Doing Business in ISRAEL

2024

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INTRODUCTION

This publication has been prepared by the International Bureau of Fiscal Documentation (IBFD) for BDO, its clients and prospective clients. Its aim is to provide the essential background information on the taxation aspects of setting up and running a business in this country. It is of use to anyone who is thinking of establishing a business in this country as a separate entity, as a branch of a foreign company or as a subsidiary of an existing foreign company. It also covers the essential background tax information for individuals considering coming to work or live permanently in this country.

This publication covers the most common forms of business entity and the taxation aspects of running or working for such a business. For individual taxpayers, the important taxes to which individuals are likely to be subject are dealt with in some detail. We have endeavoured to include the most important issues, but it is not feasible to discuss every subject in comprehensive detail within this format. If you would like to know more, please contact the BDO firm(s) with which you normally deal. Your adviser will be able to provide you with information on any further issues and on the impact of any legislation and developments subsequent to the date mentioned at the heading of each chapter.

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This chapter is based on information available up to 21 February 2024.

Abbreviations

Abbreviation	*English definition*
CbC	Country-by-country
CFC	Controlled foreign company
CIT	Corporate income tax
DTTs	Double taxation treaties
EFTA	European Free Trade Association
IHCs	Israeli holding companies
ITA	Israel Tax Authority
ITR	Income Tax Regulations
NIS	New Israeli shekel
PE	Permanent establishment
R&D	Research and development
VAT	Value Added Tax

Introduction

The primary taxes relevant for companies in Israel are corporate income tax, real estate tax and value added tax (VAT). Corporate income tax (CIT) is levied pursuant to the provisions of the Income Tax Ordinance (the Ordinance) and Regulations issued thereunder.

Social security contributions are payable by both employers and employees.

The authority responsible for the administration and collection of taxes is the Israel Tax Authority (ITA).

The official currency is the New Israeli Shekel (NIS).

Israel, together with other OECD/G20 Inclusive Framework members, signed a joint statement agreeing to implement a two-pillar solution to the challenges of the digitalization of the economy. For details, *see* sections 6.2.1. (Pillar One) and 6.4. (Pillar Two).

1. Corporate Income Tax

1.1. *Type of tax system*

In general, the Israeli CIT regime involves two-tier taxation: first, at the company level and, second, upon dividend distribution. Dividend income is subject to income tax whether derived by resident or non-resident recipients. An exemption and tax relief are available for certain intercompany dividends (*see* section 2.2.).

The tax base for the Israeli CIT is the company's net income (profit before taxes) as determined under Israeli accounting principles, and adjusted in accordance with the provisions of the Ordinance and the Income Tax Regulations (ITR). CIT is generally assessed for the calendar year.

The basis of taxation is worldwide for Israeli companies, and territorial for foreign companies (section 2 of the Ordinance).

1.2. *Taxable persons*

Israeli companies are taxed in Israel on their worldwide income. Foreign companies are subject to tax in Israel only with respect to their Israeli-sourced income (section 2 of the Ordinance).

Non-profit organizations may qualify for an exemption from tax, subject to certain conditions (section 9(2)(A) of the Ordinance).

Business partnerships (both domestic and foreign) are in general, taxed in proportion to the rights of the partners in the partnership taxable income (i.e. fiscal transparency). They are not subject to tax at the level of the partnership (section 63 of the Ordinance) unless the Ordinance stipulates that it must be regarded as a company for the purposes of the Ordinance, such as:

- partnerships resident in Israel whose activities, in whole or in part, are the exploration, development or production of oil or petroleum, either directly or indirectly, in Israel or abroad; and
- partnerships resident in Israel, whose activities, directly or indirectly, are research or development, as defined in the Law for the Encouragement of Research, Development and Technological Innovation in Industry, 1984.

Permanent establishments (PEs) are subject to tax as resident companies (*see* section 6.2.).

Generally, a company which is qualified as a "family company" (or, alternatively, a qualifying "house company" or "real estate company") is not treated as a taxpayer, but rather as the owner of the rights therein (section 64A of the Ordinance). On 1 January 2018, amendment 245 of the Ordinance came into effect. Under the amendment, the provisions of section 64 of the Ordinance ("house company") as well as the provisions of section 64A of the Ordinance ("family company") were adjusted. On 23 July 2019, the ITA issued a tax circular (Circular 02/2019) detailing and summarizing the changes and amendments made under amendment 245 of the Ordinance.

This survey is restricted to Israeli-incorporated public and private (limited liability) companies, as well as entities of a similar nature incorporated abroad, whether resident or non-resident. These entities will be referred to as "companies".

1.2.1. Residence

A company is considered an Israeli resident if it was incorporated in Israel or, in the case it was incorporated abroad, if it is managed and controlled in Israel.

1.3. *Taxable income*

1.3.1. General

Income from Israeli companies is taxed in Israel on a worldwide basis, as opposed to income from foreign companies which are subject to tax in Israel only with respect to their Israeli-sourced income (section 2 of the Ordinance).

The tax base for Israeli CIT is the company's net income (profit before taxes) as determined under Israeli accounting principles and adjusted in accordance with the provisions of the Ordinance and the ITR. As a general rule, Israeli companies must report their income for accounting and tax purposes according to the accrual method of accounting (Statement of Practice 8/2012, section 87A of the Ordinance).

There are differences between accounting rules and tax rules, which are set out in the Ordinance and the ITR. The main differences are as follows:

- rates of depreciation and amortization;
- limitations on the deductibility of certain kinds of expenses, such as expenses attributable to overseas travel, car expenses and similar expenses that are determined under relevant regulations; and
- accounting income that stems from the adjustment of grouping rules for income tax purposes.

1.3.2. Exempt income

Various incentive schemes exempt certain income from activities and enterprises from tax for up to 10 years or without time limitation (*see* section 1.7.).

The income of local authorities, charitable organizations and benefit funds is generally exempt from tax to the extent it is not derived from a business carried on by them or from dividends from a subsidiary under their control carrying on a business (section 9(2) of the Ordinance). Cooperative societies are tax exempt on income from business carried on among their members (section 9(3) of the Ordinance).

A non-profit organization, often organized as a "foundation" or a "company for public benefit", may be exempt from income tax subject to certain conditions (section 9(2)(a) of the Ordinance).

Professional organizations are exempt from tax (section 92A(a) of the Ordinance).

In addition, a participation exemption may be claimed by qualifying holding companies (*see* section 2.2.) (section 67E of the Ordinance).

1.3.3. Deductions

Expenses are deductible only if they are incurred in the production of taxable income. Expenses that were not incurred in the production of income, such as private expenses, are not allowed as a deduction (sections 17, 18 and 32 of the Ordinance).

1.3.3.1. Deductible expenses

Salaries, employee-related severance pay, vacation pay, convalescence and recreation pay, holiday allowances and sick pay are deductible only in the year in which they are actually paid to the beneficiary or transferred to a provident fund (section 18A of the Ordinance).

Expenses made to non-Israeli residents that are subject to withholding tax and considered as income in the hands of the payee are deductible only in the year in which they are actually paid or, if the taxes in this respect were withheld, no later than 3 months after the end of said year (section 18E of the Ordinance).

Recognition of certain research and development (R&D) expenses, net of grants received and accelerated depreciation for certain industries, are available under certain conditions (section 20A(A)1) of the Ordinance).

For the rule applicable to interest deduction, *see* section 7.3.

1.3.3.2. Non-deductible expenses

Expenses not incurred in the production of income (e.g. private expenses) are not deductible (*see* section 1.3.3.). Provisions into a reserve for such expenses are generally also not deductible, even if an expectation exists that the obligation to make the payments will occur. Regular monthly contributions to approved provident funds are deductible in accordance with detailed rules (section 17(5) of the Ordinance).

On 29 May 2022, the Supreme Court in Israel ruled in *National Assessment Unit Assessor v. Roy Hayun* that the taxpayer should not be allowed to deduct the amounts confiscated in a judgment given in a criminal proceeding conducted against him from the tax imposed on his taxable income.

1.3.4. Depreciation and amortization

In most cases, the assets of a business are depreciated for tax purposes pursuant to the straight-line method of depreciation (Income Tax Regulations (Depreciation) 1941). The annual depreciation amount is calculated based on a percentage of the cost of the asset, depending on the type of asset (section 21 of the Ordinance). Subject to the aforementioned general rule, depreciation deductions are allowed only with respect to assets used in the production of income (section 21 of the Ordinance).

The following table contains examples of the main standard annual depreciation rates:

Asset			***Rate (%)***
Industrial buildings and hotels, depending on their grade (exclusive of land) (Income Tax Regulations – Adjustments Due to Inflation – Depreciation Rates)			5
Other buildings (e.g. hotels, excluding land) (Income Tax Regulations (Depreciation))	1.5[1]	–	6.5[1]
Patents and know-how (Income Tax Regulations (Know-how depreciation))	10	–	12.5
R&D (Section 20 of the Fiscal Policy Law of 2011-2012)	33	–	100
Machinery and equipment (depending on the number of daily shifts) (Income Tax Regulations (Depreciation) and Income Tax Regulations – Adjustments Due to Inflation – Depreciation Rates)	7	–	40
Electronic and computerized equipment (Income Tax Regulations (Depreciation), section 14)	15	–	33
Furniture and office equipment (Income Tax Regulations (Depreciation) – Furniture)	6	–	12
Computers (Income Tax Regulations (Depreciation), section 14)	25	–	33
Heavy vehicles (i.e., trucks and similar vehicles) (Income Tax Regulations (Depreciation), section K(7))			20
Passenger vehicles (Income Tax Regulations (Depreciation), section 11)	15	–	25

1. Double rate may apply with respect to factory buildings.

In certain circumstances, depreciation of rental apartments is not recognized (section 122(c) of the Ordinance).

Depreciation which is not deducted due to lack of income to offset against may be carried forward to future years, and deducted from particular assets, based on the specific circumstances of the asset (*see* section 1.5.1.) (section 22 of the Ordinance).

Accelerated depreciation of assets is available pursuant to incentive regimes, for both equipment and buildings (*see* section 1.7.5.) (section 42, 51A of the Law for the Encouragement of Capital Investment).

1.3.5. Reserves and provisions

Provisions for bad debts are usually not recognized. A loss on a debt is deductible in the year in which the claim actually becomes non-recoverable, and any receipts on claims previously written off must be reported as income in the year of receipt (section 17(4) of the Ordinance).

Certain gains may be put in a reserve for reinvestment, provided they are used for replacement of assets similar to the ones sold (section 96 of the Ordinance).

1.4. *Capital gains*

Resident companies are taxable on their worldwide income, including capital gains, while non-resident companies are solely taxable on capital gains relating directly or indirectly to assets defined as Israeli assets. These general rules are subject to the provisions of any applicable income tax treaty (section 89(b)(1-2) of the Ordinance).

The taxable gain is computed by splitting the gain into its real and inflationary components. The inflationary portion of the gain is computed by applying the Israeli Consumer Price Index to the cost of the capital asset. The inflationary portion of the gains is generally not subject to tax (excluding the inflationary portion accrued until 31 December 1993, which is subject to a 10% tax rate) (sections 88 (definitions), and 91 of the Ordinance).

The current tax rate imposed on real capital gains is equal to the standard CIT rate (*see* section 1.6.1.) (section 126(a) of the Ordinance).

The above rules also apply to capital gains from real estate, which is taxed in accordance with the Land Taxation Law 5723-1963. Local authorities are authorized to charge a betterment levy at a rate of 50% of the increase in value resulting from actions taken by the municipality (e.g. issues of building permits). The betterment charge may be offset against gains subject to CIT (section 3 to the third amendment to the Planning and Building Law).

Gains from the sale of shares are, in principle, subject to CIT, unless an exemption applies (section 89(b)(3)(c) of the Ordinance).

Gains from a sale of rights to an intangible asset are subject to CIT (section 89(c) of the Ordinance).

The Ordinance imposes an exit tax on companies which have ceased to be Israeli residents. The assets of a company who ceased to be an Israeli resident are deemed sold one day prior to its cessation of residency. The company may defer the tax payment until the actual sale of the assets (section 100A of the Ordinance).

1.5. *Losses*

In order for losses to be deductible, the Ordinance provides that the loss must stem from recognized expenses, and, in general, from an active source of income (section 28(a) of the Ordinance).

1.5.1. Ordinary losses

The losses a company recognizes from a trade or business may be used to offset any other income recognized by the company in the same tax year (including interest, dividends and capital gains). The balance of such losses may be carried forward indefinitely to be offset against income from a business or vocation, and against capital gains from a business or vocation, as well as land appreciation, but cannot be offset against income from any other source (section 28(b) of the Ordinance).

Case law has restricted the ability to carry forward losses in the case of a company that purchases another company with losses, and only allows deduction if commercial justification can be established (CA 3415/97 *Yoav Rubenstein Ltd v. Tax Assessment Officer large factories*, Misim Q/4 e-59(2003), CA *Ben Ari Insurance Agency v. Jerusalem Tax Assessment Officer*, Misim V/3, E-71(2008)).

If depreciation cannot be deducted due to losses in the current tax year, the taxpayer may carry the unutilized amount forward to future years and may deduct it accordingly, based on the source where the depreciation stems from (section 28(b) of the Ordinance).

Regarding transfer of losses within a group and foreign losses, *see* sections 2.1. and 6.1.1.

1.5.2. Capital losses

Generally, capital losses may be offset only against capital gains realized by the taxpayer in the current year or in consecutive tax years, and cannot be offset against ordinary income (section 92 of the Ordinance). Additionally, capital losses deriving from disposal of securities may be offset against interest and dividend income generated from securities only in the current year.

Moreover, capital loss (in historical cost terms) from machinery and equipment used in a business, which was replaced in the tax year, may be deducted for corporate tax purposes as a regular expense. The cost recognition may not exceed the cost of replacement of the machinery or equipment (section 27 of the Ordinance).

1.6. *Rates*

1.6.1. Income and capital gains

As of 2018, companies are subject to CIT at the rate of 23% (section 126(a) of the Ordinance).

Capital gains are subject to the standard CIT rate (section 91(a) of the Ordinance).

Companies meeting the criteria determined by the Law for the Encouragement of Capital Investment may be granted the status of "Preferred Enterprise" or "Special Preferred Enterprise" (*see* section 1.7.2.), which entails a lower rate of CIT on their industrial income, as defined in section 51 of the same law, as follows:

- Preferred Enterprises promoting their business in an area defined by the Law as Development Area A are subject to a CIT rate of 7.5%, whereas those operating outside said area are subject to tax at a rate of 16%; and

- Special Preferred Enterprises are subject to tax at a rate of 5% if doing business within Development Area A, and of 8% when operating outside that area (sections 51P and 51U of the Law for the Encouragement of Capital Investment).

Additionally, commencing in 2017, a new tax regime under the Law for Encouragement of Capital Investment enables companies that meet the criteria determined therein to be entitled to the status of "Preferred Technological Enterprise" or "Special Preferred Technological Enterprise" (*see* section 1.7.2.). This offers companies a reduced CIT rate on their industrial income deriving from preferred intangible assets, as follows:

- Preferred Technological Enterprises promoting their businesses in Development Area A are subject to a CIT rate of 7.5%, whereas those operating outside of Area A are subject to tax at a rate of 12%; and
- Special Preferred Technological Enterprises are subject to tax at a rate of 6%.

Development Area A comprises the following regions (Second Addition, Law for the Encouragement of Capital Investment): municipalities in the Jerusalem district, South Israel, North Israel; Haifa regions that meet certain socio-economic standards; high-tech enterprises in Jerusalem; certain industrial zones in North Israel, South Israel and the city of Jerusalem; industrial zones in minority towns; and certain towns in close proximity to the Gaza Strip.

