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ISRAEL

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Israel clarifies application of dividend provisions under the new tax reform

In light of recent taxpayer inquiries about the new Israeli tax reform (the "reform"), the Israeli Tax Authorities ("ITA") published a clarification (the "clarification") on December 15, 2011 regarding the ITA's position on the application of the reform's new dividend provisions. Please refer to our previous Newsalerts dated November 29, 2011 and December 15, 2011 for further details about the reform.

Under the reform, the tax rates on dividends distributed from regular income increased from 20% to 25% for individuals and foreign corporations and from 25% to 30% for substantive shareholders (generally, shareholders owning more than 10 percent of the company's shares). According to the ITA's clarification, the increased rates will apply to dividends *received* on or after January 1, 2012, including those dividends received on or after January 1, 2012 which are sourced from profits generated on or before December 31, 2011.

Dividends distributed (and received) by December 31, 2011 remain subject to the current 2011 applicable tax rates (i.e., generally 20% or 25%).

These tax rates can be reduced further or exempted for foreign residents in accordance with an applicable tax treaty or under local Israeli tax rules.

Different tax rates and provisions may apply, e.g., to dividends distributed from income accrued under the Approved Enterprise regime.

The reform has not included amendments to certain Israeli withholding tax regulations. We expect revisions to the withholding tax regulations in accordance with the new provisions, i.e., to reflect the increased tax rates on dividends, interest and capital gains set forth in the reform. A draft of the amended withholding tax regulations has not been presented to Parliament yet. Please note, however, that such revisions could be enacted before year end.

Summary

In light of these developments, investors should analyze the potential impact on their investments and operations in Israel and consult with their advisors on potential tax consequences that may arise from the reform and the ITA's clarification;

Companies may also wish to consider whether or not to distribute dividends before year end.

For more information, please do not hesitate to contact:

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