



Payroll Procedure Manual

ISRAEL

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1. INTRODUCTION

WHO ARE WE

THE FIRM:

YAREL + Partners is a leading accounting, auditing and business services firm, member of BKR International a worldwide association of independent accounting, taxation and business advisors.

PAYROLL DEPARTMENT:

YAREL + Partners' payroll department is specializing in working with international companies, acting as a mediator between the H.Q abroad and the Israeli labor market.

Tailored Services Package:

We believe that each company has unique needs and working procedures, leading it to choose different payroll services.

YAREL + Partners introduce your company with a variety of optional services, from which your company chooses the services suited to its special needs.

The working agreement there for is tailored according to your requirements and may be adapted whenever needed.

We can provide you with different payroll services as specified:

Payroll processing services - receiving payroll data from the company, inputting data and producing pay slips. This service includes producing standard payroll reports in Hebrew.

Different reports - if you wish to receive reports translated and produced in English or for us to fill out the company's template reports it is an additional service and the price is according to the reports required by the company.

Payment services - we offer 3 payments services: salaries to the employees, to the authorities (tax authority & national insurance) & to the insurance companies. The price is according to the services you choose. Please let us know what kind of services you need.

Professional Consultation and H.R activities – Handling different employment related activities such as:

Termination - consultation, labor laws, communicating with insurance companies etc.

New hires - consultation, labor laws, contracts etc

Providing H.Q as well as position holders in Israel with consultation and information regarding maternity leaves, injuries etc in terms of: labor laws, dealing with insurance companies, Producing reports to the authorities, advising as to different procedures and alternatives the company may perform.

These services can be provided on a monthly fixed price basis or per service provided according to agreed prices.

2. PAYROLL SYSTEM IN ISRAEL

For your convenience we present to you a description of the main authorities, procedures and labour laws in Israel to give you a better understanding of the payroll system in Israel.

PAYROLL RELATED DATA

Fixed employees' details

Fixed employee details are usually reflected in the following forms:

- **Contract or "notification to the employee regarding his employment conditions" form** which the employer must provide within 30 days from the first day of employment.
 - **Note:** It is recommended that a copy of the contract will be provided to the payroll provider. However, the employer must be aware of the terms defined in the contract before making changes in the employment conditions of the employee.
- **101 form (employee's card)**
 - **Note:** It is forbidden by law to start processing any pay slip before receiving a signed and updated 101 form. This form is considered to be the employee's statement regarding his/her personal details during the current tax year and must be filled in at the beginning of each calendar year.

Note: The client can provide the information regarding fixed pay components on a monthly base as part of the "payroll information report" or provide monthly information only with regards to the varied pay components and deductions (as specified below).

Variable transactions

- **Overtime** – It depends on the definition of the employee's specific type of employment. The main instruction of the law is that for a monthly based salary, the calculation is made by checking the daily hours and then the weekly hours. It also depends on the number of days a week the company works as specified:

	"5 days a week" employment	"6 days a week" employment
Standard daily hours	9 hours per day	8 hours per day
Over time payment of 125%	125% will be paid for the first 2 hours exceeding the 9 hours standard	125% will be paid for the first 2 hours exceeding the 8 hours standard
Over time payment of 150%	150% will be paid for the rest of the exceeding time beyond the first 2 over time hours	150% will be paid for the rest of the exceeding time beyond the first 2 over time hours

All overtime hours must first be approved by the employer.

There is no recognition by the Israeli law of the term "global overtime" except in special circumstances which must be advised by legal consultants.

- **Note:** Additional elaboration on the above can be found in the section related to "Amendment 24 to the Protection of Wage Law". Based on that, standard procedure is to keep timesheets and report and pay for every overtime hour worked and its rate – 125% or 150%.
 - **Note:** Further information will be provided upon request in relevance to specific cases since this matter is rather complicated.
- **Bonus / Incentives** – These components are part of the agreement between employer and employee. In case of a permanent component such as monthly commission, the average yearly commission is calculated as part of the severance compensation payment.
 - **Commission** – In addition to the abovementioned, in case of a permanent component such as monthly commission, the average yearly commission is calculated as part of the severance compensation payment.
 - **Note:** In Israel there can be only one pay slip per month so all payments must be calculated within this pay slip. Hence, any pay element which might be processed out of the pay cycle

such as bonus run will be considered as re-run of the specific month's payroll and will create new pay slips to replace the previous pay slips.

- **Shift hours –**
 - **Daytime Shifts** – Payment is based on the regular hourly rate.
 - **Weekend Shifts** – Payment is based on the weekend hourly rate (calculated as 150% of the regular hourly rate). Please note that in Israel Saturdays are the weekly rest day (equals to Sunday's work).
 - **Night Shifts (as of 22:00)** – Payment is based on the hourly night rate (calculated as 150% of the regular hourly rate). A shift is considered to be night shift in case that at least 2 hours of the work was performed after 22:00 and the entire shift is eligible for night shift rates.

