



**PrimeGlobal**

*An Association of  
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# DOING BUSINESS IN THE PALESTINIAN STATE





# COMPANY FORMATION IN THE PALESTINIAN STATE

## MAIN FORMS OF COMPANY/BUSINESS IN THE PALESTINIAN STATE

In the State of Palestine there are two types of a profitable companies:

1. Ordinary Companies (two partners to 20) individual companies
2. Sharing Companies:
  - Private Limited (two up to 50 partners)
  - Public Limited (Two and above partners) and its capital is divided as shares which can be listed in the financial market

Those types can be residents or non-residents (foreign) companies. Also can be a subsidiary or a branch.

## SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

All types of companies in the State of Palestine are subject to the Value Added Tax and to the income tax.

## LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

Both types of companies must appoint a represented person who is usually the Manager and a statutory accountant that will be the responsible to prepare and fill the Taxes forms (VAT and Income taxes).

There is no limitation for the capital of the ordinary companies, while the sharing company:

- a. the private sharing company should be at least 30,000 Jordanian Dinar or equivalent
- b. the public sharing should be at least 1,000,000 JOD or its equivalent

The agreed capital should be paid no later than four years from establishment.

Those companies must have a minutes book for their general assembly. Also have to nominate a Certified Auditor.

## CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

In the State of Palestine has no restrictions on the persons setting up a business nor any requirements regarding local Partners, Directors or Shareholders.

## OTHER COUNTRY-SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

Forming any business structure in the state of Palestine need to register with VAT & Customs, income Tax department department, and need to register with Companies controller office.

There is a special criteria determined by the law of investment encouragement in which the company or the business can take a Tax exemption for a period of five years or more.

## PERMANENT ESTABLISHMENT IN THE PALESTINIAN STATE: BRANCH OR SUBSIDIARY?

### DEFINITION OF A PERMANENT ESTABLISHMENT

When the companies controller register an ordinary company that mean that its business life are limit to the partnership life, which end by the death of any partner or by liquidate of the company.

While the sharing company had unlimited life except when liquidation.

### DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

The company can either trade through a branch or set up a subsidiary through which to trade.

A branch is part of a corporation and not a separate legal entity. A foreign corporation may establish a branch at any time as long as Palestinian laws are adhered to. The results of the local branch will be incorporated into the company's own accounts and the tax calculation will be accounted accordingly. however the foreign branch consider as a separate company which accountable for its own results separately.

A Subsidiary Company is a separate legal entity and has limited liability, which means its liability can be separated from other companies in the group.

The main reason for choosing one or the other depends on the tax position of the parent company, and its strategy to expand.

### TAX AND ACCOUNTING OBLIGATIONS

A branch is required to file a activity results through its parent company at the Tax department and the company controller.

The foreign branches are not subject if there is a political memorandum signed between the State of Palestine and the parent Company State regarding the Tax treatment.

Since the Subsidiary is a Limited Company it is required to file its own financial statements at the Tax Departments and at the Company Controller.

The tax financial period is the same calender period from January 1 till December 31 each year. However if the company can use a financial year different from the calendar year but with the written authorization from the tax department.

### REGISTRATION FORMALITIES

The only party can register a company are a certified attorney who should sign on the required needed forms.



## STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

The local Branch had no limitation or any requirements except a notice to the authority parties for opening the new branch.

for the foreign company new branch it consider a new company and should registered in the authority departments by the legal attorney.



# HOW TO HIRE MY FIRST EMPLOYEE IN THE PALESTINIAN STATE

## MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

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The company had to sign a contract with each employee and must follow the Local Labor law.

Registration at the Payroll income tax department at the Ministry of Finance in order to declared the monthly paid salary.

## DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

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Employment Contract should include but not limit the blow detailed:

- the business's name
- the employee's name, job title or a description of work and start date
- if a previous job counts towards a period of continuous employment, the date the period started
- how much, when and by how an employee will be paid (the ordinary payment and the overtime)
- hours of work
- holiday entitlement (and if that includes public holidays)
- sick pay and procedures
- where an employee will be working and whether they might have to relocate
- if it is a temporary employment, how long the temporary employment is expected to last
- notice periods

## DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

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If the company does not want to hire an employee to carry out its activities, it can appeal to subcontractors by convention or professional service contracts. this case named an outsourcing human resources.



## HOW TO READ FINANCIAL STATEMENTS IN THE PALESTINIAN STATE

The financial statements are prepared in accordance with the IFRS which comprise of:

- The statement of financial position
- The statement of comprehensive income
- The statement of cash flows
- Accounting policies and explanatory notes to the financial statements (which is different as the company activity and size)

The official language of preparation of the financial statement is in Arabic.

You will find hereafter a the statement of financial position, the statement of comprehensive income and statement of cash flow for a company in English and Arabic Languages.



