International Tax

Israel Highlights 2023

Updated January 2023

Recent developments

For the latest tax developments relating to Israel, see Deloitte tax@hand.

Investment basics

Currency: New Israeli Shekel (NIS)

Foreign exchange control: There are no foreign currency restrictions.

Accounting principles/financial statements: Accepted accounting principles according to the Israeli accounting standards board/IFRS apply. Financial statements must be prepared annually (quarterly in the case of a public company). US GAAP may apply in certain circumstances.

Principal business entities: These are the public and private company (limited and unlimited liability), partnership (registered and nonregistered), and branch of a foreign corporation.

Corporate taxation

Rates	
Corporate income tax rate	23% (standard rate)
Branch tax rate	23% (standard rate)
Capital gains tax rate	Varies

Residence: A corporation is deemed to be resident in Israel if its activities are managed and controlled from Israel or if it is incorporated under Israeli law.

A foreign corporation managed and controlled by a new Israeli resident or a senior returning resident (i.e., an individual who has spent at least 10 years abroad) generally is not classified as an Israeli resident company for 10 years from the date of the individual's arrival in Israel. This does not, however, preclude the Israeli Tax Authority (ITA) from claiming that the individual creates a permanent establishment (PE) of the foreign corporation in Israel.

The implications of an applicable tax treaty for the residency of a corporation also must be taken into consideration.

Basis: Israeli resident companies are subject to tax on worldwide profits and gains, with credit granted for foreign taxes paid in respect of foreign income. A nonresident company is subject to tax only on Israeli-source profits. Branches are taxed in the same way as subsidiaries.

Taxable income: An Israeli resident corporation is subject to corporate income tax on its worldwide income and capital gains after deductions, set offs, and allowances under the tax law or regulations.

Rate: The standard corporate tax rate for companies is 23%. An Israeli company classified as a "preferred enterprise" is taxed on its "preferred income" depending on where its facilities are located (7.5% if located in "Area A" and 16% if located elsewhere). An Israeli company classified as a "special preferred enterprise" (annual turnover of at least NIS 10 billion) is taxed on its preferred income at 5% or 8%, depending on where its facilities are located.

An Israeli company classified as an "approved enterprise" or a "benefited enterprise" is entitled to a tax rate of between 0% and 23%, with the period of benefits depending on where the company's facilities are located, and whether certain conditions are satisfied. The benefits are revoked if exempted profits derived from the approved or benefited income are distributed. Qualified companies may be eligible for both reduced corporate tax rates and grants from the investment center.

An Israeli company currently or previously classified as an approved or benefited enterprise with "accumulated income" that was exempt from corporate income tax in the tax year in which the income was derived and that has not yet become liable to corporate income tax may be required to pay corporate income tax on all or part of the accumulated income if it has carried out any distribution or deemed distribution after 15 August 2021. Distributions are treated as made on a pro-rata basis from the exempt income and other accumulated profits of the company.

An Israeli company classified as a "preferred technological enterprise" is entitled to a reduced tax rate of 12% (7.5% if its facilities are located in Area A) on its "preferred technological income." "Special preferred technological enterprises" (annual turnover of at least NIS 10 billion) are entitled to a reduced tax rate of 6% on preferred technological income.

The calculation of preferred technological income (i.e., the part of a technological enterprise's income that is eligible for a preferential tax rate) is based on a "nexus" approach that generally excludes development costs incurred outside Israel.

Companies often may be eligible simultaneously for both preferred enterprise benefits and preferred technological enterprise benefits.

Partnerships are transparent for tax purposes in respect of their ongoing income, but when they are sold, the partners are taxed as if they had disposed of their interest in the partnership and not each partnership asset.

There are various options for companies to be treated as transparent for tax purposes that could be applied in different circumstances.

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: No tax is payable on dividends distributed by one Israeli resident company to another, provided the dividends arise from income produced or accrued in Israel by a company that is subject to corporate income taxation. The tax rate is 23% on dividends from income produced (or accrued) abroad, or from dividends received from abroad; a tax credit is granted for foreign tax paid. An indirect foreign tax credit also may be available where the Israeli company receiving the dividend holds at least 25% of the payer company. An ultimate parent company is entitled to an indirect credit for tax paid by both its subsidiary and its indirect subsidiary, where the ultimate parent company holds at least 25% of the subsidiary, and the subsidiary holds at least 50% of the indirect subsidiary.

