Special Report:

High-Tech Sector's Contribution to State Revenues from Individuals and Companies

רשות החדשנות
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01 Background and Main Points: High-Tech Sector's Contribution to State Revenues from Individuals and Companies

In this report, we examine the contribution of the high-tech sector and its employees to the Israeli economy. The report is the result of collaboration between the Innovation Authority and the Chief Economist Division in the Ministry of Finance. This analysis was performed during the past year and includes, for the first time, an in-depth examination of payments of income tax, corporate tax, and other revenues to the state treasury related to work in high-tech.

The report's objective is to provide a situation analysis of state revenues from the high-tech sector with the aim, among others, of adapting future government policy in this field.

High-Tech Sector's Contribution to State Revenues from Individuals and Companies

High-tech is one of the central sectors of the economy. As presented in the Innovation Authority's annual report "The State of High-Tech 2024", the sector was responsible for 20% of Israel's GDP in 2023 and 53% of the country's exports. Moreover, the rate at which employees joined the sector in the decade between 2013-2022 was three times higher than that of the rest of the economy, and the salary paid in this sector was significantly higher than the economy's average salary: 2.7 times higher than the economy's average monthly salary for a salaried employee in 2021.

Against the backdrop of the sector's increasing predominance in the economy in terms of employment and output, the need to examine the influence of these changes on the sector's contribution to state revenues became apparent.

This document is divided into two sections: in the first section, we present the distribution of state revenues from individual income tax of salaried employees and corporate tax in high-tech and in the rest of the economy, while the second section presents an in-depth analysis of revenues related to the high-tech sector while looking at gender disparities, differences between populations, tax payments in different areas, differences between local and foreign companies etc.

The publication's main findings are as follows:

1. **In 2020, approximately 24% of all tax payments in Israel stemming from companies and salaries came from the high-tech sector.**
2. **In 2021 (the last year for which the figures were published), the salaried employees in the high-tech sector were responsible for approximately 36% of salary income tax payments.**
3. **In 2020,[1] the total state revenues stemming directly from high-tech activity in Israel constituted about 9.2% of the state budget.[2]**
4. **85% of state revenues stemming from the high-tech sector are related to the sector's employees. Only 15% of state revenues stemming from the high-tech sector are directly related to companies.**
5. High-tech employees are responsible for higher tax payments than the employees in the economy's other sectors. In contrast, the high-tech companies are responsible for lower tax payments than companies in other sectors of the economy. This divergence stems from several prominent reasons: a high average salary in high-tech that leads to high income tax payments by employees. With regard to the companies, startups generally lack profits on which to pay corporate tax, whereas most of the profitable companies in the sector benefit from reduced levels of taxation as part of the Encouragement of Capital Investments Law.
6. **The average monthly income tax payment of a high-tech employee in 2021 was NIS 6,966 – 6.3 times higher than the average in the rest of the economy (NIS 1,112).**
7. High-tech employees' tax payments increased by 66% between 2016-2021.[3]
8. 57% of the tax payments in 2021 stemmed from the sector's dominant group of employees – (non-ultra-Orthodox) Jewish men who work in central Israel and in Tel Aviv. This figure stems from the low participation in high-tech of the rest of the population.

1 The last year for which the figures were published.
2 The state budget without designated budget increments because of Covid.
3 Throughout this report, any reference to changes between different periods will be presented in real terms.

High-Tech Sector's Contribution to State Revenues from Individuals and Companies

In summary, this report reflects that state revenues from high-tech will change – for better or worse – by the number of employees the companies employ in Israel. Furthermore, in light of the progressive structure of Israeli income tax, a change in the salary of a high-tech employee who pays higher than average tax rates will have a greater influence on state revenues than that of an employee in the rest of the economy.[4]

Based on the increase in the number of high-tech employees during 2021-2023, alongside an increase in the sector's average salary that continued to increase the disparity vis-à-vis the general economy's average salary, it can be assumed that the high-tech sector's direct contribution to state revenues and its share of the revenues pie increased during these years.

Methodological Notes:

The information presented in this publication is based on administrative figures pertaining to all high-tech employees in Israel which were collected by the tax authorities and received from the CBS and the Ministry of Finance.[5] The figures were analyzed according to two different approaches to the definition of the high-tech sector, as will be presented below. Despite the discrepancy sometimes created in the figures which stems from different definitions, the trends revealed in the data are similar.

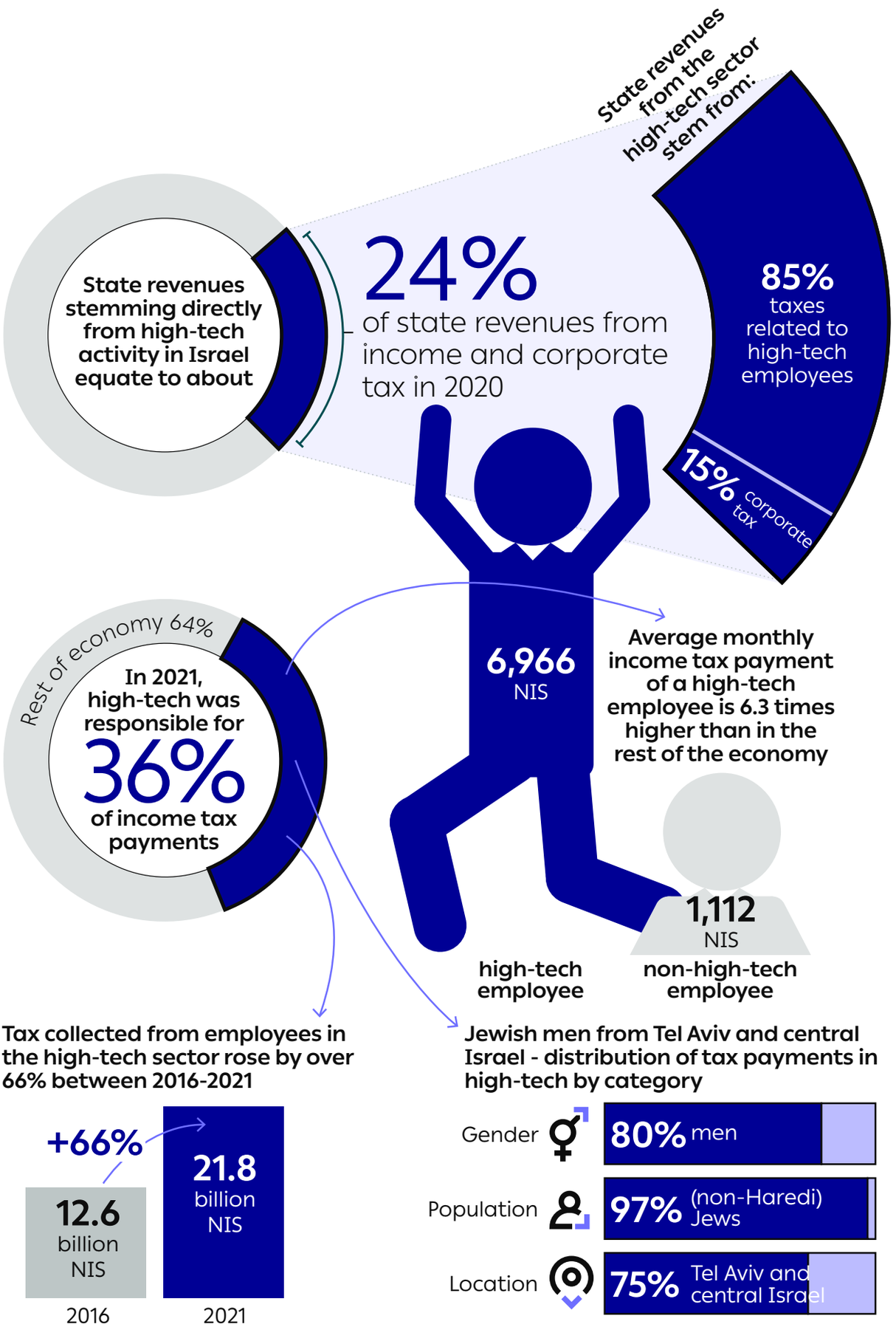
The most updated data regarding tax payments in Israel available at the time this report was prepared is from 2021, due to the timing of reports submitted to the tax authorities. Some of the figures are not available for this year and we therefore used the most updated data that existed for each analysis. Considering the trends in the high-tech sector arising from a variety of sources used to analyze the sector's situation report, including CBS surveys and fundraising data (from databases such as IVC), we estimate that the increase in the high-tech sector's relative contribution to the various metrics continued in 2022-2023, as will be detailed later in this report. Finally, it should be noted that in cases where the Covid year (2020) was the most updated year for analysis, we strove to add additional figures pertaining to the long-term trend. The appendices of this report include data for 2019 to show that there was no digression from the trend caused by the Covid period.

4 Throughout this report, "rest of the economy" refers to the economy's other sectors.

5 The Innovation Authority and the Chief Economist in the Ministry of Finance wish to thank Ms. Orly Furman from the CBS for building the database and for the assistance in its analysis and comparison to the various sources of information which were used in writing this report.

Highlights infographic

High-Tech's Contribution to State Revenues



Source: Chief Economist Division adaptation of Israel Tax Authority data and Innovation Authority adaptation of CBS data.

02 Methodology: Measuring High-Tech's Contribution to State Revenues

According to the definition of the high-tech sector and of high-tech companies

There are several accepted approaches used to define the companies and employees of the high-tech sector in Israel. The definitions differ from each other in the number and type of companies they include. Consequently, there are also variations in the number of employees and their related payments. Furthermore, different methods exist for collecting data (administrative data which presents real figures as opposed to surveys which present estimates) and there are differences in the frequency that data is updated.

In this report, we focus on two definitions of the high-tech sector to estimate its contribution to state revenues, while using administrative data. The first of these is the definition of **"the high-tech sector"** as accepted by the CBS. According to this definition, as of 2021, 13,837 companies reported employing workers, of which 309 were foreign companies, with a total of 285,000 full-time jobs (not including the communications sector). A second definition we use is that of technology companies and is based on SNC and IVC databases. 8144 companies are included in this definition, of which 552 are foreign companies, with a total of 255,000 full-time jobs (in 7,916 companies that reported employing workers). Throughout this report, we will refer to this definition as "**the high-tech companies**".

Evaluation of High-Tech's Contribution

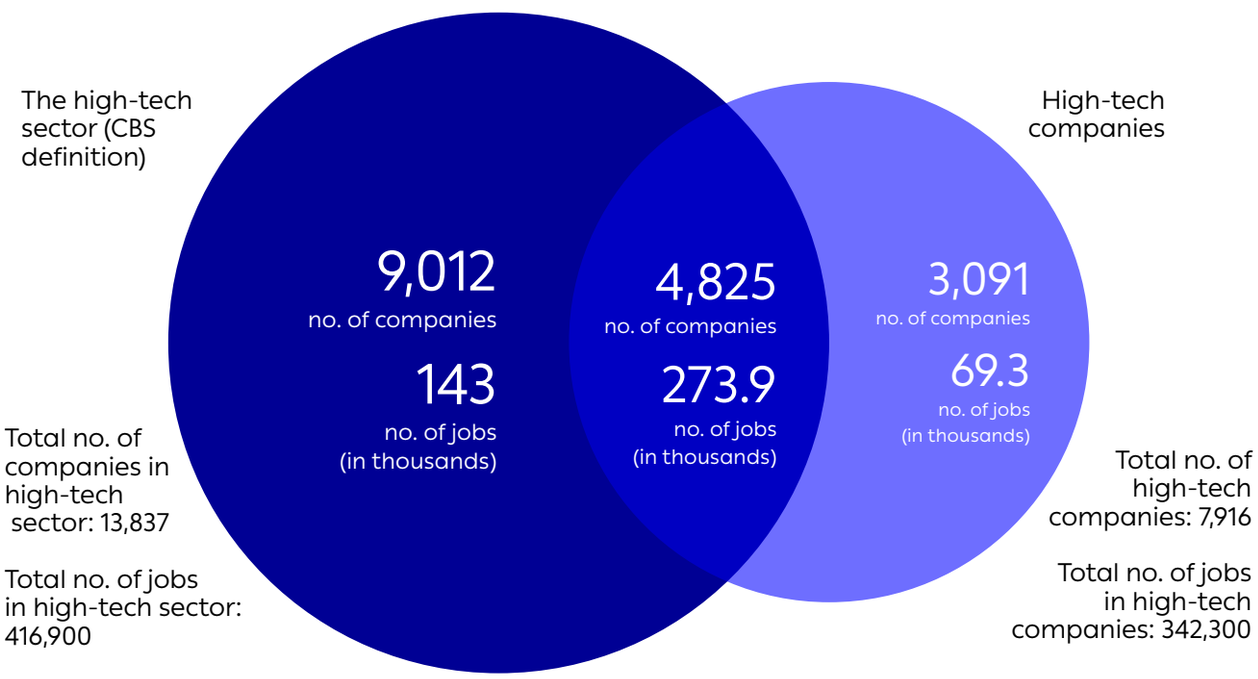
The definition of the high-tech sector we will use later in the report will be in accordance with the accepted international standards, with one main variation – we omit the communications sector and do not include it in the definition of the high-tech sector.[6] The definition of the high-tech companies attempts to focus on and identify the high-tech companies operating in Israel according to important external databases. Appendix 1 includes detailed information about each of the definitions and the differences between them. In light of the limitation of the different figures in each definition, we will note which one was used alongside each analysis (the definition of "the high-tech sector" which represents the CBS definition or the "high-tech companies" definition that is based on the SNC and IVC databases).

As noted, the most up-to-date information pertaining to tax payments in Israel available when this report was prepared refers to 2021, due to the timing of reports submitted to the tax authorities. Some of the segmentations are unavailable for this year and we have therefore used the most up-to-date data available for each analysis. If the most up-to-date year for analysis was the Covid year (2020), we have made every effort to add data about the long-term trend.[7]

Diagram 1

The High-Tech Sector in Israel According to Different Definitions

The no. of companies and jobs in each definition, 2021[8]



6 Omitting the communications sector is in accordance with the recommendations of the Kandel Committee for improving the high-tech data infrastructure in Israel. The committee's report can be seen here

7 Throughout this report, unless explicitly stated otherwise, the term "income tax" refers to income tax from salaried employees.

8 The comparison was performed courtesy of the CBS and the number of jobs refers to the number of jobs in companies in 2021, as known by the CBS without a minimum term of employment. The list of "high-tech companies" refers to the known list in the last year for which data is available (2020). Furthermore, out of 3,091 companies identified as high-tech exclusively according to the "high-tech companies" definition, 1,369 are active in another economic sector according to CBS classification, and 1,722 companies did not report as having employees in 2021 or are unidentified. Moreover, later in this report, we will use the "high-tech companies" definition solely to refer to companies that reported having employees, that have a sales turnover or a profit. There were 6,900 such companies in 2020. For further details see Appendix 1.

03

State Revenues from Individual Income Tax and Corporate Tax in High-Tech and the General Economy

In this report, we analyze high-tech taxation's share of total state revenues. The object of the analysis is to understand how the high-tech sector and its employees contribute to the Israeli economy.

The need to examine the sector's contribution to state revenues arose against the background of high-tech's significant contribution to Israel's exports and GDP. The high-tech sector's share of GDP has increased markedly in recent years, among other reasons, because of the rapid growth rate in the number of employees in the sector combined with their high salaries.

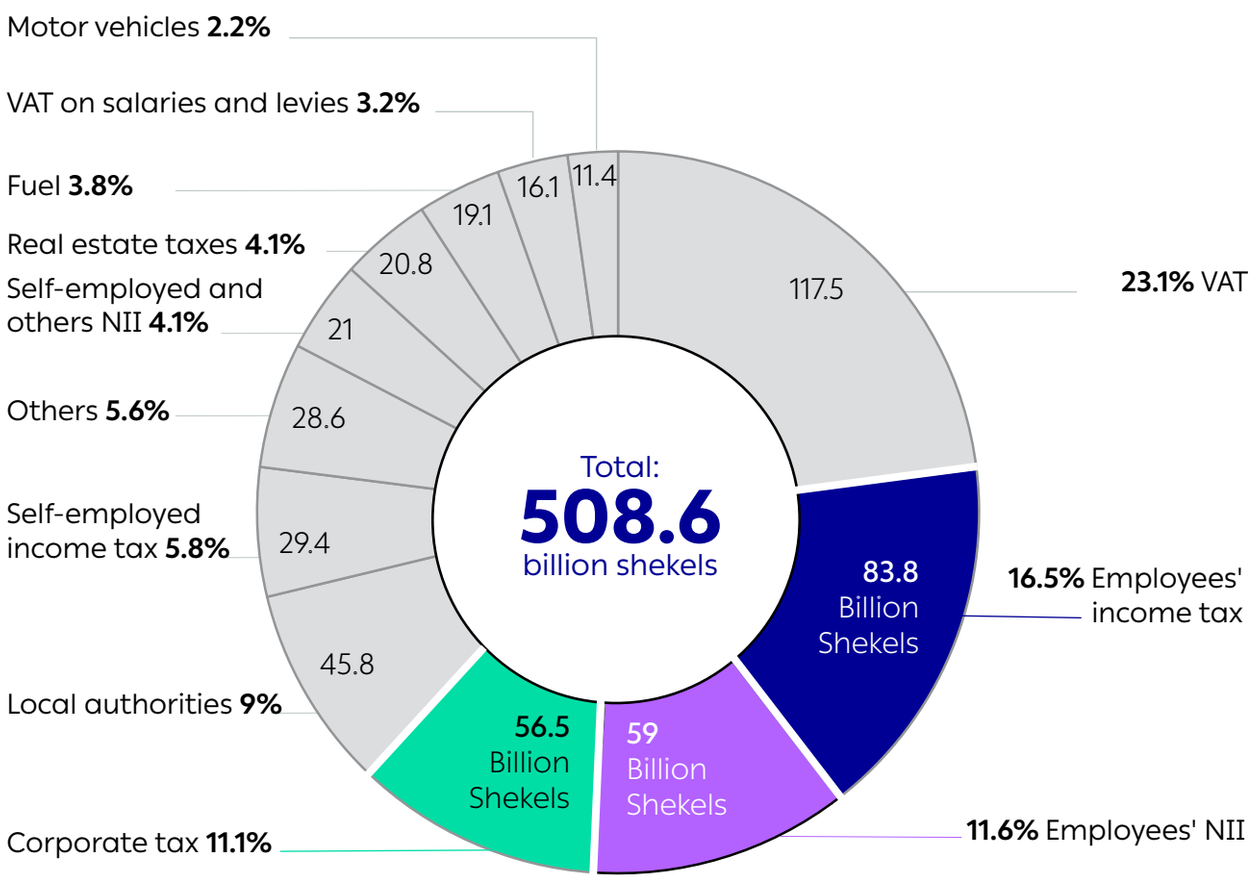
State Revenues from Individual Income Tax and Corporate Tax

The total state revenues stemming from **salaried employees**' income tax in the general economy was estimated at 83.8 billion shekels in 2021. Moreover, a total of 59 billion shekels was collected during this year by the National Insurance Institute (NII - Bituach Leumi) from salaried employees.[9] The total corporate taxes collected stood at 56.5 billion shekels during the same year. Consequently, the total state revenues from work (individual income tax and NII payments) and from companies (corporate tax) stood at 200 billion shekels in 2021. This sum constitutes approximately 40% of all state revenues (508.6 billion shekels).[10] In this report, we will examine the high-tech sector's share in these revenues.

