

IV. Principal Taxes

A. Sources of Authority in Tax

1. Legislative

a. Organization of the Tax Law

The Israeli Income Tax Ordinance (New Version) 1961 and its regulations are the primary domestic statutory tax law.⁴⁸² The Ordinance is divided into 16 primary chapters. The most commonly used chapters are the first four chapters covering income taxation with respect to corporations and individuals, the fifth chapter which covers capital gains, and the seventh chapter which covers tax-free reorganizations.

Additional primary tax legislation which covers specific taxes can be found in the Value Added Tax Law, 1975, and the Taxation of Land (Appreciation and Purchase) Law, 1963. Apart from that, there are tax-specific provisions embedded in laws regarding various fields in order to implement certain policies, such as to encourage foreign investment, and laws designed to address specific arrangements.

b. Other Legislative Documents to Interpret the Law

The primary source that may be used to interpret a certain law are the “explanatory notes” published along with the law’s bill. In addition, the Knesset committees’ protocols may also be used to determine the intention of the legislator and to review the discussions that took place during the legislative process. Professional literature published by law professionals and the Israeli Courts’ rulings may also be used to interpret Israeli tax laws.⁴⁸³

2. Administrative

The Israel Tax Authority (ITA) was re-established on September 1, 2004, following a government decision to unite the governmental tax departments with the goal of consolidating the management of tax collection under one chief executive who is authorized to apply the relevant tax laws. The establishment of the ITA was an important move in terms of improving service to citizens, as well as streamlining the tax system and integrating it into the law enforcement system in Israel. The main function of the ITA is to collect taxes, both direct (income tax, capital gains tax and real estate appreciation tax) and indirect (customs, purchase tax, VAT and excise tax on fuel). As of September 2023, Shai Aharonovitch serves as the Director of the ITA.

B. Income Tax

Income tax is imposed on corporations and individuals under the Income Tax Ordinance (ITO) and regulations issued thereunder. Resident companies are taxed on their worldwide

income (see V., below); nonresident companies are taxed only on Israeli-source income (see VI., below).

The following chart summarizes the rates applicable under the Company Tax:

Taxes	Rates
Company tax	23% (a)
Capital gains tax	23% (b)
Withholding tax:	
Dividends	0%, 25%, 30% (c)
Interest	23% (d)
Royalties	23% (d)
Net Operating Losses:	Period (years)
Carry back	n/a
Carry forward	Unlimited

(a) This is the tax rate for the tax year 2023.

(b) The “real gain” is taxed at the company tax rate. The “Inflationary Amount” accrued before December 31, 1993, is taxed at the rate of 10%, while the “Inflationary Amount” accrued thereafter is taxed at the rate of 0%. A “real capital gain” accrued before 2005 on the sale of foreign securities is taxed at a special tax rate of 35% (see V.C.4.b.(10), below).

(c) Dividends received from another resident company are free of tax in the hands of the recipient company if the income from which the dividend is distributed is sourced in Israel. The 25% withholding rate applies to distributions to individuals and non-treaty country resident companies. The 30% withholding tax rate applies to individuals or non-treaty resident companies holding at least 10% in one of the means of control of the distributing company (and therefore, constitute a “significant shareholder” as defined in section 88 of the Israeli Income Tax Ordinance). This rate is subject to applicable tax treaties (see V.C.4.c., below).

(d) This tax rate is applicable to nonresident companies and to individuals and is subject to the terms of applicable tax treaties.

Israeli resident individuals, like all other Israeli taxpayers, are subject to tax on their worldwide income, including capital gains. There are two tax brackets: (i) a bracket for tax on personal exertion income (which applies provided that books of account were kept where so required); and (ii) a bracket for tax on other ordinary income. Certain passive income enjoys reduced rates. See further under X., below. In general, nonresidents are subject to tax only on Israeli source income. See further under XI., below.

⁴⁸² See also <http://www.main.knesset.gov.il> and <http://www.elyon1.court.gov.il>.

⁴⁸³ See Aharon Barak, Interpretation in Law (Nevo Publishing); C.A. 165/82 Kibutz Hatzor v. the Assessing Officer of Rehovot (May 6, 1985); HCJ 693/91 Dr. Michael Efrat v. Director of Population and Immigration in the Ministry of the Interior (Mar. 29, 1993).