Regarding PE rates, *see* section 6.2.1.

Regarding capital gains rates, *see* section 1.4.

1.6.2. Withholding taxes on domestic payments

Dividends, interest and royalties paid to resident corporate recipients are subject to withholding taxes as follows (for 2024):

Payment	***Withholding tax rate***
Dividends	In general, no tax is levied on dividends paid to resident companies provided the profits from which they are distributed have already been subject to CIT (section 126(b) of the Ordinance)
Interests	Generally, 23% (section 7 of Income Tax Regulations (Deductions from Interest, Dividends and Additional Gains) and section 170 of the Ordinance)
Royalties	20% if the recipient is certified as maintaining proper bookkeeping and filing tax returns; 30% otherwise (Income Tax Regulations (Deduction from Payments for Services and Goods) 5737-1977)

Where approval has not been obtained from the ITA to withhold tax at a reduced rate, an exemption has not been granted, or the bookkeeping system of the paying company has not been approved by the ITA, the applicable withholding rate is as above.

Withholding tax is not necessarily final; despite the fact that the sum withheld usually equals the final sum, it can be provisional at times.

Regarding withholding rates on payments to non-resident companies, *see* section 6.3.

1.7. *Incentives*

The present section refers to tax incentives.

1.7.1. General

Various investment incentives are outlined in the Law for the Encouragement of Capital Investment 5719-1959, which was materially amended and simplified in 2011.

1.7.2. Encouragement of Capital Investment

As of January 2011, the incentives under the Law for the Encouragement of Capital Investment are directed towards corporations meeting the criteria to qualify as Preferred Enterprises and Special Preferred Enterprises. These statuses entitle companies to a reduced CIT with respect to their industrial income, as defined in section 51 of the same Law, generated within Israel.

Tax benefits are not limited to a benefit period, as was the case before 2011. Currently, Preferred Enterprises and Special Preferred Enterprises may simultaneously request certain investment grants, while in the past grants would not be available when opting for tax benefits. In addition, there is no minimum investment amount requirement. For companies active in the tourism industry, the operation of hotels and other tourist accommodation, the rules remained unchanged from the previous regime. For rates, *see* section 1.6.1.

In addition, under certain conditions, large manufacturing companies may also be entitled to a grant in the amount of up to 20% of their investment in tangible fixed assets (sections 42, 51U(b) of the Law for the Encouragement of Capital Investment).

In 2017, the Israeli government legislated new regulations regarding the Preferred Technological Enterprise regime. Companies that comply with the terms of such regime may be entitled to tax benefits as a Preferred Technological Enterprise or a Special Preferred Technological Enterprise. These statuses entitle companies, under certain conditions, to a reduced CIT rate with respect to income deriving from intangible assets (intellectual property/know-how).

Among other requirements, a Preferred Technological Enterprise has to comply with the following conditions:

- at least on average 7% of the revenue in the last three years was invested in R&D (or at least NIS 75 million invested in R&D expenses per year);
- at least one of the following three conditions must be met:
  - a minimum of 20% of the total employees are R&D employees whose whole salary is classified as R&D expenses (or the enterprise has, at least, 200 R&D employees);
  - a venture capital fund investment of NIS 8 million was previously made in the company; and
  - over the last 3 years of activity, an average annual growth of 25% in sales or employees must have been achieved; and
- a minimum of 25% of its income is derived from export.

However, even companies that do not meet the quantitative threshold conditions detailed above are entitled to be included in the benefit track, provided that they have received an approval from the National Innovation Authority that they own an “innovation promoter enterprise”.

In 2019, the Israeli parliament legislated new rules regarding the conditions subject to which an enterprise is regarded as an innovation promoter enterprise for the purpose of being labelled as a ''preferred technological enterprise''. Accordingly, an enterprise would be considered as an innovation promoter enterprise (as defined in paragraph (3) in section 51 of the Law for the Encouragement of Capital Investments), if the National Innovation Authority approved that the level of innovation of the enterprise during the examination period was equal to or higher than the level of innovation accepted worldwide in the main technological field in which the enterprise is engaged. An enter-

prise that wishes to obtain such approval from the Innovation Authority is required to submit an application within 90 days of the end of the tax year for which the benefit is claimed.

For rates, *see* section 1.6.1.

On 19 November 2019, the ITA published Tax Circular 3/2019 dealing with separation or consolidation of enterprises for the purpose of receiving benefits according to the Law for the Encouragement of Capital Investment 5719-1959.

The circular sets out the criteria to identify an "industrial enterprise" owned by a company and whether it owns one or more enterprises, and other issues that arise in this context.

Under the Temporary Order included in the 2021-2022 Budgetary Law, the distributions of trapped profits, i.e. exempt profits derived under the provisions of the Law for the Encouragement of Capital Investment and accumulated until 31 December 2021, are subject to a reduced CIT rate (claw-back of up to a 60% reduction of the applicable CIT) instead of the full CIT rate. The reduction may not result in an effective CIT rate of less than 6%. This measure applies on profits that will be released (without the requirement to distribute those profits) for a 1-year period from 15 November 2021 to 14 November 2022 and aims to stimulate the distributions of these trapped profits.

On 28 July 2023, Israel passed a law aimed at promoting the knowledge-intensive industry, particularly in technology (the Angel's Law). The key points of the law are as follows:

- private investors in R&D companies receive a tax credit equal to their investment multiplied by the investor's capital gains tax rate, with a maximum investment limit of NIS 4 million per investor per company;
- cost reduction of purchasing shares of an Israeli company can be spread over 5 tax years for the buying entity;
- acquiring shares of a foreign resident company also sees a cost reduction over 5 tax years, subject to certain adjustments;
- interest paid by an eligible beneficiary company for a loan from a foreign financial institution is tax exempt; and
- investments made by private investors in R&D companies that have gone public are eligible for temporary recognition as capital losses of up to NIS 5 million.

1.7.3. Accelerated depreciation

For assets and buildings used in the production of preferred income, the Preferred Enterprises and Special Preferred Enterprises are entitled to accelerated depreciation. During the first 5 years of operation, the company may depreciate its assets at 200% of the ordinary rate of depreciation (*see* section 1.3.4.) for equipment, and 400% of the regular rate for buildings, with an annual ceiling of 20% of the buildings' value (section 42(2) of the Law for the Encouragement of Capital Investment).

1.7.4. Grants

Industrial companies may apply for a grant of up to 20% (or 30% in certain cases) of the amount of investment in fixed assets. In order to benefit from this grant, the company should meet the following requirements (First Addition and sections 18A-18B of the Law for the Encouragement of Capital Investment):

- be registered in Israel;

- be located in a priority region (mostly the north and the south of the country); and
- contribute to Israel's international competitiveness (biotechnology and nanotechnology companies do not need to fulfil this requirement).

In addition, bi-national research funds, which Israel has (or is finalizing) with Belgium, Canada, France, Germany, the Netherlands, Portugal, Spain and the United States and a few other countries, may provide for specific financial support. If commercial products result from the research, sales royalties are generally payable up to prescribed limits.

State investment guarantees of up to 80% exist for investment in publicly traded R&D venture capital funds and cooperation arrangements with professionally managed funds.

1.7.5. Incentives granted to investors

Israeli tax law provides significant incentives in order to encourage investment in start-up companies.

Until 31 December 2019, an individual or a partnership who invested in a start-up that met certain conditions could deduct up to NIS 5 million invested in shares of the company, either in one instalment or over a 3-year period (section 20 of the Fiscal Policy Law of 2011-2012).

In addition, under the same law, preferred/beneficiary companies that invest in other preferred/ beneficiary companies may be able to deduct, under certain conditions, the purchase price over 5 years, in five equal instalments (section 21 of the Fiscal Policy Law of 2011-2012).

On 31 December 2018, the ITA published a circular (income tax circular 21/2018) clarifying the additional tax reliefs granted to investors in certain qualifying R&D companies and to investors through qualifying High-Tech Venture Funds listed on the Tel Aviv Stock Exchange. These reliefs have been enacted as a temporary provision in amendment 220 to the Ordinance in 2016 (section 92A of the Ordinance), and intend to encourage investment in Israel's high-tech industry. The tax benefits under this temporary provision are granted to investors in the equity of qualifying publicly traded R&D companies and tech venture funds and allows them to recognize the amount of investment (up to NIS 5 million) as a capital loss incurred in the year of investment or over a period of 3 years commencing from the year of investment.

1.7.6. Holding companies

Since 1 January 2006, corporations that are classified as Israeli holding companies (IHCs) have been entitled to a participation exemption.

In order to qualify as an IHC, among other criteria, the company must be registered, and managed and controlled, in Israel. It must be a private company and invest at least NIS 50 million in its subsidiaries, which should constitute 75% or more of the total investments of the holding company. At the subsidiary level, it is required that the subsidiary resides in a treaty country or in a country with at least a 15% CIT rate. In addition, it is required that 75% or more of the subsidiary's income will be derived from a trade or business. Moreover, the subsidiary may not hold more than 20% of its assets in Israel or derive more than 20% of its income from within Israel (section 67C(a) and section 67D of the Ordinance).

The tax benefits available to an IHC include the following (sections 67E, 67F and 67K(b) of the Ordinance):

- dividends received by the IHC from its subsidiaries are tax exempt (*see* section 2.2.);
- capital gains from the sale of subsidiaries are tax exempt;
- dividend distributions from the IHC to its foreign shareholders are subject to a reduced withholding rate of 5%. This benefit does not apply to Israeli shareholders of the IHC;
- interest income, dividends and capital gains received by the IHC from securities that are traded on the Tel Aviv Stock Exchange are tax exempt;
- interest received from certain financial institutions is tax exempt; and
- the IHC and its investee companies are not subject to the Israeli controlled foreign corporation regime.

1.8. *Administration*

1.8.1. Taxable period

In general, taxpayers are required to report income on the basis of the calendar year.

However, the following entities may apply for permission to file their tax returns based on a different 12-month period (section 7 of the Ordinance):

- a joint investment trust fund, as defined in the Joint Investment Trusts Law;
- a state-owned company;
- a company whose shares are listed on a stock exchange recognized under the Joint Investment Trusts Law;
- a company where 51% or more of its share capital and voting power is held by a non-resident company whose shares are traded on a foreign stock exchange; or
- a company whose rights to at least 51% of the profits are held by a non-resident.

1.8.2. Tax returns and assessment

In principle, companies are subject to a self-assessment system. The final tax payment is made, along with the filing of the annual tax return, by 31 May following the end of the tax year. It is possible, in certain circumstances, to obtain an extension for the filing and payment deadline (sections 132(B1) (a) and 145 of the Ordinance).

1.8.3. Payment of tax

CIT is generally assessed for the calendar year; however, the greater part of the tax is paid during the tax year through estimated advance payments. The advance payments are generally fixed by the Assessing Officer as a percentage of turnover, although fixed amounts may be set in certain cases (Income Tax Regulations (Determination of advance payments based on turnover)).

Tax must be withheld at source from payments to suppliers in Israel unless a withholding tax permit from the tax authorities, issued for the benefit of the supplier, provides differently (section 164 of the Ordinance). Withholding tax effectively charged may be set off by the income recipient against advance payment of tax in the following month, subject to a written confirmation/withholding tax certificate (section 177(a) of the Ordinance). Surplus tax advances may be payable when certain non-deductible ("excess") expenses are incurred (section 181B of the Ordinance).

Taxes due must be paid at the time the company files its tax return. Taxes paid after the end of the tax year will bear interest at an annual rate of 4%, and will be subject to linkage. Any monies the company may be entitled to must be refunded within a 90-day period after the filing of the tax return for the relevant year (section 159A(b) of the Ordinance).

Upon the sale of an asset subject to capital gains tax, an advance of the tax on the actual gain as calculated in NIS is payable by the seller within 30 days of the transaction (section 91(d) of the Ordinance). Gains from Israeli-situs real estate must generally be reported within 30 days (section 73(a) of the Land Taxation Law).

1.8.4. Rulings

Generally, a taxpayer may obtain a ruling from the ITA prior to filing its tax return (section 158C of the Ordinance). Additional specific administrative possibilities for obtaining advance rulings have been created, including for transfer pricing (section 85A(d)(1) of the Ordinance). The procedures for the submission of a ruling request are not covered by detailed regulations and may differ from one department or inspectorate to another. The authority to issue rulings on specific chapters of tax legislation and other related legislation belongs to specifically created departments and appointed officers. The ITA publishes a selection of anonymized rulings periodically.

Tax rulings are binding on tax authorities, on the condition that the taxpayer provides all the necessary, accurate documentation, and that there has not been a change in circumstances (section 158F of the Ordinance).

On 12 November 2018, the ITA published a tax circular (Tax Circular 16/2018) explaining and clarifying the criteria, rules, procedures and purposes related to tax rulings, and specifying their legal status towards the ITA and the taxpayers.

2. Transactions between Resident Companies

2.1. *Group treatment*

Consolidated tax returns are not allowed under Israeli law; an exception applies, however, in the case of an Israeli resident industrial company or a company that is a holding company of industrial companies. This exception applies in conjunction with certain conditions determined in the Law for the Encouragement of the Industry (Taxes), 5729-1969.

An industrial company is defined therein as a company that receives at least 90% of its revenues from an industrial enterprise engaged in manufacturing activities.

Generally, a holding company of industrial companies (whether industrial in and of itself or not) may file a single consolidated tax return in respect of itself and its industrial subsidiaries, provided that all the industrial companies included in the consolidated group are part of a single assembly line or manufacturing process (section 23(A) of the Law for the Encouragement of the Industry (Taxes), 5729-1969).

In addition, a holding company that has subsidiaries engaged in different assembly lines is entitled to consolidate its return only with the company or companies having a single assembly line in which it has the largest capital investment (section 23(B) of the Law for the Encouragement of the Industry (Taxes), 5729-1969).

2.2. *Intercompany dividends*

Intercompany dividends are, in principle, subject to tax at the level of the recipient company at the applicable CIT rate.

Dividends received by a resident company from another resident company are exempt in the hands of the recipient if received out of profits that were already subject to tax in Israel at the level of the distributing company (section 126(b) of the Ordinance).

Dividend distribution from profits that were not yet taxed at the level of the distributing company (such as revaluation profits) will result in taxing those profits at the standard CIT rate.

An IHC may claim tax exemption for income from investments in non-resident companies (*see* section 1.7.6.) (section 67E of the Ordinance).

Regarding dividends from a foreign source and dividends derived by non-residents, *see* sections 6.1.1. and 6.3.1.

3. Other Taxes on Income

The Petroleum Profits Taxation Law (2011) and the Taxation of Natural Resources Law (2011) provides the taxation of, and incentives for, the oil and natural gas industry.

In general, the profits from oil and gas are subject to an effective rate ranging between 20% and 50%, depending on the outcome of the R-factor calculation (section 2(2) of the Taxation of Natural Resources Law). The R-factor is determined by dividing the net cumulative revenues by the exploration and development expenses (section 4 of the Taxation of Natural Resources Law); the specific rate is the result of the percentage of investments in exploration, development and establishment of the project.

A 20% rate is imposed once a recovery rate of 150% of the amount invested has been reached. This rate is increased to up to 50% upon the recovery of 230% of the invested amount (section 2 of the Taxation of Natural Resources Law).

In addition, a 12.5% royalty rate is levied on the net quantity of petroleum produced (section 32(a) of the Petroleum Law).

4. Taxes on Payroll

4.1. *Payroll tax*

No payroll tax is imposed in Israel, except for the charge levied on not-for-profit organizations and financial institutions. Not-for-profit organizations are taxed at a rate of 7.5% on wages exceeding NIS 200,457 (for 2024) per year. Financial institutions are taxed at a rate of 17%.

Financial institutions are also subject to VAT on wages paid to their employees.