Diagram 2

40% of State Revenues from Tax Collection Stems from Employees and Companies

Distribution of state revenues in Israel (in billions of shekels and %, 2021)



Source: Chief Economist adaptations of Tax Authority collection data

9 NII payments for salaried employees include deductions of both employees and employers.

10 Throughout this report, "all state revenues" refers to broad state revenues that include the central state revenues of 383 billion shekels and revenues from NII and local authorities that totaled 126 billion shekels.

State Revenues from Individual Income Tax and Corporate Tax in the High-Tech Sector

After having presented the general distribution of state revenues from individual income tax and corporate tax, we will now examine high-tech's share in these revenues. In 2020, out of total tax payments from employee salary deductions and companies in the general economy during that year, which totaled 161 billion shekels,[11] **the total tax liability from high-tech activity in Israel – both corporate and individual income tax – stood at 38 billion shekels**. This sum relates to tax collection stemming from all components of employees' salaries (including income tax, capital gains tax from options and stocks awarded to employees deducted by employers, NII payments, and health insurance payments for salaried employees) and from corporate tax payments.

The overall tax liability from high-tech activity in Israel has a direct and significant contribution to state revenues from individual income and corporate taxation: **approximately 24% of the tax payments stemming from companies and salaries.[12] In total, state revenues stemming directly from high-tech activity in Israel equate to 9.2% of the state budget for 2020**. This sum does not include state revenues that do not stem directly from work in high-tech companies,[13] such as VAT payments on private consumption of high-tech employees.

The direct contribution of the high-tech companies to state revenues relies to a large degree on taxation derived from the sector's workforce. **About 85% of state revenues stemming from high-tech in 2020 (32.5 billion shekels) were related to employees**. In other words, the main revenues section impacting the state treasury which is related to high-tech will be influenced – either positively or negatively – by the number of people the companies employ in Israel and by the levels of their salaries. This sum also includes employees' NII payments, most of which are paid for by the employers.

Only 15% of state revenues from high-tech companies stem from taxation directly related to the high-tech companies (corporate tax).

Because most of the state revenues stemming from high-tech are related to the number of jobs in the sector, and because the number of jobs in high-tech and the sector's average salary have increased in recent years, it can be assumed that tax collection related to high-tech in Israel increased between 2021-2023. Moreover, **in light of the rapid growth rate in the number of jobs and in salaries in high-tech, it can be assumed that the sector's relative share of state revenues from taxation will continue to increase during the next tax years for which data will be published (2022-2023)**.

11 It should be noted that high-tech's share of state revenues in 2020 is slightly high due to the Covid crisis that had relative impact on businesses that are not high-tech companies. In an examination of 2019 (that appears in Appendix 2), high-tech makes a significant contribution to the state and shows similar trends. Therefore, despite the deviation that exists in the 2020 data, this publication relates to this year because high-tech activity was not significantly affected by the Covid crisis, and continued to grow markedly, in the number of employees, the number of companies, and state revenues payments.

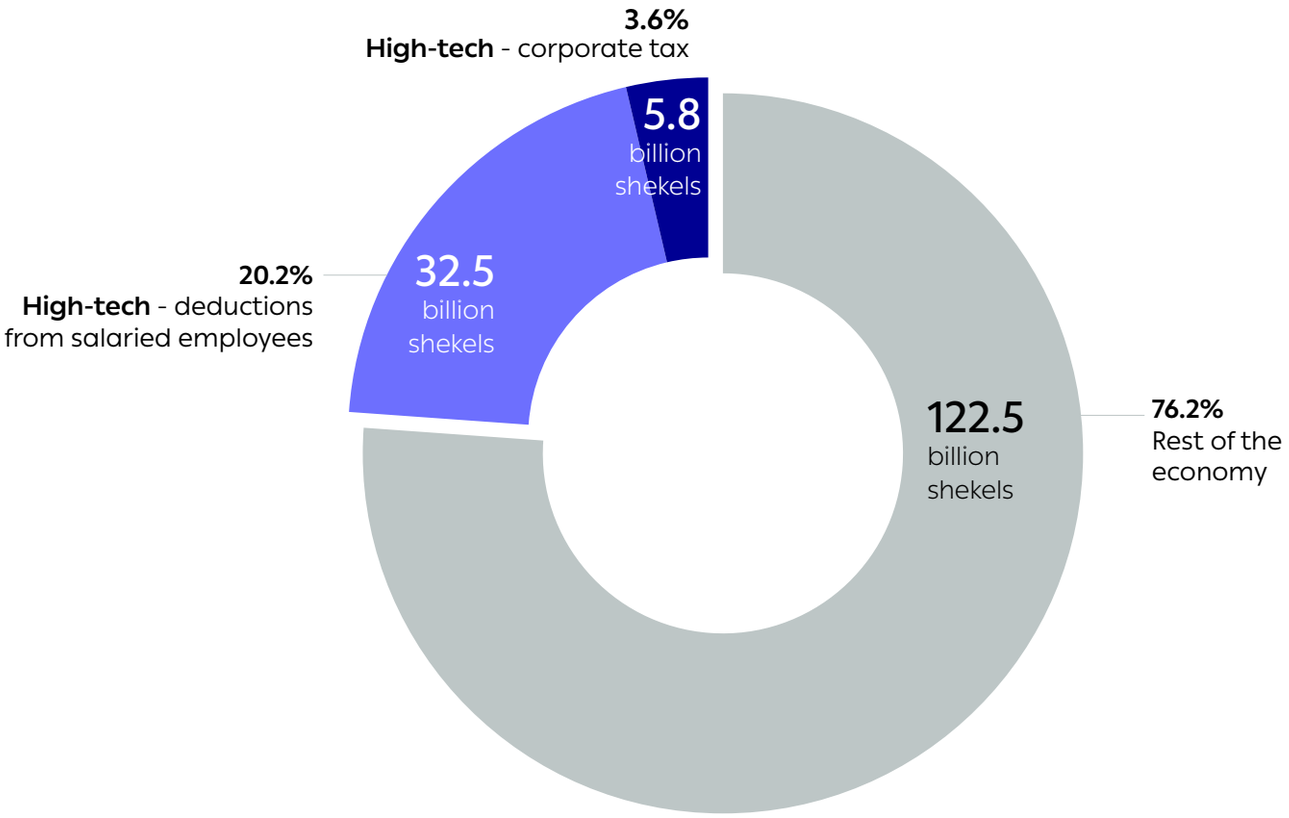
12 In 2020, the state's tax revenues from corporate tax, salaried employees' individual income tax, and NII totaled 161 billion shekels. The parallel figure for 2021 stood at 185 billion shekels.

13 In 2020, the state budget stood at 410.8 billion shekels without the dedicated budget increment for Covid "Covid boxes" (84.8 billion shekels). https://main.knesset.gov.il/about/pages/budget/budgetinfo8.aspx

Diagram 3

A Quarter of State Revenues from Companies and Salaries come from High-Tech

Distribution of state revenues from salaries' income tax and corporate tax in high-tech and the rest of the economy (high-tech companies definition, in billions of shekels and %, 2020)



Source: Chief Economist adaptations of Tax Authority data

The distribution of state revenues from high-tech companies differs from that of the rest of the economy: in short, the revenues stemming from high-tech employees are significantly higher than the rest of the economy, unlike the low share of taxes stemming from the sector's companies.[14]

About 85% of the state revenues from high-tech companies in 2020 were related to their employees. Over half these revenues came from employees' income tax deductions, 5% from capital gains tax (deducted by employers from profits on options or sale of shares), and 29% from NII payments (paid by the employee and the employer). The total state revenues from taxes related to high-tech companies' employees stood at 32.5 billion shekels in 2020.

14 In this context, we refer to tax collected directly from employees ior employers for employees' salaries, such as NII payments. In contrast, indirect taxes (such as VAT, vehicle licensing fees etc.) collected as the result of high-tech employees' consumption or service providers who earn money from the consumption of high-tech employees are not included in the calculation.

51% of the state revenues from tax collection in the high-tech companies stems from salaried employees' income tax, compared to 34% in the rest of the economy, a difference that naturally stems from the high salaries in high-tech which incur high income tax payments.

In contrast, 15% of high-tech's contribution to the state treasury stems from corporate tax, compared to 30% in the other sectors of the economy. This disparity stems from the fact that startups do not generally have profits on which tax is paid and, furthermore, since many high-tech companies benefit from reduced levels of taxation as part of the Encouragement of Capital Investment Law. The revenues from high-tech companies' corporate tax totaled 5.8 billion shekels in 2020.

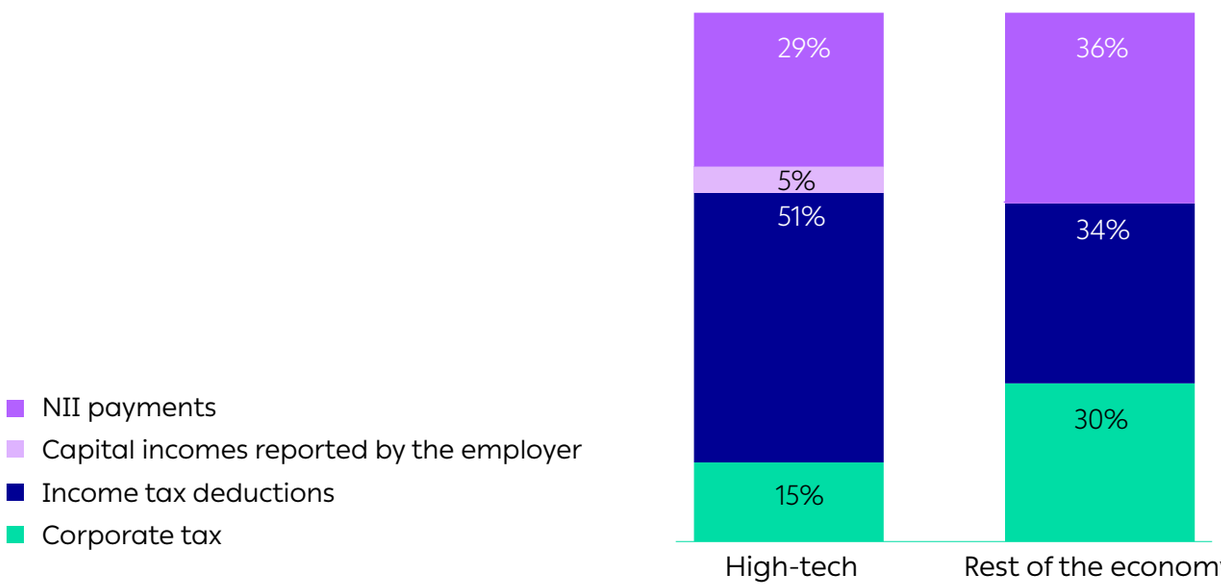
Another unique characteristic of the high-tech sector is the remuneration of employees via allocation of options or shares. In this report, due to a lack of available data, we refer only to state revenues from taxation on capital incomes reported by the employer i.e., incomes reported on employees' pay slips. These incomes constitute 5% of state revenues from high-tech related to employees. Furthermore, there are additional state revenues not surveyed in this report, that stem from payments for capital gains when a liquidity event occurs (an "exit" or IPO) or upon sale of shares.

Israeli high-tech consists not only of Israeli companies but also of multinational technology companies. Despite their small number, the tax liability ascribed to foreign high-tech companies and their employees totaled 13 billion shekels in 2020, approximately 36% of the total tax liability of high-tech companies. Later in this report, we will refer in detail to the share of foreign high-tech companies and their employees in the pie of state revenues from taxes.

Diagram 4

85% of State Revenues from High-tech are Related to Employees

Distribution of state revenues from employees' salaries and corporate tax in high-tech and the rest of the economy (high-tech companies definition in %, 2020)



High-Tech's Share of State Revenues by Categories

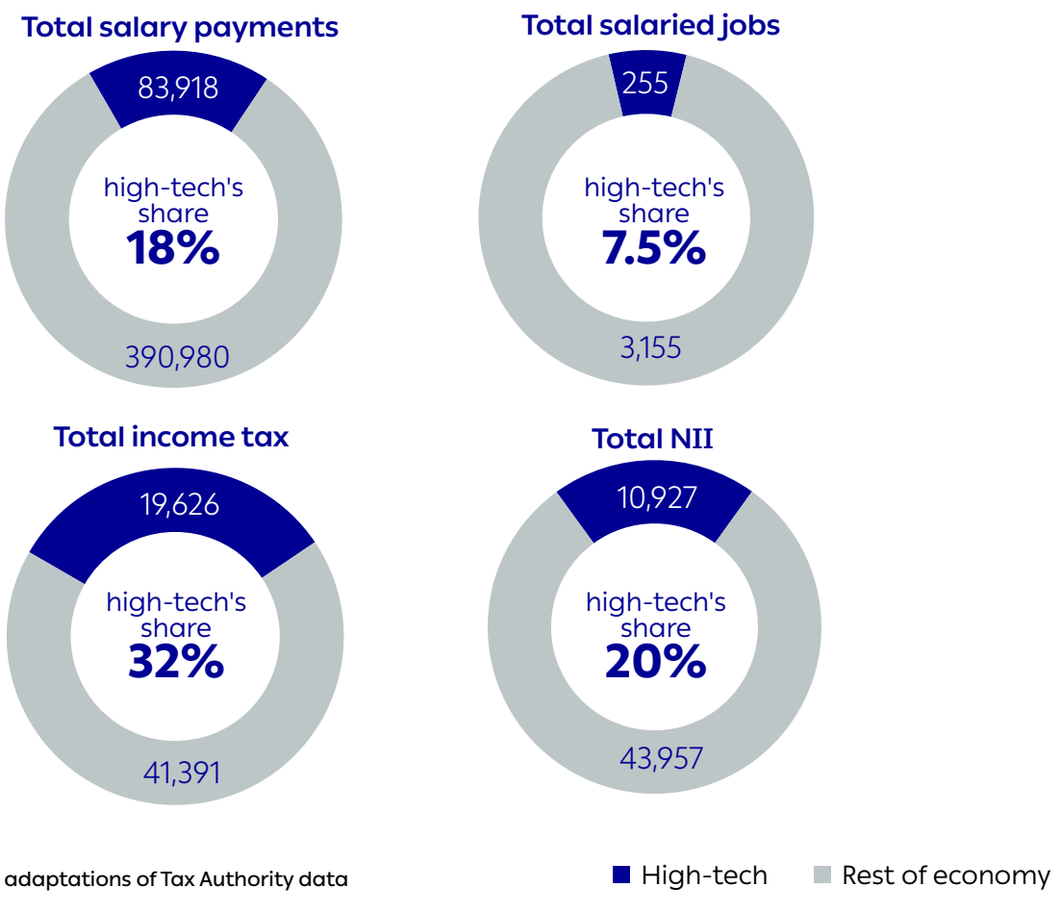
The progressive tax system applied to income tax in Israel means that high-tech employees are responsible for a larger share of income tax payments in Israel than their relative share of the labor market and of salary payments. 7.5% of the salaried employee jobs in Israel were in high-tech companies – and their employees were responsible for 32% of the country's income tax payments in 2020. In other words, **the share of high-tech employees' income tax payments – that amounted to 19.7 billion shekels in 2020 – is four times larger than their share in the workforce** (255,000 in 2020).[15]

High-tech employees' share of income tax payments in Israel is higher than their share of salary payments (18% of all salary payments), as the result of the sector's high salaries being taxed in the upper tax brackets. Nevertheless, high-tech employees pay 20% of NII payments (10.9 billion shekels in 2020, including employers' contributions for health insurance and NII), because NII is a less progressive tax.

Diagram 5

High-Tech Professionals' Contribution: 7.5% of Salaried Employees' Jobs are Responsible for 1/3 of Income Tax in Israel

High-tech's share of all jobs and state revenues from salaried employees' salaries (high-tech companies definition in %, in millions of shekels and thousands of jobs, 2020)



Source: Chief Economist adaptations of Tax Authority data

15 For explanations on the differences in calculating high-tech's share of all jobs and salaried employees, see the Methodology Chapter in pages 9-10.