C. Taxation of Land (Appreciation and Purchase) Law

1. Appreciation Tax

The Taxation of Land (Appreciation and Purchase) Law, 1963, essentially taxes capital gains derived from transactions in real estate located in Israel and in the Area on the same basis as gains are taxed under Part E of the Income Tax Ordinance. Until 2001, the Law also taxed a transfer of rights within a “real estate association”⁴⁸⁴ (i.e., a company, cooperative or registered partnership that mainly holds Israeli real estate) as if the “real estate association” was transparent,⁴⁸⁵ i.e., the tax was levied as if the real estate had been sold without regard to the fact that, in reality, what took place was a share transfer. The objective of such taxation was to prevent these share transfers, which were in their economic essence transfers of the underlying real estate, from escaping the land appreciation tax and purchase tax. In 2001, the Law was amended and the tax is no longer imposed by deeming the real estate to have been sold.⁴⁸⁶ Hence, the regime is in essence identical to that under the Income Tax Ordinance. Under the amended Law, the gain is still divided into the “real gain” and the “inflationary amount.”⁴⁸⁷

The Law provides for a deferral of tax on the incorporation of a “real estate association” and, unlike the Income Tax Ordinance, includes special provisions to allow for the tax-free liquidation of such associations.⁴⁸⁸

The Treasury had promised to incorporate the complex provisions of the Taxation of Land (Appreciation, Sale and Purchase) Law, 1963, within the provisions of Part E of the Income Tax Ordinance, thus doing away with the anomaly of a special law regulating the taxation of capital gains derived from real estate. But a committee that studied the matter finally recommended that the two tax collecting agencies remain distinct and that the laws remain unintegrated.

2. Purchase Tax

Purchase tax is levied on every acquisition of real property in Israel and the charge is borne by the buyer, be it an individual or a company. The purchase tax rate can vary depending on the legal and residential status of the buyer and the category of the property, but it is generally fixed at 6% of the purchase price.⁴⁸⁹ The Taxation of Land (Appreciation, Sale and Purchase) (Purchase Tax) Regulations of 1974 provide a purchase tax relief in the form of exemptions or a reduced rate in certain cases.

However, the purchase of residential apartments is subject to progressive purchase tax rates. The table below shows the

tax rates for first-time buyers or those buying their only residential property that are in effect between January 16, 2024, and January 15, 2025.⁴⁹⁰

Single Apartment (NIS)	Tax Rate	Other (NIS)	Tax Rate
0 – 1,978,745	0%		
1,978,745 > 2,347,040	3.5%		
2,347,240 > 6,055,070	5%		
6,055,070 > 20,183,565	8%	1 – 6,055,070	8%
Above 20,183,565	10%	Above 6,055,070	10%

In August 2024, Real Estate Taxation Regulations were published that included an amendment to Regulation 12, limiting its application to the purchase of business properties, including agricultural holdings, intended for use by the immigrant or his or her relatives.

Additionally, Regulation 12A was introduced, which provides new immigrants with a purchase tax reduction when they acquire single residential apartments within the designated period.

3. Purchase Group

Purchase groups usually acquired real estate from a private individual and then entered into a contract with a constructor to build the residential dwelling. They thus saved the VAT on the land which they would have paid had they purchased a finished apartment from a contractor. An amendment, in effect as of January 1, 2011, includes in an “adventure in the nature of trade” a sale to a “Purchase Group” (as defined in the Taxation of Land (Appreciation and Purchase) Law, 1963, by a person who does not deal in land. The seller is the taxpayer in such a case.

VAT is now charged on the seller of the land pursuant to the amendment of the definition of an “adventure in the nature of trade.” Amendment 69 of the Taxation of Land (Appreciation and Purchase) Law, 1963, was aimed at regarding Purchase Groups as the purchasers of the finished apartment, thereby rendering them liable for Purchase Tax on the construction costs as well as on the land. The amendment deems a purchase by a Purchase Group as the acquisition of the finished apartment pro rata to each member’s share. Thus, the construction costs will be liable to Purchase Tax. The tax will be gradual as applicable to apartments and not flat as applicable to land. Thus, while the construction costs fall to be taxed, the land component will be taxed at a lower rate than before because the Purchase Tax does not differentiate between land and construction in applying its gradual rates to apartments.

The amendment also requires certification of the VAT Director that VAT was paid by the seller of the land (or appropriate collateral was received therefor) as a condition for the issuing of the Land Tax’s approval for the registration of title to the apartments.

⁴⁸⁴ See, *inter alia*, A.C. 54436-11-10 *Melisron v. Land Tax Authorities*, Missim KH/6 (Dec. 2014), E-332; A.C. 1429/08 + 1454/08 *Gazit Globe Israel (Pituah) Ltd. v. Land Tax Authorities*, KH/6 (Dec. 2014), E-323.

⁴⁸⁵ Taxation of Land (Appreciation and Purchase) Law, 1963, ss. 1 and 7.

⁴⁸⁶ As part of the November 2024 draft bill to amend the Income Tax Ordinance, it was proposed to eliminate the condition requiring that, during a corporate restructuring in which an empty lot is transferred to a company classified as a real estate association under the Real Estate Taxation Law, the recipient company must complete construction on the property within five years from the date of the restructuring.

