Onshoring Manufacturing

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Benefits of Relocating Manufacturing to the US

- Decrease lead time to market
- Reduce inventory costs
- Reduce shipping costs
- Potential state incentives
- BEPS
- Trump Onshoring Initiatives…

Trump on Onshoring

"As president I will restore the American free market to ensure that companies are incentivized to bring factories and jobs back to American soil"

"Our jobs are fleeing the country. They're going to Mexico. ... China is using our country as a piggy bank."

"We have to stop our jobs from being stolen from us. We have to stop our companies from leaving the United States."

"You have to bring in jobs, you have to take the jobs back from China, you have to take the jobs back from Mexico."

"Our plan includes one of the biggest tax reforms in American history. It's going to include a 15% tax rate for all businesses, small and large, making our country a magnet for new jobs."

Typical Structure – IL Manufacturing

Overview:

- Israel Co with factory and production in Israel
- LRD in US on a 3% RoS
- Company looking to reduce high OpEx

Benefits:

- Preferential tax regimes in Israel

Considerations:

- Achieve efficiencies to reduce high OpEx

Typical Structure – IL Manufacturing

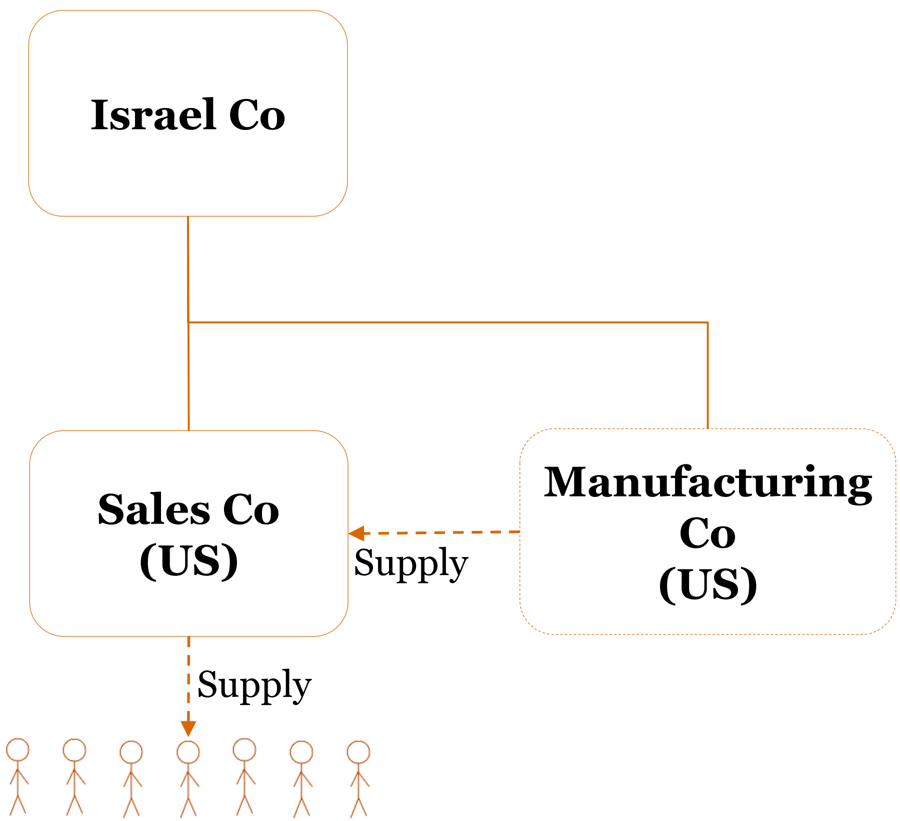
Revenues	1,000
COGS	(400)
OPEX	(400)
Operating Profit	200

	Israel Co	Sales Co (US)
Profits	170.00	30.00
Tax Rate	16%	40%
Tax Due	27.20	12.00

Post Tax Profit = 160.80

ETR (before WHT on distribution of dividends) = 19.60%

Typical Structure - US Contract Manufacturing



Overview:

- Manufacturing Co (US) operates on a contract basis
- Manufacturing Co (US) receives Cost plus 5%
- Title of goods in Israel

