

# Israel Innovation Authority Report Reveals High-Tech Sector as Key Driver of Israeli Economy

*New Report Shows High-Tech Workers Account for 85% of Sector-Related Tax Payments, With Contributions Rising Significantly Over the Past Five Years*

JERUSALEM, ISRAEL, August 13, 2024 /EINPresswire.com/ -- The Israel Innovation Authority together with the Chief Economist's Office at the Ministry of Finance today published a [new report](#) providing a first-of-its-kind in-depth examination of state revenues related to high-tech employment, including income tax and corporate tax payments.

The report reveals the substantial contribution of the high-tech sector to state revenues. In 2020, approximately a quarter of all tax payments in Israel derived from companies and wages came from the high-tech sector. Moreover, in 2021, employees in the high-tech sector were responsible for about 36% of all income tax payments.

Most of the revenue from the high-tech sector is related to its workers, with 85% of the revenue coming from taxing their wages (income tax, National Insurance, health insurance), and only 15% from corporate tax. Over a six years period, nearly one hundred billion shekels were generated from income tax payments by high-tech workers, representing a third of all income tax payments during this period. Therefore, changes in high-tech employment will significantly impact the state's revenue from this sector.

Dror Bin, CEO of the Israel Innovation Authority, said: "This publication emphasizes the strategic importance of the high-tech sector to the Israeli economy and state revenues. For the first time,



Dror Bin, CEO, Israel Innovation Authority

we present a comprehensive review of the various tax contributions from high-tech workers and companies. High-tech serves as the 'growth engine' of the economy and its 'shock absorber' during crises. The insights from this analysis reinforce the importance of government action to protect the sector and ensure its continued growth, even during economic slowdowns. Today's data highlight the fact that Israel's natural resource is human capital – responsible for most of the state's revenue from high-tech. Therefore, it is crucial to continue investing significantly in quality education for all population groups in Israel.

Moreover, given the high-tech sector's contribution to state revenues and the Israeli economy, it is essential to significantly invest in research and development infrastructure and startups, which are the future growth engines of the sector. This understanding is reflected in the 2024 budget, where the Innovation Authority's investment budget was increased by approximately one billion shekels. I believe this investment will yield significant long-term benefits for the Israeli economy. A substantial increase in the coming years will help us maintain Israel's technological edge, cultivate the next generation of high-tech companies, and ensure that we continue to lead in global technological innovation. Furthermore, it will expand the circle of high-tech employees, thereby boosting state revenues and strengthening the Israeli economy as a whole."

The purpose of this report is to provide an overview of state revenues from the high-tech sector, adjust government policy and investments in the field, and assess the impact of sector changes – during periods of growth and slowdown – on the entire economy. Recent years' rapid growth in the number of employees in the sector, combined with high wages, along with their significant contributions to exports and GDP, underscore the need to examine the connection between these factors and the sector's contribution to state revenues. This issue is especially pertinent in light of the war that began on October 7 and the economic slowdown during this period. The report presents the most up-to-date data published by the Tax Authority.

The report points to a significant gap between high-tech workers and the rest of the economy: the average monthly income tax payment of a high-tech worker in 2021 was 6,966 NIS, 6.3 times the average for the rest of the economy. This figure reflects the high wage levels in the sector and its substantial contribution to state revenues.

The report's authors estimate that, based on the increase in the number of high-tech employees between 2021 and 2023, along with the rise in the average salary in the sector, the direct contribution of the high-tech sector to state revenues and its share of overall revenue have likely increased during these years.

The Israel Innovation Authority's [recommendations](#) for policy measures, as outlined in the insights and recommendations document published today following the report's release:

1. Investment in R&D Infrastructure and Startups: As reflected in the 2024 budget, government investments in R&D infrastructure and startups operating in deep-tech fields (where the availability of private investment capital is low) should be increased in the coming years to

maintain Israel's technological advantage.

2. Expanding the Employment Base in High-Tech: Efforts should be made to integrate underrepresented populations into high-tech, such as women, the Arab community, and the Ultra-Orthodox Jewish community, throughout all stages of life and career to reduce gaps and increase the welfare of these populations. To this end, efforts should be made to provide quality education, including core studies, to all populations in Israel and remove barriers to their integration into high-tech.

3. Assessing the Impact of Multinational Companies: Despite the importance of multinational companies to Israeli high-tech, there is no need to create policies to deliberately increase their number. However, barriers to the activities of significant multinational companies not yet operating in Israel should be removed if such barriers exist.

4. Improving Data Infrastructure for Policy Making: The collection and use of administrative data should be expanded, and its quality and timeliness improved. Additionally, an administrative data system on the high-tech sector should be created in accordance with the recommendations of the expert committee that published its findings to the Central Bureau of Statistics last year.

#### Key Findings:

- About 24% of all tax payments in Israel derived from companies and wages came from the high-tech sector in 2020.
- High-tech employees were responsible for approximately 36% of income tax payments in 2021.
- The total state revenues directly derived from high-tech activity in Israel amounted to approximately 9.2% of the state budget in 2020.
- 85% of the state's revenue from the high-tech sector is related to workers in the sector. The remaining 15% comes from corporate tax.
- Nearly one hundred billion shekels were generated from income tax payments by high-tech workers over six years – a third of the income tax payments during this period.
- The average monthly income tax payment of a high-tech worker in 2021 was 6,966 NIS – 6.3 times the average in the rest of the economy (1,112 NIS).
- The Israeli economy is increasingly dependent on income tax payments from high-tech workers: between 2016-2021, income tax collection from high-tech workers increased by approximately 66% in real terms.
- The contribution of foreign high-tech companies to state revenues is significant and exceeds their relative share. Although their workers represent only about 20%-25% of the total high-tech workforce, and foreign companies constitute only 0.3% of all business companies – their contribution accounts for more than a third of the total high-tech contribution to state revenues, both in terms of work-related taxes and corporate tax.
- Due to the underrepresentation of populations in high-tech, 57% of the tax payments in 2021 came from the dominant group employed in the sector – Jewish men (non-Ultra-Orthodox), working in central Israel and Tel Aviv.
- The highest income tax payments per high-tech worker were in Tel Aviv and the south.
- Women paid less than 19% of income tax in high-tech – less than their relative share in the

field (about a third). The average high-tech female worker paid 3,508 NIS per month – six times that of a female worker in other sectors of the economy, who paid 583 NIS on average per month in 2021.

- 97.1% of income tax payments in 2021 in high-tech companies came from Jewish workers (non-Ultra-Orthodox), representing more than 21 billion shekels.

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