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Stock Options in Israel at Favorable tax treatment

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- **January 1, 2003, new legislation concerning Stock Options allocation.**
- **The reform has reformed the Income Tax Ordinance.**
- **The new amendment, which is known as Amendment 132 first time set legislation concerning granting and taxation in Israel.**
- **The amendment change Paragraph 102 of the Income Tax Ordinance.**

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Who is entitled to be granted:

- Employees
- executives and management, who does not hold more than 9.99% of company stocks.
- officer of the company who does not hold more than 9.99% of company stocks.
- Directors of the company.

Who can grant Stock options:

- Only Company.
- Employing Company or Reporting Company subject it is under the same corporate umbrella.

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Two basic itineraries of granting:

- Company can decides to grant stocks based on Capital Gains tax treatment,
- Company can decides to grant stocks based on Income tax treatment. The employee is taxed regular income tax rate according to his income. Company can deduct the incentive as an expense. The deduction will be made on the exercise date.

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the stocks options must be deposit to a Trustee for a period:

- 24 months if it was granted on Capital Gain Tax Treatment.
- 12 months if it was granted on Income Tax Treatment.

<u>The Trustee</u>

His main objective is to ensure the payment of proper taxation by the company or the employee The Trustee is not obliged to handle stock administration.

- Appointed by the company.
- May be an officer of the company or an independent lawyer or an independent accountant.

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- The tax is 25%.
- It is paid on the difference between the exercise price and the market price.
- Payment will be made when the employee meets the money or when the Trustee transfers the stocks to the employee.
- The market value of stocks of a company that is traded on a stock exchange is calculated by averaging the last 30 days of trading.

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Approval and Modification of Plans.

- A request for approving granting of stock options and the trustee must submitted to the Income Tax Authority at least 30 days prior to the granting date. Failure of Income Tax Authority to respond within 90 days, approving the plan..
- Company decision in what itinerary to grant may be reversed after 12 months from the granting day.

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- Favorable tax treatment is only attained by depositing the shares to a Trustee.
- Granting stocks without a Trustee will not qualify to receive favorable tax treatment.