⁴⁸⁷ Taxation of Land (Appreciation and Purchase) Law, 1963, s. 47.

⁴⁸⁸ Taxation of Land (Appreciation and Purchase) Law, 1963, s. 71, as amended to prevent accordance of tax on undistributed cash dividends.

⁴⁸⁹ Taxation of Land (Appreciation and Purchase) Law, 1963, s. 9.

⁴⁹⁰ Taxation of Land (Appreciation and Purchase) Law, 1963.

A “Purchase Group” is defined as a group of purchasers which is organized for purposes of acquiring a “Land Right” (ownership or long-term lease) and construction thereupon of a building employing an organizer for such purpose, provided all purchasers are liable under a contractual arrangement.

The “organizer” is a person who acts for remuneration in organizing the group for purposes of the acquisition and construction, including the preparation of the contractual framework.

The “contractual framework” is defined as “a set of intertwined contracts by virtue of which the group will act to receive the constructed building.”

4. Withholding Tax

The purchaser of real estate must register the property in his/her name. To do so, the purchaser must provide the registrar with a tax certification, which will only be issued by the tax authorities once the taxes are paid. This created a problem because the appreciation tax must be paid by the seller, who does not have much interest in the tax certification.

To resolve this problem, an amendment to the Taxation of Land (Appreciation and Purchase) Law, 1963, requires the purchaser to withhold 15% of the land appreciation tax whereupon he/she will be entitled to a tax certification to register the real estate in his/her name. The rate is 7.5% for real estate purchased after November 7, 2011.

D. Sales Tax

In 1999, the Taxation of Land (Appreciation, Sale and Purchase) Law, was amended by the enactment of section 72C, which provided for a sales tax on the sale of real estate or on the disposition of a right in a real estate association. The sales tax was abolished as of August 2007.

E. Value Added Tax

1. General overview

Israel’s Value Added Tax (VAT) was introduced by the Value Added Tax Law, 1975 (the “VAT Law”). Under the VAT Law, taxpayers are divided into three separate classes:

(i) “Authorized dealer”: a taxpayer that sells assets or renders services (as these terms are defined by section 1 of the VAT Law), and whose turnover exceeds the minimum amount set by the law, which is NIS 120,000 from January 1, 2024.⁴⁹¹ A dealer whose turnover is lower is considered an “Exempt Dealer” who is not required to charge VAT on its transactions. Nevertheless, the following taxpayers are required to be registered as “authorized dealers” regardless of their annual turnover:⁴⁹² any taxpayer who is a member of the liberal professions; physicians, including

psychologists, physiotherapists, veterinarians and dentists; owners of various enterprises (for example, driving school owners, real estate traders or brokers and used car dealers); registered companies; and registered cooperative societies.⁴⁹³

(ii) “Financial institution”: a company or cooperative society carrying on the business of receiving moneys on current account to make payments therefrom, on demand or by check; a company lawfully using the word “bank” as part of its name; any financial institution within the meaning of this phrase in the Bank of Israel Law, 1954, to which the liquidity directions under this Law apply; an insurer; and any class of persons designated by the Minister of Finance.

(iii) “Nonprofit organization”: the state, a local authority or an association of towns; a body of persons that does not carry on its business for profit and that is not a financial institution; a corporation established by law and not registered as a company, cooperative society or partnership; and a public fund exempt from income tax under section 9(2) of the Income Tax Ordinance.⁴⁹⁴

For further research on Israel’s VAT system, see also the VAT Navigator.

2. Rates

Authorized dealers pay VAT at the rate of 18%⁴⁹⁵ on the turnover from all transactions effected by them. A taxpayer is entitled to set off “input tax” (i.e., the VAT paid by the taxpayer during the relevant period) against any VAT for which the taxpayer is liable,⁴⁹⁶ provided the item with respect to which the “input tax” was paid is used in a taxable transaction and the deduction is taken within six months from the date on which the VAT invoice was issued.

A financial institution pays tax at the rate of 17%⁴⁹⁷ on payroll and the profits arising from operations in Israel.⁴⁹⁸ It is not entitled to offset the VAT levied on it with the input tax incurred by it, and therefore a deposit with such an institution or a loan granted by it qualifies as an exempt transaction, so as to avoid “double taxation.” Moreover, a loss sustained by a financial institution in any year may be set off against wages paid by it in that year. The Tel Aviv District Court, held that not only is the set-off limited to the current year’s losses, but that currently

⁴⁹³ Value Added Tax Law, 1975, s. 1; O.S. 1183/91 *Kolmotrade Ltd. v. VAT and Customs Department*, Missim G-3 (June 1993), E-186.