4.2. *Social security contributions*

Employers and employees must make social security contributions.

Employers are also responsible for withholding contributions from salaries on account of employees and remitting them to the Institute of National Insurance. Payment must be remitted with an accompanying form on the 15th day of each month. The employer's contribution, which is based on the employee's monthly income, is as follows (for 2024):

Monthly income (NIS)			*Resident employees (%)*	*Non-resident employees (%)*
Up to		7,522	3.55	0.59
7,523	-	49,030	7.6	2.65
Over		49,030	0	0

5. Taxes on Capital

5.1. *Net worth tax*

Israel does not levy a net worth tax.

5.2. *Real estate tax*

There is no real estate tax in Israel.

Under the Land Appreciation Tax Law, special provisions apply to capital gains from Israeli-situs real estate ("land appreciation") and capital gains from shares in entities whose principal assets consist of real estate. In addition, purchasers of real estate may be subject to an acquisition tax (*see* section 9.2.1.).

It is possible to seek an advance ruling from the Income Tax Commissioner as to whether a company that owns real estate is regarded as a real estate entity (section 158B of the Ordinance).

6. International Aspects

6.1. *Resident companies*

See section 1.2.1. for residence rules.

6.1.1. Foreign income and capital gains

A resident company is subject to tax on its worldwide income. In general, the applicable tax is the normal rate of CIT, and there are no significant differences in the tax treatment between domestic income and foreign income. The same applies to capital gains, which are taxable whether they are domestic or foreign, subject to the relevant tax treaty (sections 2 and 89(b) of the Ordinance).

Foreign-source dividends are subject to CIT at the standard rate of 23% for 2024 (section 126(c) of the Ordinance).

A foreign tax credit is available for the foreign tax paid on distributions by a non-resident company (*see* section 6.1.3.). A credit for foreign tax may be also granted for the underlying CIT under certain circumstances (*see* section 6.1.4.) (section 207 of the Ordinance).

Foreign-source interest and royalties are subject to the standard CIT rate (i.e. 23% for 2024) (sections 2 and 126 of the Ordinance).

On 17 January 2022, following the signature of the Multilateral Instrument (MLI) in 2017, the ITA published Tax Circular 1/2022, providing details regarding the provisions under the MLI and explaining how the MLI will affect the bilateral tax treaties signed by Israel.

See also section 2.2.

6.1.2. Foreign losses

Losses from foreign sources may generally be offset. However, depending on the nature of the source of the loss, different rules may apply.

The losses of a company from foreign sources can only be offset against foreign-sourced income, pursuant to a "basket" system (e.g. passive losses can only be used to offset passive income, and if it is a passive rental loss deriving from depreciation, it

can be offset also against capital gain from the same building). Loss carry-forward is also allowed, and there are no limitations on the carry-forward period (section 29 of the Ordinance).

Foreign losses in relation to business activities may be offset against foreign and domestic income but in a specific order (i.e. first losses are offset against foreign business income, including business capital gain, from the same year, then against foreign passive income derived in the same year and after that against domestic income derived in the same year, under certain circumstances); subsequently, loss carry-forward is also allowed (section 29 of the Ordinance).

6.1.3. Foreign capital

No capital tax is levied in Israel.

6.1.4. Double taxation relief

Currently Israel is a party to over 50 double taxation treaties (DTTs) in force. Israel's DTTs generally follow the OECD Model with the exception of a small number of treaties (e.g. DTTs with Norway and Sweden) that were signed in the 1960s and the 1970s, before the OECD Model was widely accepted. The domestic method of relief for corporations is an ordinary credit granted for taxes paid overseas. The income is categorized into different "source baskets" and credited against Israeli tax liability in the same "basket", to the limit of the relevant CIT rate applicable. Excess credit can be carried forward and deducted from the same source for a 5-year period.

Dividend distributions received by an Israeli company are not subject to tax in Israel as long as the distribution is attributable to Israeli-sourced income and was subject to CIT in Israel. The distribution should be subject to tax at a 23% rate if it is attributable to foreign-sourced income. The Israeli company may claim credit for foreign taxes paid with respect to the distribution under one of the following methods:

- direct credit, where the Israeli company may claim credits with respect to foreign withholding tax paid on the dividend distribution. In this case, the dividend distribution is subject to a 23% tax rate in Israel; or
- indirect credit, where the Israeli company may claim credits with respect to both its allocable share of the foreign taxes paid by the distributing company on its foreign source income and the foreign withholding tax paid on the dividend distribution. In this case, the dividend distribution will be subject to the standard CIT rate in Israel (which is also 23%).

Under the Ordinance, relief provided in treaties overrides domestic legislation, as long as it is more favourable to the taxpayer (section 196 of the Ordinance).

Pursuant to guidance published by the ITA, a company is managed and controlled in the place where the business strategy of the company is determined. For that purpose, it should be considered where, as a factual matter, the principal substantive business decisions of the company are made.

The ITA published Tax Circular 1/2022 explaining how the MLI will affect the bilateral tax treaties signed by Israel. *See also* section 6.1.1.

On 18 August 2023, the ITA published the Income Tax Circular on Mutual Agreement Procedures (MAPs) in Treaties for the Prevention of Double Taxation (the new circular). The new circular deals with the way of submitting applications for MAPs and regulates the treatment of such applications.

6.2. *Non-resident companies*

A company is considered a non-resident company if it was incorporated outside of Israel, and is managed and controlled from abroad. Pursuant to guidance published by the ITA, a company is managed and controlled in the place where the business strategy of the company is determined. For that purpose, it should be considered where, as a factual matter, the principal substantive business decisions of the company are made (definitions of the Ordinance).

PEs are not defined in the Ordinance, and the accepted definition is based on the OECD definition.

6.2.1. Taxes on income and capital gains

Non-resident companies are subject to CIT on Israeli-source income (section 89(b)(2) of the Ordinance). Israel does not have an explicit PE rule regarding business income in its domestic law, and the law merely requires "business carried out in Israel". Case law has expanded on this definition, and requires that the business be continuous, substantive, systematic and with a defined goal in order to be seen as Israeli-source income. Non-resident companies are entitled to standard rates, deductions and loss relief (*see* sections 1.3., 1.4. and 1.5.).

Israel also exercises its right to tax transactions between non-residents in cases involving Israeli assets or Israeli-sourced income (section 89(b)(3) of the Ordinance).

Capital gains derived by non-resident companies on the disposal of shares in resident companies are generally exempt from tax, provided that they do not have a PE in Israel, or that the companies' assets consist mainly of real estate (section 97(b)(3) of the Ordinance).

Regarding withholding tax on dividends, royalties and interest, *see* section 6.3.

Regarding dividends derived by residents, *see* section 2.2.

On 17 January 2022, following the signature of the MLI in 2017, the ITA published Tax Circular 1/2022, providing details regarding the provisions under the MLI and explaining how the MLI will affect the bilateral tax treaties signed by Israel. *See* section 6.1.1.

OECD/G20 Inclusive Framework – Pillar One

Israel is a signatory of an agreement to implement a two-pillar solution to the challenges of the digitalization of the economy. The solution includes a plan to reallocate part of the taxing rights over large and high-profit enterprises from their home countries to jurisdictions in which goods or services are supplied or consumers are located (market jurisdictions), regardless of whether these enterprises have a physical presence there (Pillar One). The new taxing right for market jurisdictions ("Amount A") would affect multinational groups with global turnover above EUR 20 billion and profit before tax above 10%. Pillar One is expected to be implemented by way of a multilateral convention that will also require parties to that convention to remove all digital services taxes and other relevant similar measures (as well as not to introduce such measures in the future).

6.2.2. Taxes on capital

No tax is levied on capital in Israel.

6.2.3. Administration

A foreign corporation is exempt from filing tax returns presuming that the tax was fully withheld and that several other conditions are met. (Income Tax Regulations (Exemption from filing a return), section 5).

See also section 1.8.

6.3. *Withholding taxes on payments to non-resident companies*

6.3.1. Dividends

Gross dividends paid to non-residents are subject to withholding tax at the following rates:

- 25% where the shareholding is less than 10%;
- 30% where the shareholding is equal to or more than 10%; and
- 25% where the payer is an Israeli resident company whose shares are listed and traded on a stock exchange (section 2 of the Income Tax Regulations, Deductions from interest, dividends and other income).

For dividends distributed by qualified Preferred Enterprises under the Law for the Encouragement of Capital Investment, the withholding tax rate may be reduced to 20%, *see* section 1.7. (section 51R of the Law for the Encouragement of Capital Investment).

In addition, dividends distributed out of technological preferred income under the Law for the Encouragement of Capital Investment are subject to a reduced withholding tax rate of 4%, to the extent that more than 90% of the company's shares are held by non-residents, and 20% in other cases.

Where the distributing resident company is a qualifying Israeli holding company (*see* section 2.2.), a reduced 5% withholding tax rate applies on dividend distributions to non-resident corporate shareholders (section 67F(a) of the Ordinance).

On 27 January 2021, the ITA issued Circular 1/2021 on the payment under recharge agreements from Israeli companies to non-Israeli affiliates. The circular details the ITA's position with respect to the tax treatment of payments of stock-based compensation in multinational enterprises, identifying a number of criteria according to when such payments are to be treated as dividends and when such payments are to be treated as reimbursement of expenses.

6.3.2. Interest

Gross interest paid to a non-resident company is subject to withholding tax. The withholding tax rate is, in principle, the applicable CIT rate at the time of payment (i.e. 23%) (section 170 of the Ordinance).

When a bank or financial institution pays interest on debentures or on state loans issued before 8 May 2000, a 35% withholding tax rate applies (section 20(7) of the Income Tax Regulations, Deductions from interest, dividends and other income).

The following interest income is exempt from tax when paid to a non-resident company (Income Tax Decree (Tax Exemption on Foreign Resident Deposits) 2002; ITR (Tax Exemption for Interest on State Loans) 2004; Income Tax Decree (General Tax Exemption for Interest on Foreign Currency Loans) 1991, section 16 of the Ordinance):

- interest on traded government bonds;
- interest on loans provided by the non-resident to the state in foreign currency;

- interest on loans provided to an Israeli resident in a foreign currency, provided that certain conditions are met; and
- interest on foreign currency bank deposits, provided that certain conditions are met.

6.3.3. Royalties

Gross royalties paid by an Israeli company to a non-resident company are subject to withholding tax at a rate of 23% (section 170 of the Ordinance).

6.3.4. Other

A bank transferring sums to a non-resident corporate recipient for the purchase of goods or services, when classified as taxable income under the Ordinance, must withhold tax at the standard CIT rate (23%) (section 170 of the Ordinance).

The payer or recipient may supply the bank with a permit from the tax authorities to withhold tax at a reduced rate or to not withhold tax. For certain commercial transactions and service supplies, regulations have been issued exempting the payer from withholding tax without having to apply for a confirmation from the tax authorities when transfers do not exceed an annual amount of USD 250,000 for 2024 (Addendum to ITA Publication 34/93).

The tax authorities allow "special" companies to transfer to any foreign resident, without their prior approval, any payment that may be transferred in accordance with the directives of the Bank of Israel's Supervisor of Foreign Currency. In order to be entitled to "special" company approval, the company must fulfil certain conditions (inter alia being an Israeli resident company, active for at least 5 years, with a minimum annual turnover of USD 10 million for the last 3 years and meeting all the tax filing obligations).

In addition, the tax authorities allow the transfer of payments to a foreign resident in a country with which Israel has concluded a tax treaty using a declaration form without the need for a withholding tax certificate in certain types of payments, such as payments for investment in shares, investment in real estate, investment in intangible assets, granting loans to a foreign resident, etc.

Other payments subject to withholding taxes are as follows (for 2024):

Payments	***Withholding tax rate (%)***
Management fees (Section 2 of the Income Tax Regulations (Withholding of Payments for Services or Assets 1977))	20 - 30
Technical service fees (Sections 2(a) and 2(b) of the Income Tax Regulations (Withholding Payments for the Work in the Textile, Metal, Electric, Electronic and Transportation Industries 1973))	20[1] - 30
Rental of real estate (Section 2 of the Income Tax Regulations (Withholding Rental Payments 1998))	35

1. The 20% rate applies to fees for electro-technical work, including manufacturing and repairing.

Withholding tax rates are applicable on the gross payment and are considered a final tax unless a treaty determines otherwise or the non-resident recipient files a tax return in Israel.

Generally, there is no branch profit tax in Israel.

6.3.5. Withholding tax rates chart

The treaty rate is directly applied if a certificate of residence is presented.

	Dividends	***Interest***	***Royalties***
Domestic Rates (%)			
	25/30[1]	23[2]/0[3]/0[4]/0[5]/25[6]	23[7]/25[8]
Treaty Rates (%)			
Albania	15/5[9]/15[10]	10/0[11]	5
Armenia	15/5[1]/0[12]	10/0[11]	10[13]/5[14]
Australia	15/5[9]/15[15]/0[16]/0[17]	10/10[18]/0[19]/5[20]/5[21]	5
Austria	10/0[1]/15[10]	5/0[22]/0[11]/0[23]	0
Azerbaijan	15	10/0[11]	10/5[24]
Belarus	10	10/0[19]/5[25]	10/5[26]/5[27]
Belgium	15	15	10
Brazil	15/10[1]	15/0[28]/0[29]	10[30]/15[31]
Bulgaria	7.5 - 12.5[32]/10[33]	10/0[19]/5[34]	7.5 - 12.5[32]
Canada	15/5[1]/-[35]/15[10]/0[16]/0[36]	10/0[19]/0[37]/5[38]	10/0[26]/0[39]
China (People's Rep.)	10	10/7[34]	10/7[40]
Chinese Taipei	10[30]	10/0[19]/7[25]	10[30]
Croatia	15/5[1]/10[41]	10/0[19]/5[25]	5
Czech Republic	15/5[1]	10/0[42]	5
Denmark	10/0[9]/0[43]/0[12]	5/0[22]/0[19]/0[23]	0
Estonia	5/0[1]/0[12]/0[44]	5/0[19]/0[23]	0
Ethiopia	15/5[1]/10[41]	10/5[25]	5
Finland	15/5[1]/10[41]	10/0[19]	10
France	15/5[1]/10[41]	10/0[19]/5[45]	10/0[46]
Georgia	5/0[1]/0[12]	5/0[22]/0[11]	0
Germany	10/5[1]/15[47]	5/0[22]/0[19]/0[23]	0
Greece	-[48]	10	10
Hungary	15/5[1]	0	0
India	10	10/0[1]	10
Ireland	10	10/5[25]	10
Italy	15/10[1]	10	10/0[26]
Jamaica	22.5/15[1]	15/0[19]	10
Japan	15/5[9]	10/0[19]	10
Korea (Rep.)	15/5[1]/10[41]	10/0[42]/0[19]/7.5[34]	5/2[27]
Latvia	15/5[1]/10[41]	10/0[19]/5[25]	5
Lithuania	15/5[1]/10[41]	10/0[19]	10/5[27]
Luxembourg	15/5[1]/10[41]	10/0[19]/5[25]	5
Malta	15/0[1]/15[47]	5/0[22]/0[11]	0
Mexico	10/5[1]/10[41]	10/0[49]	10
Moldova	10/5[1]	5/0[19]	5
Netherlands	15/5[1]/10[41]	15/10[34]	5/10[13]
North Macedonia	15/5[1]	10/0[11]	5