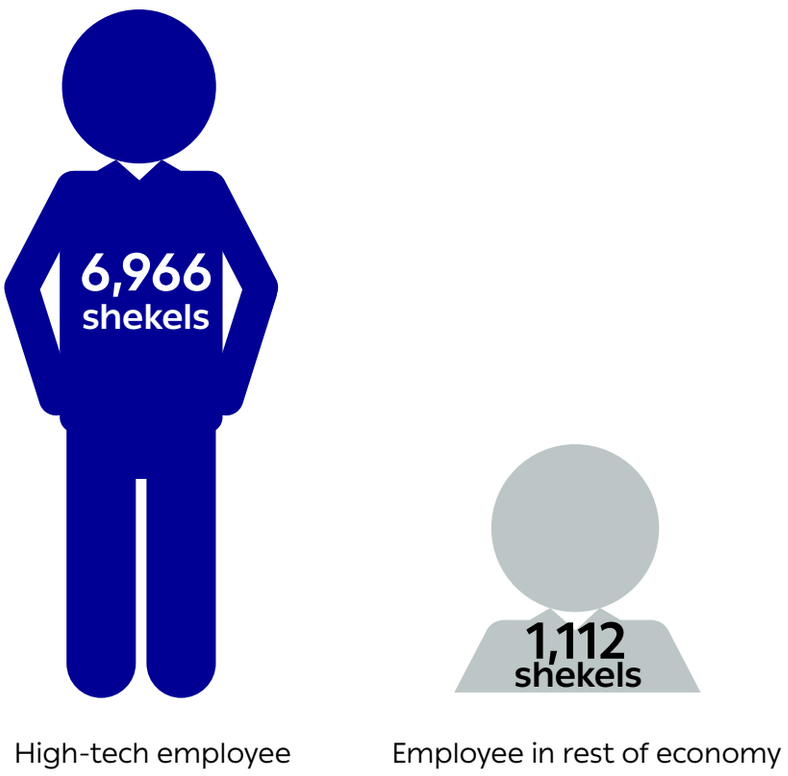
Average Tax Payment of the Employees in Israel

Beyond the high-tech sector's contribution to collecting national taxes, we also examined its employees' income tax payments individually according to various profiles. In 2021, the high-tech employee's average tax payment was six times higher than the average of the rest of the economy: 6,966 shekels a month on average for a high-tech employee compared to 1,112 shekels in the rest of the economy. This sum refers to income tax collected and to capital gains tax and does not include other direct and indirect taxes paid by high-tech employees, such as NII, VAT, and others. The discrepancy in the average tax payment naturally results from the progressive taxation model employed in Israel and from salary disparities. The average high-tech salary in 2021 was almost 3 times higher than that in the rest of the economy, a ratio that is still valid today.[16]

Diagram 6

The Average Tax Payment of a High-Tech Employee is 6 Times Higher Than the Economy Average

Average monthly income tax payment in shekels per job in high-tech and the rest of the economy (high-tech sector definition, 2021)



Source: Innovation Authority adaptations of CBS data

16 According to CBS data, the average salary in a high-tech job in 2023 was 2.7 times higher than the salary for a job in the rest of the economy.

The High-Tech Companies' Share and Contribution out of all Commercial Companies

As presented (on page 15), high-tech companies' share of tax payments is low compared to companies in the other sectors of the economy. In this section, we present a more in-depth analysis of the high-tech companies' tax payments to better understand the reason for this disparity.

According to the Tax Authority data, approximately 29% of the high-tech companies in Israel reported profits in 2020, compared to 47% of the economy's other commercial companies. This difference stems, among other things, from the fact that a relatively large ratio of high-tech companies are in development and early growth stages, compared to the economy's other companies, leading to these companies having expenses and development investments that are higher than their revenues (that sometimes do not yet exist). Nevertheless, the high-tech companies that did report a profit, reported relatively high profitability of 21% on turnover, compared to 14% on turnover in the other commercial companies.

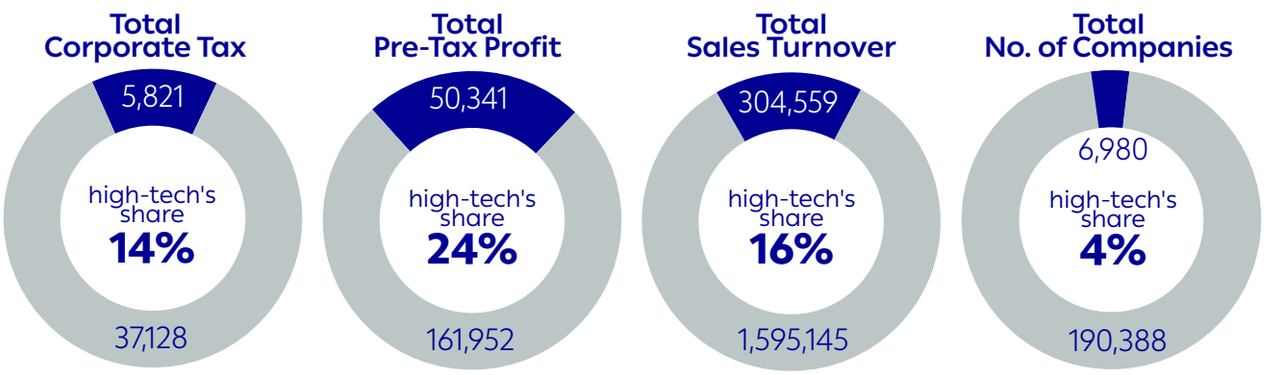
About 7,000 companies meet the definition of high-tech companies. In 2020, these high-tech companies constituted only 4% of all commercial companies in Israel but were responsible for 16% of commercial companies' sales turnover (approx. 300 billion shekels) – 4 times higher than their relative share of the number of companies. Examination of the high-tech companies' pre-tax profits (50.3 billion shekels) reveals that they constitute more than one fifth (24%) of all commercial companies' profits, a significantly higher ratio than the numerical share of these companies. Nevertheless, the bottom line was that these companies pay 14% of all corporate tax in Israel – close to their relative share of the commercial companies' turnover.

The contribution of high-tech companies to state revenues from corporate tax is relatively lower than their revenues and pre-tax profits. This is caused by the fact that **the average tax rate paid by the high-tech companies on their profits is relatively low and stood at 12% in 2020. This compares to an average tax rate of 20% paid by all other companies**. The low tax rate stems from the fact that many high-tech companies benefit from reduced tax rates as part of the Encouragement of Capital Investment Law. Consequently, high-tech companies' tax liability is relatively smaller than their share of profits and totaled 5.8 billion shekels in 2020 (14% of the total tax liability of all commercial companies).

Diagram 7

High-Tech Companies Pay 14% of Corporate Tax in Israel - Similar to their Share of Business Turnover

High-tech's share of all commercial activity and state revenues from corporate tax (high-tech companies, in millions of shekels and %, 2020)



Source: Chief Economist adaptations of Tax Authority data

Development of Tax Payments from High-Tech Companies

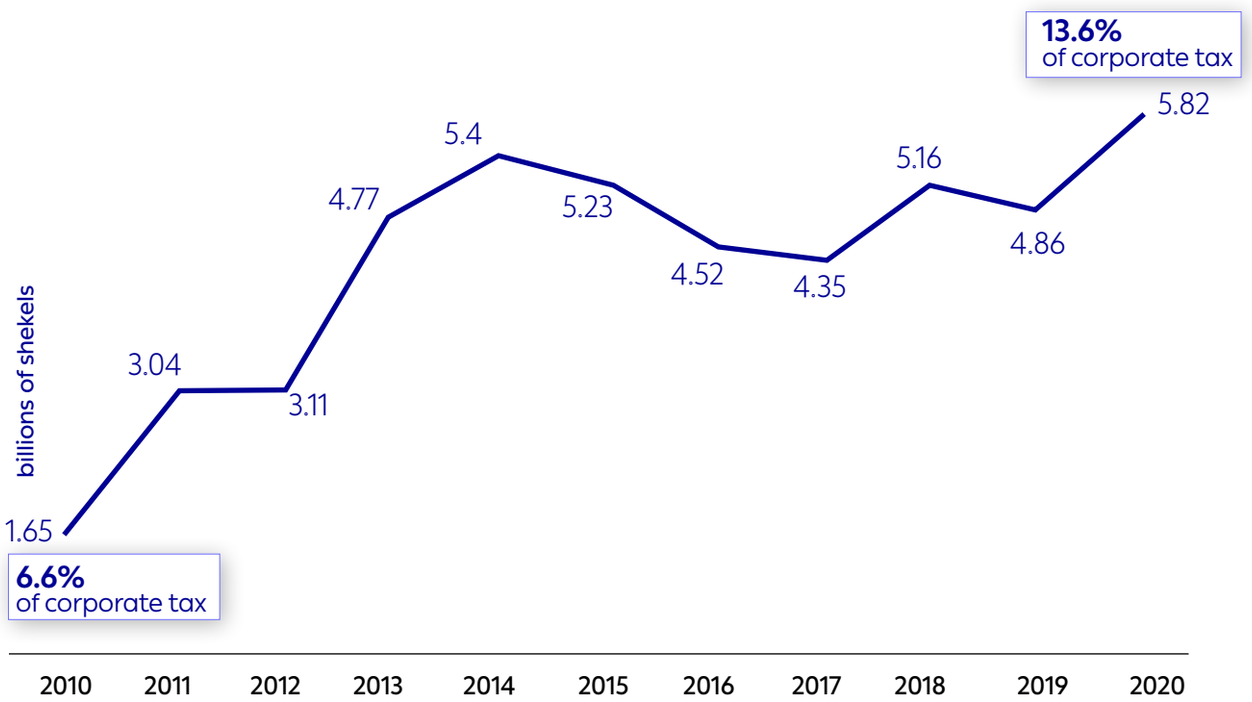
Within a decade, the total tax payments paid by high-tech companies has increased 3.3-fold from the total tax payments of 1.7 billion shekels paid in 2010. In relative terms, the rate of growth in corporate tax payments paid by high-tech companies was higher than that of commercial companies in the rest of the economy. Accordingly, the share of high-tech companies' share of all corporate tax payments increased from 6.6% in 2010 to 13.6% in 2020. This increase stems from a growth in the high-tech companies' business activity and cannot be explained as the result of changes in Israeli corporate tax policy during this period.

These figures illustrate the growing importance of high-tech employees' share of income tax, NII and health insurance payments. In 2020, the total deductions from the high-tech employees stood at 32 billion shekels – 5.5 times higher than the tax collected from the high-tech companies in the same year.

Diagram 8

Total Corporate Tax Payments of High-Tech Companies Grew Nearly 3.5-Fold in a Decade

Corporate tax payments of high-tech companies over time, in current prices (high-tech companies definition, in billions of shekels and %) and their share of corporate tax payments



Source: Chief Economist adaptations of Tax Authority data

The Impact of Growth in High-Tech Employment and Salaries on State Revenues

As presented in the Innovation Authority's annual report "The State of High-Tech 2024", high-tech was the fastest growing sector in the Israeli economy in terms of personnel over the past decade and grew 3 times faster than the other sectors. In total, there were 350,000 jobs in the high-tech sector in Israel – an increase of 28% since 2010. As a result, there was a growth in the relative share of jobs in the high-tech sector compared to those in the general economy.

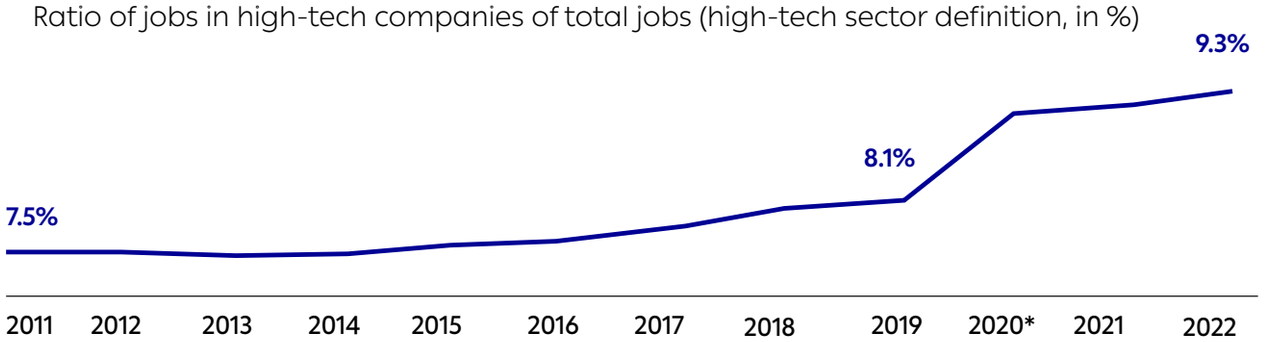
According to other accepted definitions in the high-tech field (including the CBS definition of the high-tech sector which is based on personnel surveys and the tech jobs definition determined by the Perlmutter Committee for Increasing Human Capital in High-Tech), the number of employees is slightly different and their ratio is higher, but the trends of growth are common to the different definitions.

High-tech salaries also rose more rapidly than the increase in salaries in the rest of the economy. The average high-tech salary in 2022 was 27,900 shekels per job – 2.7 times higher than the economy's average for that year. Salaries in the high-tech companies have risen by approximately 50% since 2010, compared to 20% in the rest of the economy during the same period.

Diagram 9

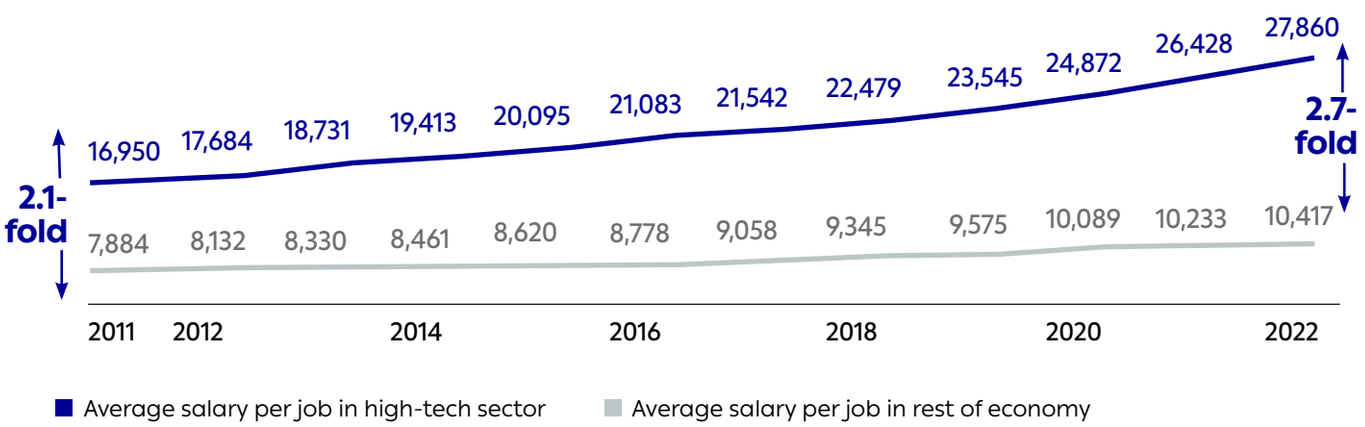
The Ratio of High-Tech Employees is Slowly Increasing, Salary Differences are Growing

Ratio of jobs in high-tech companies of total jobs (high-tech sector definition, in %)



* Part of the increase recorded in 2020 apparently stems from a decline in employment in the rest of the economy during the Covid crisis.

Average monthly salary per job by field (high-tech sector definition, in shekels)



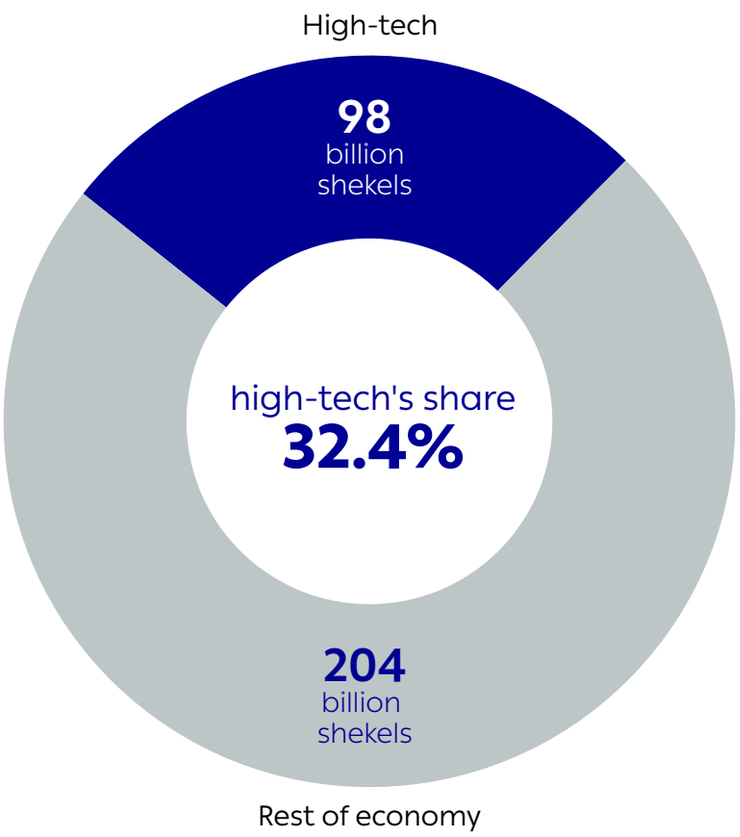
Source: Innovation Authority adaptations of CBS surveys

The high-tech sector's contribution to state revenues has grown in recent years against the background of two trends characterizing the past decade: a rapid growth in the number of the sector's employees and increased salaries.

