



October 2003

Subject: Zero Vat on services to foreign residents--material restriction

Dear Client,

In December 2002, we indicated--in our "Shekel" Newsletter--that the zero Vat rate on income from services provided to a foreign resident, would no longer apply if an Israeli resident was also party to or benefitted from the service.

The zero rate did not apply, in the past, where the service related to an asset located in Israel or where the service was provided to a local resident. Under the amendment, applicable July 2002, there is only a need to establish that an Israeli resident receives or benefits from the service and does not have to be the principal or material recipient/beneficiary of the service.

In a recent lecture by the head of the legal department of trades and professions of VAT, these matters have been further clarified;the Vat Authorities contend that where any Israeli resident benefits from the service provided, as above, this will be sufficient to disallow the zero rate.Thus even where the Israeli resident beneficiary/recipient of the service is only marginal or secondary, or even indirect, this is considered sufficient to exclude the income from the zero rate.

This requires careful thinking and planning.

We shall be glad to assist.

Chag Sameach,
"The Broide Team"