	Dividends	*Interest*	*Royalties*
Norway	25	25	10
Panama	15/20[47]/5[50]	15/0[22]/0[11]/0[51]	15
Philippines	15/10[1]	10/0[42]	15[30]
Poland	10/5[9]	5	10/5[27]
Portugal	15/5[1]/10[41]	10/0[19]	10
Romania	15	10/0[42]/0[19]/5[25]	10
Russia	10	10/0[19]	10
Serbia	15/5[1]/15[10]	10/0[19]	5[30,13]/10[30,24]
Singapore	10/5[1]/0[52]	7/0[53]	5
Slovak Republic	10/5[1]/10[33]	10/2[42]/2[19]/5[54]	5
Slovenia	15/5[9]/10[55]	5/0[19]	5
South Africa	25	25	0/15[56]
Spain	10	10/0[19]	7/5[57]/5[27]
Sweden	15/5[1]	25	0
Switzerland	15/5[1]/10[41]	10/0[19]/5[25]	5
Thailand	15/10[1]	15/0[19]/10[54]	15/5[26]
Türkiye	10	10/0[19]	10
Ukraine	15/5[1]/10[41]	10/0[19]/5[25]	10
United Arab Emirates	15/5[9]/5[58]/0[59]/0[60]	10/5[61]/0[19]/0[62]	12
United Kingdom	15/5[9]/15[63]/0[50]	10/0[22]/0[64]/0[19]/5[25]/0[51]	0
United States	25/15[33]/12.5[65]	17.5/-[66]/0[29]/10[67]	10[68]/15[69]
Uzbekistan	10	10	10/5[46]
Vietnam	10	10/0[19]	15/5[24]

1. This rate applies if the dividend is paid to a substantial corporate shareholder.
2. This rate applies if the interest is paid to a company.
3. This rate applies if the interest is paid on a listed government bond.
4. This rate applies if the interest is paid on a foreign currency public loan.
5. This rate applies if the interest is paid on a foreign currency bank deposit.
6. This rate applies if the interest is paid to an individual.
7. This rate applies if the royalty is paid to a company.
8. This rate applies if the royalty is paid to an individual.
9. This rate applies if the dividend is paid to a substantial corporate shareholder subject to a prescribed holding period.
10. This rate applies if the dividend is paid by a real estate investment fund to a portfolio shareholder.
11. This rate applies if the interest is paid by, or to, the government, Central Bank.
12. This rate applies if the dividend is paid to the government, Central Bank.
13. This rate applies in respect of a copyright (including film, broadcasting) royalty.
14. This rate applies in respect of a patent, trademark, design, know-how etc. royalty.
15. This rate applies if the dividend is paid by a Real Estate Investment Fund to a portfolio shareholder.
16. This rate applies if the dividend is paid to the government, Central Bank that is a portfolio shareholder.
17. This rate applies if the dividend is paid to a recognised superannuation fund that is a portfolio shareholder.
18. This rate applies if the interest is paid to a related person.
19. This rate applies if the interest is paid to the government, Central Bank.
20. This rate applies if the interest is paid to a financial institution which is unrelated to and dealing wholly independently with the payer. This rate does not apply if the interest is paid as part of an arrangement involving back-to-back loans or other similar arrangements.
21. This rate applies if the interest is paid to a recognised superannuation fund.
22. This rate applies if the interest is paid on a corporate bond that is traded on stock exchange.

23. This rate applies if the interest is paid to a pension fund.
24. This rate applies in respect of a patent, design, know-how etc. royalty.
25. This rate applies if the interest is paid to a bank.
26. This rate applies in respect of a copyright (excluding film, broadcasting) royalty.
27. This rate applies in respect of a royalty for the use of industrial, commercial or scientific equipment.
28. This rate applies if the interest is paid on a government bond, debenture, security.
29. This rate applies if the interest is paid to the government.
30. This rate is subject to a most favoured nation clause.
31. This rate applies in respect of a trademark royalty.
32. This rate is 50% of the domestic rate. The rate shall in any case fall within the stated range.
33. This rate applies if the dividend is paid from profits that are taxed at a preferential rate.
34. This rate applies if the interest is paid to a bank, financial institution.
35. The domestic rate applies. This rate applies if the dividend is paid by a real estate investment fund
36. This rate applies if the dividend is paid to an exempt pension fund that is a portfolio shareholder.
37. This rate applies if the interest is paid to an exempt pension fund that is a portfolio shareholder.
38. This rate applies if the interest is paid to a financial institution on an arm's length basis.
39. This rate applies in respect of a patent, software, know-how (excluding rental or franchise agreement) royalty.
40. The rate of 10% is imposed on 70% of the gross amount. This rate applies in respect of a royalty for the use of industrial, commercial or scientific equipment.
41. This rate applies if the dividend is paid to a substantial corporate shareholder from profits that are taxed at a preferential rate.
42. This rate applies if the interest is paid on a government bond, debenture.
43. This rate applies if the dividend is paid to a recognised pension fund.
44. This rate applies if the dividend is paid to a pension fund.
45. This rate applies if the interest is paid to a credit institution.
46. This rate applies in respect of a copyright (excluding film) royalty.
47. This rate applies if the dividend is paid by a real estate investment company to a portfolio shareholder.
48. The domestic rate applies.
49. This rate applies if the interest is paid by, or to, the government.
50. This rate applies if the dividend is paid to a pension scheme.
51. This rate applies if the interest is paid to a pension scheme.
52. This rate applies if the dividend is paid to the government, Central Bank, Sovereign Wealth Fund.
53. This rate applies if the interest is paid to the government, Central Bank, Sovereign Wealth Fund.
54. This rate applies if the interest is paid to a financial institution.
55. This rate applies if the dividend is paid to a substantial corporate shareholder subject to a prescribed holding period from profits that are taxed at a preferential rate.
56. This rate applies in respect of a film royalty.
57. This rate applies in respect of a copyright royalty.
58. This rate applies if the dividend is paid to the government that is a substantial shareholder.
59. This rate applies if the dividend is paid to the government that is a portfolio shareholder.
60. This rate applies if the dividend is paid to a pension plan.
61. This rate applies if the interest is paid to a substantial shareholder.
62. This rate applies if the interest is paid to a pension plan.
63. This rate applies if the dividend is paid by an investment vehicle to a portfolio shareholder.
64. This rate applies if the interest is paid by the government, Central Bank.
65. This rate applies if the dividend is paid profits that are not taxed at a preferential rate.
66. The domestic rate applies. This rate is imposed on excess inclusion with respect to residual interest in a real estate mortgage investment conduit.
67. This rate applies if the interest is paid to bank, savings institution, insurance company.
68. This rate applies in respect of a copyright, film royalty.
69. This rate applies in respect of an industrial royalty.

6.4. *Pillar Two*

As indicated in the introduction, Israel is a signatory of an agreement to implement a two-pillar solution to the challenges of the digitalization of the economy. The solution includes a plan to ensure that large multinational enterprises (with revenues exceeding EUR 750 million) pay a minimum level of tax on the income arising in each of the jurisdictions where they operate (Pillar Two). A key component of this plan is the

Global Anti-Base Erosion (GloBE) rules, which provide for a coordinated system of taxation that imposes a top-up tax on profits arising in a jurisdiction whenever the effective tax rate is below the minimum rate of 15%.

Israel has not yet taken any measures to adopt Pillar Two into domestic legislation.

6.4.1. GloBE rules

Not applicable

6.4.2. Domestic minimum top-up tax

Not applicable

6.4.3. Administration

Not applicable

7. Anti-Avoidance

7.1. General

The Ordinance contains a number of anti-avoidance provisions intended to ensure that tax is paid – and deferral discouraged – on income both from domestic and international transactions. Under these provisions, the assessing officer is empowered to ignore certain transactions, provided certain conditions are met, when a transaction is considered artificial, i.e. where the main motive is deemed to be the avoidance of tax (section 86 of the Ordinance). Taxpayers are required to report certain actions involving any transaction which is deemed as "aggressive tax planning" on a special form submitted along with their annual tax return (section 131(g) of the Ordinance and the Israel Income Tax Regulations (Tax Planning Requiring Reporting) 5767-2006). As from January 2016, additional obligations to report:

- the receipt of any legal opinion issued in writing, whether directly or indirectly, was introduced (section 131D of the Ordinance); and
- taking a tax position that is subject to reporting (section 131E of the Ordinance).

Tax advisory services falling under the scope of the above legislations are mainly the following (section 131D and 131E of the Ordinance):

- those designed to allow the recipient access to tax advantages; and
- those meeting at least one of the following conditions (referring only to the legal opinion):
  - the fees paid for the tax advice exceed NIS 100,000; or
  - the tax advice is not tailor-made.

In June 2021, the Israeli Ministry of Finance announced that Israel will adopt the new OECD Digital Economy Taxation Plan (OECD Digital Economy Taxation Plan).

7.2. Transfer pricing

Section 85A of the Ordinance specifies the scope of transfer pricing rules. A "related party relationship" exists where there is control of one party by the other, or direct or indirect control of one person by the parties to the transaction. Indicators of control include:

- the right to profits;
- the right to appoint directors or the general manager or other similar positions;
- the right to vote in the general shareholders' meeting;

- upon liquidation of the company, the right to a share in the equity after all debts are paid; or
- the right to determine which party will have any of the above-mentioned rights.

The Transfer Pricing Regulations of 2006 and ITA Circulars 3/2008, 11/2018 and 12/2018 (the Circulars) provide further guidance, as well as a list of transfer pricing methods that may be relied on in establishing an acceptable transfer price, including:

- comparable uncontrolled price (CUP) (section 2(a)(1) of the Transfer Pricing Regulations);
- resale price method (RPM) (section 2(a)(2)(a) of the Transfer Pricing Regulations);
- cost-plus method (section 2(a)(2)(a) of the Transfer Pricing Regulations);
- transactional net margin method (TNMM) (section 2(a)(2)(a) of the Transfer Pricing Regulations); and
- transactional profit split method (section 2(a)(2)(b) of the Transfer Pricing Regulations).

A taxpayer may apply for an advanced pricing agreement, and the procedure is similar to that applicable in the OECD member countries and the United States.

On 2 June 2020, the ITA issued Circular 1/2020 dealing with the burden of proof and documentation requirements in transfer pricing audits. In general, section 85A of the Ordinance states that a taxpayer has to provide the ITA, upon request, with all documents and data, pertaining to any transaction with a non-Israeli related party, including the grounds for determining the price of the transaction (all documents and data are usually combined into one document, i.e. a transfer pricing study). The Income Tax Regulations determine the reporting requirements of a transfer pricing study.

The circular details the ITA's position as to when transfer pricing studies, submitted by the taxpayer within an audit process, fulfil the requirements of the Ordinance and the Regulations, and accordingly shift the burden of proof from the taxpayer to the ITA.

In 2017, the ITA announced the signing of a multilateral agreement for the automatic exchange of country-by-country (CbC) reports.

The CbC reporting is part of the OECD's Base Erosion and Profit Shifting (BEPS) Action Plan 13. In essence, large multinational companies must provide an annual return, i.e. the CbC report, that breaks down key elements of the financial statements by jurisdiction. A CbC report provides local tax authorities visibility to revenue, income, tax paid and accrued, employment, capital, retained earnings, tangible assets and activities. An amendment to the Ordinance with respect to the domestic provisions regarding CbC reporting is being currently discussed in the Knesset Finance Committee.

On 14 June 2022, the Israeli Finance Committee has approved an income tax reporting regime for large multinational groups operating in Israel, in accordance with an international agreement joined by the ITA. This legislation amendment and the accompanying international cooperation will allow the ITA to determine the correct price of transactions between group members more effectively, and will reduce the ability of multinational corporations operating in Israel to evade paying tax.

7.3. *Limitations on interest deductibility*

Subject to the general rule regarding the deductibility of expenses, interest expenses and exchange rate differences are allowed as a deduction only if they are paid with respect to capital that was used in the production of income (section 17(1) A of the Ordinance).

There are no specific thin capitalization rules for Israeli tax purposes. However, the arm's length principle must be observed in setting finance terms and interest payment. Certain loans may be re-characterized as equity instruments, rendering any interest expenses or income thereon, as well as transfer pricing considerations, irrelevant.

As to the charge and deductibility of interest on certain loans, loans or debentures may be re-characterized as capital investments.

7.4. *Controlled foreign company*

Where, during a tax year, most of the income or profits of a controlled foreign corporation (CFC) is passive income or derived from passive income, the resident shareholder may become subject to CFC legislation. The resident holding a qualifying means of control of the CFC is subject to tax on a pro rata portion of the CFC's undistributed profits, as if they had been distributed to the resident as a dividend during the tax year.

A CFC is defined as a non-resident entity fulfilling the following requirements:

- entity test: the entity must be a body of persons (an incorporated or unincorporated group of individuals, but not an individual);
- residency test: the entity is a non-resident entity;
- holding test: the entity must satisfy one of the following requirements:
  - more than 50% of its means of control is held, directly or indirectly, by residents;
  - more than 40% of one or more of its means of control is held by residents who, together with a relative (as defined in section 88 of the Ordinance) of one or more of them, hold more than 50% in one or more of the means of control of the entity; or
  - a resident has the right to change substantial managerial decisions;
- share registration test: the shares of the entity (or any rights in it) are not registered for trade on any stock exchange, or no more than 30% of the shares are registered for such trade; and
- the income test: either (i) most of the entity's income during the tax year is passive income or (ii) most of the entity's profits during the tax year are derived from passive income.

"Passive income" in this context includes interest, dividends, royalties, rental fees and capital gains taxed effectively at a rate of 15% or less, provided that such income is not classified as business income under Israeli tax law. The sale of a security by a non-resident company must be defined as producing "passive income" subject to CFC reporting requirements, unless the security was held by the company for a period of less than 1 year and it was part of a business (effective 1 January 2014).

In addition, the minimum non-Israeli tax rate applicable to the company's passive income may not exceed 15%.

Undistributed profits are considered passive income of the CFC if they are subject to a low tax and they are not distributed during the tax year. In calculating the undistributed income, the amount of undistributed profits is reduced by the amount of foreign taxes paid on the passive income of the CFC and the amount of losses from passive sources (from current and preceding years). For the purpose of determining the amount of undistributed profits, calculations are made based on the applicable rules in the other country. However, if the country does not have an applicable income tax treaty with Israel, Israeli generally accepted accounting principles apply instead for determining the income of the CFC. The undistributed profits (also referred to as "deemed", or "notional" dividends) are subject to tax at the applicable CIT rate. Credit against tax on deemed dividends is exclusively available on foreign tax paid or actually payable. A refund of excessive domestic CFC tax paid is only possible in the year that foreign tax was paid or became payable (section 75B of the Ordinance).

7.5. *Other anti-avoidance rules*

7.5.1. Trusts

Complex legislation has been introduced governing the reporting and tax obligations of certain trusts, depending on the residency of beneficiaries and settlors of the trust. A filing obligation or tax liability may arise in Israel in instances where a legal instrument is characterized as a "trust" (sections 75C to 75R of the Ordinance).

On 9 August 2016, the ITA published a tax circular (Tax Circular 3/2016) detailing and summarizing the taxation of trusts and the provisions of the Ordinance sections in this respect. However, part of the circular's provisions reflects the ITA's position and does not necessarily adhere to the provision of law. For example, the circular determines, inter alia, that the granting of a "real estate right" and a "right to a real estate union" (as defined in the Land Taxation Law) from a settlor to a trustee in a trust constitutes a tax event under the Land Taxation Law and requires reporting and paying taxes, in all types of trusts. However, this position of the ITA was rejected in the Tel Aviv District Court ruling published on 24 July 2019 (Real Estate Tax Appeals Committee 49026-07-17 *Samuel Glees*).

On 30 June 2022, the Israeli Supreme Court ruled that in the event that the settlor and the beneficiary are the same, the transfer of a real estate asset to a trust will be exempt from taxes. However, in other cases, the transfer of real estate to a trustee is not exempt from taxes under the Law.

