



Innovation Authority Recommendations: High-Tech Sector's Contribution to State Revenues from Individuals and Companies

The Innovation Authority and the Chief Economist in the Ministry of Finance have published a special report on high-tech's contribution to state revenues from individuals and companies. In this section, we present the highlights of the report as well as recommendations pertaining to possible policy measures stemming from the data presented in the report.

Main Points:

1. In 2020, **approximately 24% of all tax payments in Israel stemming from employees' income tax and corporate tax came from high-tech.**
2. In 2021, (the last year for which data was published), **the salaried employees in the high-tech sector were responsible for about 36% of the income tax payments from salary.**
3. **85% of the state revenues stemming from the high-tech sector are related to the sector's employees. Only 15% of the state revenues stemming from the high-tech sector are connected directly to the companies.**
4. **High-tech employers are responsible for higher tax payments than employees in the other sectors of the economy. In contrast, the high-tech companies are responsible for lower tax payments** than companies in the economy's other sectors. This discrepancy stems from several main factors: a high average salary in high-tech that incurs high income tax payments by employees; as for the companies, startups generally lack profits on which they pay corporate tax, while most of the sector's profitable companies benefit from reduced tax rates as part of the Encouragement of Capital Investments Law.
5. In 2020, **the total state revenues stemming directly from high-tech activity in Israel constituted approximately 9.3% of the state budget.**
6. **The average monthly income tax payment of a high-tech employee in 2021 was 6,966 shekels, 6.3-times higher than the average in the rest of the economy (1,112 shekels).**
7. **Income tax payments of high-tech employees increased by 66% between 2016-2021.**
8. **Due to the under-representation of certain populations in high-tech, 57% of the tax payments in 2021 stemmed from the economy's dominant group of employees - (non-Ultra-Orthodox) Jewish men who work in Tel Aviv and central Israel.**

Considering the importance of high-tech's contribution to the Israeli economy as evident in the data, the primary insights arising from the findings and several recommendations as to possible policy measures are presented below:

Insight 1:

The State of Israel is increasingly dependent on the revenues stemming from the high-tech sector

The State of Israel is increasing its dependence on this sector and, primarily, on its employees. This dependence becomes increasingly apparent in times of crisis, such as the current year, during which expectation exists for a significant increase in the budget deficit and a decline in revenues from sectors that are susceptible to security-related upheavals such as real estate, retail, and tourism. In general, during times of crisis such as Covid, high-tech acts as a "shock absorber" for economic crises, as presented in detail in the '[Situation Report: Israeli High-Tech in 2024](#)' issued by the Innovation Authority.

Consequently, the sector's significance and its contribution to the State of Israel highlight **the great importance of extensive state investment in the high-tech sector**, with an emphasis on research infrastructures in order to preserve Israel's technological advantage alongside direct investment in early-stage startups operating in fields characterized by a low level of available private capital. Similarly important is a constant improvement in the regulatory environment of the high-tech sector (taxation, regulation etc.) in order to maintain Israel's competitiveness vis-à-vis strengthening global innovation hubs.

The significant dependence of the Israeli economy on high-tech and the need to facilitate continuous growth of technology companies highlights the need to invest specifically in times of economic crisis, when the private investors scale back their investments.



Recommendation: Engage in continuous investment in research infrastructures and in startups, with the aim of increasing certainty for the private market, especially during periods of economic crisis.

We reiterate the Authority's recommendation as presented in the 'Situation Report: Israeli High-Tech in 2024' whereby a multi-year plan should be created for state investment in high-tech. Considering the expected impact of the war on the economy, and the expected need to 'tighten the belt' in government spending, the creation of a state commitment to the success of Israeli high-tech may send a positive signal to the market.

Insight 2:

Most of the growth in state revenues from Israeli high-tech stems from the sector's employees

The primary contribution of the Israeli high-tech sector to the national economy, in terms of influence on state revenues, is employment – 85% of the revenues are related to the employees. In other words, **it is important for the state to ensure that high-tech employment continues to grow and that the number of employees in the high-tech sector at least maintains its relative share of the total number of employees in Israel. Considering the importance of the sector's employees, the central policy measures should primarily address their potential influence on employment. Furthermore, it is important to monitor the fluctuations of this metric, which has more extensive macro-economic influence than other metrics, such as fundraising by startups, for example.**

At the same time, there are marked differences in tax payments by employees from under-represented groups in high-tech, including women and employees from the Arab and Ultra-Orthodox Jewish societies. These disparities stem from their relatively low number in the sector and from salary disparities.