- **Reimbursements** (if communication through payroll is deemed necessary) – depend on the nature of the reimbursement. The common component is travel allowance. Please see elaboration below. If the reimbursement is related to payment that should have been done in the previous months there has to be a specification of the pay component to be used (if different from the standard one used), the amount, the month it is being paid for and also if the payroll producer need to deduct from this sum to pension and insurances.

- **Expense Reimbursements** – In case of such reimbursements which are usually exempted from taxation we will process them as net adjustments. However, some expense reimbursements such as the use of private car are subjected to taxes and must be reimbursed through the gross pay. If the client wishes to gross them up – he must inform the payroll provider. Please ensure that you inform the local payroll provider the type of the reimbursements.

- **Deduction** (garnishment, alimony, etc., when applicable) – The rules regarding deductions varies in accordance to the nature of the deduction. Our advice is to receive legal/payroll specialist consultation before making any deduction which is not defined as mandatory (income tax, social security etc.).
 - **Regarding alimony** – in accordance to court order, a deduction of up to the entire salary can be made. **If the deduction is based upon a written agreement between employer and employee** and it is considered to be a **debt**, the deduction can be made providing it doesn't exceed 25% of the entire salary.

- **Travel allowances** – the Israeli law states a maximum rate per day which the employer is obligated to pay. The payment is in accordance to the number of buses used by the employee and each ride's price up to the maximum daily rate (even if the actual price is higher). The employer can choose whether to pay the maximum amount in any case, to pay according to the actual travels up to the maximum rate or to pay a higher amount. Common practice is paying according to monthly bus ticket cost.

- **Convalescence (=recuperation) pay** - the statutory convalescence pay in Israel is paid according to the following:
 - Employee is entitled to convalescence pay after completing one year of employment.
 - The number of days an employee is entitled to is according to his seniority as specified in this table:

Seniority (years)	Entitlement (days)
1	5
2-3	6
4-10	7
11-15	8
16-19	9
20+	10

- The rate per day is published by the ministry of labor each year around July.
- Employment contract can be in the employee's favor, providing him with better term than the law.

Attendance (information required on a monthly basis):

Employee's monthly attendance data is mandatory information to be specified on the pay slip. In order to respect the law's instructions, the following information must be reported to the payroll provider:

- Total of working days per month + total of working hours per month.
- Total of absence hours per month.
- Number of vacation days used each month.
- Number of sick days used each month.

Starters / New employees:

When adding a new employee to the workforce the employer's obligations are:

- **Provision of a signed contract or notification regarding the employment conditions** - as specified above, which contain all the information mentioned in the notification doc.
- **Provision of a 101 form (employee card)** - to be filled out and signed by the employee prior to the first day of his/her employment. If needed, we can provide the employer with this form.
 - **Note:** it is forbidden to start processing any pay slip before receiving an updated and signed copy of the 101 form by the employee.
 - **Note:** This form is considered to be the employee's statement regarding his/her personal details during the current tax year and therefore must be updated and signed at the beginning of each calendar year and/or if any changes occur during the year (while updating the employer/payroll provider).

When communicating new employee's details to the payroll producer, provision of the following documents and data is required:

- Signed 101 form.
- Copies of any tax approvals, certificates that the employee states on having which can affect his/her tax rates. (For example: academic diploma, returning citizen certificate, tax approvals provided by the income tax authority, Ex-soldier certificate etc.)
- Copy of contract/notification doc.
- Bank details.
- Copy of ID card.
- Flexi form for new employees' data (provided by ADP partner) for filling in any additional information that is relevant to the payroll

Further information required:

- Information regarding all the salary's components.
- Information regarding insurances and funds (please review the following examples):

Name	Insurance Company	Fund type	% Employer Contribution	% Employee Contribution	% Saving for Severance	% Disability	Insured salary
Employee x	Company x	Not Paid	5	5	8.33	2.5	8,000 NIS
	Company y	Pension	5	5	8.33	2.5	The rest
Employee y	Company z	Not Paid	5	5	8.33		10,000 NIS
	Company z	Pension	5	5	8.33		Additional 15,000 NIS
	Company v	Pension			2		Full

Information regarding vacation and sick leaves:

Employees may accumulate vacation and/or sick days according to the law (which is the minimum requirement - please see table in pg. 8) or in accordance to the company's special tables.

Attendance (information required in the initial implementation):

Provision of information regarding:

- Standard weekly working days in your company (5 or 6).
- Standard daily working hours in your company (please note that full time employment according to law is 8 or 9 hours per day).
- Standard monthly working hours in your company (please note that full time employment according to law is 186 hours per month)

Amendment 24 to the Protection of Wage Law:

In February 2009 a new law has been legislated by the Israeli parliament carrying many implications to the labour market in general and the payroll calculation and pay slips' presentation specifically.