7.5.2. Reporting of certain tax planning

The Regulations on Aggressive Tax Planning require taxpayers to report to the tax authorities certain listed actions and transactions. This is reported as part of the annual tax return.

8. Value Added Tax

8.1. *General*

Israel's VAT system is substantially modelled on UK VAT law. VAT is administered by the VAT division of the ITA, which is part of the Ministry of Finance.

8.2. *Taxable persons*

The VAT law provides for two categories of business ("dealers"), namely authorized dealers and exempt dealers. Financial institutions and non-profit organizations are also taxable under the VAT law, but are subject to a different procedure from that applied to regular dealers (section 1 of the VAT Law, Definitions). Authorized dealers are (sections 52 and 58 of the VAT Law, VAT Regulations):

- traders with a turnover above NIS 120,000 (for 2024);
- traders registered as authorized dealers on their own account;
- members of vocational professions;
- legally registered companies and cooperative societies; and
- certain other persons, including real estate agents and motor vehicle dealers.

An exempt dealer is a trader with a turnover of up to NIS 120,000 and who, therefore, does not have to account for VAT on its transactions. An exempt dealer must also register for VAT purposes.

8.3. *Taxable events*

VAT is imposed on transactions in Israel and imported goods, including (section 2 of the VAT Law):

- the sale of an asset (goods or real estate) or the rendering of a service by a dealer in the course of a business, including the sale of equipment;
- the sale of property, where input tax was deducted on an earlier sale of the property to the current seller or on its importation by the dealer;
- the incidental sale of goods or rendering of services, which is of a commercial nature;
- the sale of immovable property to a dealer where the seller is not engaged in the business of selling immovable property; and
- the importation of goods into Israel.

8.4. *Taxable amount*

The value of a transaction for VAT purposes is the agreed consideration, including taxes and fees (other than VAT). Special rules apply to transactions between related parties (sections 7 and 10 of the VAT Law).

Subsidies and donations are treated as taxable when received by a dealer (section 12 of the VAT Law).

8.5. *Rates*

With effect from October 2015, the VAT rate is 17% (the VAT rate between June 2013 and September 2015 was 18%) (VAT Decree (Tax Rates on Transactions and Imports (Amendment) 2015)). The Israeli Ministry of Finance has recently published a draft decree (not final) to increase the VAT rate from 17% to 18%, effective from 1 January 2025.

A zero rate may apply on certain transactions, including (section 30 of the VAT Law):

- the export of goods, subject to certain conditions;
- the rendering of services to non-resident persons, except when the services are considered as having been effectively rendered in Israel, or are in connection with

an asset located in Israel. If the service was provided to a non-resident but indirectly for the benefit of a resident, the zero rate may not apply;

- certain services rendered to non-residents in the field of tourism, subject to certain conditions;
- certain services in connection with the entry or departure of ships or aircraft into or out of Israel;
- the performance of services abroad by a dealer whose principal place of business is in Israel;
- sales of rights to foreign travel (e.g. sales of airline tickets);
- transportation of cargo by air or sea, to or from Israel;
- sales of intangible assets to non-residents; and
- sales or exports of certain unprocessed fruit and vegetables.

In principle, the supply of services to a non-resident is zero rated. Nevertheless, the standard rate of VAT applies to:

(1) services effectively rendered to an Israeli resident in Israel or to a company regarded as a resident under the Ordinance or to a partnership in which Israeli rights constitute a majority;

(2) services relating to tangible or intangible assets in Israel, except if the price is included in the accepted price of imported goods for Israeli customs purposes; and

(3) services effectively rendered to other non-residents in Israel, except for certain tourism services.

Item (1) above also includes services supplied in relation to an agreement in which a resident is party (except for the above-mentioned tourism services). For example, the standard VAT rate generally applies to any service supplied in Israel regarding a purchase, sale, lease, licence or service agreement executed in Israel or abroad if a resident is a party to the arrangement (section 30(a)(5) of the VAT Law, section 12 of the VAT Regulations 1976).

8.6. *Exemptions*

The following transactions are exempt from VAT:

- leasing of residential property for a period of less than 25 years (except hotel accommodation);
- the import and export of diamonds, as well as transactions in diamonds carried out by dealers whose sole business is dealing in such items;
- the deposit of money with, or loans to, a financial institution by a dealer;
- the sale of an asset where it was not possible by law to deduct input tax on its acquisition or importation;
- subject to certain conditions, the sale of a building which was approved as a rental building under the Law for the Encouragement of Capital Investment, where it was leased for no less than 5 years; and
- the rental of real estate for “key money”, as defined in the Tenants Protection Law, or the sale of that real estate.

Transactions made by exempt dealers are exempt from VAT, except for real estate transactions or the sale of equipment for which the input tax was deducted during its acquisition (section 31 of the VAT Law).

8.7. *Non-residents*

A non-resident company active in Israel may be required to register as a "dealer" for VAT purposes.

A foreign resident who has a business or activity in Israel must appoint within 30 days a representative whose permanent place of residence is in Israel, and must notify the VAT authority and attach the written consent of the representative (section 60 of the VAT Law). The representative appointed under this section must, for the purposes of the VAT Law, be deemed liable for VAT on behalf of the foreign resident.

A non-resident who has been charged VAT may only claim a refund of input VAT if registered as a dealer for VAT purposes in Israel. Registration for VAT purposes may not be required if the non-resident company does not run a business in Israel or if the VAT law otherwise does not explicitly require it to register for VAT purposes.

9. Miscellaneous Taxes

9.1. *Capital duty*

Israel levies no capital duties.

9.2. *Transfer tax*

9.2.1. Immovable property

Acquisition tax is payable by a purchaser of real estate property located in Israel (a purchase of shares of a Real Estate Association is also considered a purchase of real estate rights). The applicable acquisition tax rates range from 0% to 10% (section 9(C1C)(3) of the Land Taxation (Appreciation and Purchase) Law 1963).

9.2.2. Shares, bonds and other securities

There is no tax on the actual transfer of shares, bonds and other securities.

9.3. *Stamp duty*

Stamp duty has been abolished with effect from 1 January 2006.

9.4. *Customs duty*

Duty is imposed on certain imports, usually on an ad valorem basis. Likewise, a purchase tax is imposed on certain imports and the purchase of certain goods in Israel. Residents engaged in business in Canada, Colombia, EFTA Member States, EU Member States, Jordan, MERCOSUR, Mexico, Panama, Türkiye, Ukraine, the United Kingdom and the United States benefit from free trade agreements signed by Israel with these countries.

9.5. *Excise duty*

A purchase tax is levied as an indirect tax on certain groups of consumer products. The Law on Consumer Tax (1952) empowers the Minister of Finance to subject certain goods to this tax. Currently, this tax is levied on specific items, such as imported cars, cigarettes, alcohol and luxury goods.

Taxes paid are incorporated into the price of the goods and, as such, are effectively deductible for CIT purposes.

Tobacco taxes and duty levies are increased on a regular basis. The tax on cigarettes includes specific taxes, VAT and an ad valorem excise duty.

9.6. *Other taxes*

On 22 September 2022, the District Court of Jerusalem ruled that offsetting losses while acquiring a different business activity will be allowed only if there is a proof or substantiation of the existence of a fundamental commercial reason.

9.6.1. "Swords of Iron War" compensation outline

On 9 November 2023 the Knesset approved the Compensation Outline for Businesses Law after several amendments, and the law has come into effect. The outline prescribed in the temporary order applies to indirect economic damages caused to businesses during the war. The outline classifies the volumes of compensation according to annual operating turnovers reported by businesses to the VAT authorities. The temporary order does not include some businesses, such as financial institutions, insurance companies.

Operating turnover between ILS 12,000 and ILS 300,000

Businesses whose annual operating turnover in 2022 was between ILS 12,000 and ILS 300,000 are eligible for monthly compensation. The outline prescribes determining eligibility according to the magnitude of the decrease in the business's operating turnover. For example, if a business's annual operating turnover is ILS 300,000 and its turnover decreased by 25%, it will receive a monthly grant of ILS 4,675. The monthly compensation gradually increases and can reach up to ILS 14,025 if the turnover decreased by more than 80%.Operating turnover between ILS 300,000 and ILS 400 million.

Businesses whose annual operating turnover in 2022 was between ILS 300,000 and ILS 400 million are eligible to receive compensation in the form of reimbursement for their fixed expenses and wage expenses during the qualifying period. This applies if their monthly operating turnover decreased by more than 25% or if their bi-monthly turnover decreased by more than 12.5% (This is generally determined by comparing October and/or November 2023 with the corresponding months in 2022).

Reimbursement for fixed expenses paid by a business

The fixed expenses coefficient will range between 7% and 22% in respect of the business's average current inputs reported to the VAT authorities during the period from September 2022 through August 2023. In other words, this reimbursement can range between 7% and 22% of the business's total fixed expenses during the qualifying period, depending on the magnitude of the adverse impact on the business's operating turnover.

Reimbursement for wage expenses paid by a business

The reimbursement for a business's wage expenses during the qualifying period will be calculated according to the rate of decrease in the business's operating turnover × the lower of:

- wages paid to the business's employees during the qualifying period × 75% × 1.25; or
- the average monthly wage in the economy × the number of employees in the business × 1.25.

Maximum compensation

The law also prescribes maximum sums of compensation. Businesses whose annual operating turnover in 2022 was between ILS 300,000 and ILS 100 million will be eligible for a grant that can reach a maximum of ILS 600,000 in respect of the relevant period (depending on the size of the annual turnover). Alternatively, businesses whose annual operating turnover in 2022 was between ILS 100 million and ILS 400 million will be eligible for a grant that can reach a maximum of ILS 1.2 million (depending on the size of the annual turnover).

Businesses' year of incorporation

The calculation for businesses founded after 1 January 2022 – in terms of their operating turnovers, rates of decrease, the current inputs they reported to the VAT authorities, etc. – will differ from the calculation for businesses established at an earlier date. For example, for the purpose of determining the maximum compensation for a business founded after 1 January 2022, its transaction turnover will be examined based on its operating turnover in 2023.

ISRAEL

This chapter is based on information available up to 21 February 2024.

Abbreviations

Abbreviation	*English definition*
CbC	Country-by-country
CPI	Common price index
CRS	Common reporting standard
ICO	Initial coin offerings
ITA	Israel Tax Authority
ITO	Income Tax Ordinance
NIS	New Israeli shekel
R&D	Research and development
VAT	Value Added Tax

Introduction

Israeli tax residents are generally subject to tax on their worldwide income including passive income and capital gains. Health insurance and social security payments are imposed separately under specific laws.

Value added tax at the rate of 17% is generally imposed on taxable transactions in Israel The Israeli Ministry of Finance released a draft decree increasing the VAT rate from 17% to 18%, effective from 1 January 2025 (*see* Corporate Taxation section 8.).

Income tax is levied pursuant to the provisions of the Income Tax Ordinance (ITO) and regulations issued thereunder.

The authority responsible for the administration and collection of taxes is the Israel Tax Authority (ITA).

The official currency is the New Israeli Shekel (NIS).

1. Individual Income Tax

Pursuant to the applicable tax regime in Israel, since 2003, Israeli residents are generally subject to tax on their worldwide income, and non-residents are generally taxed on their income derived from Israeli sources (subject to applicable tax treaties). Special provisions may apply to individuals who are Israeli residents qualifying as "new immigrants" or "veteran returning residents" (*see* section 6.1.1.).

While regular income is subject to progressive tax rates, depending on the extent of the individual's personal income, capital gains are generally subject to a fixed rate of 25% or 30% for an individual who is a substantial shareholder.

1.1. *Taxable persons*

As a general rule, an individual is considered an Israeli resident if the "centre of his life" is in Israel. The centre of life test examines the connections that the individual has to Israel as well as the individual's subjective intention. The centre of life test involves an examination of the specific facts and circumstances of each individual, which indicate both the objective physical connections to a particular location and the subjective intention of an individual to centre his life in a particular location.

The ITO provides a number of indications that can be used to determine the centre of an individual's life. The indications are as follows:

- the place of his permanent home;
- the place in which he and his family live;
- his regular or permanent place of business or his permanent place of employment;
- the place of his active and substantive economic interests; and
- the place where he maintains memberships in various organizations, unions or institutes.

In addition, Israeli law provides for two presumptions of Israeli residency based on the number of days that the individual spends in Israel (the "day test"). The legislation stipulates two rebuttable presumptions, pursuant to which an individual would be deemed an Israeli resident. As long as it is not proven that neither of the two presumptions is met, the fulfilment of one of the presumptions is sufficient for an individual to be considered an Israeli resident for tax purposes. The first presumption of residency applies when an individual stays in Israel during the relevant tax year for 183 days or more, and the second presumption of residency applies when he stays in Israel during the relevant tax year for 30 days or more and he has stayed in Israel for 425 days or more during the relevant tax year and the preceding 2 years.

However, these day tests are solely presumptions and are rebuttable by both the ITA and the taxpayer, based on the centre of life test. In this respect, it is common to assume that the residency presumptions based on the day tests merely determine the burden of proof with respect to the place of residence, whilst the substantive determination of the place of residence is made only according to the centre of life test.

Spouses are jointly assessed (*see* section 1.10.2.).

On 24 July 2023, the Israeli Ministry of Justice published a legislative proposal (the "proposed legislation") addressing the definition of "Israeli resident" and "foreign resident", and proposing significant changes to the current ITO's provisions.

According to the Israeli Ministry of Justice, the proposed legislation aims to introduce clearer as well as more objective and quantitative criteria for determining an individual's tax residency. The proposed legislation introduces several irrefutable presumptions of tax residency based primarily on the number of days spent in Israel (the "irrefutable presumptions"), rather than the existing combination of the quantitative criteria and qualitative criteria tests.

Trusts are generally taxed as an individual taxpayer. The trustee of the trusts is considered to be the taxpayer; however, the residency status of the trust is determined in accordance with the residency status of its settlor and beneficiaries.

Partnerships are generally transparent for tax purposes.

1.2. *Taxable income*

1.2.1. General

In general, income sources can be divided into two main categories: active income (originating from a business activity and personal exertion) and passive income.

Individuals are generally subject to tax on their worldwide income from the following sources:

- business and vocation;

- employment;
- dividends and interest;
- pensions and annuities;
- rental income;
- gains or profits derived from agriculture;
- patents and copyright;
- capital gains;
- earnings or profit from gambling, lotteries or prizes; and
- any other sources not excluded under tax law.

1.2.2. Exempt income

Income from the following sources is exempt from tax in Israel, subject to certain conditions (this is a non-exhaustive list):

- pensions for disabled war veterans;
- vehicle maintenance for disabled persons;
- the National Insurance Institute (NII)'s invalidity and old age pensions;
- invalidity pensions from foreign states;
- Holocaust survivors' pensions;
- grants in consequence of retirement or death;
- interest on bonds received by foreign residents;
- interest, discount and linkage differentials on traded debentures issued by foreign residents;
- withdrawal of an employer's payments from a study fund;
- employees' provident fund payments;
- life insurance premiums;
- alimony payments and payments from the National Security Institution;
- scholarships for students or researchers up to NIS 109,000 per year (for 2024);
- rental income from residential dwellings up to NIS 5,654 per month (for 2024);
- a portion of the rental income earned by an elderly person who lives in an old age home, for the dwelling unit in which he lived before entering the home; and
- foreign income or capital gains derived by new immigrants or returning residents (*see* section 6.1.1.).

In addition, the following individuals or entities may be exempt from tax under certain conditions:

- local authorities, provident funds and public institutions;
- professional organizations;
- cooperatives;
- diplomats and consuls; and
- blind persons and 100% disabled persons.

1.3. *Employment income*

1.3.1. Salary

Salary income or profits from employment and any benefit given to an employee by his employer are subject to tax in Israel.

