Bloomberg Law
Daily Tax Report: International

Israel proposes tax-friendly infrastructure investment funds, likely to be approved by parliament.
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Israel Proposes Tax-Friendly Infrastructure Investment Funds

By Matthew Kalman

Oct. 16, 2018 6:26AM

- *Encourages investors to finance major projects*

- *Funds will help government reduce cost of capital-raising*

Israeli investors have until Nov. 15 to respond to plans to create funds investing in infrastructure that will be traded on the Tel Aviv Stock Exchange, the Israel Tax Authority and Israel Securities Authority announced Oct. 14.

The funds will benefit from special tax allowances, enabling individual investors and smaller institutions to participate for the first time as partners in the financing of major infrastructure projects in Israel. The move will also increase the source of finance available to the government and reduce its capital and borrowing costs, the authorities said in a joint statement.

Officials hope that the the funds, similar to real estate investment trusts (REITs), will start in early 2019.

The funds will be tax-exempt, and shareholders will be taxed directly instead of the fund paying corporate tax, according to the proposal. Investors—funds, companies, and individuals—will see a range of benefits that will reduce tax payable on the profits from the new funds, which must distribute to investors 90 percent of their profits each year.

The proposals would likely be approved by the finance committee of the Knesset parliament.

Entrepreneurs starting approved funds will also enjoy benefits, including the postponement of a tax event if infrastructure projects are moved into the fund in exchange for shares. Payment of tax will be delayed until the assets are realized or the fund has an IPO. Investors will also be able to write off losses in other areas of their business against profits from the funds.

The proposed tax benefits are “good news and attractive to investors,” Eran Yaacov, director of the tax authority, said in the press release.

Time Will Tell

The new fund’s tax transparency will allow investors to pay only capital gains tax instead of seeing additional tax deducted at the company level, said Boaz Feinberg, a partner, Zysman, Aharoni, Gayer and Co. and Tel Aviv. The tax arrangements are particularly favorable for foreign investors and better than for hedge funds, he said.

“Providing tax incentives for funds is always something that may be appealing for investors looking for a passive income and also something that’s a bit more risky and could yield more at the end of the day,” Feinberg said Oct. 15. “REITs failed miserably in Israel. There are only a handful. Only time will tell if this proves to be a successful tool.”

Building the Pipeline

Israel’s current infrastructure projects are valued at about 50 billion shekels ($13.8 billion) with another 20 billion shekels’ worth in the pipeline, excluding major defense, desalination and water treatment projects, according to an interim report by the committee which made the proposal. Future projects are being delayed for lack of funding, the report said.

An OECD report in July recommended that Israel increase its investment in infrastructure.

“The funds will be able to serve as a significant tool for funding infrastructure projects, and to lead to increased competition in the credit market for financing projects and in the price of the projects,” the committee said, noting the “great importance in increasing competition over debt facilities for infrastructure projects, a field that is characterized by a very limited number of players.”

The funds will also “direct funds into the capital markets and strengthen trade on the stock market,” the report said.

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