Diagram 10

High-Tech Employees Paid 100 Billion Shekels Income Tax in a Period of Six Years

Total income tax payments from salaried employees in high-tech and rest of economy (high-tech sector definition, 2016-2021)



Source: Innovation Authority adaptations of CBS data

The growth in high-tech salaries and the number of the sector's employees in recent years has increased the sector's share in state revenues. The result is that changes in high-tech salaries or employment have a more significant impact than other sectors on tax collection in Israel. High-tech employees' share of income tax payments in Israel has grown markedly within a decade and stands in recent years at one third or more of Israeli income tax payments.[17]

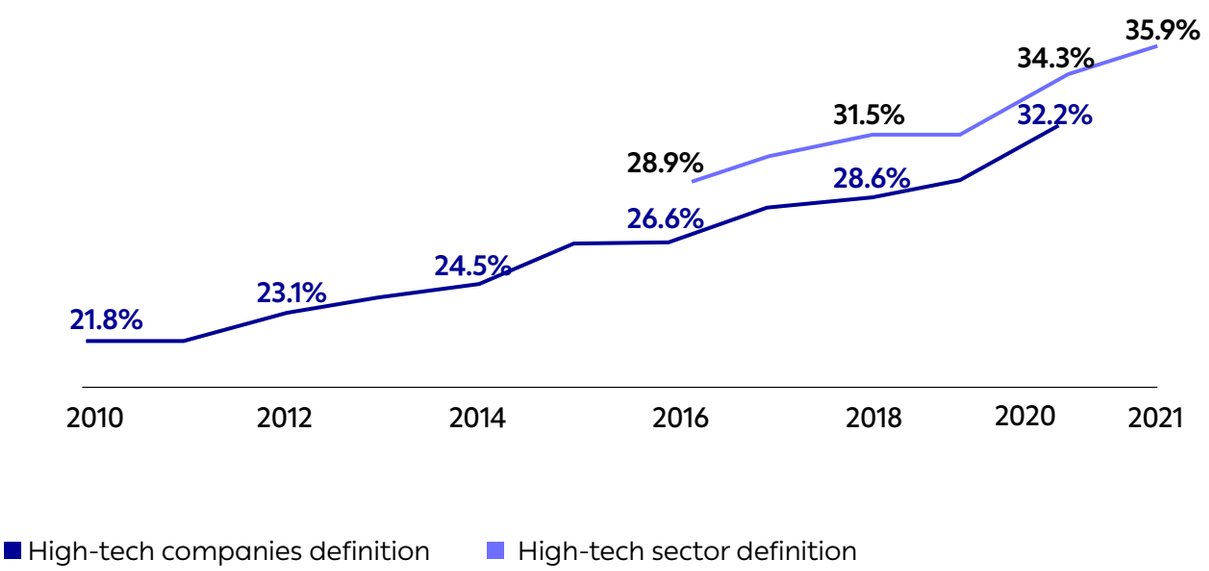
The high-tech employees' share in the tax pie increased from 29% of all income tax payments in 2016 to 36% in 2021 – an increase of nearly 25% in five years. Regarding the sums collected from high-tech employees, they increased from 12.6 billion shekels in 2016 according to the high-tech sector definition,[18] to 21.8 billion shekels in 2021 i.e., an increase of over 66% during this period. The tax payments of the employees in the other sectors of the economy increased by only about 21% during the same period, from 31 billion shekels to 39 billion shekels.[19]

Between 2022-2023, the share of the high-tech sector's employees in income tax payments has apparently continued to increase, because the growth in the number of high-tech employees continued at a faster rate than that of the rest of the economy, and their salary rose at a sharper rate compared to the economy's average salary.

Diagram 11

A Third of Salaried Employees' Income Tax Payments in Recent Years Came from High-Tech Employees

Ratio of high-tech employees' income tax payments on work of all employees' total income tax payments on work



Source: Chief Economist adaptations of Tax Authority data and Innovation Authority adaptations of CBS data

17 This finding is valid under both definitions examined in this report for analyzing the high-tech sector.

18 According to the 2021 "State of High-Tech" Report, high-tech employees paid 25% of all income tax payments in Israel in 2018. This figure is lower than that presented here, with the difference stemming from a change in the basis of counting that also included the holders of controlling interest in closely held companies.

19 A similar trend is reflected when using the high-tech companies' definition. The income tax payments of the sector's employees rose from 7.5 billion shekels in 2010 to 19.7 billion shekels in 2020 – an increase of 147% within a decade. The income tax payments of employees in the other sectors of the economy rose by only 45% during the same period, from 26 billion shekels to 41 billion shekels.

Capital Gains Tax Payments Related to Work in High-Tech

High-tech employers customarily award employees on all levels options and shares as part of their remuneration, in addition to their monthly salary. In liquidation events in private companies (mergers and acquisitions, initial or secondary stock offerings), the options are monetized for the company's employees. Furthermore, some public technology companies – Israeli and foreign – also award employees shares. On liquidation events in private companies and when exercising shares in public companies, employees pay tax on capital gains stemming from work, in addition to income tax on their salary and payments to NII.[20]

In general, state revenues from capital gains of high-tech sector employees vary and are directly influenced by M&A activity and by prices of the public companies' shares, more than the fluctuations in the income tax payments of the sector's employees. This is because salaries tend to increase moderately and without sharp changes over time. Considering the fact that the years 2021-2022 were record years in terms of liquidation events of Israeli high-tech companies, it can be assumed that the sum paid for capital gains tax of salaried high-tech employees during that period was relatively higher than in previous years.

Most of the options and shares allocated to Israeli high-tech employees are awarded in a capital track.[21] This means that the employees pay capital gains tax of 25% for this benefit, a level that is generally lower than the rate of marginal tax that they pay on their salary income.[22]

Due to the limited data, it is impossible to precisely estimate the state revenues stemming from high-tech employees' capital gains tax payments. The Ministry of Finance will publish a future clarification on this matter. Nevertheless, it should be noted that part of the taxation on options and shares of high-tech companies' employees is deducted by their employer via their pay slip (in the capital track). These deductions totaled 1.7 billion shekels in 2020.[23] This tax payment reflects high-tech employees' income from options and shares from which tax was deducted by employers of 7.4 billion shekels in 2020.

Furthermore, some of the high-tech employees' options and shares are held by trustees. As noted, it is impossible to precisely estimate the state revenues stemming from high-tech employees' capital gains tax payments on options and shares held by trustees. Details on this subject will be published in a separate report.

20 The capital gains tax figures refer to capital gains stemming from sales of securities by employees in a capital/benefit value track and do not include data connected to capital markets investments and other investment tracks not related to work.

21 According to Section 102 of the Tax Order.

22 The Tax Order stipulates tax directives in relation to allocation of securities to employees (shares or options) that include two main tracks: the benefit value track whereby the employee is taxed on the benefit with a marginal tax rate of up to 47%; and a capital track where the tax rate is 25% (excluding surtax). It should be noted that in the capital track, in the event of allocation of a public company's securities, part of the benefit component will be taxed with benefit value tax.

23 The estimation is based on data from the large trustee portfolios. This chapter only surveys the capital gains for salaried high-tech employees, not including the entrepreneurs.

Summary: State Revenues from Work and Companies in High-Tech

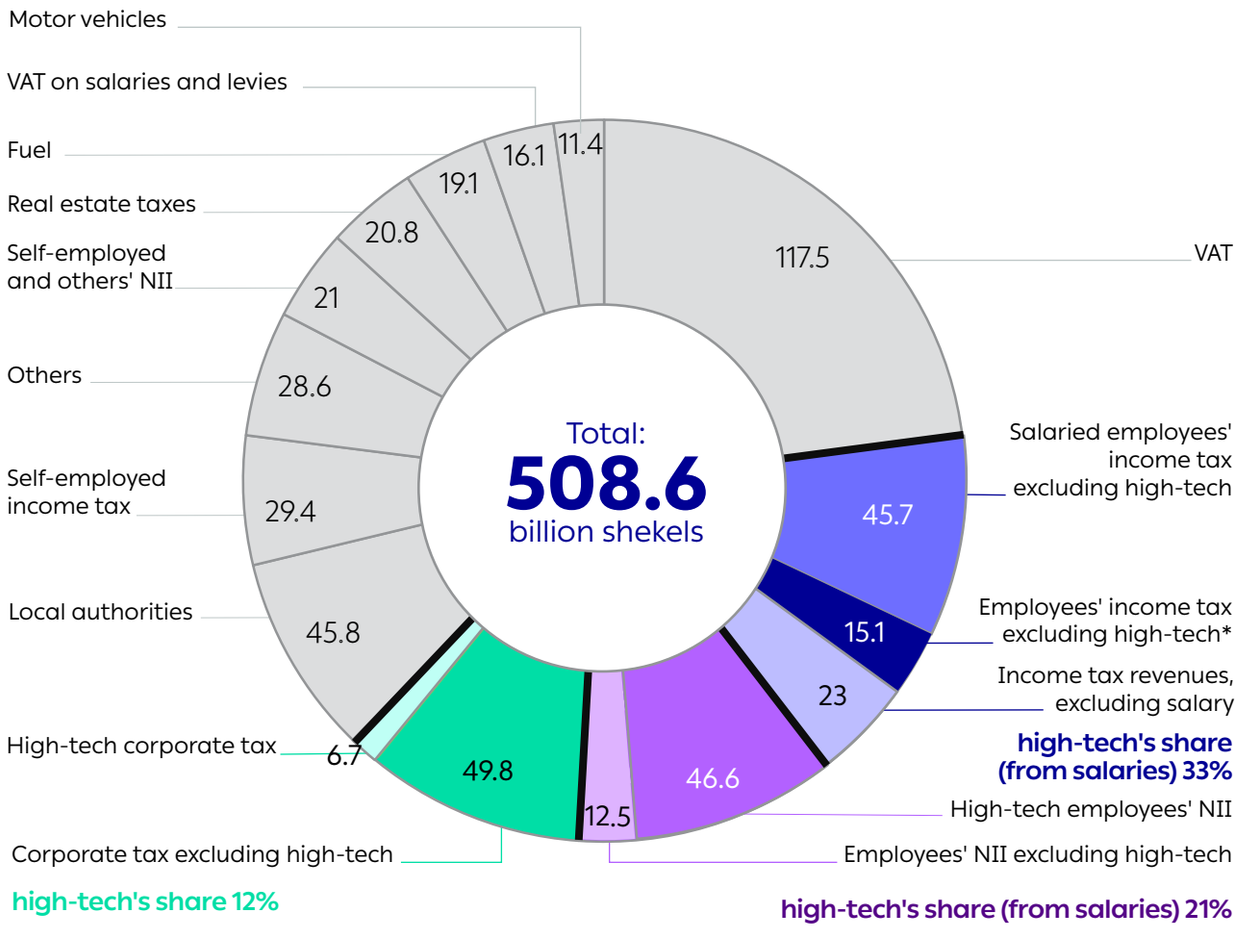
To summarize this section, high-tech's significant contribution to the national economy stems primarily from payments related to the sector's employees. Thanks to the progressive tax structure in Israel, the tax payments stemming from high-tech employees' income tax and NII payments are larger than their relative share of the population of salaried employees in Israel.

As noted, 40% of the tax collected in Israel stems from payments related to employees and companies and totaled 200 billion shekels in 2021. Of this sum, the portion examined in this report stood at 185 billion shekels.[24] High-tech's share of this sum is estimated at 24%. High-tech employees' share of income tax payments is 33% while their share of NII payments stands at 21%. Moreover, 12% of corporate tax payments stem from high-tech.

Diagram 12

A Tenth of State Revenues From Tax Collection Stems From High-Tech Employees and Companies

Distribution of state revenues from taxation in Israel and high-tech's share (in billions of shekels and %, 2021)



Source: Chief Economist adaptations of state revenues data

* About 2.7 billion shekels are attributed to capital gains tax reported by high-tech employers (in the capital track).

24 Approx. 15 billion shekels collected to the state coffers in 2021 were income tax revenues not stemming from salaries (e.g., for pension payments).

04

An Analysis of State Revenues from the High-Tech Sector, by Category

After having presented high-tech's contribution to the Israeli economy via tax payments, this section analyzes the distribution and characteristics of tax payments within the high-tech sector.

As shown above, 85% of the collected taxes from the high-tech sector can be attributed to the sector's employees.

In this section, we expand on the differences in tax payments among various groups of high-tech employees. The primary variable influencing these differences is the salary paid in each respective group.

The analysis reveals that 70% of the taxes in the high-tech sector stem from employees in companies located in Tel Aviv and central Israel, and that most of the taxes collected from high-tech employees are from men employed in high-tech companies in these districts. It should be noted that this occurs following recent years' increase in taxes collected from employees of companies in Tel Aviv.

80% of high-tech employees' taxes are attributed to men employed in high-tech companies – although the ratio of men in the sector stands at 66%. This ratio is higher than the average in the rest of the economy, where 74% of the income tax is collected from men.

As we showed in the previous section, the income tax collected from high-tech sector employees increased during recent years, an increase that stemmed from a rise in both their number and their salary. The established high-tech companies, which are responsible for most of the tax payments were, originally, young startups.[25] The continuous decline in fundraising by Israeli startups, as recorded in previous quarters, may curb this growth. Such a change will also impact the taxes collected from the high-tech sector in Israel.

25 For further information about the opening of startups in Israel, see the study conducted by the Innovation Authority and the SNPI Research Institute

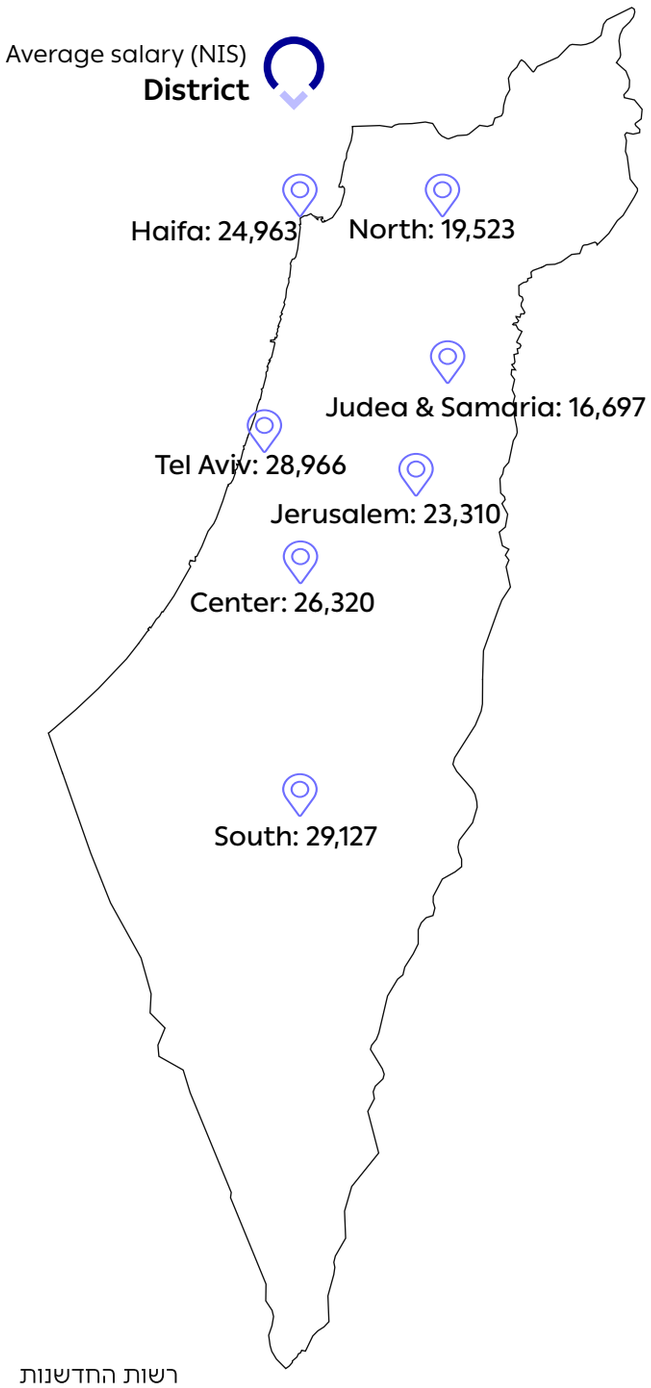
Average High-Tech Salary Data

To conduct an in-depth analysis of the income tax payments of employees in Israeli high-tech companies, it is important to understand the differences in salary as are reflected in the various categories. As part of the data generated especially for this report, we are presenting in-depth data on the influence of gender, company headquarters' location, the company's designation whether international or local, and of specific population groups on the average salary in high-tech companies. We subsequently show how differences in the contribution of tax payments to state revenues are influenced by salary disparities according to the various characteristics examined.

Diagram 13

The Highest Average High-Tech Salary: Jewish Men in Foreign Companies in the Southern District

Average monthly salary per high-tech job, in NIS, according to high-tech sector definition, 2021



Average salary (NIS)
Gender

- Men: 30,411
- Women: 19,777

Average salary (NIS)
Population

- Jews*: 27,201
- Arabs: 19,260
- Ultra-Orthodox Jews**: 16,623

* Includes "other" populations

** Definition of ultra-Orthodox Jews - according to type of educational institution supervision in administrative files

Average salary (NIS)
Local / Foreign company

- Local company: 24,969
- Foreign company 32,594

Source: Innovation Authority adaptations of CBS data

Diagram 14

The Most Common High-Tech Jobs for Nearly all Population Groups in Israel are in Local Companies in Tel Aviv

The most common profiles of high-tech jobs*, by population and gender

Source: Innovation Authority adaptations of CBS data

* The number of jobs in this graph was calculated per month i.e., a person moving from a local company to a foreign company will be counted twice, once under each profile. Calculation of the average monthly salary takes into account the no. of actual work months typical of each job and profile.