1.3.2. Benefits in kind

The definition of taxable "benefits in kind" covers any type of benefit or saving derived, directly or indirectly, from the employer-employee relationship (or by a third party for the benefit of the employee).

Such payments include payments for maintaining a vehicle or telephone, vacations, interest-free loans, pensions and housing (but exclusive of payments which are deductible as expenses by the employee). These are taxable in Israel whether given in cash or in kind and whether given to the employee directly or indirectly.

1.3.2.1. Vehicles

Where a company vehicle is placed at the disposal of an employee, an imputed usage value is added to taxable employment income of the employee as a taxable benefit. The imputed usage value varies depending on the vehicle type and the new price of the relevant vehicle to the user.

For new vehicles (used for the first time on or after 1 January 2010), the imputed usage value will be as follows for the year 2024:

Vehicle value (NIS)	*Monthly imputed value*
1 - 563,790	2.48% of the vehicle value
Over 563,790	NIS 13,530

The monthly imputed value is reduced for a hybrid vehicle. For 2024, the rates for hybrid vehicles differ between electric and non-electric vehicles as follows:

- non-electric hybrid: NIS 540;
- electric hybrid (plug-in): NIS 1,090; and
- fully electric: NIS 1,310.

The prescribed monthly values for a non-commercial vehicle that was in use before 1 January 2010, whether purchased or leased by an employer, are as follows (for 2024):

Vehicle group	*Monthly imputed value (NIS)*
1	3,040
2	3,300
3	4,240
4	5,090
5	7,040
6	9,130
7	11,740
L3 motorcycle[1]	1,100

1. Motorcycle with an engine capacity larger than 125 cc and 33 HP.

The above monthly imputed value is reduced by NIS 530 to NIS 1,050 for a hybrid vehicle and NIS 1,260 for an electric vehicle.

On 23 May 2019, the Supreme Court ruled (in *Hacham Or-Zach Advocates et al. v. Assessing Officer of Acre*) that it is not possible to deviate from the provisions of the Income Tax Regulations 5747-1987 regarding the vehicle use value, which prescribe a fixed formula for calculating the value of use of a vehicle made available to an employee. The court ruling confirmed the position of the ITA as expressed in a number of public guidelines and in reportable position no. 04/2016.

1.3.2.2. Employee stock options

Share options are considered compensation for employment, which is, in principle, taxable when the shares underlying the options are sold. Share options granted to anyone who is not an employee or officer, such as consultants, and share options granted to controlling shareholders, even if they are employees or officers, are taxed at the time of exercise. The taxation of share options is governed by section 102 of the ITO and the Regulations promulgated thereunder. Under section 102, an equity-based employee benefit plan may be either with a trustee or without a trustee. The company elects the tax route under which the share options are granted at the time of grant, and certain tax routes require pre-filing of documents and waiting periods, as detailed below.

According to Circular 18/2018, published in December 2018, it was determined that options granted to employees for exercise in the event of an exit or Initial Purchase Offer cannot be under the 102 route, and therefore the proceeds from such exercise will now be considered as employment income, i.e. the tax liability may rise to 50%.

Options held by a trustee on behalf of employees

Favourable tax treatment is given only for plans with a trustee. There are many procedures which the company must follow in order to set up a trustee plan, such as, inter alia, the fact that the shares, including any right vested by virtue of them, must have been deposited with a trustee at the time of their allocation, at least until the end of the tax period; the company must have informed the ITA of its choice as part of its application for the plan's approval, which must have been submitted at least 30 days before the date of the allocation (the employer may choose one of two tax routes for such plans: a capital gain route and an income route); and the allocation plan and the trustee must have been approved by the ITA, but if the ITA did not reply within 90 days after having received the notification, then the allocation plan or the trustee, as the case may be, shall be deemed to have been approved.

A district court ruling dealing with section 102 rules on employees stock options plans was published on 4 July 2019 (55937-01-17 *Tal Shochat v. Zefat tax office*). The court reiterated the provisions of the law, stating clearly that if the ITA does not respond within 90 days of receipt of the notice, the allocation plan and the trustee are deemed to be approved. In other words, even if the ITA's approval in this regard does not constitute a substantial confirmation of the plan, but only a confirmation that the plan has been received, the plan is considered as approved by virtue of the provisions of section 102.

Under the capital gain route, the options and underlying shares must be deposited with a trustee for a holding period of at least 24 months from the date of grant in order for the employee to be taxed upon sale or transfer from the trustee at a flat rate of 25%. For publicly listed companies or companies that are listed within 90 days of grant, only the increase in value from grant or listing will be subject to 25% with the remainder

being classified as ordinary income. The employer does not have a deductible expense for tax purposes. An additional surtax is imposed on taxable income (including capital gains) exceeding a certain threshold (*see* section 2.).

A recent district court ruling (35729-06-18, *See Kok Yang v. Simgo Mobile Ltd., Avraham Ben Shlush and Eyal Shmuel*) issued on 9 January 2020 specified that options deposited with a trustee are not considered part of the issued capital of a company. This ruling is relevant, inter alia, to the classification of a shareholder as a "substantial shareholder".

On 8 February 2023, the District Court determined that the tax rate to be applied to dividend income distributed to employees, in respect of shares held for them by a trustee, which originates from the profits of a preferred enterprise (as defined in the Law for the Encouragement of Capital Investments; *see* Corporate Taxation section 1.7.2.), is the tax rate set forth in section 51b(c)(1) of the Incentive Law (12626-01-21 *Conduit B.M. v. Rehovot Tax Office*).

Under the income route, the options and underlying shares must be deposited with a trustee for a holding period of at least 12 months from the date of grant. The employee will be treated as earning work income at the time of sale or release from the trustee, which will be subject to tax at the employee's marginal income tax rate as well as the surtax, and social security and health insurance contributions are also required. The benefit under this route is that the employer has a deductible expense for tax purposes.

If the shares are sold or transferred from the trustee to the employee before the end of the above-mentioned holding periods, the employee will pay the higher of (i) the tax that would have applied at the time of grant together with interest and linkage differentials and (ii) the tax applicable at the time of the sale or transfer from the trustee.

The employer may choose between the two alternative tax routes at the time of the filing of the incentive plan for approval of the ITA. Once a particular tax route is chosen, the employer may not elect a different trustee tax route until after 1 year following the end of the year in which the first grant was made under the previously elected tax route. Nevertheless, the company is allowed to grant options under the non-trustee route.

Options not held by a trustee on behalf of employees

When options are granted in a private company without a trustee, the employee will be treated as earning work income at the time of sale of the shares, which will be subject to tax at the employee's marginal income tax rate as well as the surtax, and social security and health insurance contributions are also required. The employer is not allowed a deduction for tax purposes.

1.3.2.3. Mobile phones

The use of employer-provided mobile phones is considered a taxable benefit. The employee is subject to tax on the value of the use of the mobile phone. The monthly value of the mobile phone that should be added to the taxable income of the employee is the lower of: (i) half of the monthly expenses for the mobile phone (including VAT); or (ii) NIS 115 (for 2024).

1.3.2.4. Employee events and welfare

Employee events that are organized and financed by the employer may be considered as a taxable benefit to the employee. Generally, in cases where the employer's interest in the specific event overrides the employees' interest, no tax benefit should be attributed to the employee.

A labour court ruling, and a letter of the ITA's guidelines following the ruling (published on 9 April 2018), determined the terms and conditions for which an event should be considered as one in the best interests of the employer rather than one in that of the employees:

- the business needs to justify organizing an event for the employees' welfare;
- the decision to hold the event belongs to the employer;
- the event days are considered working days and full wages are paid with regard to them;
- the employees are not allowed to bring spouses to the event;
- the event occurs during business days/working days;
- the schedule of the event is determined or approved by the employer;
- the event takes place in Israel;
- the purpose of the event is to improve work and relations between the employees; and
- the event must include a professional lecture or enrichment activity.

1.3.3. Pension income

Certain types of pension income and other allowances may be excluded from taxable income, including:

- a capital grant received in consequence of retirement, up to an amount equal to the lower of 1 month's salary for each year of employment (according to the last salary income), or NIS 13,750 per year (for 2024), subject to certain conditions;
- 35% of any allowance received by a person who has reached the age of retirement which is not an employment pension;
- pensions and allowances paid by the NII, such as disability, old age and Holocaust survivors' pensions; and
- pensions paid in respect of war invalids (by Israel or by a foreign country).

1.3.4. Directors' remuneration

For the most part, directors are not considered employees of a company and thus do not receive salaries. Remunerations paid with respect to the attendance at board of directors' meetings are generally taxable as income from self-employment.

Accordingly, directors' remunerations are also subject to a VAT (currently at the rate of 17%). However, if the director is not registered for VAT purposes, the paying company may account for such VAT on the director's behalf and reclaim the VAT under the normal input tax mechanism (*see further* Corporate Taxation section 8.).

In certain circumstances, when the director has an executive position, he may receive salary and benefits which are taxable as employment income. Separate rules apply in relation to expenses and reporting of remuneration paid to substantive shareholders holding at least 10% of one or more of the company's means of control.

1.4. *Business and professional income*

A number of key criteria for the classification of business income have been determined by case law. Business income is subject to progressive income tax rates (*see* section 1.9.1.).

An individual's taxable income derived from a business activity is calculated in a manner similar to that of profits of companies. However, accounting on a cash basis is more commonly used by individual business owners than accrual basis accounting (in accordance with accepted accounting principles) commonly used by companies.

In order to ascertain taxable income, all disbursements and expenses incurred during the tax year for the production of the income may be deducted, unless the deduction is limited or disallowed. Additionally, business losses transferred from previous years may be set off against current business income and capital gains (*see* section 1.8.).

On 31 May 2023, an amendment to the law came into force, establishing a new taxpayer status for individuals classified as "small business owners", these being businesses whose total annual turnover does not exceed NIS 120,000. This amendment provides that small business owners are eligible to submit an online tax return, wherein they can claim expenses equivalent to up to 30% of their income, without the requirement of presenting receipts for these expenditures.

A partner of an Israeli partnership is subject to tax at the individual level on the pro rata share of his right to the partnership's income.

In certain circumstances, the taxable income of a closely held company, owned by five or fewer shareholders, will be treated as the income of the individual shareholders if the income is derived from the activity and occupation of the individuals (section 62A of the ITO).

1.5. *Investment income*

Investment income consists of dividends, interest, royalties and linkage differentials. New immigrants and veteran returning residents may be eligible for an exemption of their foreign-source passive income (*see* section 6.1.1.).

1.5.1. Dividends

Any money or asset transferred from a company to its shareholder by virtue of being a shareholder, whether in cash or cash equivalent or in any other manner (excluding bonus shares) is taxable as a dividend. For the withholding tax rate applying on dividends, *see* section 1.9.2.2. A loan from an Israeli company to its substantial shareholders (holding at least 10%) or to their related parties that is outstanding for a given period of time is deemed to have been distributed to these shareholders for tax purposes (section 3(i1) of the ITO).

A loan from an Israeli company to its substantial shareholders (holding at least 10%) or to their related parties and outstanding for a given period of time, is deemed to have been distributed to these shareholders for tax purposes (section 3(i)(1) of the ITO).

An Israeli shareholder in a "foreign occupational company" (i.e. a foreign company where 75% or more of the means of control are held by Israeli resident individuals and of which the controlling members or their relatives jointly hold at least 50% of the means of control, and where the majority of the income or revenue comes from the company's "special occupation") is subject to tax at the individual level on notional dividends in proportion to the shares held by him.

1.5.2. Interest

Where an individual and spouse's total income in the tax year does not exceed NIS 69,840 (for 2024), they may be entitled to an exemption on interest income of NIS 10,920 (for 2024) for interest received on a deposit with a banking corporation or on a savings programme. If the aggregate amount of income of the individual and his spouse exceeds this threshold, an adjusted deduction will apply (section 125D(b) of the ITO).

Where an individual or his spouse have reached the mandatory retirement age and one of them had reached the age of 55 by 1 January 2003, the deduction allowed is NIS 15,000 (for 2024) for a couple. Where both the individual and his spouse have reached the mandatory retirement age and both of them had reached the age of 55 by 1 January 2003, the deduction allowed is NIS 18,360 (for 2024) for a couple (section 125D(c) of the ITO).

In addition, where both the individual and his spouse have reached the mandatory retirement age (and both of them had already reached the age of 55 by 1 January 2003), they may be entitled to an exemption of up to 35% on interest income, subject to certain conditions (section 125E of the ITO).

For the withholding tax rates on interest, *see* section 1.9.2.2.

1.5.3. Royalties

Royalties are generally subject to standard marginal income tax rates.

For the withholding tax rate on royalties, *see* section 1.9.2.2.

1.5.4. Income from immovable property

In general, rent, royalties, "key money", premiums and other profits derived from real estate property, residential property, land or industrial buildings are subject to the standard marginal individual income tax rates. Special tax rates and exemptions apply under certain circumstances.

Income from the rental of residential apartments in Israel may be exempt from tax, under certain circumstances, up to an amount of NIS 5,654 per month (for 2024). Any rental payment exceeding the exemption threshold will be subject to the standard marginal individual income tax rates on passive income (not from personal exertion) at the minimum rate of 31% (for 2024), whereby a certain recalculation of the exemption is applicable. It should be noted that lower progressive income tax rates may apply where the individual has reached the age of 60 (*see* section 1.9.1.).

On 14 June 2023, a legislative proposal was introduced, proposing the requirement to report income from rent to the tax authorities, even if it is exempt from taxation, as mentioned above. Additionally, the proposed legislation suggested eliminating the linking of the exemption threshold to the consumer price index and instead stipulated that the exemption threshold would be a set amount of NIS 5,470.

Alternatively, an individual may elect a flat tax rate of 10% on income from the rental of a residential apartment in Israel, in cases where the rental income is not considered as business income. In such a case, the deduction of depreciation, amortizations or any related set-off, credit or exemptions will not be allowed, except for the rent expenses that the taxpayer pays during that year for the apartment in which they reside (including payments made for an elderly person living in a nursing home). According to

section 122(f) of the ITO, which entered into force on 31 May 2023, these expenses can be deducted up to the amount of the taxpayer's rental income for that year or up to NIS 90,000 per year, whichever is lower.

Several court rulings dealt with the classification of rental income as business income, such as court ruling 7204/15 *Dafna and Dan Leshem*, 8236/16 *Shraga Biran* and, recently in September 2019, the court ruling of 27431-04-17 *Yaakov Arbiv*. According to these court rulings, in order to determine whether the rental income should be considered as business income, the following criteria, inter alia, are examined:

- the number of assets;
- the involvement in the business;
- whether the owner is active;
- how the assets are financed;
- the holding period of the asset;
- proficiency;
- the mechanism;
- frequency of transactions or operations;
- financial scope of transactions;
- the entrepreneurial test (improvement and marketing); and
- above all, the circumstances test, in which any relevant circumstance that may assist in formulating the distinction line is examined. It is not necessary that all tests be relevant in any case, as the tests will be applied cumulatively and taking into account the circumstances, leaving room for discretion in order to take into consideration the full picture of each case.

Additionally, an individual may elect a flat tax rate of 15% on income from the rental of a real estate property abroad, if the rental income is not income from business. In this case, this individual may be entitled to claim depreciation expenses only.

1.6. *Capital gains*

Israeli residents are taxed on income on a worldwide basis and thus are taxable on both domestic and foreign-realized capital gains from the sale of capital assets (including securities).

When calculating the capital gain, the asset's cost base, as well as the selling expenses, must be deducted from the capital gain.

The chargeable gain is computed by splitting the gain into its real and inflationary components. The inflationary portion of the gain is computed by applying the Israeli Consumer Price Index (CPI) to the original cost of the capital asset, and is not subject to tax.