Companies are taxed at a 20% rate on dividend income if the distribution is made from profits attributable to an approved or benefited enterprise generated during the benefits period of a program that was confirmed after 2013. Where a distribution is made from profits generated during the benefits period of a program that was confirmed in 2013 or earlier, the tax rate is 15%. When the recipient company distributes a dividend from that income, it is entitled to a refund of the tax paid. However, temporary provisions introduced as part of the 2012 amendment to the investment law allow a tax exemption for dividends received by an Israeli company from approved or benefited income and distributed by a company that was previously an approved or benefited enterprise but now has preferred enterprise status and notified the change of status to the ITA on or before 30 June 2015.

The tax rate is 15% on dividends from accumulated income (see "Rate," above) distributed on or after 15 August 2021, other than where the temporary provisions introduced as part of the 2012 amendment to the investment law apply.

Dividends distributed from a revaluation of assets are subject to corporate income tax at the standard rate of 23% in the hands of the recipient company.

Capital gains: The capital gains tax rate depends on the purchase date and the nature of the asset. The general capital gains tax rate for a corporation is the standard corporate tax rate (23%). The inflationary component of a gain accrued as from 1 January 1994 is exempt from tax; a 10% tax rate applies to the inflationary component of a gain accrued prior to that date.

On a sale of shares, undistributed profits generated by the company in which the shares are held during the seller's period of ownership and taxed at the company level are tax exempt in certain circumstances.

An Israeli resident is subject to capital gains tax on the disposal of its assets, regardless of whether the assets are located in Israel. Capital gains derived from the sale, exchange, transfer, or other disposition of tangible and intangible capital assets located in Israel, or that constitute a direct or an indirect ownership interest of assets in Israel, are treated as Israeli-source income and are subject to capital gains tax, regardless of whether the seller is a resident of Israel for Israeli tax purposes. Shares and other securities of Israeli companies, or shares and other securities of foreign companies holding their main assets in Israel, also may be treated as Israeli assets.

Persons (entities and individuals) who are not residents of Israel for tax purposes are exempt from Israeli capital gains tax on gains from the sale of shares traded on the Tel Aviv stock exchange, unless the gain is attributable to an Israeli PE of the seller.

A broad exemption from capital gains tax applies to gains derived from the sale of securities in Israeli or Israeli-related companies acquired on or after 1 January 2009 by all nonresidents (both entities and individuals), regardless of whether the nonresident is eligible for benefits under a tax treaty. The exemption does not apply:

- To shares of companies whose assets consist primarily (directly or indirectly) of real estate (i.e., land or buildings) located in Israel, or rights to exploit natural resources in Israel;
- Where the shares sold were purchased from a related party or by way of certain tax-deferred reorganizations;
- Where the shares were held through a PE; or
- Where the nonresident selling entity is 25% or more controlled by Israeli residents.

Capital gains derived by a preferred technological enterprise or a special preferred technological enterprise from the sale of qualifying intangible assets to a related nonresident company are taxed at a rate of 12% or 6%, respectively, if certain conditions are fulfilled.

Losses: Trading or business losses may be offset against income from any source in the current tax year and carried forward indefinitely to be offset against business income and business capital gains. Capital losses may be offset in the current tax year against capital gains or against interest and dividends derived from the sold securities (also from other securities under certain conditions) and carried forward indefinitely to be offset against capital gains. Neither trading or business losses nor capital losses may be carried back.

Foreign tax relief: Israel grants a direct tax credit for foreign taxes paid on foreign-source income. An indirect tax credit is granted in certain cases (see "Taxation of dividends," above). Where the Israeli tax liability on the income is lower than the foreign tax paid on that income, the excess foreign direct tax credit may be carried forward for five consecutive tax years.

Participation exemption: A special tax regime applies to Israeli holding companies that invest in qualified foreign corporations. An eligible corporation is entitled to an exemption from tax on dividends received from a qualified foreign subsidiary, and on capital gains derived from the sale of shares in such a subsidiary, as well as a full exemption from tax on financial income derived from investments in the Israeli capital market and interest and index differentials derived from financial institutions. In addition, dividends paid by the holding company to a nonresident shareholder are subject to a 5% withholding tax, rather than the regular rates of 25% if paid to a noncontrolling foreign shareholder that holds less than 10% of the shares of the Israeli holding company, or 30% otherwise. See “Withholding tax,” below.

