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Israel

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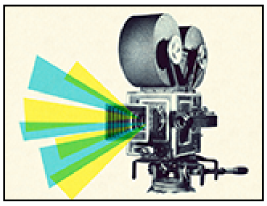

By Matthew Kalman

When the characters in TV's "Transparent" came to Israel, the cast and crew barely left California. "Homeland" left after season two. NBC-Universal's "Dig," written by "Homeland's" Israeli creator Gideon Raff, began shooting in Jerusalem in 2014 but then real shooting began in Gaza and the production was yanked off to Croatia. Raff's "Tyrant," produced by FX, also began filming in Israel in 2014 but departed for Turkey.

Snapshot

- Safety risks pose challenge to attracting foreign projects
- Neighboring countries offer range of attractive benefits

Apart from small documentaries and brief visits from TV programs like "Conan," and a party scene in the forthcoming Bollywood feature "Drive," there hasn't been a major foreign production in Israel since 2014, despite a 2008 law to encourage investment from abroad. Now Michael Oren, a deputy government minister and Israel's former ambassador to the U.S., is hoping to lure producers from Hollywood and Bollywood with a package of tax breaks and cash incentives similar to those offered by other rival desert locations.

"I want to bring two or three films here with budgets of about $60 million each and build the reforms around them," Oren told Bloomberg Tax Dec. 24. "We have three projects close to signing letters of intent, all from Hollywood."

To be approved, Oren's plan will need the support of the Ministry of Finance and tax authority and must win over critics who can point to Britain, where similar incentives for movies became fertile ground for tax-avoidance.

Incentives, Protection Needed

Oren commissioned a report from KPMG to explore how Israel could compete with neighboring countries, where 15 foreign films spent more than $1.6 billion from 2015 to 2016. The key is a range of perks offered by each of the countries. The salaries for foreign cast and crew members are tax-free in Jordan and Morocco. Projects enjoy rebates of 20 to 30 percent of production costs in Morocco, Malta, and Abu Dhabi.

Israel's only incentive is one also offered by its competitors: exempting production costs from value-added tax.

In addition to at least matching the incentives available in other countries, Israel must also offer an insurance guarantee to refund the costs of any production halted or delayed by war or terrorist attacks, Oren said.

Oren also supports creating a national film council to promote the country's landscape and attractions, coordinate filming permits, and liaise with local authorities.

"The main problem is that this country seems to be very dangerous. Many American productions refuse to come and you can't take out insurance against a war or a terror attack," said David Lipkind, head of productions and finance at the Israel Film Fund. "That's a very big obstacle."

Big Potential

Israel's domestic movie industry has blossomed in recent years, collecting a growing pile of awards and nominations assisted by government funding channeled through three major film foundations. The number of locally produced feature films screened at local cinemas nearly doubled to 54 in 2016 from 28 in 2010, according to Israel's Central Bureau of Statistics.

Israel has since 2009 offered limited tax incentives to investments through limited partnerships in local productions, where the usual budget is under $2.5 million.

"The main benefit of investing in Israeli film is that you're allowed to write off the investment in the same year that it's made. You don't have to have it amortized over several years," said Tony Greenman, founder of Tony Greenman Law Offices in Tel Aviv. One of his clients is Samuel Maoz, the director of Oscar-shortlisted "Foxtrot."

Boosting Investment

Private investment in the film industry in Israel is scarce. To qualify for tax relief under the 2009 regulations, a production must be certified by a special committee appointed by the finance minister. The system is so moribund that the committee has disbanded and no new members have been appointed, Lipkind said.

Limited partnerships investing in local film productions are treated as companies for tax purposes, relieving individual investors of the need to report until they see profits, and the partnerships can be traded on the Tel Aviv Stock Exchange. Only one such partnership is currently publicly traded: Cinema Trusts Investments in Movies LP, owners of the successful TV show “Power Couple.”

Draft regulations issued by the Israel Tax Authority on Dec. 21 will allow such partnerships to invest more freely by removing a 15 percent limit on production spending outside the country. Cinema Trusts plans to issue a prospectus in January taking advantage of the new rules and several more partnerships are expected to follow, said Esther Front, its main shareholder and chief executive officer.

Removing the limit would give local producers greater flexibility to film abroad and perhaps encourage more foreign investors, but a major change is required, Greenman said Dec. 26.

“It's ridiculous. We don't have the incentives for foreign filmmakers. It's hard enough to attract them here with the security situation. Rather than giving them tax shelters like other territories do, you get the situation where they are making a film which is situated in Israel and they film it in Morocco, or Turkey, or Malta,” he said.

Oren's vision of Israel as a major production location will require the kind of policy changes that helped kick-start the country's burgeoning high-tech industry, said Naomi Assia, founding partner of Naomi Assia and Co. Law Offices in Tel Aviv. Those policies included government grants, training support, and generous tax incentives including the ability to write off investments in start-up companies against an investor's business profits.

“What we did with the software industry 20 years ago, that's what we should do now with filming,” Assia told Bloomberg Tax Dec. 26. “I've been lobbying the government and the export institute for years. Israel has a lot of talent and we have the facilities. We need to offer tax incentives and other benefits to encourage production in Israel.”

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