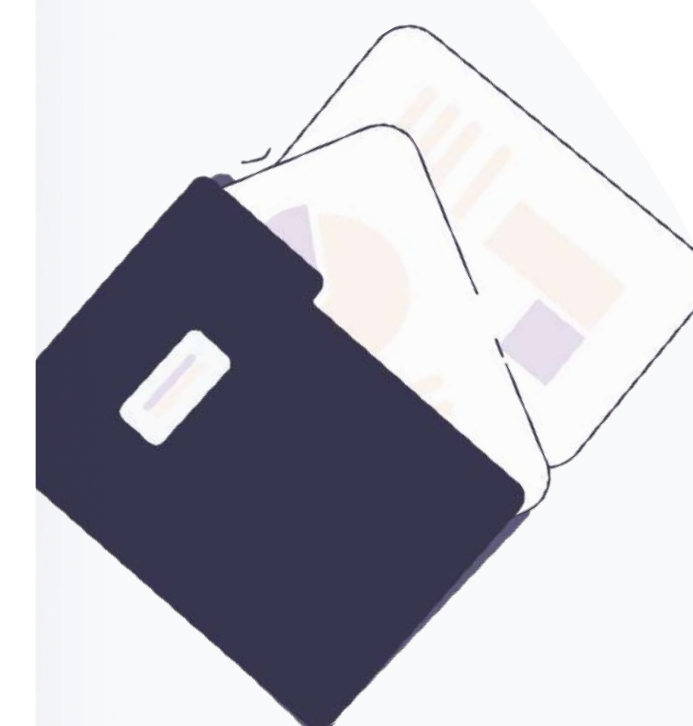
A partnership is a transparent vehicle for tax purposes ie: losses are taken directly by partners. Easier to dismantle than limited company. An unlisted partnership may be limited in participating in tenders/agreements and litigation.

### Key Limitations

Ensure partnership details are clear to all partners. Ensure that partnership is limited so as not to expose each partner to any and all losses of the others.

### Shut Down Requirements

Inform VAT and National Health Insurance that ceasing partnership including request to close file. Individuals continue or close relationship with Income Tax Authority individually. If listed, must be removed from formal list as well.



## Limited Company

<b>Set up requirements</b>	A business account must be set up by an accountant and a lawyer. Open accounts with: VAT, Income tax.
<b>Key Attributes</b>	The business is it's own legal entity. Profit is acquired by shareholders via dividend distribution.
<b>Filing Requirements VAT</b>	Must file monthly or bimonthly reports, depending on financial turnover.
<b>Filing Requirements Income Tax</b>	Must file an annual report for the business that is audited by a CPA. Must also file annual report to controlling shareholders
<b>Filing with Rasham HaChavarot/Amutot</b>	Annual report to Rasham HaChavarot
<b>Taxation Requirements</b>	Income is taxed at a fixed rate (23% in 2020) and a dividend tax when dividends are distributed (30%)

### Key Advantages

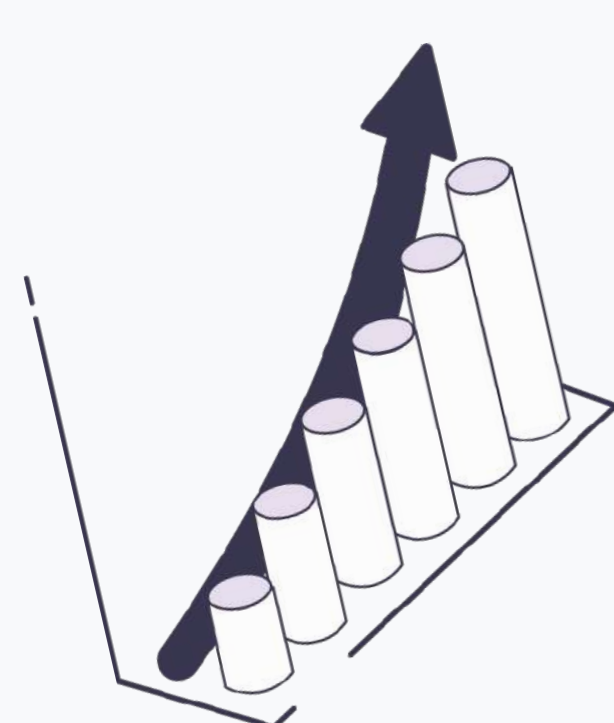
Any individual or group of individuals can open. A limited company protects shareholders as a stand-alone entity. Because taxation is two-step it is possible to pay less tax immediately (vs an Esek Murshe which must pay tax immediately at an often higher rate.) Cheaper investment vehicle vs. individual investor. Required "dual reporting accounting" and ongoing bank verifications allows for more exact financial knowledge.