Holding company regime: See "Participation exemption," above.

Incentives: Various programs are available, e.g., foreign investment incentives (approved enterprise status, various tracks), environmental and social incentives, a holding company regime, incentives for industrial enterprises, and research and development incentives. See also "Taxation of dividends" and “Rate,” above.

Compliance for corporations

Tax year: The tax year generally is the calendar year. Taxpayers may apply for a different tax year, but the application will be approved only in special circumstances.

Consolidated returns: The filing of a consolidated return generally is not permitted; each company in a group is required to file its own return. However, if certain conditions are satisfied, qualified “industrial companies” may file a consolidated tax return.

Filing and payment: Companies must file an annual tax return no later than five months following the end of the tax year (an extension to the filing deadline may be obtained in certain circumstances). The ITA determines the amount of tax prepayments by reference to a taxpayer’s prior year turnover and the tax payable for the prior year. Tax prepayments are made on a monthly or bimonthly basis depending on the prior year turnover.

Penalties: Penalties apply where prepayments are overdue or tax returns are filed late. The balance of any tax due is payable at the beginning of the following tax year. Overdue tax is subject to an annual 4% interest rate (both the interest and principal are linked to changes in the Consumer Price Index (CPI)) for the period from the end of the tax year through the date of payment. Deficit penalties may apply where the unpaid tax exceeds NIS 500,000 and 50% of the annual tax due.

Rulings: A taxpayer may request a ruling on the tax consequences of a proposed transaction. An advance pricing agreement (APA) may be obtained.

Individual taxation

Rates		
Individual income tax rate	**Taxable income (NIS)**	**Rate**
	Up to 81,480	10%
	81,481–116,760	14%
	116,761-187,440	20%
	187,441–260,520	31%
	260,521–542,160	35%
	542,161–698,280	47%
	Over 698,281	47% (50% (including surtax)
Capital gains tax rate		Varies

Residence: An individual is a resident of Israel if the individual's "center of vital interests" is in Israel. The number of days spent in Israel and overseas also affects residence status: there is an assumption (rebuttable by the taxpayer or the ITA) that an individual's center of life is in Israel if the individual has spent 183 days or more in Israel; or if during the current tax year, the individual spends 30 days or more in Israel, and the total number of days spent in Israel in the tax year and in the two preceding tax years, on a cumulative basis, amounts to at least 425 days.

An individual who does not qualify as an Israeli resident who spends at least 183 days abroad in each of two consecutive years, and whose center of vital interests in the two subsequent years is located abroad, is deemed to be a foreign resident as from the date the individual chose to leave Israel.

Basis: Israeli residents are taxed on their worldwide income. Nonresidents are taxed only on Israeli-source income.

Taxable income: All income from employment and/or a vocation is taxable, including the value of fringe benefits and cost of living allowances. Passive income from Israeli and foreign bank deposits and savings also is taxable.

New Israeli residents and senior returning residents are entitled to a tax exemption for certain types of foreign-source income for a period of 10 years as from the date of immigration/return to Israel. The benefit period with respect to income from interest on foreign currency deposits may be extended for a maximum of a further 10 years, provided certain investment criteria are fulfilled. Returning residents other than senior returning residents are entitled to a tax exemption for certain types of foreign-source income (but not business income) for a period of five years as from the date of immigration/return to Israel.

Rates: Individual income tax rates are progressive up to 47%. An additional 3% surtax is levied on annual taxable income exceeding NIS 698,280. The surtax does not apply to the inflationary component of a gain or to a gain derived from the sale of a right in real estate in a residential apartment where the sale proceeds do not exceed NIS 5,220,200 or the sale is otherwise exempt from tax.

Capital gains: "Real" gains (i.e., the portion of gains not attributable to inflation) derived from the sale of shares are subject to tax at 25% if derived by noncontrolling shareholders (those that control less than 10% of the Israeli company by reference to any measure of control); otherwise, the rate is 30%. Gains derived from the sale of bonds, commercial securities, or loans that are not linked to the CPI generally are subject to a 15% tax (however, a controlling shareholder that controls at least 10% of the Israeli company by reference to any measure of control is taxed on both the real and the inflationary component of gains at a rate of 20%).