⁴⁹⁴ Value Added Tax Law, 1975, s. 1; C.A. 767/87 “Besha’arich Jerusalem” Fellowship v. VAT Director, Missim D-6 (Dec. 1990), E-60; D.A. 23/85 *Hamo’a’za Haezorit Emek Israel v. VAT Director*, Missim E-2 (Apr. 1991), E-126; D.A. 75/90 *Amutat Yedidey Beit-Haholim Nahariya v. V.A.T. Director*, Missim E-4 (Aug. 1991), E-150; C.A. 3840/98 *Norwich Union Ltd. v. V.A.T. Director*, Missim N-6 (Dec. 2000), E-64; D.A. 1/96 *MACABI Sherutei Briut v. V.A.T. Director*, Missim Q-4 (Aug. 2003), E-33; D.A. 509/03 *A.S. Nahariya Sport Ltd. v. Director of V.A.T.*, Missim S-1 (Feb. 2005), E-262.

⁴⁹⁵ According to a Minister of Treasury Decree, approved by the Finance committee on February 20, 2024, the VAT rate will increase to 18%, effective January 1, 2025.

⁴⁹⁶ C.A. 711/89 *Beit Assia Ltd. v. Customs and VAT Director*, Missim F-5 (Oct. 1992), E-119; C.A. 125/83 *Danot Hevra Lehashkaot Ltd. v. VAT Director*, Missim A-2 (Mar. 1987), E-32.

⁴⁹⁷ See fn. 493, above.

⁴⁹⁸ Value Added Tax Law, 1975, s. 4(b).

⁴⁹¹ Value Added Tax Law, 1975, s.1.

⁴⁹² Value Added Tax (Registration) Regulations, s. 13 (1976). A 1998 amendment added a provision regarding the registration conditions of an “authorized dealer”: the owner of a school or of a kindergarten, in which the pupils are educated on a regular basis, that is not a nonprofit organization, and a school for professional theoretical and practical tutoring, including arts and sports, for groups comprising not less than five pupils, excluding exceptional tutoring of not more than 30 days for all the groups instructed in the same tax year must register as an authorized dealer.

accrued linkage differentials on past losses may not be used to set off wages.⁴⁹⁹

In addition, a temporary order regarding a special surcharge on bank profits entered into force on April 1, 2024.⁵⁰⁰ According to the order, until December 31, 2025, unless the position is changed by the Minister of Treasury, large scale banks will pay a further 6% surcharge on their profits (excluding wages). This surcharge will be imposed in conformity with the provisions of the VAT Law. Large scale banks are defined as banks holding at least 5% of all Israeli banks' total assets.

Certain non-profit organizations⁵⁰¹ do not pay VAT; however, such organizations are charged 7.5% on the payroll with respect to their operations in Israel and are not entitled to set off input tax against their VAT liability.⁵⁰²

An importer of goods is liable for VAT at the rate of 18%⁵⁰³ on the value of the goods for customs purposes, including customs duty and other taxes chargeable on the importation of the goods.⁵⁰⁴

3. Deductions

"Authorized dealers" may deduct input tax from VAT they are liable to pay. Where an excess of input tax over VAT has been paid, or where VAT was paid with respect to a transaction later canceled,⁵⁰⁵ the tax is generally refundable within 30 days of the date of receipt of the tax return.⁵⁰⁶

Input tax may not be deducted:

(i) When incurred by a financial institution or a nonprofit organization, or where included in an invoice or an import entry issued before registration of the dealer in accordance with the prescriptions of the law, except where the inputs were acquired in the process of the establishment of the business and were in fact used for that purpose.⁵⁰⁷

(ii) When levied on the acquisition of a private motor vehicle, except where the vehicle is acquired by a car dealer,⁵⁰⁸ a driving school, a dealer engaged in the renting of vehicles (not including hire purchase), or a dealer whose business is driving passengers (taxi driver, etc.) or arranging tours (travel agency, etc.).⁵⁰⁹

⁴⁹⁹ I.T.A. 78/95 *Bank Eurotrade Ltd. v. Assessing Officer for Large Enterprises*, Missim J-6 (Dec. 1996), E-181. I.T.A. 82/94 *Be Good Michal Ltd. v. Assessing Officer for Large Enterprises*, Missim K-6 (Dec. 1997), E-105.

⁵⁰⁰ Special Payment to Achieve Budget Objectives (Swords of Iron — Temporary Order), 2024, s. 2.

⁵⁰¹ Non-profit organizations whose total annual wage payment exceeds the sum published in a Minister of Treasury Decree.

⁵⁰² Value Added Tax (Rate of Tax on Nonprofit Organizations and on Financial Institutions) Order, 1992.

⁵⁰³ See fn. 493, above.

⁵⁰⁴ Value Added Tax (Rate of Tax on a Transaction and on the Import of Goods) Order, 1992, s. 1; Value Added Tax Law, 1975, s. 11(a).