Salary and Tax Payments in Israeli and Foreign High-Tech Companies

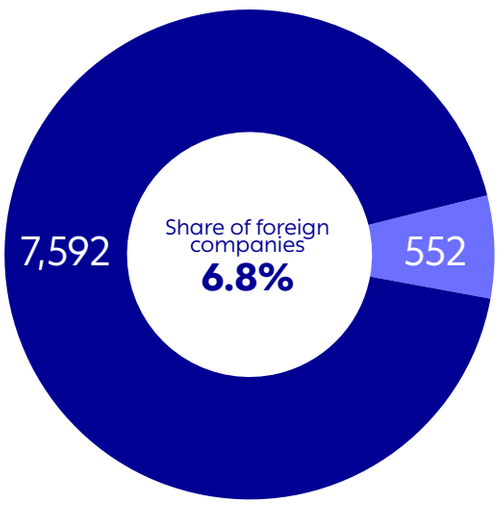
The high-tech sector is divided between local companies that were founded in Israel and foreign (multinational) companies. The category of local companies includes a diverse range of companies – including companies that manufacture tangible products, veteran software companies, growth companies, and young startups. Among the category of foreign companies are those with widespread activity in Israel that includes possession of intellectual property (IP), and companies whose primary activity is overseas and their activity in Israel focuses on the development of innovative technologies in dedicated development centers. Some of the development centers were created as the result of M&A of local high-tech companies.

The category of foreign high-tech companies is relatively small and included 527 companies in 2020, compared to about 6,400 local high-tech companies.[26] In other words, the foreign companies constitute less than 8% of the high-tech companies in Israel. Nevertheless, their contribution to the Israeli economy is significantly larger than their relative size.

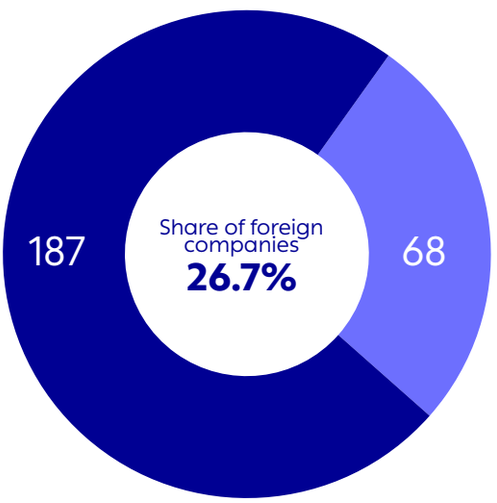
Diagram 15

The Foreign Companies are Less than 8% of High-Tech Companies and Employ a Quarter of the Employees

No. of high-tech companies active in Israel, by company type (high-tech companies definition), 2020



No. of jobs in high-tech companies, by company type (high-tech companies definition), 2020



Source: Chief Economist Division adaptations of Tax Authority data

Local high-tech companies Foreign high-tech companies

Two prominent characteristics typify the activity of foreign high-tech companies in Israel: the first of these is the salaries they pay their employees, which are higher than the accepted average in high-tech. For example, in 2020, **the average salary in foreign companies in the high-tech sector stood at 33,900 shekels – 35% higher than the average salary per job in the local high-tech companies that was 25,000 shekels on average i.e., an average monthly disparity of 8,843 shekels**. The second unique characteristic of the foreign high-tech companies' activity in Israel is the manner the taxable income is calculated according to the "cost plus" method.[27]

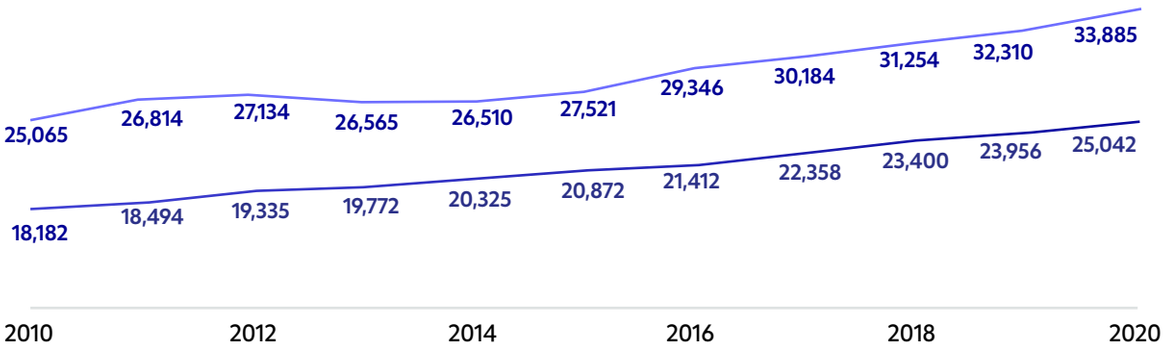
26 Local companies purchased by multinational companies may appear as a local or foreign company, according to the following principle: if the purchased company maintains managerial and product independence, it will continue to be defined as a local company. If not, it will, in most cases, be defined as a foreign company (according to IVC definitions).

27 In many cases, the "cost plus" tax model refers to foreign-owned R&D centers whose primary activity is R&D. In this structure, the local company under foreign ownership, sells R&D services to another corporation in the group at a price that reflects the operating cost plus a fixed level of profit determined by a transfer pricing model.

Diagram 16

The Foreign High-Tech Companies Pay Employees 30% More

Monthly salary per job in high-tech, by company type (high-tech companies definition, in NIS), current data



Source: Chief Economist Division adaptations of Tax Authority data

Income Tax Paid by Employees of Foreign High-Tech Companies in Israel

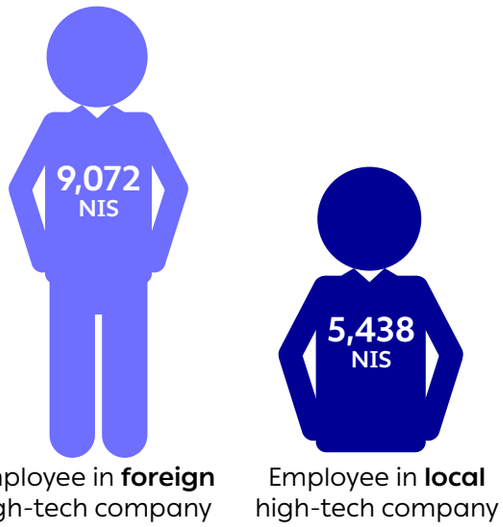
In 2020, the collection of income tax from employees of the foreign high-tech companies totaled 7.4 billion shekels compared to 12.2 billion shekels collected from employees in local high-tech companies.

In 2020, the annual average monthly income tax payment of the employees in the foreign high-tech companies stood at 9,072 shekels per employee, 67% higher than that of the employees in the local companies that stood at 5,438 shekels.

Diagram 17

Average Monthly Income Tax Payment in Foreign High-Tech Companies is 67% Higher Than in Local Companies

Average monthly income tax payment per job, by company type (high-tech companies definition, 2020)



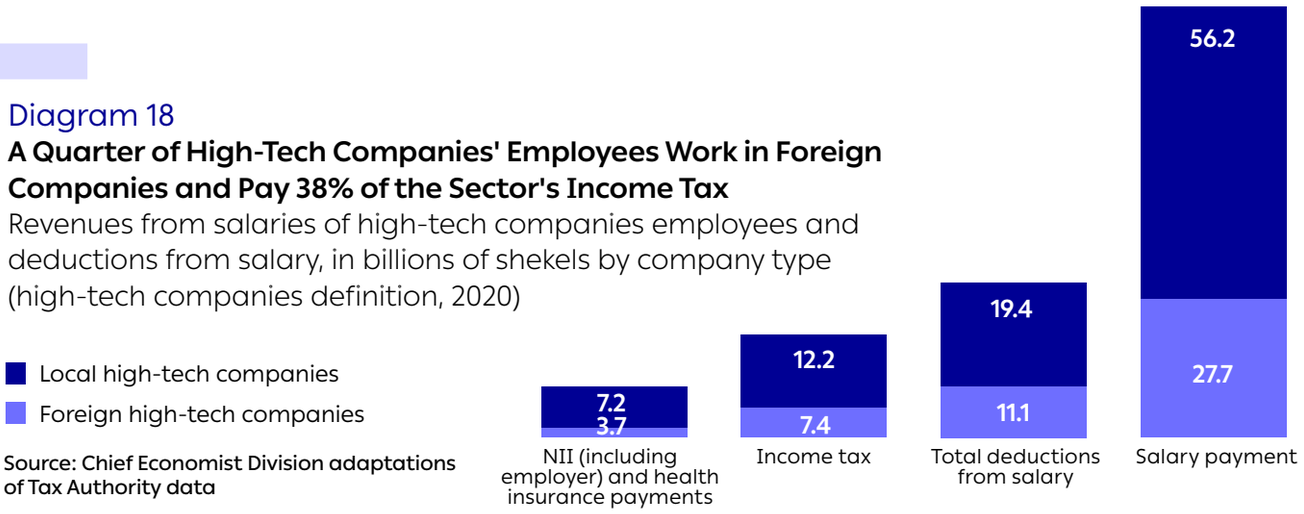
Source: Chief Economist Division adaptations of Tax Authority data

Like the foreign high-tech companies themselves, the contribution of the employees in the foreign high-tech companies to state revenues is higher than their relative share of high-tech company employees. 27% of all the high-tech employees who worked in foreign companies in 2020 received 33% of the total salary payments in the sector's companies – a total of 27.7 billion shekels. Nevertheless, because their salary is in the highest tax bracket, their share in total income tax payments is 38% (7.4 billion shekels). Of the total sums (including NII payments and income tax) deducted from employees in high-tech companies, their share stood at 36%.

Diagram 18

A Quarter of High-Tech Companies' Employees Work in Foreign Companies and Pay 38% of the Sector's Income Tax

Revenues from salaries of high-tech companies employees and deductions from salary, in billions of shekels by company type (high-tech companies definition, 2020)



Source: Chief Economist Division adaptations of Tax Authority data

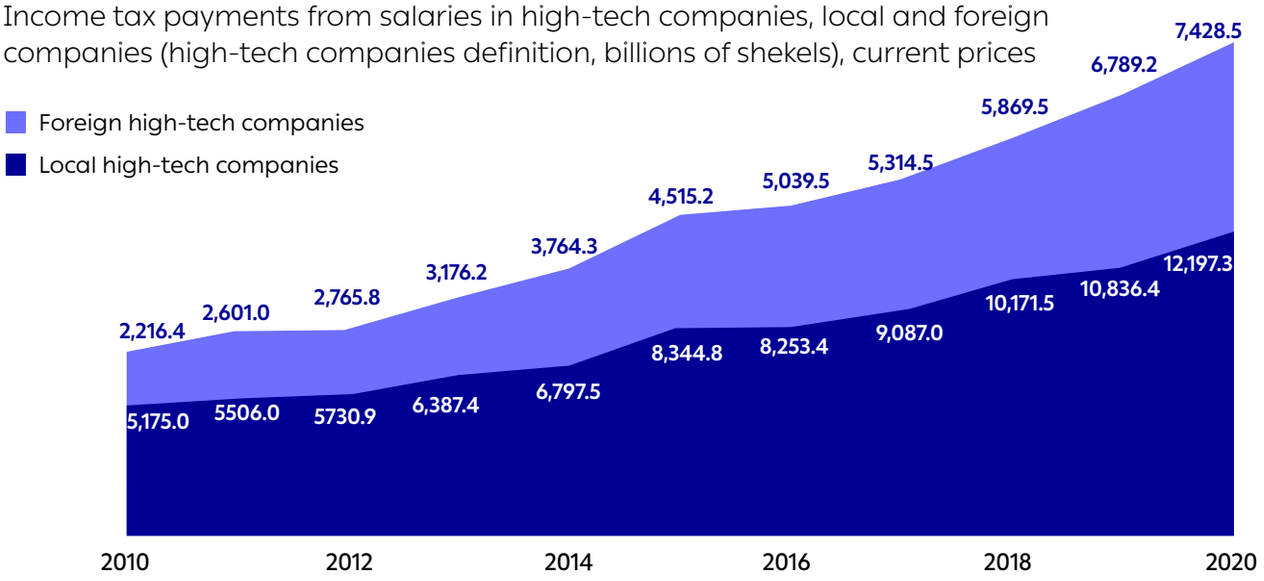
In 2020, the employees in the foreign high-tech companies were only 2% of all the salaried employees in the Israeli economy but were responsible for 12% of the country's income tax payments i.e., six-times higher than their relative share of the total number of the economy's salaried employees. This compares with 5.5% of the economy's salaried employees who worked in the local high-tech companies and were responsible for 20% of the income tax payments in Israel that year (i.e., 3.6 times more than their relative share).

In terms of the rate of increase, between 2010-2020, the local companies' employees increased their income tax payments by 119%,[28] while the foreign companies' employees increased their payments by 212%. In other words, the share and importance to the economy of the foreign companies' employees is steadily increasing.

Diagram 19

The Tax Payments of Foreign High-Tech Employees Grew More Than 3-Fold in a Decade

Income tax payments from salaries in high-tech companies, local and foreign companies (high-tech companies definition, billions of shekels), current prices



Source: Chief Economist Division adaptations of Tax Authority data

28 The rate of change here and later in this chapter is presented in 2010 prices.

One explanation for the higher increase in the income tax payments of foreign high-tech companies' employees in relation to the local companies is the high salaries they pay. Between 2010-2020, the salaries in the local high-tech companies increased by 38% (an increase of 6,860 shekels), while in the foreign high-tech companies they increased by a similar rate of 35% (8,802 shekels). Although the rate of salary increase was similar during the period examined, the higher salaries in the foreign companies and the compassionate progressive tax model in Israel mean that the tax payments of the foreign companies' employees increase at a higher rate.

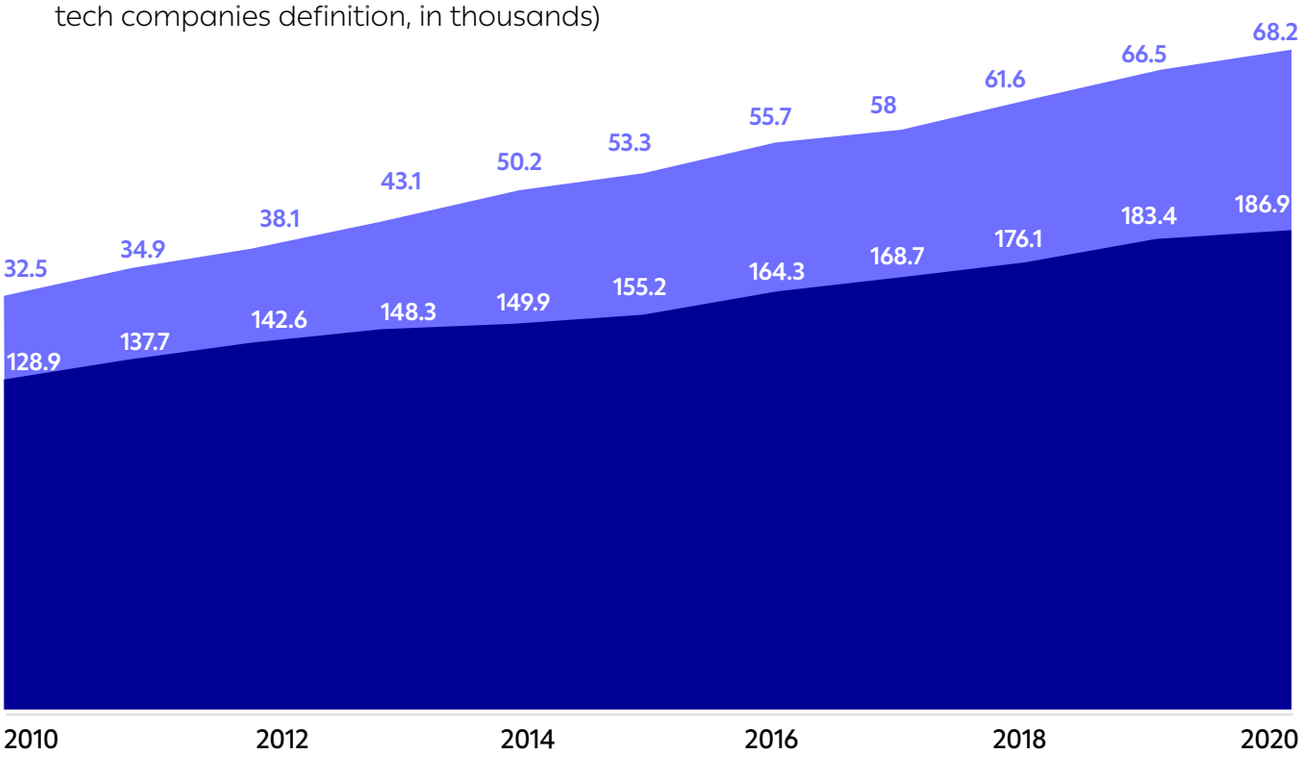
Another explanation for the increase in the income tax collected from the foreign companies' employees is the rapid growth in employment these companies. According to the high-tech companies' definition, between 2010-2020, the number of jobs in the local high-tech companies grew by 45% (about 58,000 jobs), compared to an increase of 110% in the foreign high-tech companies (36,000 jobs). Consequently, the relative share of the foreign companies' employees out of the total number of high-tech companies' employees increased from 20% in 2010 to nearly 27% (68,000 employees) a decade later in 2020.[29]

The increase in employment in the foreign high-tech companies has led to a change in the composition of tax collection between the local and foreign companies, and the share of the foreign companies in the economy's total income tax payments from salaries has risen significantly from 7% to 12%.