We would like to call your attention to two major implications an employer must take into consideration:

1. There is no acknowledgement of the terms "Global work" or "Global overtime". Every hour of work must be paid for according to the correct rate and presented in the pay slip so that the employee will be able to see the number of hours he worked (with the split to regular hours and overtime hours) and the payments he/she received for them. Only in rare circumstances a global work will be allowed and only legal consultation can help determine this.
2. There has to be full and elaborated data regarding attendance and absences. Therefore the client must manage an accurate time and attendance system specifying each month: the number of days each employee worked, the number of vacation days each employee used, the number of sick days each employee used, the number of reserve duty each employee served, the number of hours each employee worked, the number of days/hours of unpaid absence each employee took. This data must be provided to the payroll provider in order to avoid disinformation on the pay slip.

Note: Any violation of this law might carry high penalties and both the company and position holders within the company might be held accountable for this violation. In addition, in case of legal dispute between the employer and the employee, it is the employer's liability to provide evidences. We strongly recommend on receiving legal advice as far as this law is considered

Leavers

When an employee leaves the company, the payroll producer should be notified as to the following details:

- **The reason for the termination** – especially which party chose to terminate the employment, since a period of advanced notice is required by the law from both parties.
This will also affect the question of severance pay entitlement. In case the employer is terminating the employment the employee is entitled to severance pay. In case the employee is terminating the contract no severance pay is due. This may change in case the employment contract provides the employee with severance pay in any case.
 - **Note:** In case of dismissal, the company can choose whether the employee will work during the "advanced notice" period or whether to compensate him/her financially for that period. The same rules apply on an employee who chooses to resign.
- **The terms of the termination** – the client should inform the partner whether there is no specific reference to termination in the contract and the process should be managed according to the law or according to the employee's individual employment contract (individual agreement may include additional entitlements, for example: further compensation, additional bonuses etc.).
- **Date of the termination notice and the effective date of the termination.**
- **Section 14 to the Severance Compensation Pay Law** – provide whether part of contract.

The payroll producer than executes the following procedures:

- **Calculation of all balances** - (vacation, rest pay, loans etc.) – this requires receiving information from

the H.R manager / employer.

- **Calculation of the severance compensation**
- **Communicating with the insurance providers:** the local payroll provider communicates with the insurance provider only in cases which money movement services are part of the engagement between the local payroll provider and the client. Otherwise it is the client's responsibility to make this communication and provide the necessary documents to the local payroll provider. If needed, we can provide this service as one time service as part of Termination process – communication with third party service. This service will require additional costs.
- **Producing "final settlement" pay slip.**
- **Producing 161 form:** employer's notification of employee's employment termination. The employee uses this form in order to receive the tax authority's approval for receiving the severance compensation funds. The employer must sign this form.
- **Statement of Severance:** The employer (and not the payroll producer) must provide the employee with a letter stating the date and reason for the severance.
- **Authorization for unemployment claim**
 - **Note:** the procedures related with termination of employment are influenced by the complexity of the employee's individual terms and components (balances of vacation & rest pay, whether the severance compensation will be made through the insurance company or by the employer, terms written in the contract etc.). As a result, estimation of the time needed to complete the procedures will be given according to the specific case

Paid Absences: vacation, national/public holidays, elective days, grieving time, non working day (elections), military reserve duty and sickness

Vacation:

Employees are entitled to annual paid vacation days. The yearly entitlement is set according to their seniority and to the number of days a week they work. Please review the table below:

Seniority (no. of years)	Paid Vacation Entitlement (no. of days)	Net Paid Vacation Entitlement (in actual fact)	
		"5 days a week" employment	"6 days a week" employment
1-4	14	12	10
5	16	14	12
6	18	16	14
7	21	18	15
8	22	19	16
9	23	20	17
10	24	21	18
11	25	22	19
12	26	23	20
13	27	24	20
14+	28	24	20

Employment contracts and company's policy may provide the employees with better conditions and this data must be communicated to ADP partner during implementation or whenever a change occurs.

Vacation days taken must be tracked and reported by the client to the partner according to the attendance report format provided during implementation or through a different format as long as it includes required information.

Vacation days are paid on the same month that the vacation has been taken.

Note: The maximum vacation days which can be carried over from one year to the following is conditioned. The

law states that vacation days can not be carried over from one year to the following, unless:

- a) It is done with the employer's consent.
- b) The employee took at least 7 vacation days during the year and in any case they can be carried over only to the next 2 years. However, this instruction only refers to the statutory vacation days' entitlement and the company may have a different policy for the additional contractual vacation days or there may be a reference to contractual vacation days within the contract.

National/Public Holidays:

Holiday days in Israel are well defined by the law, stating which dates are partial working days and which days are non-working days.