⁵⁰⁵ D.A. 9/90 *Kupelic Moshe Ltd. v. VAT Director*, Missim E-3 (June 1991), E-27; C.A. 738/86 *Customs and V.A.T. Director v. Asa Pladot Ltd.*, Missim D-1 (Feb. 1990), E-74.

⁵⁰⁶ Value Added Tax Law, 1975, s. 39.

⁵⁰⁷ Value Added Tax Law, 1975, s. 40A.

⁵⁰⁸ Value Added Tax Law, 1975, s. 38 entitles a "dealer" to deduct input tax, and the institutions are not included in the definition of a "dealer" in Value Added Tax Law, 1975, s. 1.

⁵⁰⁹ Value Added Tax Regulations, 1976, s. 14(b).

An amendment to the VAT regulations included almost all types of cars in the definition of "private motor vehicle." Thus, input tax on the purchase of almost all types of vehicles cannot be deducted.

(iii) When levied on the purchase (or building) of residential apartments where the dealer runs his/her business from his/her residence.⁵¹⁰

(iv) When incurred with respect to entertainment expenses, except where the persons entertained are nonresidents.⁵¹¹

(v) When incurred with respect to a transaction that is exempt from tax (tax-exempt transactions do not have the same tax consequences as zero-rated transactions, as the input tax on zero-rated transactions is deductible, as discussed in 4., below).⁵¹²

Where input tax is levied on the acquisition of goods or the receipt of services and these are used for both business and nonbusiness purposes, the deduction is made on a pro rata basis. Where the ratio cannot be established, two-thirds of the input tax is deducted if the principal use was for business purposes and one-fourth where the principal use was not for business purposes.⁵¹³ This same technique applies when a dealer derives partially exempt turnover during the relevant period, so as to make an apportionment between the taxable and nontaxable part of this turnover.

4. Zero-rate Transactions

Zero-rate VAT allows the taxpayer to claim a refund for input tax levied on him, even though the transaction made by the taxpayer is not liable for VAT. In effect, the net result is that the taxpayer does not owe any VAT, but is entitled to a refund of the input tax charged to the taxpayer.

In essence, this is a measure designed primarily to encourage the export of goods and services from the country and to avoid double taxation (on import into the country and export from Israel). Foremost among the zero-rated transactions are:⁵¹⁴

(i) The export of goods abroad, with the exception of the export of unset diamonds (not including synthetic diamonds), precious stones and semi-precious stones that are exempt from customs duties;

(ii) The sale of an intangible asset to a nonresident;

(iii) The disposition of goods to a bonded warehouse;

(iv) The rendering of services to a nonresident, unless the services were rendered with respect to an asset located in

⁵¹⁰ Value Added Tax Regulations, 1976, s. 15.

⁵¹¹ Value Added Tax Regulations, 1976, s. 16.

⁵¹² Value Added Tax Law, 1975, s. 41.

⁵¹³ Value Added Tax Regulations, 1976, s. 18; D.A. 877/83 *Landeko Rubinstein Hashkai'it Ltd. v. VAT Director*, Missim A-1 (Jan. 1987), E-159.

⁵¹⁴ Value Added Tax Law, 1975 ("VAT Law 1975"), s. 30; Value Added Tax Regulations, 1976, s. 12(a). See H.C.J. 4140/95 *Super Pharm (Israel) Ltd. v. V.A.T. Director*, 54(1) P.D. 49; C.A. 41/96 *Kassuto Sochnuyot Bituach Ltd. v. V.A.T. Director*, Missim M-2 (April 1999), E-60. C.A. 7142/10 *A. Gamish Sherutey Koach Adam Ltd. v. V.A.T. Director*, Missim KF/6 (December 2012); E-89. I.T.A. 54886-09-11 *Ofakin Ehud Oskim v. V.A.T. Director* (October 21, 2013).

Israel, or an Israeli resident was a beneficiary of the services;⁵¹⁵

(v) The rendering of services outside Israel by a dealer whose principal place of business is in Israel;

(vi) Various services rendered to tourists or the sale of goods to tourists, such as: the accommodation and entertainment of tourists at a hotel or the hospitalization of tourists; the rental of private non-chauffeured vehicles to tourists; and the provision of services to tourists by a travel agency;

(vii) The sale of goods to a person entitled to an exemption from purchase tax;

(viii) The sale of various fruits and vegetables;

(ix) The sale of aircraft and vessels;

(x) Some transactions with regard to business reorganizations (the transfer of assets for shares in a company controlled by the transferor); and

(xi) Transactions with a foreign resident by an Israeli Film Producing Company for purposes of the production of a film in Israel.

