TAX TREATMENT OF RESTRICTED STOCK & RSUS

ISRAEL

	EMPLOYEE	EMPLOYER
GRANT DATE	No tax consequences.	No tax consequences.
VESTING DATE	No tax consequences. It is possible to obtain a ruling for employees to be taxed at vesting, rather than sale. This summary assumes this has not been sought.	No tax consequences.
WITHHOLDING & PAYMENT OF TAX	Employees will be taxed at their marginal income tax rate on the sale of shares. Preferential tax treatment may be obtained by using an approved Section 102 trustee plan.	Employer withholding is required for both income tax and social security on the sale of the shares.
SOCIAL SECURITY	Employee social security will be due on the sale of shares and is capped up to a total monthly amount of 43,240 NIS, including salary.	Employer social security will be due on the sale of shares and is also capped. The employer is required to withhold the employee social security.
REPORTING	There is no reporting requirements for the employee unless they are required to file a capital declaration.	Reporting must be made on both a quarterly and annual basis to the Israeli tax authorities. Quarterly reports detail all equity awards made and annual forms set out all outstanding awards from the previous calendar year. A new online filing system is being introduced.
SALE OF SHARES	Employees are subject to both tax and social security on the sale of the shares at the employee's marginal rate. The taxable spread will be the sales proceeds, less any price paid.	The employer is required to withhold both tax and social security on the sale of shares.

For further information and to register for future updates contact:

globalequity@bdo.com

Defined terms used in this summary:

Restricted Stock - Issued shares transferred to employees on the date of grant which are typically subject to restrictions on sale or forfeiture for example if performance targets are not met.

Restricted Stock Units – Awards where employees receive a right to acquire shares. Shares are only issued following vesting and attainment of performance targets, if applicable.

This summary has been prepared on the basis that employees are resident in Israel throughout the period from grant of stock options until the shares are sold and that the employee is employed by a local employer in Israel, which is a subsidiary of an overseas parent. The potential tax consequences may vary greatly depending on your company's equity plan's design, administration, as well as many other factors.

Should you have a need for a trusted advisor in this area, please contact BDO's Global Equity team.

This information is current as of August 2016.

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	EMPLOYEE	EMPLOYER
IS A CORPORATION TAX DEDUCTION AVAILABLE?	A corporation tax deduction is generally not available for non-trustee plans. If a Section 102 trustee plan is used (see qualifying plans below) a corporation tax may be available on the capital gains portion of the employee gains provided that there is a written recharge agreement in place between the parent company and the Israel subsidiary and the plan meets all the qualifying requirements of Section 102.	
"QUALIFYING" PLANS AVAILABLE?	Beneficial tax treatment for both the employee and the employing company may be obtained by using a Section 102 trustee plan. There are various conditions which must be met in order to qualify, including a two year minimum lock up period and a requirement for the shares and options to be deposited with a qualifying Israeli trustee on the date of allocation to employees. Approval must also be obtained from the Israeli Tax Authority. Where the conditions are met, the employer may choose whether the income or capital gains method is applied: - Under the income method, the full gain on sale of shares is taxed at the employee's marginal income tax rate (In practice, this route is rarely chosen by companies); - If the capital gains method is applied, employees can benefit from a lower capital gains tax treatment on part of their option gain. The taxable event for employees will still be the sale of shares but they will only pay income tax at their marginal rate on the market value of shares at grant. The remainder of the gain will be taxed at the lower rate of 25% capital gains tax. For these purposes, the market value of the shares at the date of grant is based on the company's average share price for the 30 days prior to the date of grant. If using a Section 102 Trustee plan, the employing company should also be able to claim a corporate tax deduction on the element of the gain taxed as employment income i.e. on the amount of gain taxed at the employee's marginal income tax rate. There are detailed requirements for qualifying plans and advice should be taken before any qualifying plan is implemented.	
INTERNATIONALLY MOBILE EMPLOYEES	The above summary has been prepared on the basis that employees are resident in Israel throughout the period from grant of the restricted stock until the shares are sold. The rules for internationally mobile employees are complex and there are specific sourcing rules applicable to individuals arriving in or leaving Israel whilst holding restricted stock. Israel broadly sources equity income based on time spent during vesting. Trailing liabilities (and reporting obligations) may apply. It is highly recommended that advice is sought on an individual case by case basis.	
OTHER POINTS FOR CONSIDERATION	This summary is provided by BDO for informational purposes only to provide an outline of the general tax and social security position based on current tax law and is based on an employee who does not have a controlling right i.e. an employee who has less than a 10% shareholding. There are also a number of legal and regulatory issues to consider on the implementation of any employee equity plan including, but not limited to, employee entitlement claims, exchange controls, securities restrictions, prospectus requirements and data protection regulations. For example, if equity awards are made to more than 35 employees, it is likely that there will be prospectus and reporting requirements. We recommend that legal advice is obtained prior to the implementation of any employee equity plan.	

KEY ACTION POINTS

- ✓ Employers are responsible for the withholding of tax and social security on the employee equity awards. Companies should review their systems to ensure that they are sufficiently robust to be able to capture, process and report gains made on the sale of Restricted Stock and RSU through the payroll.
- ✓ There are specific rules applicable for Internationally Mobile Employees holding equity in Israel. We recommend that Companies review their systems to ensure that Internationally Mobile Employees moving in or out of Israel whilst holding equity can be identified to ensure correct compliance and identify any potential trailing liabilities.