Diagram 20

Employment in the Foreign High-Tech Companies Grew 110% in a Decade

Development of no. of employees in high-tech companies, local and foreign companies (high-tech companies definition, in thousands)



Source: Chief Economist Division adaptations of Tax Authority data

29 According to the R&D survey conducted by the CBS, that is based on the high-tech sector definition, the ratio of jobs in the R&D centers out of the total jobs in the high-tech sector stood at 17.7% in 2021: 58,500 jobs in the R&D centers out of a total of 331,200 jobs in the high-tech sector (excluding communications). See here and here

The high salaries paid by the foreign high-tech companies in Israel, and their ability to continue competing for employees by virtue of these salaries led to a growth in state revenues from income tax deducted from salaries in these companies.

In light of the salary disparity and, considering the fact that the income tax payments of the foreign high-tech companies constitute 38% of all income tax payments in high-tech, the decisions made at the foreign companies' headquarters about employing workers in Israel or their remuneration, will directly influence state revenues from high-tech.

Corporate Tax Paid by the Foreign High-Tech Companies in Israel

Although the foreign companies constitute just 8% of the high-tech companies in Israel and employ one fifth to a quarter of the high-tech employees in Israel (according to the different definitions) – they are responsible for a third of the sales turnover of high-tech companies, amounting to 103.6 billion shekels in 2020. Furthermore, the foreign high-tech companies' share in the total pre-tax profits and corporate taxation also stands at about a third of all the high-tech companies.

In terms of numbers, the foreign high-tech companies constitute less than 0.3% of all the economy's commercial companies, however they are responsible for 5% of the sales turnover of all the commercial companies in Israel. The average turnover of a foreign high-tech company in 2020 stood at 196 million shekels, while the average turnover of a local high-tech company was just 31 million shekels – more than 6-times higher.

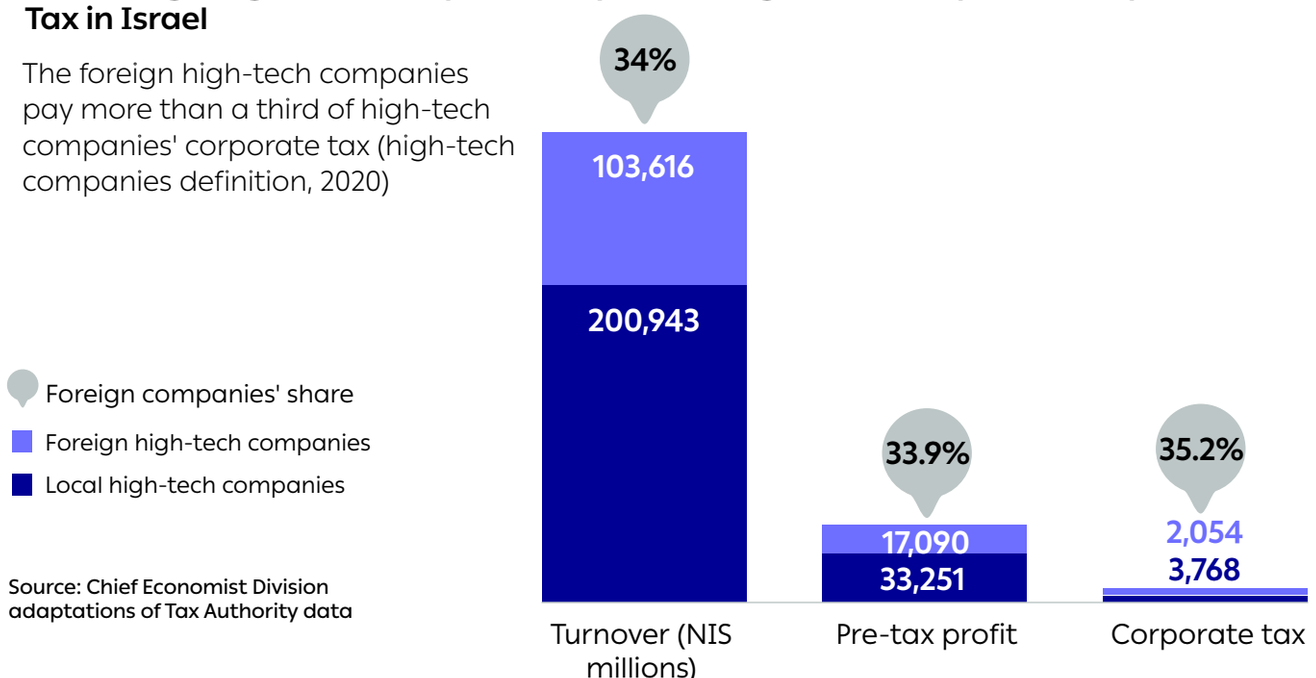
Approximately 60% of the foreign high-tech companies reported an average profit rate of 19% (compared to an average of 23% reported by the local high-tech companies), and the tax rates paid by these companies on their profit stood at 12%, similar to the average of the local high-tech companies (that stood at 11%).

In total therefore, the foreign companies' share of the corporate tax paid by companies in the high-tech sector in Israel stands at 35%. The tax paid by the local high-tech companies in 2020 was 3.8 billion shekels, whereas the foreign companies paid 2.1 billion shekels. The five foreign high-tech companies with the largest sales turnover account for about half of the corporate tax paid by the foreign high-tech companies in Israel.

Diagram 21

The Foreign High-Tech Companies Pay 35% of High-Tech Companies' Corporate Tax in Israel

The foreign high-tech companies pay more than a third of high-tech companies' corporate tax (high-tech companies definition, 2020)



Source: Chief Economist Division adaptations of Tax Authority data

Tax Payments According to Location of Company's Headquarters

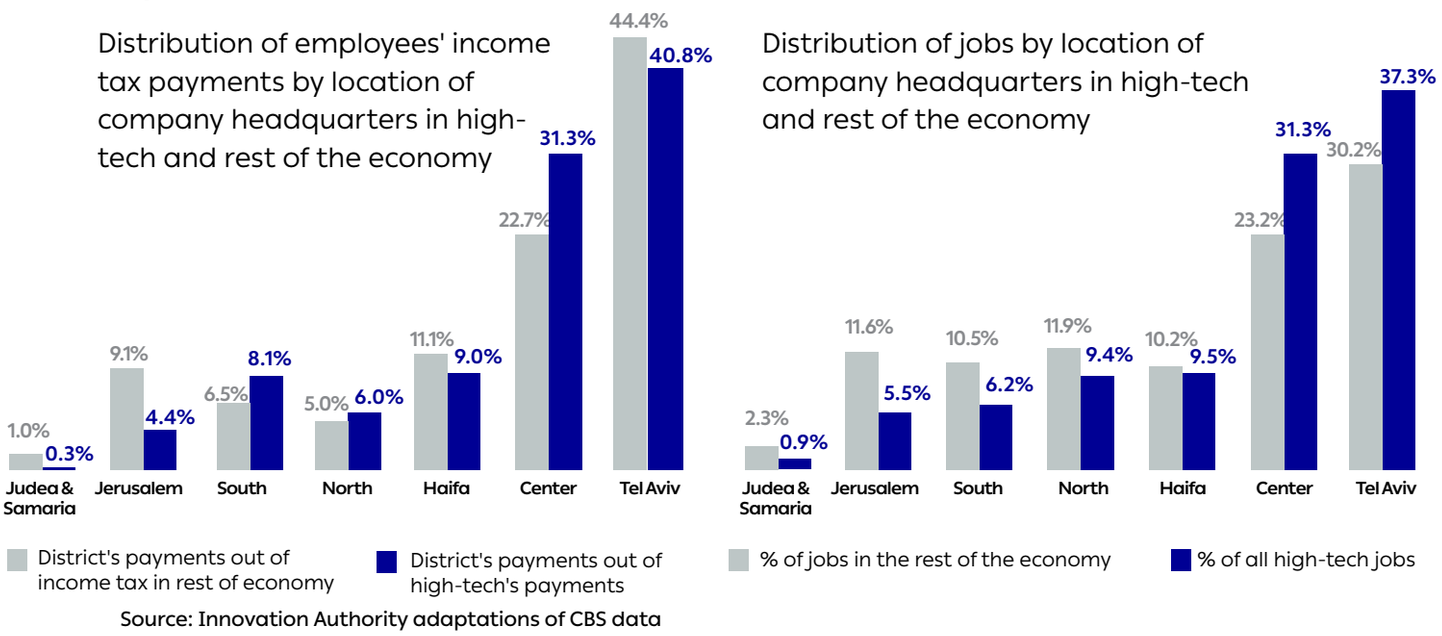
As far as the rest of the economy is concerned, the high-tech sector is characterized by a high degree of centralization of its employment centers and employees, primarily in central Israel. 68% of the jobs in the high-tech sector in 2016-2021 were in companies registered in the Tel Aviv and Central Districts, compared to 53% of the jobs in the rest of the economy.[30] The data indicates a concentration of the technology companies in a relatively limited area, and that there are relatively fewer high-tech employment opportunities in Israel's geographical and social periphery. The tax payments by high-tech sector employees also reflect this trend, although to a lesser degree. 72% of the income tax payments by high-tech employees between 2016-2021 were paid by those employed in high-tech companies located in the Tel Aviv and Central Districts (this figure reached 75% in 2021). In the rest of the economy, the employees in these two districts paid 67% of the income tax. The tax payment by high-tech sector employees in the Tel Aviv District is especially prominent. While the employees in the rest of the economy in the Central District pay 23% of all income tax payments, among high-tech employees, this figure stands at 31%.[31]

The ratio of jobs and tax payments in the high-tech sector in the Haifa and the Northern Districts is similar to the relative share of the employees in the other sectors of the economy. In contrast, the ratio of jobs and tax payments of high-tech sector employees in the Jerusalem District is about half that of the employees in companies in the other sectors in that district. In the Southern District, the ratio of high-tech jobs out of all the jobs in that sector stands at 2.6% compared to 5.1% of the jobs in the rest of the economy. Nevertheless, when examining the tax payments of employees in companies in the district, the share of workers in the high-tech sector increased to 18% whereas the share in tax payments by employees in the other sectors in that district drops to 5.6%.

Diagram 22

Over 70% of High-Tech Income Tax Payments are from Employees in Companies in Tel Aviv and the Center

(High-tech sector definition, in %, 2016-2021)



Source: Innovation Authority adaptations of CBS data

30 An analysis of the regional distribution is based on the location of the company's headquarters as known to the CBS. There may be certain deviations, among other reasons due to the fact that some of the companies conduct activity in several locations around Israel while the company's headquarters are listed in a single location to which all the company's activity in this analysis is ascribed.

31 According to the division of districts, the Northern District does not include Haifa, and the Central District does not include Jerusalem or Tel Aviv.

Another significant expression of the "centralization" of the high-tech sector is the increase in the ratio of income tax collected from employees in high-tech companies in the Tel Aviv District, out of the total income tax collected from the sector's employees. **The ratio of income tax payments by employees in the high-tech sector in Tel Aviv increased from 35.4% of the total income tax collected from high-tech employees in 2016 to 45.5% in 2021.**

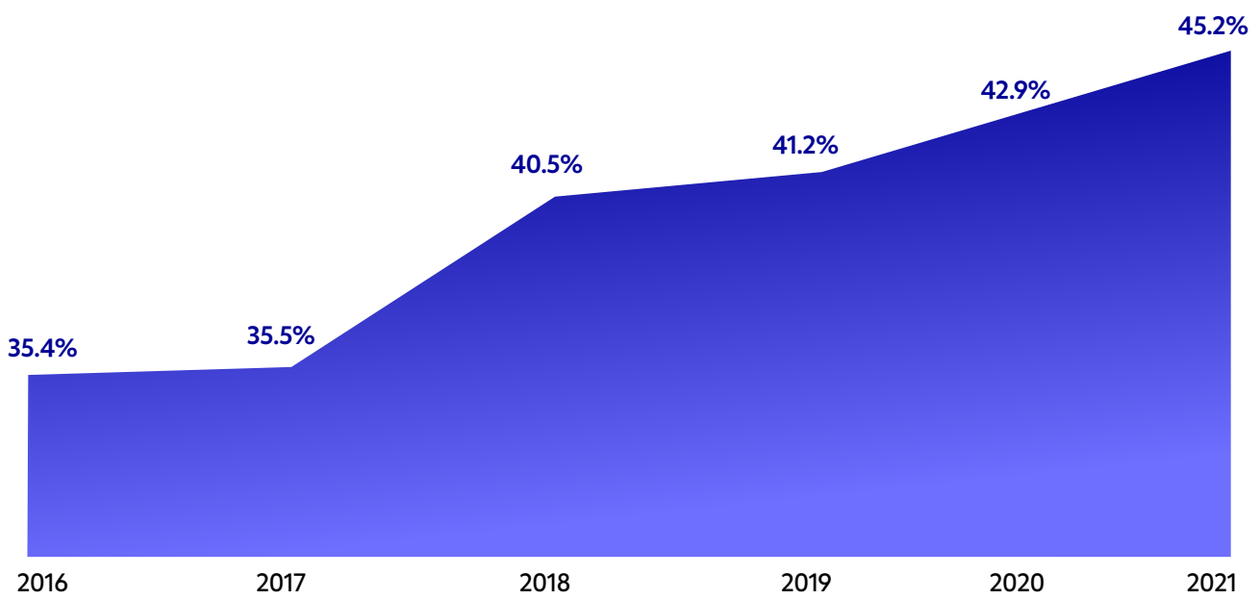
During the same period, the total tax collected from employees in the high-tech sector in Tel Aviv increased **so that the nominal tax payment more than doubled, from 4.5 billion shekels collected in 2016 to almost 10 billion shekels in 2021.**

The Central District, that is also a significant area in terms of the concentration of employees in high-tech companies, maintained its relative share and did not change significantly. In the last two years for which data is available (2020-2021), it appears that there was a slight decline in the Central District's relative share of total income tax payments.

Diagram 23

Tel Aviv - The High-Tech Capital: 45% of High-Tech Income Tax Comes From Employees of Tel Aviv Companies

Ratio of income tax payments by high-tech employees in Tel Aviv companies of total income tax payments by high-tech employees per year (high-tech sector definition, in %)



Source: Innovation Authority adaptations of CBS data

To evaluate the impact of the foreign companies as employers in the various districts, we examined the level of income tax payments in the high-tech sector in each district, while distinguishing between foreign and local high-tech companies.

The analysis revealed that in the Southern District, most of the high-tech jobs are in foreign companies – this is the only district in which there are more jobs in foreign companies than there are in local companies. The foreign companies in the Southern District pay very high salaries relative to the district, so that although 63% of the jobs between 2016-2021 were in foreign companies, the employees paid almost 90% of high-tech's income tax payments in this district.

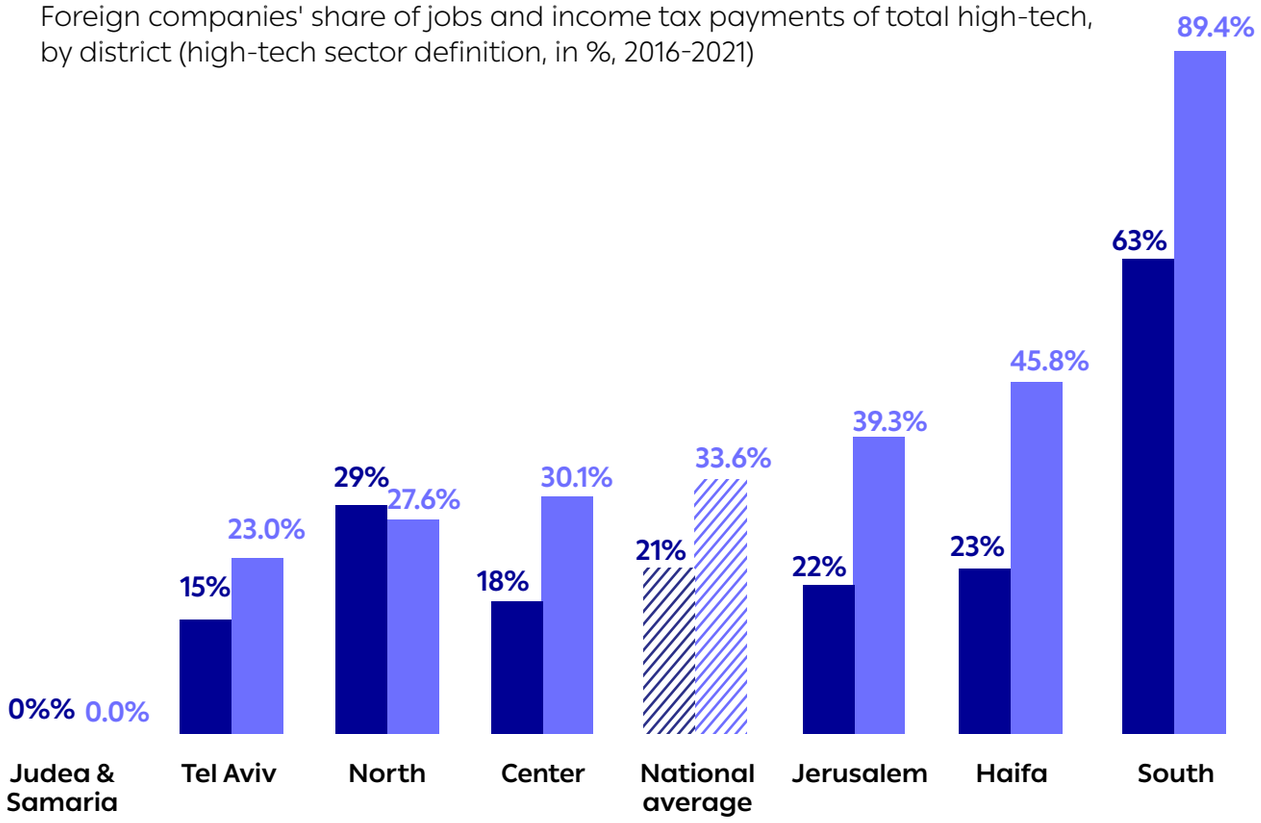
Jerusalem and Haifa also have a prominent representation of foreign companies, primarily in terms of income tax payments by their employees. In contrast, in the Tel Aviv, Northern and Central Districts, the rate of tax paid by employees in foreign companies is lower than the national average.