### Key Limitations

Relatively expensive to set up and requires professional help. Requires "dual reporting" accounting.

### Shut Down Requirements

Inform VAT that ceasing operations including request to close file. Inform Income Tax Authority that ceasing operations. File will be closed after two years during which annual filings must continue. The limited company must be dismantled by a lawyer and accountant.



## Non Profit Organization

<b>Set up requirements</b>	A non profit account must be set up by an accountant and a lawyer. Open accounts with: VAT, Income tax
<b>Key Attributes</b>	The business of the non profit must be for social benefit purposes and not for profit.
<b>Filing Requirements VAT</b>	Once classified as non profit upon setup, no filing requirements.
<b>Filing Requirements Income Tax</b>	Must file annual report for the non profit. Above a certain annual turnover also required to file a CPA audited balance sheet.
<b>Filing with Rasham HaChavarot/Amutot</b>	Annual report to Rasham HaAmutot including detailed text report
<b>Taxation Requirements</b>	No taxation requirements. Requires specific authorizations (criteria, etc.) Allows for receiving tax free donations and tax recognized donations via Seif 46.

### Key Advantages

Amutah members do not own the non profit (they serve in a personal position that cannot be transferred). Allows for donations and tax exempt donations. Seif 46 encourages donations (as tax free)

### Key Limitations

Requires seven members (no more than two may be first degree relatives). Requires various establishing various oversight committees, audit, etc. Vaad Menahel carries personal liability and financial responsibility for non profit. Must follow Takanon. Pay salary tax on employee salaries.

### Shut Down Requirements

Inform VAT that ceasing operations including request to close file. Inform Income Tax Authority that ceasing operations. File will be closed after two years during which annual filings must continue. The limited company must be dismantled by a lawyer and accountant. Must erase/dismantle from Rasham Haamutot (legal process).



## Non Profit Limited company

<b>Set up requirements</b>	A business account must be set up by an accountant and a lawyer. Open accounts with: VAT, Income tax
<b>Key Attributes</b>	This type of business may not distribute dividends to its shareholders. It is governed by business law, but furthers a social agenda for public benefit (as listed and codified in the law).
<b>Filing Requirements VAT</b>	Once classified as non profit upon setup, no filing requirements.
<b>Filing Requirements Income Tax</b>	Must file annual report for the company including a CPA audited balance sheet.
<b>Filing with Rasham HaChavarot/Amutot</b>	Annual report to Rasham HaAmutot including detailed text report
<b>Taxation Requirements</b>	No taxation requirements. Requires specific authorizations (criteria, etc.) Allows for receiving tax free donations and tax recognized donations via Seif 46.

### Key Advantages

Legal protection as company is has its own legal status. Allows for donations and tax exempt donations.

### Key Limitations

Tax free activities are limited by law and financial activities are limited. (As compared to a company)

### Shut Down Requirements

Inform VAT that ceasing operations including request to close file. Inform Income Tax Authority that ceasing operations. File will be closed after two years during which annual filings must continue. Must be dismantled by a lawyer and accountant.



### Co-op

Co-op: A co-op is it's own legal entity (like an Inc.). This type of system is usually chosen to help its members achieve a common goal/benefit and allows it members to be equals contributing time, money, resources to advance a common goals, including generating income. A differentiator to an Inc. is that the goals are not simply making money

### Public Company

Public Company: A public company is one where the general public is part of the owners. The public buys ownership via shares, bonds, etc. on the stock exchange. Because public funds are invested in the public company, the company must operate under direct and close scrutiny of the stock exchange and related laws.

### Social Business

The concept of a "social business" is becoming an increasingly relevant part of the discourse in legal, financial and government circles. There is currently no such stand alone entity by law, however it is gaining recognition and relevance. Currently a "social business" is considered one that does business for social benefit reasons and in order to achieve those social goals and not business or profit per se. This kind of activity requires that at least 50% of the earnings are dedicated to the non profit activities of the organization and that it does not charge prices at or above market.

Document collated in Jan. 2021

We created this chart as a handy tool for entrepreneurs and business owners. Please note that each option has multiple details and it is best to get personalized, professional advice before making your final decision. The presenters cannot take any responsibility for use of the information. Feel free to share the file with others on condition that you keep the file in its full and current format