- **Holiday payment on a monthly based salary** – for an employee with a monthly based salary, all the holidays are paid as full work days.
- **Holiday payment on a daily/hourly based salary** - for employees receiving a daily/hourly based salary the full payment for 9 specific holidays is provided under two conditions:
 - The employee has been employed for at least 3 months prior to the holiday.
 - The employee has worked a day before and a day after the holiday (absences requires his employer's consent).

Holidays in Israel are scheduled according to the Hebrew calendar and not according to Gregorian calendar so the dates change every year. Paid Holidays Are:

2 days of New Year (Rosh Hashana),
Yom Kipur,
2 days of Succot,
2 days of Passover (Pessach),
Shavuot,
Independence Day (Yom Haazmaut).

In general, there is no need to report holidays at the attendance report. However, in 2 cases specific reporting is necessary:

1. In case the company has special policy – for example, in case a holiday is on Saturday and the company refunds this lost holiday day to the employee's entitlement. Another example may be – not deducting half vacation day in case the employee doesn't work on holiday evening (half day's work).
2. Hourly/Daily base salary employees – the client has to inform the employee if he/she is entitled to holiday pay.

Elective Holidays – "Yom Bchira":

Subjected to Collective Labor Agreements and/or Company's Policy and/or Individual Contracts employee may be eligible to one or more paid Holiday days which he/she can select from list of known Holidays. The list is defined on the CLA/Policy/contract and usually refers to several Holidays which do not grant paid time off by law.

Grieving time:

Grieving period of 7 calendar days is fully paid for when:

- The employee has been employed for at least 3 months prior to the grieving period.
- The deceased relation to the employee is one of the following: a parent, a child, a spouse, and/or a sibling.

Non-Working days:

The only additional non-working day in Israel which is not a holiday is the Election Day. Employees who worked 14 consecutive days before the Election Day are entitled to full payment for this day.

Military Reserve Duty:

Military reserve duty is compulsory in Israel. Therefore when employee is absent from work due to reserve duty, his salary should not be impacted.

Employer must pay the employee his normal salary during this period and make all legal accruals (vacation, sick and convalescence) and social funds' contributions.

The employer will then claim the funds paid during the employee's reserve duty service from national insurance.

The process of claiming back the funds is as follows:

Employee will provide certificate of the service period.

Employer will submit stamped "refund of military reserve duty claim" + the abovementioned certificate (original copy) to national insurance office.

Upon receiving the refund (transferred directly to the company's bank account) the employer must check if there are any differences due to the employee (the amount transferred by national insurance may be higher than the amount paid by the employer due to service bonuses paid by NI and due to method of calculation).

Sickness:

Sick-days accumulation - according to the Israeli law, employees are entitled to receive 18 sick-days per year. An employee is entitled to accrue up to 90 days. Unused sick days are not to be redeemed unless a special agreement is formed.

- **Payment is made as specified:**

- **First day** - no payment is due.
- **Second and third day** – 50% of the daily rate of the employee's salary is paid.
- **From the fourth day forward** - 100% of the daily rate of the employee's salary is paid.

- **Special absences which are considered by law as sick days:** child sickness, parent sickness, spouse sickness, abortion, fertility treatment, pregnancy and delivery by a spouse.

Employee may use up to 8 sick days a year due to child's sickness and up to 6 days a year due to parent's sickness (providing that his/her spouse didn't use sick days as well) – these sick days are part of the 18 days mentioned above and not additional days.

For specific terms of the law please refer to legal/payroll producer's consultation when needed.

Unpaid Absences: unpaid leave

Unpaid absence

Unpaid absence by definition of the law occurs when:

- The length of the absence is more than 2 consecutive calendar months.
- The absence is with the employer's consent
- The employee is a non-salaried employee or is self employed.

The employee must fill out a 3101 form and send it to the insurance bureau.

The employer's obligation in such cases is to pay for social security and health insurance for the first couple of months.

Absences impacting the Social Security: injuries, maternity, paternity

Injuries:

Work accident

- Injuries as a result of an accident on the way to the place of work or back from the place of work to the employee's home, as well as injuries during work are considered as "injury at work".
- In case of such injury, the employer must provide the employee with "form 250 – request for medical assistance due to injury at work". This form specifies both the employer and employee's details and description of the accident which led to the injury. This form is the "national insurance" commitment to pay for the medical care. In case the form is not filled out correctly, the employer might carry the costs of the medical care.
- Upon announcing injury at work (by the employee), the employer must not make any payments to the employee excluding for the day of the injury. The employee will report to the national insurance (=social

security) and will claim injury allowances. To the claim he/she must attach authorization stating period of work and income during a defined requested period, provided by the employer.