A capital gain event must be reported to the ITA within 30 days (from the date of the sale) on a special form, as well as on the annual tax return.

New immigrants and veteran returning residents may be entitled to exemptions on certain foreign-sourced capital gains, under certain circumstances (*see* section 6.1.1.).

Israeli-based assets of an Israeli resident who ceases to be resident are taxed as if they were sold 1 day before he ceased to be resident (exit tax). The tax-related liability may be paid on the day the individual ceased to be an Israeli resident, or postponed until the actual exercise date.

In various court rulings, including a district court ruling published on 1 May 2018, it was determined that if the taxpayer does not contact the ITA's offices at the time of the termination of his residency in order to report and pay the exit tax, he must be considered as having chosen to postpone the tax payment until the actual exercise date. The exit tax in Israel will then be calculated according to the linear method (based on the holding period of the asset) rather than the value of the asset at the time of the termination of the taxpayer's Israeli residence (excluding exceptional cases where the linear method affects tax collection or causes double taxation).

Until 31 December 2019, individuals investing in qualifying, publicly traded R&D companies and technology venture funds that met certain conditions could treat the amount invested (up to NIS 5 million) as a capital loss incurred in the year of investment or over a period of 3 years commencing from the year of investment in accordance with section 92A of the ITO.

In July 2023, Israel passed a law aimed at promoting the knowledge-intensive industry, particularly in technology (the "Angel's Law"). The key points of the law are as follows:

- private investors in R&D companies receive a tax credit equal to their investment multiplied by the investor's capital gains tax rate, with a maximum investment limit of NIS 4 million per investor per company;
- cost reduction of purchasing shares of an Israeli company can be spread over 5 tax years for the buying entity;
- acquiring shares of a foreign resident company also sees a cost reduction over 5 tax years, subject to certain adjustments;
- interest paid by an eligible beneficiary company for a loan from a foreign financial institution is tax exempt; and
- investments made by private investors in R&D companies that have been listed for the first time are eligible for temporary recognition as capital losses of up to NIS 5 million.

1.6.1. Immovable property

An exercise of virtual currency or cryptocurrency by an Israeli resident is considered a capital gain event subject to tax in Israel. In addition, in some cases, the conversion of one cryptocurrency to another may also be considered as a capital gain event subject to tax in Israel.

According to Circular 5/2018, published by the ITA on 2 February 2018, at the exercise, the capital gain is to be calculated as if the cryptocurrency were an "asset". The cost base, as well as the selling expenses, will be deducted from such capital gain.

A capital gain event must be reported to the ITA within 30 days from the date of the sale on a special form, as well as on the taxpayer's annual tax return.

In cases where an individual's activity in virtual currencies becomes a "business", income derived from such virtual currency may be classified as income from a business or occupation (rather than capital gains). Such income is subject to tax at the tax rates set out in paragraphs 121 or 126 of the ITO and may reach 50%.

On 13 March 2018, the ITA published Circular 7/2018, with respect to initial coin offerings (ICO), i.e. the issuance of utility tokens (representing a commitment by the issuer to provide a service or a right to a future product in development to the token holder). Circular 7/2018 states that the exercise of a token by way of currency trading is to be considered as a capital event. In other cases where the token is exercised by way of consumption of a product or service, the income from the asset or services received by the individual, as well as the costs incurred, must be recognized and reported in accordance with the provisions of the ITO.

On 19 May 2019, the district court dealt for the first time with how to classify cryptocurrency for tax purposes. Under this court ruling (11503-05-16 *Noam Kopel v. Assessing office of Rehovot*), income derived from the sale of cryptocurrency is deemed as a capital gain derived from the sale of an "asset". This income may not be regarded as an exchange rate differential or linkage differentials that are exempt from tax.

On 6 March 2022, the ITA published an announcement regarding the taxation of non-fungible tokens, stating that non-fungible tokens constitute an intangible strong right in an "asset", as defined in section 88 of the ITO, and therefore its sale creates a taxable event.

1.7. *Personal deductions, allowances and credits*

1.7.1. Deductions

There are no general personal deductions from aggregated income, but there are personal allowances and credits against the income tax liability (*see* sections 1.7.2. and 1.7.3.).

An Israeli resident individual who pays alimony to a foreign resident under a foreign court order may deduct a portion of such alimony from his or her taxable income, as prescribed by the Minister of Finance from time to time.

Until 31 December 2019, an individual or a partnership that invested in a start-up that met certain conditions could deduct up to NIS 5 million invested in shares of that company, either in one instalment or over a 3-year period (in accordance with section 20 of the Fiscal Policy Law of 2011-2012).

In calculating the capital gain resulting from the sale of shares of such start-up, for an investor for which the amount of eligible investment has been deducted, the original price of the shares will be reduced by the amount of expense deducted.

Deductions are also allowed for regular annual contribution payments by employers to an approved provident fund or pension fund and for payments by self-employed individuals to approved training savings funds. The annual applicable ceilings for deductions are determined based on the specific circumstances of the taxpayer.

On 29 May 2022, the Supreme Court in Israel ruled in *National Assessment Unit Assessor v. Roy Hayun* that the taxpayer should not be allowed to deduct the amounts confiscated in a judgment given in a criminal proceeding conducted against him from the tax imposed on his taxable income.

On 29 May 2022, the Supreme Court ruled (in the case of *Roy Hayun*) that forfeited funds should not be recognized as an expense allowed to be deducted for tax purposes. On 22 September 2022, The President of the Supreme Court, Esther Hayut, allowed a further hearing in this case.

On 28 June 2023, Judge Amit of the Supreme Court clarified that confiscated amounts related to the taxpayer's business cannot be deducted as expenses, since those expenses were obligatory, not profit driven, and the risk of criminal prosecution does not justify its deduction. Moreover, forfeiture primarily serves a punitive purpose, making it ineligible for deduction.

1.7.2. Allowances

Certain social allowances are granted by the NII, as follows:

- school grants: parents are entitled to annual child allowance for children aged below 18;
- disability allowances: granted to people with disabilities in accordance with the degree of disability determined;
- maternity allowances: granted for employed women taking maternity leave; and
- unemployment allowances: granted to unemployed resident individuals based on the period of employment and employment conditions.

Other social allowances are available in cases of individuals reaching retirement age, work injury, income support, etc. Some of these allowances, such as the disability allowance, are exempt from tax.

1.7.3. Credits

In calculating the income tax liability of a resident individual, personal tax credit points are taken into account. The offset amount granted for each credit point is NIS 242 per month and NIS 2,904 per year (for 2024).

The entitlement for tax credits is determined in accordance with the personal status of the taxpayer and is granted exclusively to him (i.e. credit points are non-transferable).

The following table summarizes the main credit points.

No.	*Status of individual*	*Credit point entitlement*
(1)	Israeli resident individual taxpayer	2
(2)	Travel to place of work	0.25
(3)	Female taxpayer	Additional 0.5
(4)	Jointly assessed residents – if the individual taxpayer and/or spouse has reached retirement age (67 for men, 64 for women) or his/her spouse is blind or disabled	1
(5)	Working father in a single parent family (under certain circumstances a working mother), under the following circumstances: - in the year of birth (section 40(B)(1A)A of the ITO) - in the years the child becomes 1 year old and until 5 years old (section 40(B)(1A)B of the ITO) - in the years the child becomes 6 years old and until 17 years old (included) (section 40((b) of the ITO)	 1.5 for each child 2.5 for each child 2 for each child

No.	*Status of individual*	*Credit point entitlement*
(6)	Additional tax credits for a single parent for income from personal exertion	0.5 to 2.5 for each child, depending on various factors, such as the age of the child and whether or not the parent is supporting the child on their own
(7)	Divorced individual taxpayers sharing with his/her former spouse the costs of maintaining their children and not entitled to credit points under (6) above, or a divorced individual married to another spouse who pays, or whose spouse pays, maintenance to their former spouse	1
(8)	Working wife separately assessed, with regard to dependent children (section 66(C)(4) of the ITO): - in the tax year after the birth and until reaching 18 years (not included) old (section 66(C)(4)(B) of the ITO) - in the tax year of birth (section 66(C)(4)(A) of the ITO) - in the tax year of reaching 18, during the tax year (section 66(C)(4)(A) of the ITO) - in the tax year after the birth and until the age of 5 (included) (section 66(C)(4)(C) of the ITO)	1 for each child 1.5 for each child The mother has the option to transfer 1 credit point out of the 1.5 credit points, from the year of birth to the following year (section 66(C)(4)(1A) of the ITO) 0.5 for each child 1.5 for each child
(9)	Working father separately assessed with children is entitled to credit points for each dependent child until they reach the age of 5: - in the tax year of birth (section 66(C)(5)(A) of the ITO) - in the tax year after the birth, and until the age of 5 (included) (section 66(C)(5)(B) of the ITO)	1.5 for each child 2.5 for each child
(10)	New immigrant (or spouse of new immigrant in certain circumstances) (section 35 of the ITO): - first 18 months - next 12 months - next 12 months	0.25 per month 0.1666 per month 0.0833 per month
(11)	Juvenile between 16 and 18 years old (section 40B of the ITO)	1
(12)	Dependent children with a physical or intellectual disability (section 45 of the ITO)	2 for each child
(13)	Graduate from specified university and/or educational institution: - for the first degree - for the second and third degree (excluding doctorate in medicine or dentistry) - for the third degree of an individual who is entitled to receive a doctorate in medicine or dentistry	1 0.5 1 for the first year after graduation or the year after 0.5 for the second year after graduation or the year after

No.	Status of individual	Credit point entitlement
(14)	A soldier discharged from the Israeli Defence Forces who served:	
	- at least 23 months (for men) or 22 months (for women)	0.16667 per month for the 36 months following the completion of service
	- less than 23 months (for men) or 22 months (for women)	0.08333 per month for the 36 months following the completion of service

A resident may claim a credit of 35% of contributions paid to a pension provident fund and a credit of 25% of contributions paid for life insurance.

1.8. *Losses*

Losses arising from a vocational or business activity, which would have been taxable had they been profits, may be set off against the total taxable income from other sources in the tax year (including passive investment income and capital gains). If the entire loss cannot be wholly set off in the said tax year, the unutilized amount can be carried forward to subsequent years in succession and set off against total taxable income from business or vocation in those years, including capital gains from the business or vocation, or against the total taxable income in those years under section 2(2) of the ITO.

Losses can be carried forward to subsequent years without any time limitation to be set off against the total income from a business or vocational activity (including capital gains from such activities), as well as land appreciation, but not against income from any other source.

In general, capital losses may be set off against capital gains realized by the taxpayer in the current year or can be carried forward to the following tax years, in accordance with certain rules. The taxpayer may choose to deduct capital losses, derived from a business or vocational activity, from capital gains that are subject to a 25% tax rate (30% for substantial shareholders). However, the taxpayer may choose otherwise to preserve such losses for deduction against taxable income that is liable to higher tax rates (that exceed 25%).

1.9. *Rates*

1.9.1. Income and capital gains

The 2024 income tax rates applied on income from personal exertion are as follows:

Annual taxable income (NIS)			Tax rate (%)
Up to		84,120	10
84,121	-	120,720	14
120,721	-	193,800	20
193,801	-	269,280	31
269,281	-	560,280	35
560,281	-	721,560	47
Over		721,561	50

The 2024 income tax rates applied on income not derived from personal exertion are as follows:

Annual taxable income (NIS)			*Tax rate (%)*
Up to	-	269,280	31
269,281	-	560,280	35
560,281	-	721,560	47
Over		721,561	50

Lower progressive income tax rates apply to individuals who have already reached the age of 60 in the tax year or before (same tax rates applied for income from personal exertion).An individual is liable to tax on real capital gains (i.e. capital gains less the inflationary amount) at 25%. However, gains on the sale of shares by a substantial shareholder (who holds, directly or indirectly, at the time of the sale or any time in the 12 months preceding the sale, 10% or more of the company's means of control) are subject to tax at the rate of 30%. Certain assets purchased prior to 2003 are subject to standard individual income tax rates on the gains that arose between the purchase date and 2003.

Capital gains from the sale of publicly traded bonds, commercial securities, loans and state loans that are not CPI linked or not foreign currency denominated or linked are subject to a 15% rate (or 20% in respect of a substantial shareholder), and all of the capital gains are deemed real capital gains.

An additional surtax is imposed on individual's taxable income in certain circumstances (*see* section 2.).

1.9.2. Withholding taxes

1.9.2.1. Wages

Any person who pays or is responsible for the payment of certain types of income (for which a mandatory obligation to withhold tax at source applies) is required to deduct tax from the amount paid at the time of payment and transfer it to the assessing officer.

Employers are obligated to withhold tax at source when paying a salary, and thereafter to transfer the tax amount withheld to the assessing officer. The same withholding process applies to payment of social security premiums.

The tax withheld may be set off against the annual tax liability of an individual obliged to file an annual tax return. Where such reporting requirements do not apply, the withholding on salaries is the final tax liability, but individuals who are entitled to certain allowances or deductions may voluntarily file a tax return and apply for a refund of any excess tax withheld at source.

1.9.2.2. Dividends, interest, gains and royalties

This section only provides a general indication with regard to the relevant rates, which may vary based on the particular case. Tax is generally withheld at source from payments of investment income to resident individuals as follows (for 2024):

Source of income	*Withholding tax rate*
Dividends distributed by resident companies from regular profit distributions	25% (30% for a shareholding of 10% or more)
Dividends distributed by resident companies from approved/benefitted/preferred profit distributions	20%
Interest from:	
- provident fund (except for provident funds exempt from tax under the ITO's provisions)	20% (15% for payments deposited before 2006)
- banking corporation	25% (for an asset linked to the CPI) 15% (for an asset not linked to the CPI) 35% (before May 2008)
- other sources	25% (for an asset linked to the CPI) 15% (for an asset not linked to the CPI, excluding on a saving plan in a profit-sharing policy)
- bonds or government loans (except for bonds and government loans exempt from tax under the ITO and the regulations provisions)	35% (if issued before 8 May 2000 to a non-substantial shareholder) If issued after 8 May 2000: - 25% (for an asset linked to the CPI) - 15% (for an asset not linked to the CPI
Interest paid by a company to its individual substantial shareholders/employees/service providers/suppliers	Up to 47%
Royalties	20% if the recipient is certified as maintaining proper bookkeeping and filing tax returns; 30% otherwise
Rental income on real estate	35%
Other rental income	20% if the recipient is certified as maintaining proper bookkeeping and filing tax returns; 30% otherwise

In addition, a surtax may apply to the income portion exceeding a certain amount (*see* section 2.). Higher marginal progressive tax rates may apply where the income is produced in the ordinary course of business.

When a company purchases a proportionate amount of its own shares, it is considered a dividend received by the shareholders.

In a Supreme Court ruling dated 13 February 2023, it was determined that a disproportionate self-purchase of shares is considered a dividend distribution even to the shareholders who did not sell their shares to the company, and this is due to the fact that the proportion of their holdings in the company increased (CA 9308/20 *Akko Tax Office v. Beit Hosen*).

Special provisions apply to capital gains and land appreciation, according to which capital transactions are effectively reportable and taxable within 30 days after they arise.

1.10. *Administration*

1.10.1. Taxable period

The tax year is generally the calendar year unless otherwise agreed upon in certain circumstances.

1.10.2. Tax returns and assessment

Resident individuals who have reached the age of 18 at the beginning of the tax year must file annual personal tax returns. However, a resident taxpayer whose main income is from employment is normally exempt from the obligation to file a tax return if the employment and other income of each spouse does not exceed an annual ceiling (NIS 721,560 for 2024) and tax on such income has already been withheld at source.