It should be noted that the zero rate for a transaction with a nonresident under this section requires that the nonresident is outside Israel at the time of the transaction, and that the nonresident has no business or activity in Israel.⁵¹⁶

Sections 31A and 31B of the VAT Law provide for a zero rate VAT with respect to services provided by construction enterprises to current homeowners for housing improvements performed as part of building strengthening projects and demolition and building projects. As such services are currently exempt from VAT, the amendment expands the VAT benefit provided to construction enterprises by enabling the deduction of input VAT incurred with respect to the provision of such services.

5. Exempt Transactions

Some transactions are exempt from VAT,⁵¹⁷ most importantly:

(i) The rental of residential apartments for a period not exceeding 25 years;⁵¹⁸

(ii) The sale of a building approved under the Law for the Encouragement of Capital Investments, 1959, with effect from the tax year 1979, provided the building was leased for a period of at least five years;⁵¹⁹

(iii) The rental of real estate in consideration for “key money” and the creation of a statutory tenancy or the sale of such real estate (i.e., the sale of real estate with respect to which a statutory tenancy has been created);⁵²⁰

(iv) Transactions made by an exempt dealer, excluding the sale of real estate or the sale of equipment in cases where input tax was deducted at the time of purchase;

(v) The sale of assets when the input tax at the time of purchase was denied by law;

(vi) The deposit of monies with a financial institution or the granting of a loan by a dealer to a financial institution;⁵²¹

(vii) The sale of an alternative residence unit, or the value of construction services, in sites declared by the authorities to be “evacuation-for-construction” sites;⁵²²

(viii) The importation of certain goods into Israel (by persons entitled to exemptions on their entry into Israel), exported goods re-imported to Israel, gift parcels and original works of art;⁵²³

(ix) Unset diamonds except for synthetic diamonds, precious stones and semi-precious stones;⁵²⁴

(x) Goods (except motor vehicles) imported from the areas under the control of the Palestinian Authority;⁵²⁵ and

(xi) Certain transactions in the Eilat Free Trade Zone (see XVII.P., below).

A memorandum published on November 2024, includes a proposal to add subsection 20 to Section 30(a) of the VAT Law. The subsection would apply zero rate VAT for management services provided to partnerships, as determined by the Minister of Finance, based on the proportion of profit rights held by foreign residents relative to the total profit rights in the partnership, even if the services are rendered to an Israeli resident in Israel.

6. Reporting

A 2009 amendment to the VAT Law, 1975 requires periodical returns, temporary returns, and the returns of non-profit organizations and financial institutions to be filed online as of January 1, 2012.

For this purpose, a return must include a Secure Electronic Signature, defined as an electronic signature that: (i) is unique to its owner; (ii) allows for the identification of its owner; (iii) is produced by a signature device that is under the exclusive control of its owner; and (iv) allows any change in the content of the text after its execution to be identified.⁵²⁶

Dealers whose transaction turnover during the 12-month period ending on August 31 of the previous tax year is NIS

⁵¹⁵ A draft bill published in October 2024 proposes to amend the VAT Law; it suggests that VAT Law 1975, s. 30(a)(8), which grants a zero-rate of VAT for services provided to tourists, should be repealed. Additionally, the bill proposes to repeal the arrangement provided for in VAT Law 1975, s. 56 regarding the consolidation of businesses.

⁵¹⁶ Value Added Tax Law, 1975, s. 30(c).

⁵¹⁷ C.A. 6585/97 *Pam Bin Ltd. v. V.A.T Director Jerusalem*, Missim 1998, E-1; C.A. 1340/90 *Ramdo Ltd. v. V.A.T Director*, Missim G-4 (Aug. 1993), E-54.

⁵¹⁸ Value Added Tax Law, 1975, s. 31(1).

⁵¹⁹ Value Added Tax Law, 1975, s. 31 (1A).

⁵²⁰ Value Added Tax Law, 1975, s. 31(2).

⁵²¹ Value Added Tax Law, 1975, s. 31(5).

⁵²² The exempt amount is limited by the Law. See Value Added Tax Law, 1975, s. 31A.

⁵²³ Value Added Tax Law, 1975, s. 32.

⁵²⁴ Value Added Tax Law, 1975, s. 33.

⁵²⁵ Value Added Tax Law, 1975, s. 1A(a)(1) and Value Added Tax Regulations, 1976, s. 11.

⁵²⁶ Electronic Signature Law, 2001, s. 1.

1,670,000⁵²⁷ or less may report every other month, while Dealers with transaction turnovers of more than that amount are required to report on a monthly basis.⁵²⁸

Dealers are entitled to request a tax refund if their Periodic reports show an excess of aggregate input tax over the total amount of output tax.