- National Insurance will either acknowledge the accident as "injury at work" or will reject it.
- In case of rejection, no payment will be made to the employee by national insurance or the employer, unless the employee can prove that it is a regular sick leave. In such case the employer will pay regular sick leave pay based on employee's sick days' balance.
- In case of acknowledgment the payments made are as specified:
- In case the injury period lasts less than 12 days (day of the injury + up to 11 days):
- The employer pays the employee for the day of the injury fully (done in the month of the injury) and pays day 2 and 3 as if they were sick days (paid only upon receiving National Insurance decision).
- The national insurance pays the rest, but charges the employer for the first (up to) 12 days.
- In case the injury period lasts more than 12 days (day of the injury + at least 12 days):
- The employer pays the employee for the day of the injury.
- The national insurance pays the rest (and up to 90 days) and charges the employer for the first 12 days.

Note: since the treatment and the law may be updated from time to time and since there may be situation which can be treated differently, we strongly recommend consulting with them in case of injury at work.

Maternity:

During maternity leave, payments to the employee are made by the national insurance.

The employer's obligations are:

- Provision of authorization stating the period and payroll details of the employee for the period stated by the law – for claiming child birth allowance from national insurance.
- Continuation of all the social benefits the employee is entitled to (vacation, sick days, seniority, pension etc.)
- Receiving the employee back to work when the maternity leave ends and maintaining her as an employee for at least 60 days as of the day of her return.
 - **Note:** termination of employment within this period is allowed only by the minister of labour's authorization.

Maternity leave period lasts 14 weeks (paid by national insurance maternity leave) + optional 12 weeks (unpaid maternity leave), with additional 2 more weeks per each additional child delivered at the same birth. Employers therefore must take into account up to 26 weeks' maternity leave for child birth (one child). Additionally, a pregnant woman is entitled to take up to 6 weeks, of the total maternity leave she is entitled to, before the estimated date of birth.

Paternity:



An employee whose spouse gave birth may claim part of the maternity leave according to the following conditions:

- He may only use the second half – meaning, the first 6 weeks after the delivery must be used by the women. The following 6 weeks or part of it may be used by the man.
 - The wife has given her consent in writing.
 - His wife has worked during this period.
- ❖ For further specification of the law please refer to legal/payroll producer's consultation when needed.

INFORMATION AND ASSISTANCE

Helpdesk for Client's enquiries

For enquiries the best channels of communication are:

-  E-mail: it is fast, accessible and allows us to include other parties within the correspondence.
-  Phone: for the client's convenience, it is also possible to contact us via phone.

A working week in Israel lasts between Sunday and Thursday. The regular business hours in our offices are: 08:00 up to 17:00 (local time).

If YAREL cannot provide the client with the appropriate answer to the query on the same day, and/or if it requires communicating with third parties, YAREL will make the best effort to provide the client with an answer within the following working day. If the query cannot be resolved by YAREL, the client will be informed and YAREL will try to refer the client to the right factor for farther assistance (legal consulting, Insurance Company etc).

Information on Payroll Regulations

Information regarding changes that may affect the payroll calculation is communicated by the payroll producer and the client through the accepted and agreed channels (e-mails, faxes or telephone calls). The preferable channel is via e-mail since it is accessible and enables documentation of the communication as well as exchange of attached documents.

In case the client is in need of professional clarification or information, the payroll producer will also provide the required information through the channels mentioned above.

PROCESSING SERVICES

Payroll Calculation

Pay Calculation rules:

- All payments in Israel are subjected to income and national insurance taxes. The only exception is payment of severance pay which is exempted up to a certain ceiling from income tax and has fully exemption from national insurance.
- Tax calculation in Israel is on an accumulated yearly basis. National insurance calculation is on a monthly basis excluding payments that are not paid regularly (on monthly basis) such as bonuses.
- Tax and national insurances rates result from the employee's personal data as reported by him/her through the 101 form.
- Basic salary + basic additions that are defined by the law are also subjected to pension and severance fund deductions.
- All pay elements (payments and benefit in kind) are calculated as gross amounts. In case the client wants to pay a certain amount as net (to dismiss the employee from the taxes burden), this amount is enlarged to the gross amount that contains the taxes.
- All payments minus the mandatory deductions specified above (income tax, national insurance which includes health tax, pension fund and optional education fund deduction) lead to the Net pay.
- From the net pay the employer can deduct or add net adjustments according to the regulations. (For example: net deductions - it is not legal to deduct from the employee an amount that exceeds 25% of his pay, reimbursement to the net – not all expenses can be reimbursed through the net). This will lead to the net in the bank.
- All Payments must be reported on the pay slips as separate and distinguished pay codes/net adjustments.
- All payments must be paid for work performed in the month of the payroll, otherwise it may be considered as delay that is subjected to interest.

The payroll producer's responsibilities are as described below:

- Receiving all the necessary payroll data from the client within the defined time table.
- Registering and processing the data.
- Reviewing the outputs, verifying them versus the data delivered by the client.
- Providing professional information to the client within the process time frame in order to eliminate potential errors.
- Producing and providing payroll reports. (Standard payroll reports are provided in local language according to regulation. Costing report in English will be provided as standard to enable review of payroll results. Any customized reports – in English or based on the client's template and specification may be considered as additional service which requires additional costs).
- Communicating with the client through out the payroll processing period for clarifications and instructions.
- Communicating with third parties if needed (authorities, insurance companies).