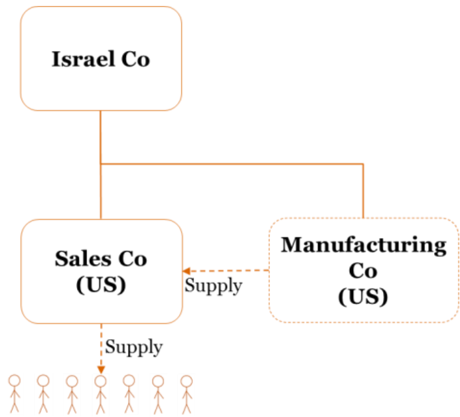
Benefits:

- Reduction in OpEx

Considerations :

- Impact on preferential tax rate
- PE risks – Substantial processing
- Management relocation

Typical Structure – US Contract Manufacturing



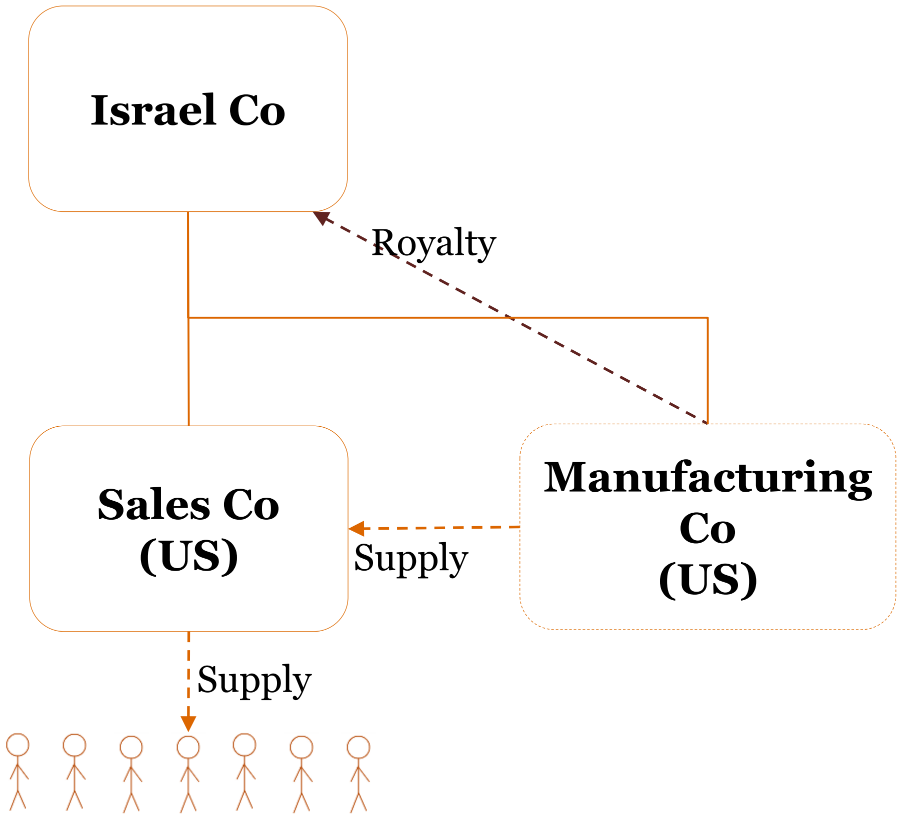
Revenues	1,000
COGS	(450)
OPEX	(250)
Operating Profit	300

Loss of IL Incentive	Israel Co	Sales Co (US)	Manufacturing Co (US)
Profits	257.50	30.00	12.50
Tax Rate	25%	40%	40%
Tax Due	64.38	12.00	5.00

Under Trump the Federal tax rate could reduce to as low as 15%.

Income of Israel Co eligible for preferential tax regime?

Typical Structure - US Manufacturing - Royalty



Overview:

- Manufacturing Co (US) utilizes manufacturing know how of Israel Co
- Manufacturing Co (US) pays license fee to Israel Co

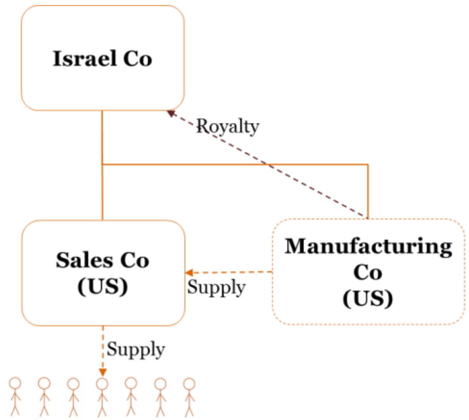
Benefits:

- Reduction in OpEx
- Assist in mitigating substantial processing risk

Considerations :

- Impact on preferential tax rate
- Tax efficient?
- Management relocation

Typical Structure – US Manufacturing - Royalty



Revenues	1,000
COGS	(450)
OPEX	(250)
Operating Profit	300

Loss of IL Incentive	Israel Co	Sales Co (US)	Manufacturing Co (US)
Profits	100.00	30.00	170.00
Tax Rate	25%	40%	40%
Tax Due	25.00	12.00	68.00

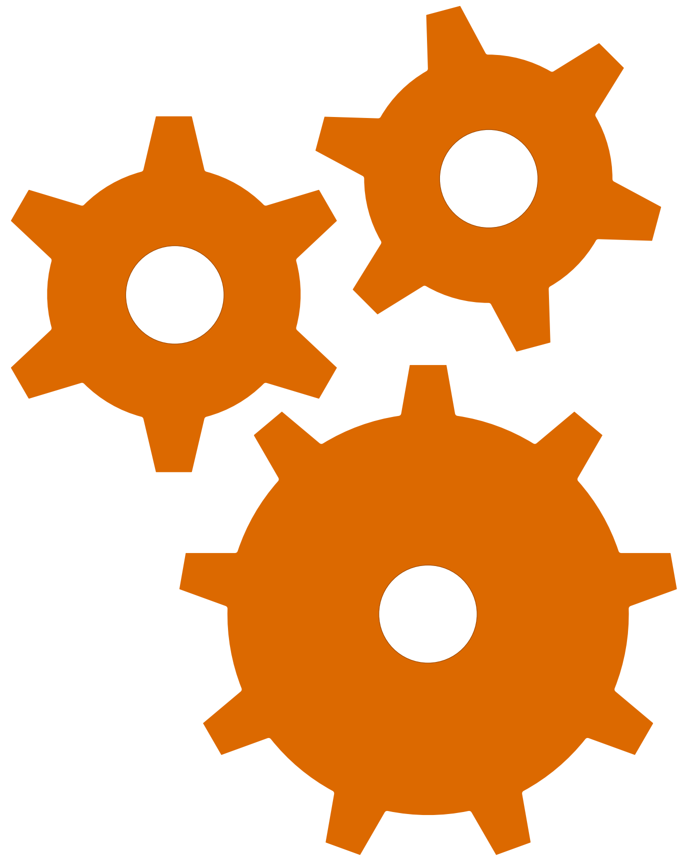
Under Trump the Federal tax rate could reduce to as low as 15%.

Post Tax Profit = 195.00

ETR (before WHT on distribution of dividends) = 35.00%

Permanent Establishment – Substantial Processing

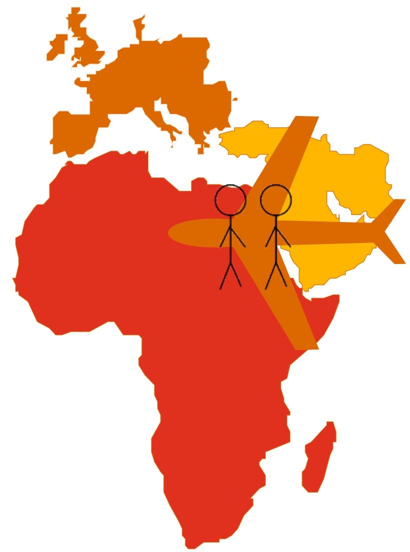
- Term within the U.S. – Israel double tax treaty
- Limited guidance on the definition of "substantial processing"
  - Basic packaging – **Unlikely**
  - General manufacturing - **Unclear**
  - Costly refurbishments - **Likely**
- Increased risk where there is IP in relation to the manufacturing process (e.g. Supply Chain efficiencies)



Considerations

- Creates a PE for Treaty purposes but does not create a U.S. TOB
- If creates a TOB also, then important to ensure reward attributed to branch is consistent with its functions performed, risks assumed and assets utilized.
- State tax – ToB might be relevant even if no PE