7. Tax Invoices

Buyers subject to VAT purchasing assets or services for the purpose of their business must require invoices from covered sellers, or pay by bank transfer, credit card or check, if the value of the assets or services concerned is between NIS 338 and NIS 27,183. If the value of the assets or services is higher than NIS 27,183, the buyer must ask the seller to issue a tax invoice, and may not pay in banknotes or cash.

The “Israeli Invoice Model,” implemented under the Economic Efficiency Law for 2023–4, is designed to combat fictitious invoices and mitigate financial losses to the state, which are estimated at billions of shekels annually. From January 1, 2024, tax invoices for transactions exceeding 20,000 ILS must include allocation numbers issued by the Tax Authority via an online system as a prerequisite for deducting VAT input tax.⁵²⁹

8. The Palestinian Territories

The main principle regarding VAT and customs is the free movement of goods between Israel and the Palestinian Authority (PA) and, therefore, the PA and Israel are regarded as a single entity for purposes of indirect tax. VAT is, thus, imposed in this context on transactions carried out by an Israeli citizen, a partnership in which the majority of interests is held by Israeli citizens, or by a company deemed to be resident in Israel for income tax purposes.

The PA levies its indirect taxes independently, and special arrangements were entered into to allow for deductions by Israeli VAT taxpayers of input VAT paid to the PA. Under a clearing procedure, Israel and the PA determine the balance of deducted VAT and payments are made accordingly. The PA’s VAT rate is 15%, or 1.5% lower than the Israeli rate.⁵³⁰ Israel has agreed to refund all VAT paid by nonprofit Palestinian institutes acquiring Israeli services and products.⁵³¹

F. Payroll Taxes

An employer’s tax was imposed until April 1992 at the rate of 4% on employment income, in accordance with regulations issued under the Employers’ Tax Law, 1975, but it was abolished as of January 2008.

⁵²⁷ Value Added Tax Law, 1975, s.67(a2)(1). The sum is determined by the Minister of Treasury.

⁵²⁸ In the draft bill to amend the VAT Law, it is proposed to lower the turnover threshold required for submitting detailed reports for VAT purposes.

⁵²⁹ Considering the state of the war, an extension was granted allowing VAT deductions without allocation numbers until May 5, 2024, to give businesses additional time to implement the necessary technological adaptations. Businesses that adopted the model early in the year were granted benefits, such as expedited VAT refunds.

⁵³⁰ Value Added Tax Law, 1975, s. 1A. Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, 1995, Protocol on Economic Relations, Article VI(3).

⁵³¹ Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, 1995, Protocol on Economic Relations, Article VI(9).

G. Stamp Duties

Under the Stamp Duty on Documents Law, 1961, many legal documents were subject to a special stamp duty; however, the rates were usually insignificant. As of 2006, the stamp duty tax was abolished in its entirety.

H. Property Taxes

With effect from April 1981, property tax is levied only on vacant real estate that could be used for the erection of urban buildings, since one of the prime purposes of the Property Tax and Compensation Fund Law, 1961 was to serve as a catalyst for the construction of buildings and to curtail real estate speculation.⁵³² All other property is exempt from the tax. Land that is deemed to be “property” for property tax purposes is:

(i) Vacant land, including land to which an asset other than a building is affixed.

(ii) Land with a building thereon, if the total building area does not exceed 30% (in the case of residential buildings, 20%) of the total area available for construction according to the planning and construction regulations, and provided the fair market price that could be received for the building as such on October 1 preceding the tax year, was less than the value of the land. As noted above, property tax is levied only on vacant land. However, the law may even tax land with a building thereon, in the event that the exemption is not justified.⁵³³

(iii) Land that, on January 1, 1990, was planted with orchards but that is not considered to be agricultural land. Land is considered to be appropriate for agriculture if it is suitable for the purpose of growing crops, provided the economic expenditure required for this purpose is reasonable under prevailing market conditions.⁵³⁴

The Supreme Court has held that several tests may be used to establish the “taxable unit” for purposes of the Property Tax and Compensation Fund Law, 1961, and that the primary test should be the registration of the land in question at the Land Registry. The secondary test should be the “economic purpose test,” which is based on the possible utilization of the land under the applicable zoning and zoning legislation. The actual economic use to which the taxpayer puts the land is only a residual test, and the burden of proof that this third test should be applied lies with the taxpayer.⁵³⁵

⁵³² C.A. 48/85 *Commissioner of Property Tax and Compensation Fund v. Hahevra Hahabashit Lemisschar*, 14 P.D.A. 163.

⁵³³ C.A. 147/90 *The Estate of the deceased Gnizadowich v. The Commissioner of Property Tax and Compensation Fund*, Missim E-2 (Apr. 1991), E-120.