When a tax return is required, it should generally be filed within 4 months following the end of the tax year, i.e. by 30 April after the end of the tax year, accompanied by the payment of any balance of tax owed for the tax year concerned. Extensions for filing the tax return may be granted by the ITA (automatic extensions to representatives are granted subject to the publication of an "extension procedure" by the ITA), but the balance of tax remains payable on the filing date. Extensions might be granted by the ITA also due to the "Swords of Iron War". If a tax return is filed later than 30 April in the year following the end of the relevant tax year, fines may be imposed. A taxpayer may file a tax return 6 years from the end of the relevant tax year at the latest.

Spouses must file a joint tax return containing a "consolidated (tax) calculation". The income of the spouses is the income of the spouse in whose name the income file is registered and who also bears the tax for the couple. A separate calculation of tax may be made under a limited set of circumstances for unconnected and independent sources of income.

Following the filing of an annual tax return, the ITA may review and challenge the return within 4 years after the end of the tax year in which it was filed. Under certain circumstances, the ITA may reopen cases 4-6 years (or more) thereafter. If no return is filed and a tax inspector believes that a taxpayer owes tax, the inspector may issue an assessment to the best of his judgment, without any limitation of time.

An assessment issued by an assessing officer may be challenged in writing within 30 days, stating the grounds for the objection. A different assessing officer will then review the case and decide whether to accept the objection or to confirm the initial tax assessment. Thereafter, an appeal may be made directly to the courts.

1.10.3. Payment of tax

If withholding tax has not properly been levied, or the taxpayer is not exempt from filing an annual tax return on the prescribed date, any balance of tax owed for the relevant tax year must be paid.

Failure to file or pay may result in a fine.

1.10.4. Rulings

The ITA has been empowered to issue rulings in various fields of taxation. The Circular on Advance Agreements, first published in 2006, regulates the issuance of such rulings. Since 2007, the ITA has regularly published selections of anonymous rulings on a variety of issues.

On 12 November 2018, the ITA published a tax circular (Tax Circular 16/2018) which explains and clarifies the criteria, rules, procedures and purposes related to tax rulings, and specifies their legal status towards the ITA and the taxpayers.

On 14 August 2022, the District Court of Lod, Israel ratified that income stemming from systematic, cyclical and sophisticated mechanism activity which extends over a long period of time and is intended to obtain funds in significant amounts will be taxable income regardless of the question whether this activity is a criminal offence or not.

On 15 November 2022, the District Court rejected the ITA's position who claimed that a sale of an antique item (bowl in this case to a museum) is an incidental transaction of a "commercial character". The judge ruled that the sale was not an incidental transaction of a "commercial character" and classified it as a movable property of an individual held by him for his personal use. Therefore, the gain from the sale of the bowl is not subject to tax.

2. Other Taxes on Income

An additional surtax of 3% is imposed on taxable income (including capital gains) exceeding NIS 721,560 (for 2024). This additional surtax applies in addition to the 47% income tax rate.

3. Social Security Contributions

3.1. *Employed*

The rates for employees for the year 2024 are as follows (including health tax):

Monthly income (NIS)			*Resident employee (%)*	*Non-resident employee (%)*
Up to		7,522	3.5	0.04
7,523	-	49,030	12	0.87
Over		47,465	0	0

3.2. *Self-employed*

The rates for self-employed persons for the year 2024 are as follows (including health tax):

Monthly income (NIS)			*Rate (%)*
Up to		7,522	5.97
7,523	-	49,030	17.83

Social security payments for work income in the United States

On 19 December 2021 the Tel Aviv Regional Labour Court ruled that in the absence of a specific social security treaty between Israel and the other jurisdiction, the obligation to pay social security contributions in Israel exists even if a person already paid social security contributions in the other jurisdiction (in that specific case, in the United States).

Currently Israel has 19 social security treaties with the following jurisdictions: Austria, Belgium, Bulgaria, Canada, the Czech Republic, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Romania, Russia, Slovak Republic, Sweden, Switzerland and the United Kingdom.

4. Taxes on Capital

Tax on capital does not apply in Israel.

4.1. *Net wealth tax*

There is no net wealth tax in Israel.

4.2. *Real estate tax*

There is no annual tax on the value of real estate. However, municipalities collect city tax on dwellings or business premises in accordance with certain criteria and at rates based on the square surface area size (in square metres).

5. Inheritance and Gift Taxes

There is no inheritance or gift tax in Israel.

5.1. *Taxable persons*

Not applicable.

5.2. *Taxable base*

Not applicable.

5.3. *Personal allowances*

Not applicable.

5.4. *Rates*

Not applicable.

5.5. *Double taxation relief*

Not applicable.

6. International Aspects

6.1. *Resident individuals*

For residence rules, *see* section 1.1.

6.1.1. Foreign income and capital gains

Israeli residents are subject to tax in Israel on their worldwide income, and thus foreign income and capital gains earned by Israeli residents are generally treated as taxable income and capital gains derived or accrued in Israel.

New immigrants and veteran returning residents (returning to Israel after at least 10 years abroad) are entitled to a 10-year tax exemption on certain foreign-source income and capital gains (passive income and capital gains realized on the transfer of assets located outside of Israel, and certain foreign-earned income such as employment and business income), while residents returning to Israel after living at least 6 years (but less than 10 years) abroad may be eligible for 5-year tax exemptions on certain foreign-source income and capital gains on their assets located outside of Israel.

Reimbursements of expenses received by the employee from his employer are considered taxable income of the employee, unless the employee is entitled to deduct the payments for which the refund is received. An Israeli resident earning foreign salary can deduct certain expenses incurred in the foreign country, such as living expenses. In such cases, the deductible expenses are considered a tax-free expense reimbursement.

In calculating the tax liability on the taxable income of an Israeli resident employee, in relation to his foreign-sourced salary, certain tax credits must not be taken into account.

Rental income received by a resident from real estate located abroad is subject to tax at the rate of 15% instead of the marginal income tax rates that normally apply, provided that the rental income is not business income. In this case, the taxpayer will not

be entitled to deduct expenses (excluding depreciation) and will not be eligible to any offset, credit or exemption.

An additional surtax applies where the annual taxable income (including capital gains) exceeds a certain threshold (*see* section 2.).

6.1.2. Foreign capital

Israel does not levy tax on foreign capital.

6.1.3. Double taxation relief

A foreign tax credit is available under domestic law for foreign tax incurred.

Tax treaties in force may prescribe a different relief of double taxation. Allowance of a credit for foreign tax requires proof of actual payment of foreign tax. The credit may be carried forward if it cannot be used in a particular year due to insufficient taxable income.

For a list of tax treaties in force, *see* Corporate Taxation section 6.3.5.

6.2. *Expatriate individuals*

6.2.1. Inward expatriates

Foreign residents temporarily present in Israel are taxed on their Israeli-source income, including employment income. Various domestic and special tax reliefs are provided to certain groups of visiting foreign employees.

6.2.1.1. Foreign experts

Foreigners working in Israel for an Israeli or foreign employer (provided that they have the appropriate permits for working in Israel) may enjoy certain benefits.

Persons earning more than NIS 14,800 per month (for 2024) in a field of special expertise who were not hired via a manpower contractor or agency and who were not active in the construction sector will generally be classified as "foreign experts" during their first 12 months in Israel and will be entitled to:

- a deduction for accommodation expenses if borne by them; and
- a living expense deduction of up to NIS 360 per day (for 2024).

The same rules apply to foreign lecturers (foreign professors or teachers who are invited and paid by a higher education institution to lecture or carry out research).

Foreign employees who are not considered foreign experts or foreign lecturers are not entitled to such deductions but instead to 2.25 credit points from the time of arrival in Israel (female foreign employees are entitled to 2.75 credit points).

Similar concessions are available for foreign journalists and foreign athletes, such as a living expense deduction of up to NIS 360 per day (for 2024) and a reduced flat tax rate of 25% on income derived from their journalistic or athletic activities in Israel. Such concessions are, however, limited to a period of 36 and 48 months, respectively.

6.2.1.2. High-tech specialists

Special tax benefits have been designed for foreign specialists ("approved experts"). Such a status may be conferred by the Investment Centre for each year up to a 3-year period under the Law for the Encouragement of Capital Investment. A further exten-

sion of 5 years may be granted by the Investment Centre. Approved experts may benefit from a reduced top marginal tax rate of 25% on income derived in Israel in their capacity as specialists.

6.2.2. Outward expatriates

For outward expatriates, a per diem deduction for daily expenses (*see* section 6.1.1.) is allowed, which varies depending on the number of days an employee works abroad and whether hotel expenses are claimed as well. In addition, modestly reduced tax rates may apply to their income.

See section 1.6. for deemed capital gains upon cessation of resident status.

6.3. *Non-resident individuals*

6.3.1. Taxes on income and capital gains

Tax is payable on the income of a non-resident that was produced or accrued in Israel.

The Minister of Finance has authority to set rules for the refund of excess tax to a non-resident individual if the amount of tax he has paid in Israel exceeds the amount he is allowed to deduct as a credit in his country on Israeli taxes borne on his Israeli-source taxable income.

6.3.1.1. Employment income

Non-resident individuals deriving employment income from Israel are subject to standard individual income tax rates. In such case, employers are required to withhold tax at source from the employment income from activities performed in Israel, in accordance with the instructions and regulations applicable to local Israeli employers. The withholding tax is based on the standard applicable progressive individual income tax rates, taking into account the applicable tax credits.

See also section 6.2.

6.3.1.2. Business and professional income

Business and professional income derived from Israel by a non-resident is taxable in Israel. The payer of business income to non-residents may have to withhold tax from payments unless treaty protection can be claimed.

6.3.1.3. Investment income

The withholding tax rates applicable to investment income derived by non-resident individuals are as follows (for 2024):

Income	*Withholding tax rate (%)*
Dividend	25 (30 for shareholding of 10% or more of the share capital)
Interest	25 (47 for shareholding of 10% or more of the share capital)
- on government bonds	0
- on a loan from a foreign resident to an Israeli entity, provided that certain conditions are met	0
- on non-residents' foreign currency bank accounts (provided that certain conditions are met)	0
Royalty	25
Rental income from immovable property	35

The withholding tax rates apply to the gross payment and are final for the non-resident unless otherwise required by the provisions of an applicable tax treaty.

6.3.1.4. Capital gains

Non-resident individuals are only subject to tax on Israeli-sourced income. The tax treatment of capital gains is similar to that for residents unless a tax treaty is applicable (*see* section 1.6.).

In general, non-residents are subject to tax on capital gains from the sale of securities, unless they are shares of a publicly traded company and are not connected to the non-resident's permanent business or real estate in Israel, pursuant to section 97(b2) of the ITO, or, if the securities are not shares of a publicly traded company, provided that several conditions are met, pursuant to section 97(b3) of the ITO.

6.3.2. Taxes on capital

Israel does not impose taxes on capital.

6.3.3. Inheritance and gift taxes

Israel does not impose inheritance and gift taxes.

6.3.4. Administration

A non-resident individual deriving taxable income in the tax year is exempt from filing a return if:

- it concerns one of the following forms of income: (i) income arising from a business or profession carried on in the course of the tax year over a period or periods not exceeding a total of 180 days; (ii) income under section 2(2) of the ITO (employment income) or 2(5) of the ITO (pension, usufruct or annuity income); (iii) income under section 2(4) of the ITO (dividends, interest and linkage differentials); (iv) house property and land; or (v) gains or profits derived from any asset other than house property, land or industrial buildings; and
- the full amount of tax has been withheld from such income.

The status of an individual non-resident is the same as that of a resident individual with regard to submission of a tax return. *See* section 1.10.

KEY FEATURES

Last reviewed: **21 February 2024**

A. General information	
Sources of tax law	Income Tax Ordinance Value Added Tax Law Real Estate Taxation Law (and tax regulation promulgated thereunder)
Main types of business entities	Public company Private company Joint venture General partnership Limited partnership
Accounting principles	Israeli GAAP, IFRS, banking institutions are required to follow standards similar to US GAAP
Currency	New Israeli shekel (NIS)
Foreign exchange control	No
Official websites	Ministry of Finance http://www.financeisrael.mof.gov.il Government http://www.gov.il
B. Direct taxation: Companies	
1. Resident companies	
Residence	A company is resident of Israel if it is incorporated under the law of Israel or, in the case of a company incorporated abroad, if the "control and management" of the company is exercised in Israel
Tax base	Worldwide
Corporate tax rates	23% 20%-50% on profits from oil and gas industry
Alternative minimum tax	No
Capital gains	Yes, part of business income
Loss carry-forward	Yes, indefinitely
Loss carry-back	No
Unilateral double taxation relief	Yes, ordinary tax credit
2. Non-resident companies	
Corporate tax rates	23%
Capital gains on sale of shares in resident companies	Yes, unless subject to a tax exemption according to the domestic tax law and/or the relevant tax treaty
Capital gains on sale of immovable property	Yes, part of business income
Withholding tax rates	
Branch profits	No
Dividends	25% (less than 10% shareholding or listed shares of resident companies) 30% (10% or more shareholding)

Interest	23% 0% on government bonds, foreign currency loans to the state, non-commercial foreign currency bank deposits
Royalties	23%
Fees (technical)	20%-30%
Fees (management)	20%-30%
3. Specific issues	
Participation relief	Inbound dividends: yes Outbound dividends: no
Group treatment	No (only certain resident industrial companies)
Incentives	R&D Reduced tax rates for preferred enterprises and preferred technological enterprises Investment grants in certain zones Exemptions for certain holding companies
Anti-avoidance legislation	
Transfer pricing	Yes
Limitations on interest deductibility	No
Controlled foreign company	Yes
General anti-avoidance rule (GAAR)	Yes
Other anti-avoidance legislation	Yes
C. Direct taxation: Individuals	
1. Resident individuals	
Residence	Two presumptions of residency apply: (1) when an individual is present in Israel for 183 days or more during the tax year; (2) when an individual is present in Israel for at least 30 days during the relevant tax year and for an accumulated total number of 425 days or more during the 2 preceding tax years
Taxable income	Worldwide
Income tax rates	Progressive Top rate 47% (over NIS 560,281) Surtax of 3% on income over NIS 721,561
Alternative minimum tax	No
Capital gains	25%; 30% (10% or more shareholding)
Unilateral double taxation relief	Yes, ordinary credit
Social security contributions	Employees: 3.5%, 12%, 0% depending on the monthly income Self-employed: 2.87% or 12.83% depending on the monthly income. (excluding Health Insurance)

2. Non-resident individuals	
Income tax rates	Progressive Top rate 47% (over NIS 560,281)
Capital gains on sale of shares in resident companies	25%, 30% unless subject to a tax exemption according to the domestic tax law and/or the relevant tax treaty
Capital gains on sale of immovable property	25%
Withholding tax rates	
Employment income	Regular wage withholding applies. Progressive Top rate 47% (over NIS 560,281)
Dividends	25% 30% (10% or more shareholding)
Interest	25% 0% (on government bonds, loan from a foreign resident to an Israeli entity and non-residents' foreign currency bank accounts)
Royalties	25%
Fees (technical)	30%
Fees (directors)	Progressive Top rate 47% (over NIS 560,281)
D. Indirect taxation: Value added tax (VAT)/Goods and services tax (GST)	
Taxable events	Supply of goods Supply of services Sale of real estate Importation
VAT/GST (standard)	17%
VAT/GST (reduced)	0%
VAT/GST (increased)	No
Registration/deregistration threshold	NIS 120,000
VAT group	No, only certain related companies
E. Other taxes	
Inheritance and gift taxes	No
Net wealth tax (individual)	No
Net wealth tax (corporate)	No
Real estate taxes	Yes, Appreciation tax, Betterment levy and Purchase tax
Capital duty	No
Transfer tax	Yes, 0% to 10%
Stamp duty	No
Excise duties	Yes
Other main taxes	No

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