Statement of Financial Position  
As of the year ended December 31, 2014 and  
2015

بيان المركز المالي  
للسنة المنتهية 31 كانون أول 2014 و2015

	2014م	2015م	
<b><u>Assets</u></b>			<b>الموجودات</b>
<b><u>Current Assets</u></b>			<b>الموجودات المتداولة</b>
Cash and cash equivalent			النقد والنقد المعادل
Other current assets			أرصدة مدينة أخرى
<b>Total current assets</b>			<b>مجموع الموجودات المتداولة</b>
<b><u>Non-current assets</u></b>			<b>الموجودات غير المتداولة</b>
Property & equipment, net			الالات ومعدات بالصافي
Lands			الأراضي
<b>Total non-current assets</b>			<b>مجموع الموجودات غير المتداولة</b>
<b>Total asset</b>			<b>مجموع الموجودات</b>
<b><u>Liabilities &amp; shareholders' equity</u></b>			<b>المطلوبات وحقوق المساهمين</b>
<b><u>Current Liabilities</u></b>			<b>المطلوبات المتداولة</b>
Credit banks			بنوك دائنة
Other current Liabilities			أرصدة دائنة أخرى
<b>Total Current Liabilities</b>			<b>مجموع المطلوبات المتداولة</b>
<b><u>Non-current liabilities</u></b>			<b>المطلوبات غير المتداولة</b>
End of service provision			مخصص مكافأة نهاية الخدمة
<b>Total non-current liabilities</b>			<b>مجموع المطلوبات غير المتداولة</b>
<b>Total liabilities</b>			<b>مجموع المطلوبات</b>
<b><u>Shareholders' equity</u></b>			<b>حقوق المساهمين</b>
Paid in capital			رأس المال المدفوع
Excess revaluation			فائض إعادة التقييم
Premium paid in capital			علاوة إصدار
Accumulated losses – Exhibit D			خسائر مدورة – بيان د
<b>Total shareholders' equity</b>			<b>صافي حقوق المساهمين</b>
<b>Total liabilities &amp; shareholders' equity</b>			<b>مجموع المطلوبات وصافي حقوق المساهمين</b>

# DOING BUSINESS IN THE PALESTINIAN STATE



Statement of Comprehensive Income  
For the year ended December 31, 2014 and 2015

بيان الدخل الشامل  
للسنة المنتهية 31 كانون أول 2014 و 2015

	2014م	2015م	
<b>Revenue</b>			<b>الإيرادات</b>
Sales of goods			إيرادات المبيعات
Service Revenues			إيرادات الخدمات
Other Revenues			إيرادات تشغيلية أخرى
<b>Total Revenues</b>			<b>مجموع الإيرادات</b>
<b>Cost of Revenues</b>			<b>تكلفة الإيرادات</b>
Cost of sales			تكلفة المبيعات
Cost of services			تكلفة الخدمات
Purchases			المشتريات
<b>Total</b>			<b>المجموع</b>
<b>Gross profit</b>			<b>الربح الإجمالي</b>
General and Administrative Expenses			المصاريف الإدارية والعمومية
Selling and Marketing Expenses			مصاريف البيع والتسويق
Other Income			إيرادات أخرى
Other Expenses			مصروفات أخرى
<b>Profit before tax</b>			<b>صافي الربح قبل الضريبة</b>
<b>Income Tax</b>			<b>ضريبة الدخل</b>
<b>Net profit after tax</b>			<b>صافي الربح بعد الضريبة</b>





Statement of Cash Flows  
For the year ended December 31, 2014 and 2015

بيان التدفقات النقدية  
للسنة المنتهية 31 كانون أول 2014 و 2015

	2014م	2015م	
<b>Cash flows from operating activities</b>			<b>التدفقات النقدية من الأنشطة التشغيلية</b>
Net loss for the year – B			صافي خسارة السنة – بيان ب
<b>Adjustments to reconcile net loss for net cash flow</b>			<b>تعديلات لتسوية صافي الخسارة لصافي التدفق النقدي</b>
<b>Non cash items</b>			<b>بنود لا تتطلب تدفقات نقدية</b>
Depreciation			استهلاكات
End of service provision			مخصص مكافأة نهاية الخدمة
Gain on sale of investments			أرباح بيع موجودات مالية
Gain on sale of lands			أرباح بيع أراضي
<b>Changes in operating assets &amp; liabilities</b>			<b>التغيرات في الموجودات والمطلوبات التشغيلية</b>
Other current assets			الأرصدة المدينة الأخرى
Other current liabilities			الأرصدة الدائنة الأخرى
<b>Total cash flows used in operating activities</b>			<b>صافي التدفقات النقدية المستخدمة في الأنشطة التشغيلية</b>
<b>Cash flows from investing activities</b>			<b>التدفقات النقدية من الأنشطة الاستثمارية</b>
Sale of lands			بيع أراضي
Property & equipment			آلات ومعدات
Sale of available for sale investments			بيع موجودات مالية
<b>Total cash flows provided from investing activities</b>			<b>صافي التدفقات النقدية الواردة من الأنشطة الاستثمارية</b>
<b>Cash flows from financing activities</b>			<b>التدفقات النقدية من الأنشطة التمويلية</b>
Credit banks			بنوك دائنة
<b>Total cash flows provided from (used in) financing activities</b>			<b>صافي التدفقات النقدية (المستخدمة في) الواردة من الأنشطة التمويلية</b>
Net increase (decrease) in cash & cash equivalent during the year			صافي الزيادة (النقص) في النقد والنقد المعادل خلال السنة
Cash & cash equivalent beginning of the year			النقد والنقد المعادل أول السنة
<b>Cash &amp; cash equivalent ending of the year</b>			<b>النقد والنقد المعادل آخر السنة</b>