⁵³⁴ 891 P.C.A. 1221/94 *Tarshish Ltd. v. Commissioner of Property Tax Netanya*, Missim I-2 (Apr. 1995), E-116. See also P.C.A. 7970/95 *Moravi and Weiss v. Commissioner of Property Tax Haifa*, Missim K-2 (Apr. 1997), E-22; Assessing Appeal 1104/95 *Commissioner of Property Tax and Compensation Fund Rehovot v. Tshuva*, Missim K-4 (Aug. 1997), E-325. P.C.A. 4539/96 *Arad v. Property Tax Director of Hadera*, Missim L-6 (Dec. 1998), E-61; D.A. 3419/98 *Property Tax Director of Rehovot v. Hashkaot VeNeemanut S.S. Zarfaty Ltd.*, Missim O-2 (Apr. 2001), E-285.

⁵³⁵ D.A. 737/86 *Elshtein v. The Commissioner of Property Tax*, 14 P.D.A. 247.

On January 1, 2000, the tax rates, which stood at 2.5% of the value of the land, and 1.2% if the land was classified as business inventory for income tax purposes, were reduced to 0% but the Law was not abolished.

I. Estate Duty

With effect from April 1981, estate taxes were abolished in Israel. However, heirs take the assets with the basis and dates of acquisition of the deceased (“roll over”). Therefore, on the sale of the inherited assets, the heirs are taxed on the capital gains realized from the date of acquisition by the deceased.⁵³⁶

Generally, Israel does not levy inheritance or gift taxes. However, non-cash gifts made to non-Israeli residents are subject to capital gains tax, which is normally imposed within 30 days. Gifts made to Israeli residents are generally exempt from capital gains tax and the recipient has a carryover basis in the gift. Gifts of real property (and rights in a real property association) may be exempt from the land appreciation tax at the level of the transferor to the extent made to certain family members. In addition, gifts of real property (or rights in a real estate association) are subject to purchase tax at the level of the transferee, and may be eligible for a beneficial purchase tax rate to the extent made to certain family members.

J. Purchase Tax and Customs Tax

Any investor planning to sell his/her products in the Israeli market will be vitally interested in two factors: (1) Israeli customs rates imposed on the articles, components or materials to be imported into Israel; and (2) customs rates imposed on competitive products, for example, those imported from Germany, Italy, Japan, etc. An experienced Israeli customs broker should be consulted on these matters. Most Israeli tariff rates are *ad valorem*, although there are also specific and compound rates. Specific duties are assessed on net weight, unless otherwise specified in the Customs Regulations. *Ad valorem* duties are assessed based on the cost, insurance and freight (CIF) value, including Israeli port charges.

The value of goods for customs purposes is based on the actual price set by the parties to the transaction concerned, unless special circumstances (such as special relations between the parties) require the use of the “objective,” market value-based, method.⁵³⁷ This change, introduced in 1997, is in accordance with the General Agreement on Tariffs and Trade (GATT) Tokyo-round resolutions adopted by Israel as a member of the organization.

The Brussels nomenclature classification is used for the classification of imported and exported goods. Most basic food commodities, raw materials, and machinery for agricultural and industrial purposes are exempt. Nonessential foodstuffs, luxury consumer goods and products directly competing with goods manufactured in Israel incur the highest rates. Nevertheless, a gradual “exposure program” has been implemented since 1991, resulting in significant reductions in such “protective” tariffs. The customs tax on materials imported for the production of goods to be exported is waived, subject to a guarantee that the export will in fact take place.

Israeli purchase tax is levied on most goods produced in Israel, as well as on many imported goods. Items subject to tax, generally at rates ranging from 2% to 60% of wholesale value but sometimes at much higher rates, include building materials, household furnishings, utensils and appliances, textiles, clothing, office supplies, luxury goods and motor vehicles.⁵³⁸

Purchase tax on imported goods is levied based on the value for customs purposes, accompanied by an “added percentage quota” representing the estimated wholesalers’ profit.⁵³⁹ Importers who comply with certain criteria set forth by the Purchase Tax Law (Goods and Services), 1952 may choose to be classified as “Importers under Arrangement.”⁵⁴⁰ Importers under Arrangement pay the tax based on their actual wholesale prices.

⁵³⁷ The Customs Ordinance (New Version), 1957, ss. 130 and 132.

⁵³⁸ Until 1994, purchase tax was also levied on some services, including the insurance of electrical appliances, receipts from sporting events and nightclubs, driving schools, computer services, and car rental services.

⁵³⁹ Purchase Tax (Goods and Services) Law, 1952, s. 4B.

⁵⁴⁰ Purchase Tax (Goods and Services) Law, 1952, s. 6A. The criteria include mainly a minimum annual import turnover (about US\$100,000) and compliance with the income tax and value added tax (VAT) regulations.

⁵³⁶ Income Tax Ordinance (New Version), 1961, s. 88 (definition of “Purchase Date”).