Management Relocation Risk

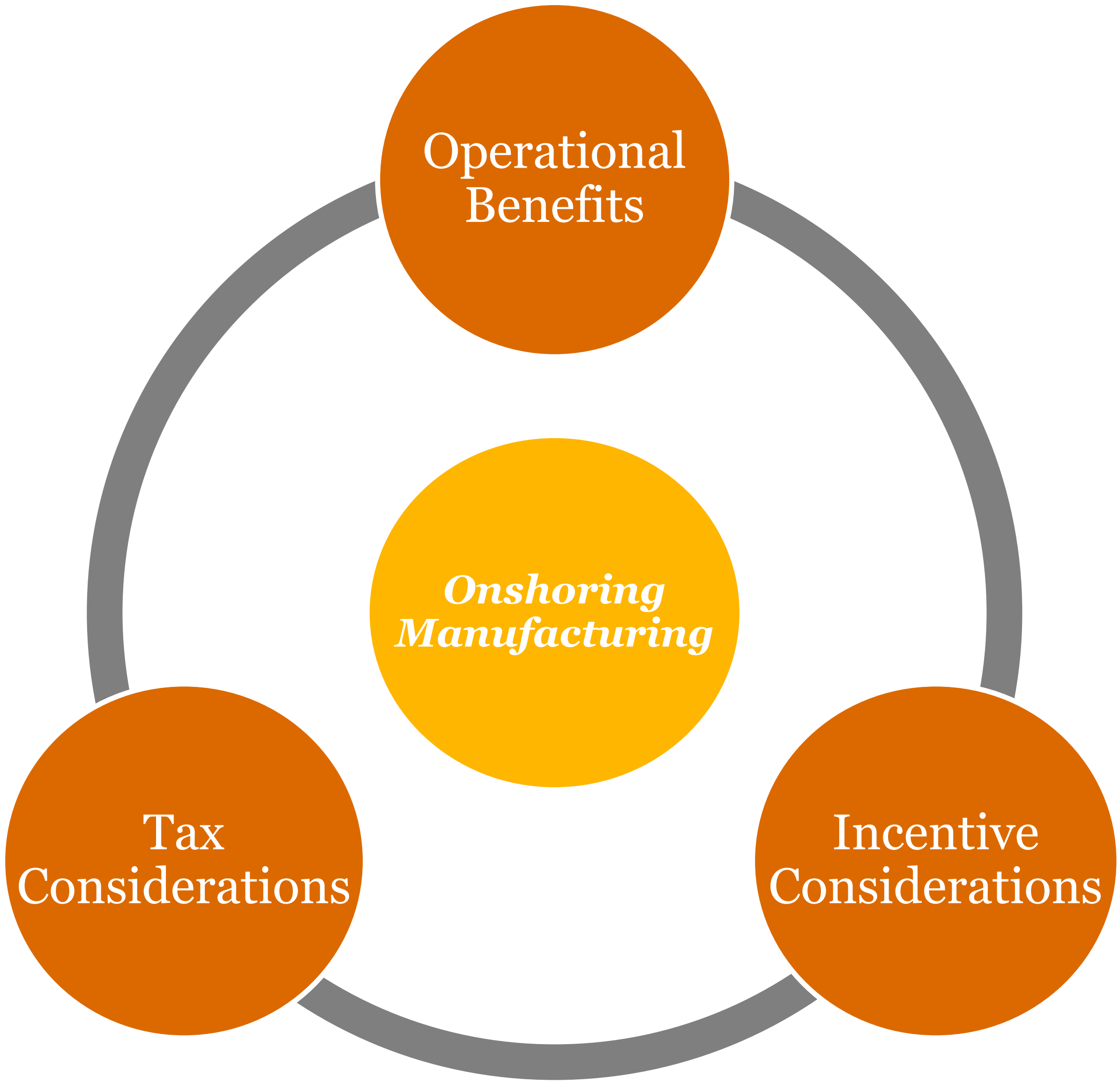


- Management (or senior R&D personnel) now operate out/ travelling more to US
- Risks
  - IRS recognize key activities in relation to IP within the US
  - Resulting in IRS challenge on IP ownership
- Mitigate exposure
  - Ensure Israeli company retains important people and functions
  - Ensure proper documentation is in place
  - Revise intercompany agreement as necessary
  - Instructions and guidelines for Management/ staff

Impact on Israel preferential regime

- Risk on losing out on preferential tax regime and pay tax at 25% - need R&D **and** manufacturing in Israel
- Impact will be dependent on the percentage of manufacturing transferred outside of Israel (10%/ 10%-30%/ more than 30%)
- Potential exposure regarding OCS grants if OCS support was provided

Key takeaways



Thank you

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