Processing of Statutory Year End (Tax Year End)

Fiscal Year: from January 1st to December 31st.

As Payroll Provider, YAREL provides the following at the end of the year:

- Production and verification of 126 forms which is the summarizing form of all the tax year payments, taxes etc. This form must be filled to the tax authorities after comparisons are made to the monthly 102 reports. The form + file must be submitted to the tax authorities around March-May of the following tax year.
- The provision of annual statements to employees – 106 forms which are usually provided around March-April of the following tax year.
- The provision of information for the purpose of the accounting audit
- The provision of information for the purpose of the accounting audit to the client and not directly to the client's accountants.

POST PROCESSING SERVICES

Production & Delivery of Payslips

Pay slips are available for the client one day after the payroll is processed and the client's approval was received for the calculations.

Pay slips can be produced as electronic PDF forms or as a hard copy paper document. Both employee and employer should keep a copy of their pay slips.

- **Note:** the employer is obligated by the Israeli law to provide the employee with his/her pay slip by the 9th of the month following. In case of legal disagreement, the court holds the employer liable to provide evidence of salary payments. Therefore the employer must keep an accurate and detailed "payroll booklet". (Payroll booklet refers to the documentation of all the payroll related information: payments made to the employees, number of hours each employee worked per day, per week and per month. Number of over time hours each employee worked (125% and 150%). Number of vacation and sick days used by each employee – each month, deductions made).
- **Note:** it is legally required to provide the employee with a paper pay slip so in case the agreement with us is to provide the pay slips through pdf file – it is the client's responsibility to ensure that the pay slips are printed and the employee receives hard copy as well.

Delivery options:

- **PDF basic delivery:** this service includes the delivery of all pay slips in PDF format to the client's payroll contact person.
- **PDF employee delivery:** this service includes the possibility to deliver each pay slip to each employee individually (pdf file password protected). For this kind of delivery, we will need a list of all employees' valid email addresses. In case of great number of employees there might be a certain extra charge for this service. Please note that according to Israeli law paper pay slips must be physically delivered to employee.
- **Employees' personal home address delivery:** this service includes delivering the pay slips by post mail individually to each employee's home address. This service is not included in the standard service pricing and additional charges apply, should the client require it.
- **Company delivery:** Sending all the pay slips by courier to the client's office. There is a specific format of pay slip that is closed as an envelope. This service is not included in the standard price, and additional charges apply for it, should the client require it.

Production & Delivery of Standard (Statutory and operational) Outputs

List of Outputs

Three types of reports may be produced:

- **Standard payroll reports in Hebrew** – produced by the payroll software.
- **English standard reports** – as local provider in Israel we have developed an International Payroll Converter tool (IPC) to enable us to extract payroll data from the payroll software and translate it into English based on a professional glossary + the company's specific names and pay codes. The report generated by this system – "Costing Report" is comprehensive and elaborates all payroll information needed. This report will be provided as standard part of the standard reports.
- **In-house client's template reports** – This service requires additional charge, according to the reports the clients requires.
 - ❖ **Regarding the first 2 options** – we can provide the reports as soon as we receive the client's request.
 - ❖ **Regarding the third option** – we can estimate costs only after reviewing the requested reports.

Note that payroll providers in Israel usually produce the following reports:

- **102** – Needed for tax and social security purposes.
- **G/L file.**
- **Net-Cost report.**
- **Reports specifying funds' deduction and payments.**

Delivery of Outputs

The outputs can be delivered in any of the ways mentioned above with regards to the pay slips delivery. As part of the payroll cycle the client receives them as PDF files sent by e-mail or by post mail. In case the client wishes it, it is possible to receive the reports by a courier. This service is not included in the standard price, and additional charges apply for it.

RELATIONSHIPS WITH THIRD PARTIES

Generation of Payment Instruction Files

Issuing of Net Pay Transfer Instructions

Payments to employees:

- **Via banking clearing system** - Two options are available. Once the payments' instructions file is issued the payroll provider can either send it to the client to make the actual transfer or execute it as a payment service. The payments can be transferred from the client's bank account or from the payroll provider's bank account (after the client has transferred the money to this account).
- **Via the payroll provider's bank account** – providing salary payment services, transferring the salaries to the employees' accounts after the client has transferred the money to the payroll provider's account.
- **Issuing net pay listings** for Client's execution

Payments to the authorities and insurance companies:

- **Payments to authorities (National insurance and tax authority):** must be done through an Israeli bank account.
- **Payment to insurance company (for funds):** can be done via the banking clearing system or the fund's bank account – banking transfer or checks. The method changes according to the fund's specific requirement.

