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Tax Benefits for Filming in Israel

On October 28, 2008, the Israeli Knesset ratified **The Law for the Encouragement of the Production of Films** (hereinafter: the "Law"). This Law shall be in effect for the fiscal taxation years 2009-2013.

The purpose of the Law is to encourage foreign productions within the State of Israel. The productions include both foreign entities using Israel as a location for any type of motion picture as well as co-productions with foreign countries. To date, Israel has official co-production agreements with Australia, Belgium, Canada, France, Germany, Italy, Poland and Sweden.

Over recent years, Israeli films have been screened at major international film festivals and many of those films have won accolades, including the most recent Golden Globe Award and Oscar nomination for "*Waltz with Bashir*."

Being that the international arena has begun to look at the talent that has been a well-hidden Israeli resource, the Israeli legislature has implemented a tax benefit mechanism which will draw foreign production companies to Israel and shoot such films on location in Israel. Foreign producers are drawn to Israel for many reasons. For starters, the selection and range of locations is vast, despite the fact that Israel is smaller than most individual states within the United States. The locations found in Israel can almost duplicate any other country all over the world. In addition to these locations, Israel offers a high level of expertise with first rate production facilities.

One must always remember that although a film presents an artistic story to a large audience, the creation of this picture is a business, and like any other business, costs and expenses must be taken into account. Being that the Israeli Film Industry is growing leaps and bounds, the Israeli legislature understood this and it is for that reason tax benefits were created for the foreign producer.

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The Law offers a 20% tax benefit to foreign production companies who will choose Israel as a location for the shooting of their motion picture.

The following 2 pre-conditions must first be met before becoming eligible for the tax benefit:

- The foreign producer must work in collaboration with an Israeli producer.
- The "below-the-line" budget of the film must be at least 8 Million New Israeli Shekels (roughly about 2 Million US Dollars).

In essence the Israeli producer is collaborating with local service providers whom are providing the goods and services on behalf of the foreign production company. The Israeli producer is withholding 17% of the tax payments, which as a result does not have to be passed to the Israeli Tax Authorities. In addition to the 17% tax withholding fee, one must add the value added tax rate, and as such the tax benefit is about 20%. The Law specifically states that the Israeli producer shall be responsible to "pass" the tax benefits through to the foreign production company.

The tax benefits relate only to the below-the-line budget. Above-the-line costs such as the salaries of the director, producer, screenwriter, main actors, the sum paid for the option of the literary material on which the film is based (if such materials and agreements) exist, shall not be added to the budget to attain the 8 Million NIS minimum threshold. The minimum threshold shall be comprised of all other matters, such as legal expenses, location costs, license requirements, etc.

At the end of the day, the foreign producer is saving 20% from the total budget and the influx of work, labor and tourism in Israel will be positively affected.

Once a foreign production company opts to use an Israeli producer and take advantage of the tax benefits, the Law requires both the foreign production company and the Israeli producer to fill out the appropriate forms. The form contains such information like the basic collaboration between the parties, the type of film being produced, and the request to be eligible for the tax incentive.

In addition, the Law sets forth regulations for a co-production film which functions on a different mechanism. The budget requirements for such a film are significantly lower, but so is the tax benefit. If the foreign investor's split is greater than 75%, the Israeli producer shall be eligible for a 13% tax withholding fee, and if the split is between 50%-75%, the tax withholding fee shall be 9%.

Sincerely,

Naomi Assia & Co. Law Offices ,
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This document is not deemed to be a legal opinion not should it replace any professional legal consultation.