Integrating the data presented above reveals that Tel Aviv is characterized more as "the startups city", with local companies alongside a relatively small group of foreign companies compared to the overall national average.

Diagram 24

About 90% of High-Tech Income Tax Payments in the Southern District Come From Foreign Companies' Employees

Foreign companies' share of jobs and income tax payments of total high-tech, by district (high-tech sector definition, in %, 2016-2021)



Source: Innovation Authority adaptations of CBS data

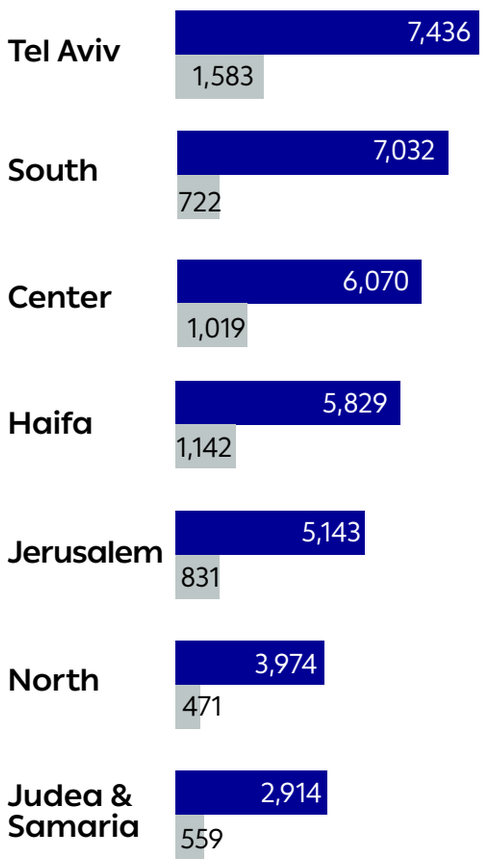
Thus far, the tax payments have been presented according to the district in which the high-tech companies' headquarters are located. We will now examine the average tax payment at the level of the high-tech employee, according to the district in which they work. The list of income tax payments in high-tech is headed by high-tech employees in the Tel Aviv and the Southern Districts (7,436 shekels and 7,032 shekels respectively). It is interesting to note that, as we presented on page 26, the average salary in the Southern District is slightly higher than that paid in the Tel Aviv District, apparently due to the high concentration of foreign companies in this district. Nevertheless, the average monthly tax payments in the Southern District are slightly lower than those paid by employees who work in companies that have their headquarters in the Tel Aviv District. This is evidence of the progressive tax regime instituted in Israel as part of which, residents of peripheral areas are entitled to an income tax credit reducing their tax payments.

The Southern District also demonstrates the largest differential between the average tax payment of high-tech employees and that of employees in the economy's other sectors. On average, the high-tech employees' tax payments in the south are ten times higher than those of the district's employees in the other sectors of the economy. A similar finding can be seen in the Northern District where the average monthly tax payment by employees in high-tech is 3,974 shekels – 8.4 times higher than the average in the other sectors in the district. In contrast, the smallest disparities exist in the Tel Aviv and Haifa Districts – two cities that have significant concentrations of high-tech.

Diagram 25

High-Tech Employees' Highest Income Tax Payments: in Tel Aviv and the South

Average monthly income tax payment per job by company headquarters location in high-tech and rest of economy (high-tech sector definition, NIS, 2021)



Source: Innovation Authority adaptations of CBS data

High-tech Rest of economy

Tax Payments in High-Tech, According to Gender

The high-tech sector is characterized by a lack of gender equality: women, who constitute half the population, comprise only one third of the workforce in the high-tech industry. Their representation in core-technology roles is even lower. An analysis of tax data reveals that salary disparities in the sector also lead to differences in the tax collected from women and men.

The average monthly salary of women in the high-tech sector in 2021 was 19,777 shekels, compared to the average salary for men which stood at 30,411 shekels a month. This gap stems, among other reasons, from the difference in the employment fields of men and women in the industry – women tend to occupy less core-technology roles (where salaries are higher) – and from differences in work hours, job scope etc. Nevertheless, there still an unexplained disparity of 20% between the salary of men and women in high-tech, even when neutralizing prominent characteristics that influence salary – such as education (the type and field of a degree, the educational institution, psychometric score and others), experience, family status, and other demographic factors. Among the group of employees with technological education in high-tech, the disparity stands at 17%.[32]

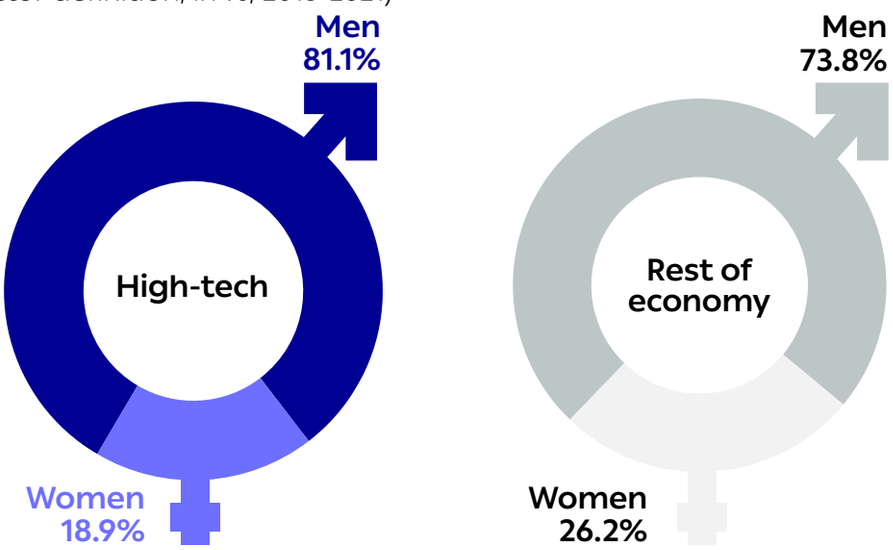
The salary disparity was also expressed in income tax payments from employees in the high-tech sector: **approximately 19% of the income tax was collected from women and 81% from men. In other words, the level of tax collected from women in high-tech is lower than their share of high-tech employees**.[33]

In relative terms, the ratio of taxes paid by women in the Northern District out of the total taxes paid in that district is 15%, compared to 19% in the high-tech sector in general.

Diagram 26

Women Pay Less Than 19% of High-Tech Income Tax - Less Than Their Relative Share in the Sector

Ratio of income tax payment in high-tech and rest of economy by gender (high-tech sector definition, in %, 2016-2021)



Source: Innovation Authority adaptations of CBS data

32 The data refers to employees who began working in high-tech between 2005-2018 and whose age was less than 30 when beginning work in high-tech. See: Itai Ater, Noa Barnir, Noam Gruber, Assaf Kovo, Sarit Weisburd (2023), "Gender Wage Gap and Job Mobility. Evidence from the Tech Sector", Working paper.

33 One of the reasons for the lower income tax collection from women compared to men is the difference in tax credits. Women receive 0.5 credit points more than men (equivalent to the payment of 110 shekels tax a month). Furthermore, there is a difference in tax credits between men and women for raising children. It should be noted that since 2017, an equal number of tax credits is awarded to the mother and the father for their children, until the children reach age 6.

Tax Payments in High-Tech, According to Gender

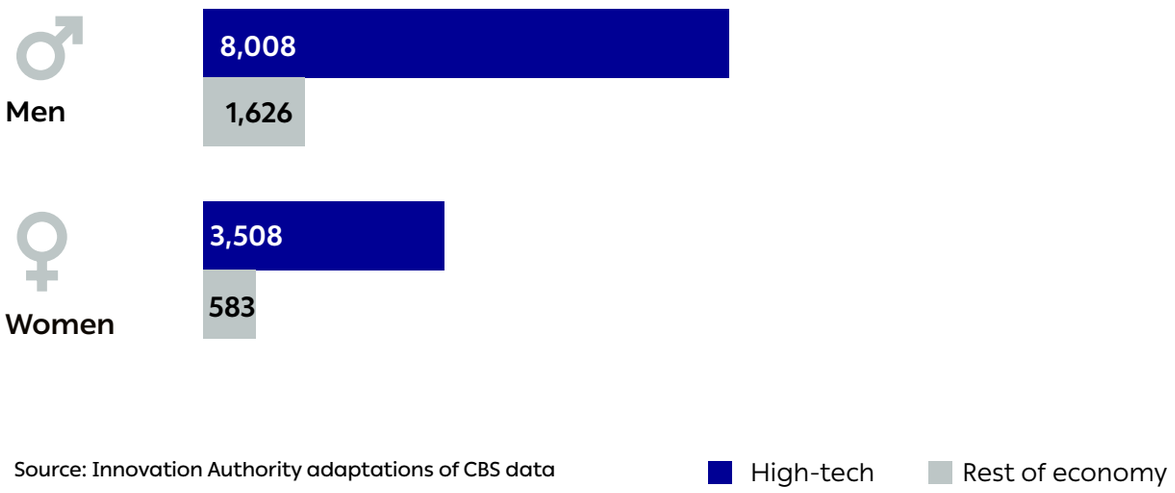
When examining employees by gender, a female high-tech employee pays, on average, income tax of 3,508 shekels a month – 6-times higher than that of a female employee in the economy's other sectors, who paid, on average, 583 shekels a month in 2021. The gap in income tax payments of men is slightly lower than that of women: a high-tech employee paid an average of 8,008 shekels per month in income tax, almost five times higher than a male employee in the other sectors of the economy, who paid an average of 1,626 shekels a month.

A significant taxation disparity exists, both in high-tech and in each of the other sectors, between men and women. In the high-tech sector, a male employee pays on average 2.3-times more income tax than a female employee – a gap that stands at approximately 4,500 shekels a month. In the rest of the economy, the gender disparity in income tax payments is greater and stands at 2.8-times higher – 1,043 shekels a month.

Diagram 27

Due to Salary Disparities: Monthly Tax Deductions of a Male High-Tech Employee are Higher By NIS 4,500 on Average Than That of Female Employees

Average monthly income tax payment per job, by gender, in high-tech and rest of economy (high-tech sector definition, in NIS, 2021)



Source: Innovation Authority adaptations of CBS data

Tax Payments in High-Tech, by Population

The high-tech sector is also characterized by an under-representation of various population groups in Israeli society. As presented in the 2024 'State of High-Tech Report', 95% of the sector's employees are (non-ultra-Orthodox) Jews. Women and men from the ultra-Orthodox Jewish society comprise 3% of the sector's salaried employees (compared with 7.8% of the employees in the general economy) and a further 2% belong to the Arab society (compared with 15.7% of the employees in the general economy).[34]

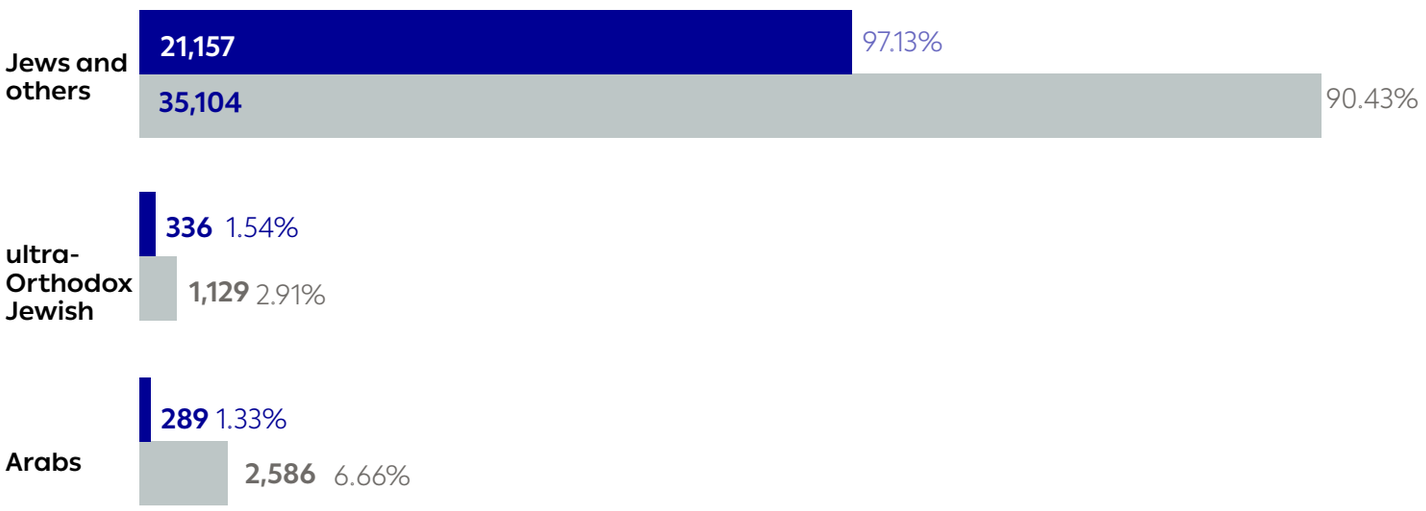
A similar trend can be noted in the distribution of income tax payments by employees from these population groups: 91.7% of the income tax payments in high-tech companies in 2021 come from (non-ultra-Orthodox) Jewish employees,[35] representing a total of over 21 billion shekels. The income tax payments of employees from the ultra-Orthodox Jewish society are also lower than their share of the population in the other sectors of the economy, and not just in high-tech. This figure stems both from a low level of participation in the workforce and from lower than average salaries compared to the general economy, and especially in high-tech. The total income tax payments of ultra-Orthodox Jewish employees in the general economy totaled 1.46 billion shekels in 2021, a sum that constitutes 2.4% of the economy's total income tax payments, of which 336 million shekels were from work in high-tech (1.5% of all income tax payments in high-tech companies).

In the Arab society, in contrast, the picture is more complex: there is a marked under-representation in high-tech of employees from the Arab society compared to their integration in the general Israeli workforce. The employees from the Arab society pay only 1.3% of the income tax of high-tech companies' employees (approx. 290 million shekels) – compared to 6.7% of the tax payments in the rest of the economy (2.6 billion shekels). This figure testifies to the potential for more significant integration of the Arab society in the high-tech workforce.[36]

Diagram 28

Employees from the ultra-Orthodox Jewish and Arab Societies Pay Just 2.9% of High-Tech Income Tax

Income tax payment and its ratio of total tax deducted in high-tech and rest of economy, by population (high-tech sector definition, in NIS millions and %, 2021)



Source: Innovation Authority adaptations of CBS data

34 The percentage of employees refers to workers aged 25-64 in 2023.

35 In accordance with CBS practice, the (non-ultra-Orthodox) Jewish population also includes the population classified as "other". This population's share in income tax payments stands at 3.9% in high-tech and 3.7% in the rest of the economy, and its total income tax payments in 2021 stood at 2.4 billion shekels.

36 It should be noted that the low tax payments of the ultra-Orthodox population and the Arab population may stem from different tax benefits, such as tax credits for children and reduced tax payments for living in areas of national preference.

Average Tax Payment, by Population

Differences in skills, education, and training influence disparities in salaries between the different population groups in Israel and, in turn, naturally also lead to differences in the monthly income tax payments of high-tech employees in each group.[37]

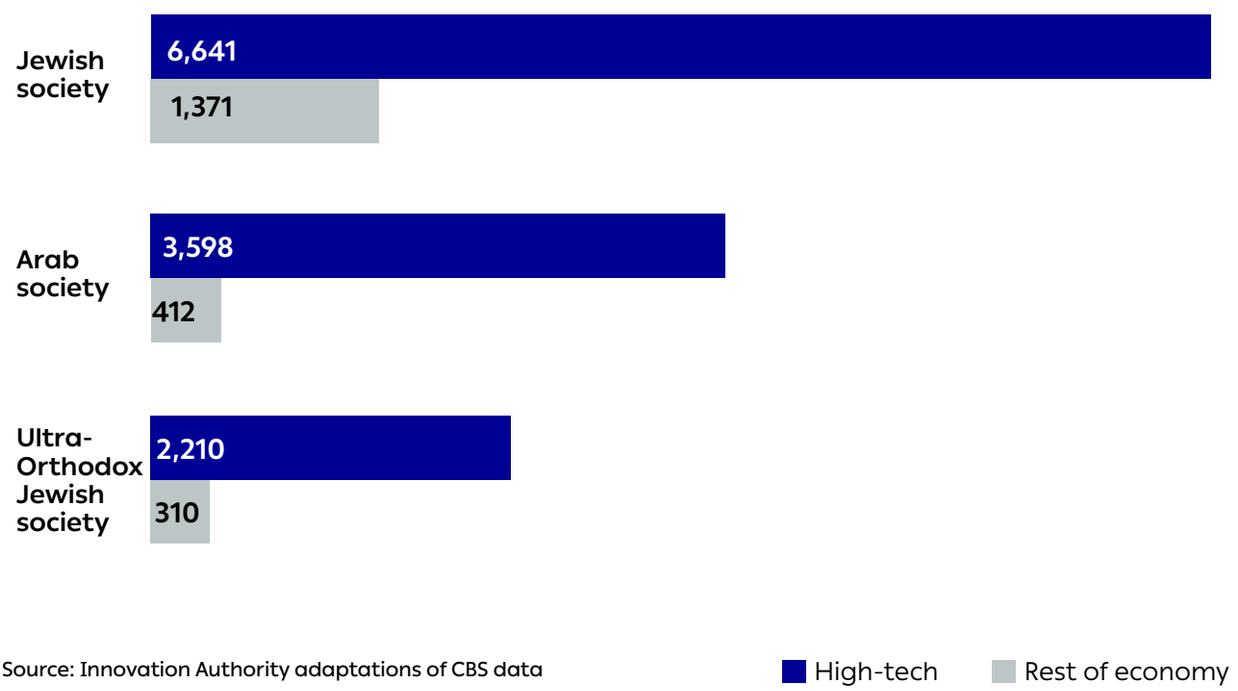
In the (non-ultra-Orthodox) Jewish society, the average income tax payment per job is the highest and stands at a monthly average of 6,641 shekels, compared to 1,371 shekels in the rest of the economy.

