Israel Chemicals paid out NIS 11 billion in shareholder dividends since 2003 (Haaretz)

Despite high profitability, Ofer family firm fights to keep tax, royalty breaks.

The noose may be tightening for Israel Chemicals, as the Finance Ministry gets ready to issue its positions on the tax benefits and reduced royalty payments enjoyed by the company.

Israel Chemicals is one of the jewels in the crown of Idan Ofer's Israel Corporation, accounting for a significant portion of the group's profits in recent years.

In 1999 the Ofer family paid $330 million to the Eisenberg family for a controlling stake in Israel Corporation. Israel Chemicals traded at a value of NIS 13.2 billion at the time. A decade later, the company is worth NIS 65 billion, and the Ofers' stake in it comes to about NIS 15 billion.

Since 2003, the company has paid out about $2.83 billion, more than NIS 11 billion, in dividends to shareholders.

The Ofer family owns 52.4% of ICL's shares, through its 53.7% stake in Israel Corp., bringing the family's share of the dividends to around $800 million. Bank Leumi, which owns nearly 18% of the company, earned $273 million in dividends.

Despite its high profitability, based on mining and selling potassium, phosphates, magnesium and other minerals from the Dead Sea and from mines in the Negev, as well as from developing products based on these minerals, Israel Chemicals is fighting to maintain the generous tax breaks and low royalty schedule that it enjoys.

In 2009, a year of deep economic crisis around the world, ICL lapped its competitors to rise from sixth place to second place in its sector. It posted net profits of NIS 2.92 billion for the year and distributed about NIS 2 billion in dividends. In the first half of 2010, ICL sales reached NIS 11.149 billion, compared to NIS 7.7763 billion in the first half of 2009. Net profits nearly doubled, to NIS 2.087 billion.

Government sources put the annual value of ICL's capital investment tax breaks at between NIS 400 million and NIS 800 million, in accordance with revenues. The company is fighting the cabinet's attempts to exclude mining companies from these tax breaks.

In addition, as part of a 1995 agreement between the state and Eisenberg, ICL enjoys a 50% discount on mineral royalties it pays to the state. And it seems the tax and royalty benefits are not sufficient for the Ofers. According to a 2006 report prepared by Barlev Investigative Auditing, ICL fudged its accounting records and did not pay the state the full royalties owed for 2003 to 2005.

The Finance Ministry now seeks to abolish ICL's tax benefits, to increase the royalty fees paid by the company, from 5% of sales to 10%, and to recover any additional royalties owed to the state for the 2003-05 period, as per the Barlev report.

ICL, for its part, says that withdrawing its tax breaks would be unfair and would jeopardize its global competitive edge.

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