Recommendation: Strive to expand Israeli high-tech's potential employment base, with an emphasis on integration of under-represented populations.

In order to reduce the disparities, to enhance the well-being of the under-represented populations and to improve the general standard of living in Israel, effort must be made to facilitate and encourage the participation of under-represented populations in the high-tech sector. We again emphasize the importance of fully implementing the recommendations of the National High-Tech Human Capital Committee (the Perlmutter Committee), with the greatest importance being implementation of the recommendation to invest in high-quality education for all population groups nationwide, to ensure high-tech's long-term prosperity. We wish to add that in order to improve the representation of **women in the Israeli high-tech sector – the sector's largest under-represented group** – steps should be taken to formulate a policy that will reduce the impacts of motherhood on women's career in high-tech.

Insight 3:

The employees in the multinational companies in Israeli high-tech make a significant contribution to state revenues

One of the central trends in high-tech in the past decade has been the significant growth in the share of multinational companies in Israeli high-tech in general and, specifically, in tax payments. Despite the fact that the number of jobs in multinational high-tech companies is approximately 27% of all jobs in the high-tech sector, and the number of multinational companies is only 7% of the commercial high-tech companies, **the tax payments stemming from the multinational high-tech companies are more than a third of the sector's total payments to state revenues**, both in terms of taxes related to work and in terms of corporate tax.

Considering the multinational companies' growing importance to Israeli high-tech and the significant variance in the types of their activity in Israel, from merely operating a development center to companies that operate centers of business activity in Israel which are responsible for additional territories, further examination of these companies' economic metrics and their influence on the Israeli economy is warranted.



Recommendation: Despite the marked importance of the multinational companies to the Israeli ecosystem, there is currently no place to create policy for initiating an increase in their number. Nevertheless, it is worthwhile to examine whether there are obstacles to the operation of significant multinational companies not yet operating in Israel, and whether they would make a significant contribution to the sector in Israel.

The foreign companies are a mainstay of employment stability and contribute to positioning the Israeli high-tech sector as a global innovation center. Nevertheless, it is important to remember that the employment multiplier in the foreign companies is one of the lowest in Israeli high-tech. This refers to the ratio between the number of workers who do not have a core-technology profession per engineer. In other words, in the multinational companies, for every employee in a core-technology role, there is only 0.5 workers in a non-technology role. Moreover, the method of the foreign companies' taxation according to a cost-plus method, means that in most cases, they do not pay high corporate tax in Israel.

Insight4:

The data infrastructure for determining innovation policy is deficient

One of the significant disparities revealed during the work on this special report, is **that the State of Israel's lack of up-to-date official administrative data means that it cannot be relied upon on an ongoing basis**. In other words, policy formulation will generally be undertaken based on CBS surveys and data from private sources. One prominent example of this is, for example, information about state revenues from options awarded to high-tech employees. Due to the unavailability of data, it was impossible within the framework of this report to evaluate their contribution and significance to state revenues.

Furthermore, one of the objectives of this report was to examine possible discrepancies in the conclusions regarding Israeli high-tech when making use of different definitions for the sector. The findings reveal that analyses according to the two most common methodologies generally portray similar trends, except for data pertaining to the foreign companies where a significant discrepancy was revealed. Specifically, the number of foreign companies according to the CBS definition is lower than that of the private databases' definition, apparently as the result of a delay in updating the database with regard to mergers and acquisitions of local companies by foreign companies.

Ultimately, regarding the formulation of government policy pertaining to the high-tech sector, whether based on CBS data (surveys or administrative data) or on additional sources of information as presented in this report (IVC/SNC), it is reasonable to assume that similar conclusions will be reached.



Recommendation: Strive for expanded gathering and use of administrative data and enhance their quality and validity, while creating a database of administrative information on the high-tech sector.

This recommendation is consistent with the recommendations of the [Kandel Committee for improving the high-tech data infrastructure in Israel](#) from July 2023.