Payments Services

- **Regarding the first two options specified above (i.e via banking clearing system or via the provider's bank account):** if YAREL provides payments services, whether it is done via the banking clearing system or its bank account it is considered "Payments service" which has to be agreed and priced in advance.
- Using the banking clearing system requires preliminary registration of the client's company.
- The client's approval of the payroll reports is considered an authorization of the payments the payroll provider needs to make. In case the client requests a different form of authorization (different report, signing the instruction before execution it etc.) he must clarify this with us in advance.
- The last option doesn't involve money movement by the payroll provider, only providing the client with a payments instructions report to his bank account.

Employees' Registration to Statutory Bodies (Tax, Social Security & Other Officials)

No registration of employees to statutory bodies is required.

The obligation of the employer when hiring new employee are:

- **Provision of a 101 form (employee card)** - to be filled out and signed by the employee before the beginning of his/her actual work.
- **Provision of pension policy** - according to the new mandatory pension law affective as of 1.1.2008. This law instructs the minimum percentages to be contributed by the employer and the employee when the employee has worked for at least 6 months.

The employee's responsibility is:

- **To provide (if needed) the employer with the tax authority's authorization:** instructing the employer how much tax he must deduct from the employee's gross salary or providing him with additional credit points. Otherwise, in case the employer is aware of the need in tax authorization he must deduct the maximum tax.

Declarations to Statutory Bodies (Tax, Social Security and Other Officials)

- **Note:** The connection with the authorities can be managed by YAREL. If payments services are to be provided by YAREL it will be done according to a signed power of attorney/request for representation provided by the client. If not, the connection must be managed by the client through communication with the branch the client's company is registered in. Usually there is no central contact.

Social Security and Health Insurance

- Payments to the national insurance include payments for social security and for health insurance.
- The details of the employees must be reported only for companies with up to 9 employees.
- Both the employer and the employee contribute their part. The contribution is calculated according to social-demographic characteristics of the employee and his/her income. The deductions are made according to the national insurance's table, specifying the percentages to be deducted.
- The deduction is made on a monthly basis.
- The payment is made according to a 102 form which specify the required payments. This form must be documented and compared to the "end of the year" summarizing 126 form.
- The due date to declare and pay the payment is the 15th of the following month.
- The payments can be done via Israeli bank account or by check issued by Israeli bank.
- In order to make the payments on behalf of the client we must receive a signed "request for representation" form.

Pension

- Deduction for pension is mandatory in Israel as of 1.1.2008. The minimum percentages to be deducted are specified as part of the pension law, higher percentages can be agreed upon between the employer and the employee as part of the employment contract.
- Insurance companies and/or brokers supply the insurance policy and provide the employer and/or the payroll provider with all the documentation and information needed to process it within the salary.
- The employer contributes his part for: pension, saving for the purpose of severance and may contribute for disability/loss of earning capacity insurance (not mandatory).
- As part of the monthly payroll reports, payroll producer produces funds reports and send them to the employer or to the insurance company (depend upon whether or not we execute the payments to the funds).
- The initial agreement between the employee and the employer and the insurance company doesn't involve the payroll provider, and therefore we cannot consult. However, we do need to receive specified details to process.
- The insurance brokers act as mediators between the employees and the fund companies. It is the fund companies' responsibility to produce and provide authorization and documentation to the employees.
- The documentation we provide of the deductions made, are shown in the pay slip and in 106 form which is a summarizing form provided to the employee around March of the following tax year – declaring his/her yearly income, deductions, credit points etc.

Tax Authority

- The Tax authority is responsible for all taxes in Israel. The tax related to salaries is called income tax and as such it is being deducted from the employee's salary. The employer doesn't contribute here but it is his responsibility to transfer the money to the tax authority.
- The deduction is made according to the tax table and relates to the level of income and to other factors the employee reports in the 101 form. If the employee reports that it is not his sole income or he is entitled to additional credit points he must provide authorization from the tax authority. Other wise the employer is obligated to deduct the maximum/not provide the additional Credit points.
- The deduction is made on a monthly base.
- The payment is made according to the 102 form which specifies the payments required. This form must be documented and compared to the "end of the year" summarizing 126 form.
- The due date to declare and pay the taxes is the 15th of the following month.
- The payments can be executed via Israeli bank account or by check issued by Israeli bank.
- In order to make the payments on behalf of the client we must receive a signed "request for representation" form.

APPLICATION OF MANAGEMENT

Client parameters Changes Process

YAREL's payroll producer must be immediately notified of any change affecting the overall payroll process (of the specific pay group or for the whole company) must.

