



Tax Legal Update

April 2024

“Green Track” Tax Treatment: Streamlined VAT Rulings for Venture Capital and Private Equity Funds

Dear Clients and Colleagues,

We wish to bring to your attention that on April 1, 2024, as part of a comprehensive initiative by the Israel Tax Authority ("ITA") to streamline bureaucratic processes and encourage foreign investments in the Israeli market, the ITA published a new “Green Track” pre-ruling form, for venture capital investment funds and private equity investment funds seeking to determine the applicable VAT treatment for management fees received by the management company for services provided to the fund (the “**Green Track**”).

With a goal of encouraging foreign investment in the Israeli hi-tech industry, the ITA heretofore grants preliminary approvals to different investment funds enabling a partial VAT exemption to foreign investors in accordance with the portion of their investments in the fund. Now, with the Green Track, the aim is to handle such applications uniformly and quickly.

Application:

The Green Track applies to investment funds that have received approval pursuant to Section 16A of the Income Tax Ordinance (the “**Section 16A Ruling**” and the “**Tax Ordinance**”, respectively), provided that such Section 16A Ruling provides the following with respect to non-Israeli investors:

- Will not be considered residents of Israel for purposes of the Tax Ordinance and will not be required to submit an income statement solely because of their investment in the fund.
- Income from venture capital investments (including sales of holdings or of the company, dividends, and interest) will not be taxed.
- Income from the sale of holdings or of the company in ‘qualifying investments’, as defined under the Green Track, will not be taxed.

VAT Treatment Under the Green Track:

While the fund manager providing management services to the fund must be registered as an "authorized dealer" for Israeli VAT purposes, The Green Track allows the fund and other investment entities to be "transparent entities" and therefore, the service is deemed to have been provided directly to the fund's investors.

Accordingly, in return for such management services, the fund manager will receive a "management fee" subject to VAT charges as follows:

1. The portion of the consideration paid to the fund manager, and which is attributed to the foreign investors in the fund, based on their proportionate share in the fund, will be regarded as payment for services provided to a "non-resident" and as such will be subject to a zero-rated VAT.
2. The part of the consideration paid to the fund manager and that is attributable to Israeli investors in the fund, based on their proportionate share, will be considered as payment for services rendered to a resident of Israel and within Israel, and therefore will be subject to VAT at the full rate (currently 17%).

For your convenience, please see this [link](#) to the application form, which details in full the terms and conditions of the Green Track tax arrangement.

Our firm has extensive experience in representing investment funds before the ITA and we are at your service for any question or clarification, and are happy to assist as required.

Sincerely,

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