In the Arab and ultra-Orthodox Jewish societies, the difference in high-tech employees' tax payment vis-à-vis those in the rest of the economy is significantly higher than in the (non-ultra-Orthodox) Jewish society. The average monthly income tax payment per job by an employee in the Arab society stands at 3,598 shekels – nearly 9-times higher than the average in Arab society in the rest of the economy (412 shekels per month). In the ultra-Orthodox society, the average monthly income tax payment for each high-tech job is 7-times higher than the economy average and stands at 2,210 shekels (compared to 310 shekels a month in the rest of the economy).

Diagram 29

Tax Payments in High-Tech are Higher - In All Populations

Average monthly income tax payment per job, by population, in high-tech and rest of economy (high-tech sector definition, NIS, 2021)



Source: Innovation Authority adaptations of CBS data

37 See for example surveys on this topic by the Chief Economist in the Ministry of Finance here and here:

Conclusions: High-Tech Sector's Contribution to State Revenues from Individuals and Companies

This report presents an analysis of the contribution of tax payments made by high-tech employees and companies to the Israeli economy. The main findings arising from this analysis are detailed below:

1. **State revenues stemming from the high-tech sector are increasing and the sector is responsible for about a quarter of the employees' income tax and corporate tax payments in Israel.**
   High-tech activity in Israel makes a significant contribution to state revenues from taxation. The overall tax liability from individuals and companies in the sector totaled approximately 38 billion shekels in 2020 – a sum that constitutes about a quarter of the tax payments in the State of Israel stemming from companies and salary. Considering the growth in the number of high-tech jobs in recent years and the increase in the average salary in the sector, it can be assumed that the high-tech's sector relative share of the pie of state revenues from taxation will continue to grow in the next tax years for which this data will be published (2021-2023).

2. **The main increase in state revenues from Israeli high-tech comes from the sector's employees.**
   85% of state revenues from high-tech stem from tax payments by the sector's employees (that include income tax, and NII and health insurance payments). When looking at income tax payments in Israel, high-tech employees were responsible for more than a third of Israel's income tax payments in 2021. This represents a higher ratio higher than their relative share of the number of jobs in Israel which stood at less than a tenth during the same period. The significant share of the employees' payments out of the total tax payments collected in the high-tech sector means that an increase in the number of jobs and average salary contribute to an increase in state revenues related to the sector, and explains most of the growth in tax payments related to the sector in recent years.

3. **An improvement in the representation of populations under-represented in high-tech will contribute to increased state revenues from taxation in the sector.**
   The tax payments in high-tech express the sector's centralization in the Tel Aviv and Central Districts and its gender disparities. 80% of the taxes paid in high-tech stem come from the sector's male employees, primarily (non-ultra-Orthodox) Jewish men. This finding stems primarily from a low representation in the high-tech sector of several population groups, including women, and employees from the Arab and ultra-Orthodox societies. The most common profile in high-tech in 2021 – in terms of population group, gender, and area of employment – is a (non-ultra-Orthodox) Jewish man from the Tel Aviv or Central District whose average salary was 32,00 shekels.
   The high tax payments in high-tech also reflect the salary disparities between the average salary in high-tech and the rest of the economy. As a result, the average tax payment of a high-tech employee is more than six-times higher the economy average. Increasing the participation and relative representation in the high-tech sector of the populations mentioned above therefore has significant potential for increasing state revenues from taxation, while narrowing salary disparities between genders and population groups, thereby reducing inequality throughout the economy. The means necessary to encourage this increased participation have been discussed at broad governmental forums in the past, among others by the Committee for Increasing Human Capital in High-Tech (the Perlmutter Committee).

Conclusions: High-Tech Sector's Contribution to State Revenues from Individuals and Companies

4. The employees of the foreign high-tech companies in Israel make a significant contribution to state revenues.

In the past decade, there has been a significant increase in employment in the foreign high-tech companies in Israel. This increase has also led to an increase in collection of tax payments related to the foreign high-tech companies. Although the employees in the foreign high-tech companies constitute over a quarter of all employees in the high-tech sector, their income tax payments are more than a third of total high-tech income tax payments to the state.

5. The data infrastructures for formulating innovation policy in Israel is deficient.

This report presented two methodologies for analyzing the companies in the high-tech sector. It must be noted that the findings show that analyses according to the two methodologies generally show similar trends. In other words, formulating government policy, whether based on CBS data (surveys or administrative data) or based on other information sources as presented in this report (IVC/SNC) lead to similar conclusions. Nevertheless, it should be emphasized that the lack of updated administrative data means that it cannot be relied upon on an ongoing basis. Consequently, policy will usually be formulated based on CBS surveys and data from private data sources. These findings were also reflected in the report issued by the experts committee "For Improving the High-tech Data Infrastructure in Israel", headed by Prof. Eugene Kandel in July 2023 which recommended to strive for the expanded gathering and use of administrative data, and to enhance its quality, while creating a system of administrative data on the high-tech sector.

APPENDIXES

Appendix 1

Main Differences Between the Approaches

The information presented in this report presents two different approaches regarding the definition of the high-tech sector. The first is based on the international definition as presented by the CBS in its publications ("the high-tech sector"), while the second ("the high-tech companies") is based on the companies' databases of SNC and IVC. Administrative data is used for both definitions. In the case of the "high-tech sector" definition, the administrative data includes all high-tech employees in Israel, it is gathered by the Tax Authority, and received from the CBS. For the "high-tech companies" definition, the data was extracted from the state data processing unit (Shaam) and was analyzed by the Chief Economist Division in the Ministry of Finance. The table below presents the updated figures for each definition.[38]

Index	High-tech sector definition (2021, excluding communications)	High-tech companies definition (2020)
Number of companies	13,837	8,144[39] (6,980 companies that reported employing workers, turnover or a profit)
Number of full-time salaried employee jobs (thousands)	284.9	255
Number of foreign companies	309	552 (527 companies that reported employing workers, turnover or a profit)
Number of salaried employees in foreign companies (thousands)	58.8	68
Average salary for a full-time job (monthly, NIS)	26,544	27,407
Total revenues from income tax on high-tech employees' salaries (NIS millions)	21,781 (23,810 including capital gains tax)	19,626 (21,379 including capital gains tax)
Average income tax per full-time job (monthly, NIS)	6,372 (6,966 including capital gains tax)	6,409 (6,983 including capital gains tax)
Full-time job definition[40]	Salaried employees in job types 1-3 according to Income Tax classification, calculated monthly, weighted by the no. of months a year in high-tech employment	Salaried employees in job types 1-3 according to Income Tax classification, calculated monthly, weighted by the no. of months a year in high-tech employment
Foreign company definition	Based on data from the Businesses Registrar for the foreign owned sector. The data is based on an algorithm that combines the business's ID no. and information received from surveys of the various businesses conducted by the CBS (e.g., a globalization survey)	Foreign company according to IVC – a global company with R&D activity in Israel, company headquarters overseas, foreign ownership. Foreign company according to SNC – a company founded overseas, with its headquarters overseas, and a division/ activity in Israel

38 Further information on the different high-tech definitions was published in the report of the "Committee for improving the high-tech data infrastructure in Israel" convened by the CBS.

39 The high-tech companies definition: the companies were defined according to criteria of external databases – IVC and SNC. Added to this are companies not included under this definition, but which were eligible for tax benefits under the technology track and were included in the high-tech companies database. A high-tech company according to IVC – the company's headquarters are located in Israel, local R&D activity, senior Israeli management, and received funding from an Israeli entity. A high-tech company according to SNC – the company develops technology/intellectual property, has an office in Israel, local R&D activity, and at least one of the founders is Israeli.

40 The two definitions lead to different results in relation to frequently published data about high-tech and is primarily based on the CBS human capital survey. The 2020 survey data indicates approximately 340,000 salaried employees who constitute about 10% of salaried employees that year, compared to 7.5% according to the high-tech companies definition, that is calculated with a different database (administrative data). These differences stem primarily from differences in the period used to define a job/employee: while administrative data calculates jobs on a yearly basis, the human capital survey operates on a monthly basis. In the classification according to high-tech companies, a salaried employee's job is defined for the relative period of high-tech employment during 12 full months in a calendar year. For example, if in 2019 an employee was reported to have worked for 6 months in high-tech companies and then moved to a field not defined as high-tech, the job will be calculated only for the relative part of the calendar year (6/12). For more information, see a comparative analysis of employment and salary indices between different sources published by the CBS.

Appendix 2

State Revenues from Individuals and Companies, 2019

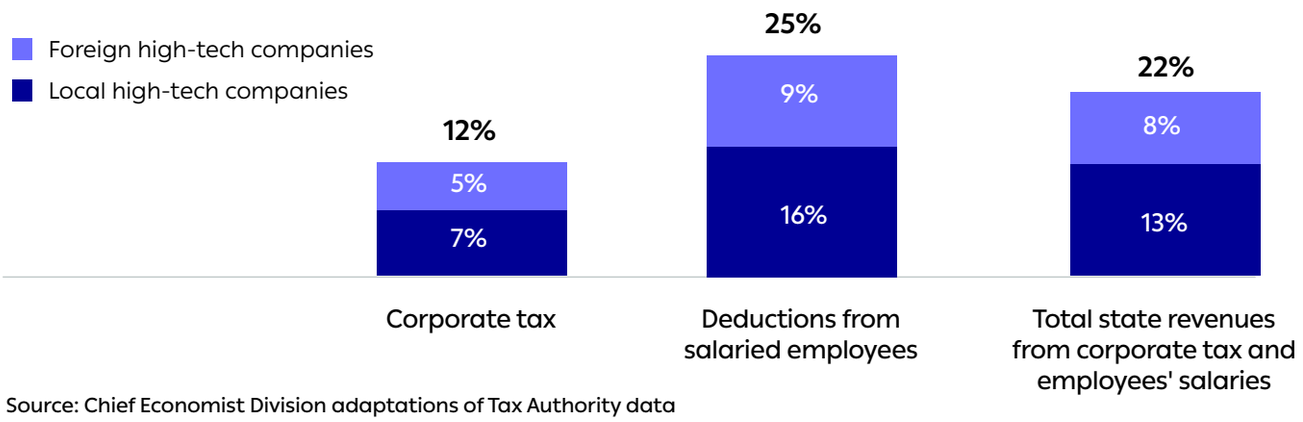
The distribution of state revenues from taxation in 2019 is similar to that of 2020 as presented in this report, despite the influences of the Covid crisis.

The total tax collected directly from the high-tech companies in 2019 was about 34 billion shekels, that constitutes approximately 22% of the economy's total tax liability for corporate profits and individual income tax, and NII and health insurance payments from salaried employees.

In 2019 too, the major share of high-tech's direct contribution to state revenues stemmed from taxation related directly to work. Revenues stemming from tax deducted from high-tech companies' salaries constituted about 86% of the sector's total tax liability with the remainder, 14%, being received from corporate tax.

Diagram 30

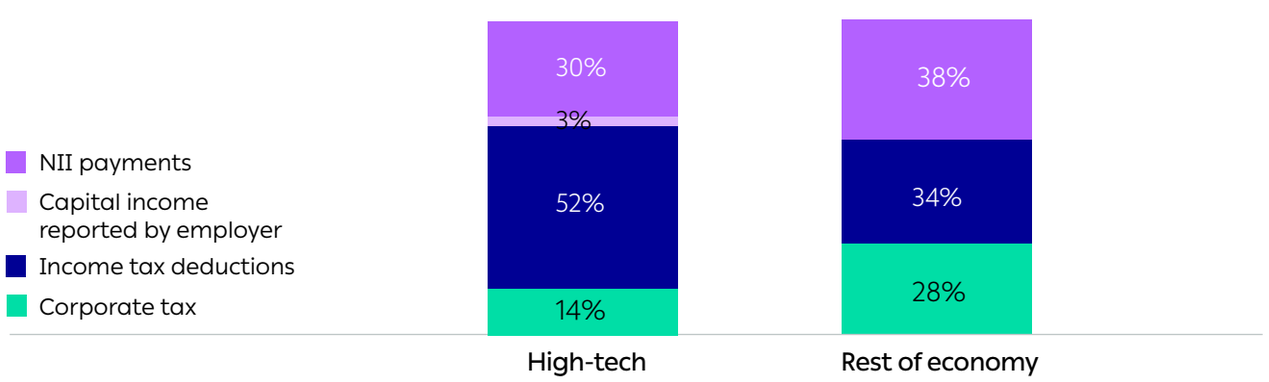
Distribution of State Revenues from Employees' Salaries and Corporate Tax in High-Tech for Local and Foreign Companies (High-Tech Companies Definition, in %, 2019)



Source: Chief Economist Division adaptations of Tax Authority data

Diagram 31

Distribution of State Revenues from Employees' Salaries and Corporate Tax in High-Tech and Rest of Economy (High-Tech Companies Definition, in %, 2019)



Source: Chief Economist Division adaptations of Tax Authority data

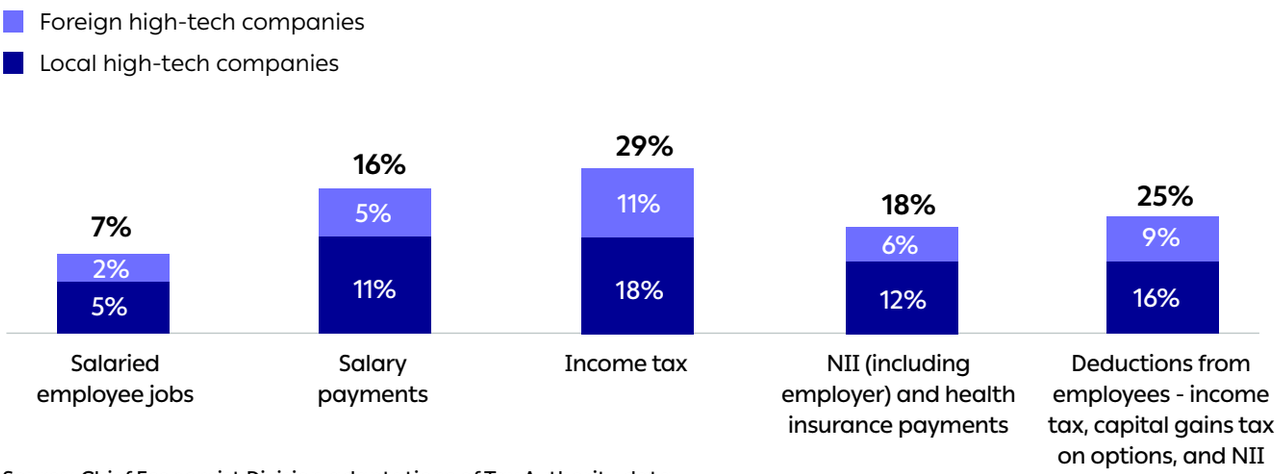
High-Tech's Share of Revenues According to State Revenues Categories (2019)

The salaried employees in the high-tech sector were responsible for about 25% of the income tax and NII payments made by all the economy's salaried employees. In the income tax component, high-tech employees' share stood at 30%, while their NII payments consisted of 18% of total NII payments by all the economy's employees in 2019.

The average tax rate paid by the high-tech companies on their profits in 2019 stood at 12%, compared to the average tax rate of 21% paid by all companies. Consequently, the corporate tax liability of high-tech companies is lower than their relative share of total profits and totaled about NIS 4.9 billion in 2019 (12.3% of the total tax liability of commercial companies in 2019).

Diagram 32

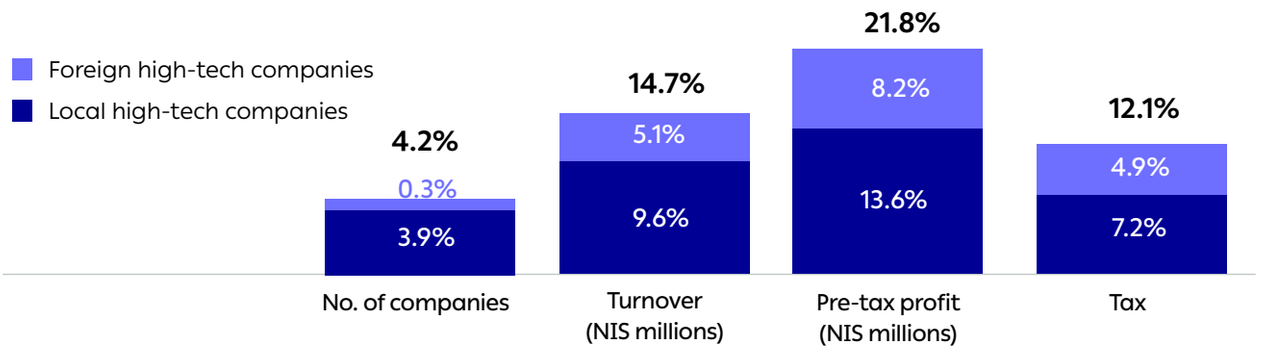
Distribution of the Various Deductions from Salaried Employees in High-Tech for Local and Foreign Companies (High-Tech Companies Definition, in %, 2019)



Source: Chief Economist Division adaptations of Tax Authority data

Diagram 33

The High-Tech Sector's Share of all Commercial Companies, 2019



Source: Chief Economist Division adaptations of Tax Authority data

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