- **Light maintenance or update changes:** According to the new Employer's data, the payroll producer will adapt the current payroll process in order to match the new Client's requirements (implementation of new payroll components, new bonus calculation or its character, etc.).
- **Specific maintenance or customization changes:** According to the new Employer's data, the payroll producer will analyze the gap between the current payroll process and the requested ones. When feasible, in order to match the new Client's requirements (specific screen, customized procedure, etc.), BKR-YAREL will provide the Client with a quotation & estimated timeline

Maintenance of Collective Labour Agreement

In Israel there are two forms of collective labour agreements:

- ❖ **General Labour Agreements** – signed between employee' and employers' organizations/unions.
- ❖ **Specific Labour Agreements** – signed between employees' organization and one employer.
- The minister of labour and commerce is entitled to expand the incidence of the CLA on additional employees' groups which the original CLA did not include.

In the scope of YAREL we can provide information & support for all existing Collective Labour Agreements.

Nevertheless, YAREL's payroll producer must receive from the client during the initial implementation phase – all the data related to payroll which may affect the payroll run. The provision of information regarding CLA that the client's company must respect and follow their instructions is considered to be part of the client's responsibilities.

- **Note:** as part of the process of defining the payroll procedures, the client is asked to mention any special agreement he might have signed with his employees. During the recurring phase, any new agreement and/or new CLA the employer has joined/signed must be communicated to YAREL. No changes of CLA will be done without clear validated instructions from the client.

As to general Labour agreements which function as law's instructions (convalescence/rest pay for example) and are obliging GLA –YAREL will execute the amendments as if it was a change in the law. YAREL's payroll producer will inform the client of any such changes.

HIRING EMPLOYEES IN ISRAEL – IMPORTANT POINTS FOR EMPLOYERS TO TAKE UNDER CONSIDERATION:

- Employer's social charges/costs are the product of: national insurance contribution, pension saving fund, severance saving fund and in some cases (depends on the company's definition) there will be additional tax. Other liabilities are optional and are the result of contractual agreement or company's policy (education fund, private health insurance, disability/loss of earning capacity insurance etc).
- Three key elements affect the Israeli labour market:
Labour laws, extensions orders (obligating as they were laws) and collective labour agreements (usually apply to a certain professional sector).

The fourth element is individual contracts signed by the employer and the employee.

Before signing any contract we advise you to receive legal consulting which will review all the elements mentioned above.

Please note that all benefits should be taxed so if they are not paid via payroll they must be taxed via payroll. For example: gift certificates (Holiday gifts, birthday gifts etc), meals (paid directly to the vendor via meals card), company lease car (paid directly to the lease company) etc... should be processed through payroll as BIK (benefit in kind) for tax reasons. The employer may decide to gross up the amount so that the taxes burden will be on the company (as common when it comes to Holiday gifts certificated) or may pay it as gross (as common with cell phone, lease car, meals etc).

3. OTHER SERVICES PROVIDED BY YAREL

Besides providing payroll processing, we can offer advice and consultation services at additional charges and invoiced locally

CREATION OF A LEGAL ENTITY

- Presentation of standard limited liability company articles of association.
- Preparation of all formal documents needed to obtain a registration of a company in the register of companies.
- Registration of the companies in various tax authorities: Corporate taxes, employer's tax, national insurance, VAT.

PAYROLL AND HR CONSULTANCY

Handling different employment related activities such as:

- Termination - consultancy, labour laws, calculations of balances, communicating with insurance companies etc.
- New hires - consultancy, labour laws, contracts etc.
- Providing H.Q as well as position holders in Israel with consultancy and information regarding maternity leaves, injuries etc in terms of: labour laws, dealing with insurance companies, Producing reports to the authorities, advising as to different procedures and alternatives the company may perform.

These services can be provided on a monthly fixed price basis or per service provided according to agreed prices.

ADDITIONAL PAYROLL SERVICES

- Calculation of the wage-tax reduction scheme.
- Pay Simulation.
- Calculation of per diems and travel expenses.
- Calculation of loans (within the payroll).
- Money movement services – to employees, to the authorities, to insurance companies.

EMPLOYEE CONTACT

For companies who do not have H.R and/or payroll representation in Israel, mediating the communication between employees and H.Q.

ACCOUNTING SERVICES

- Maintenance of clients' books and records in accordance with local rules and directives.
- Calculation of monthly tax advance payments, settlement of VAT and preparation of monthly tax declarations.
- Preparation of annual income tax return and financial statements.
- Representations before the authorities – corporate tax, National insurance, VAT.
- Provision of CFO's services.
- Provision of payments services to suppliers.

REPORTING AND CONTROLLING

- Preparation of complex management reports according to US GAAP or IFRS and client needs.
- Consolidated reporting services.
- Budgeting.
- Outsourcing of the financial controller function according to an agreed definition.

TAX ADVISORY

- VAT returns.
- Corporate Taxation - review and optimization.
- Yearly tax planning.
- Tax audits and Due diligence.
- Transfer pricing.

AUDIT

- External Audit assistance – statutory audit.
- Sox (Sarbanes Oxley) applications – paragraphs 302 and 404.
- Statutory tax reports submitted with yearly tax return.

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