The tax rates on capital gains on all other assets range from 20% up to the individual's marginal tax rate, depending on the date of acquisition and the type of asset (the minimum tax rate for the sale of shares of nonpublic companies by an individual holding at least 10% of the company's shares is 25%).

The inflationary component of a gain accrued as from 1 January 1994 is exempt from tax (except as noted above); a 10% tax rate applies to the inflationary component of gains accrued prior to that date.

Individuals who are nonresidents of Israel for tax purposes also may be exempt from Israeli capital gains tax on gains from the sale of securities. See "Capital gains" under "Corporate taxation," above, for exemptions from capital gains tax.

Deductions and allowances: Deductions are granted for pension fund contributions and individuals are entitled to various personal allowances and credits. Profits and interest from an investment provident fund may be tax exempt if the fund is redeemed after the individual reaches the age of 60 and certain other conditions are met.

Foreign tax relief: Israel grants a direct tax credit for foreign taxes paid on foreign-source income under certain conditions.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: A married couple living together may opt for separate tax assessment in certain circumstances; otherwise, they may file jointly.

Filing and payment: An individual must file an annual tax return no later than 30 April of the following year. An extension of the deadline or an exemption from filing may be granted in certain cases.

An Israeli individual whose only income is annual salary income that does not exceed NIS 700,000 on which tax is withheld at source by the employer is not required to file an annual return.

A new Israeli resident or a senior returning resident will not be subject to the reporting requirements in Israel on income derived from or accrued outside Israel or sourced from assets outside Israel for the 10-year benefited period; however, a new Israeli resident or a senior returning resident may be required to submit a statement of property and liabilities located in Israel (capital statement) during the 10-year benefited period, if requested by the ITA.

Penalties: Penalties apply if prepayments are overdue or if tax returns are filed late. The balance of any tax due is payable at the beginning of the following tax year. Overdue tax is subject to an annual 4% interest rate (both the interest and principal are linked to the CPI) for the period from the end of the tax year through the date of payment. Deficit penalties may apply where the unpaid tax exceeds NIS 500,000 and 50% of the annual tax due.

Rulings: A taxpayer may request a ruling on the tax consequences of a proposed transaction.

Withholding tax

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual

Dividends	0%/15%/20%	15%/20%/25%/30%	4%/5%/15%/20%/25%/30%	4%/5%/15%/20%/25%/30%
Interest	23%	15%/20%/25%/35%/47%	0%/23%	0%/25%
Royalties	20%/30%	20%/30%	23%	25%
Fees for technical services	20%/30%	20%/30%	23%	25%

Dividends: No withholding tax is payable on dividends distributed by an Israeli resident company to another Israeli company, provided the dividends arise from income produced or accrued in Israel by a company that is subject to corporate income taxation.

Dividends paid to an Israeli resident individual generally are subject to withholding tax at 25%. A 30% rate applies where at the time of receipt of the dividend or at any time during the preceding 12 months the individual controlled at least 10% of the payer company by reference to any measure of control.

The ITA may issue an exemption certificate or a reduced withholding certificate allowing dividends to be paid to resident companies and individuals without the deduction of withholding tax or subject to a reduced withholding tax rate.

Dividends paid to a noncontrolling foreign resident company or individual (a person that controls less than 10% of the Israeli payer by reference to any measure of control) are subject to a 25% withholding tax; otherwise, the rate is 30%. These rates may be reduced under a tax treaty or incentive regime, such as the special tax regime for Israeli holding companies that invest in qualified foreign corporations, which provides for a 5% withholding tax rate on dividends paid by the holding company to a nonresident shareholder (see “Participation exemption” under “Corporate taxation,” above).

Dividends distributed by a preferred enterprise to a resident individual or nonresident shareholder are taxed at a 20% rate. No tax is payable on dividends distributed by a preferred enterprise to another Israeli company (provided the dividends are payable from income produced or accrued in Israel that has been subject to tax).

Dividends distributed by an approved or benefited enterprise to a resident or nonresident shareholder generally are taxed at a 20% rate if the distribution is made from profits attributable to the approved enterprise, or at a reduced rate of 4% on the alternative incentive track if distributed to a nonresident. Where a distribution is made from profits generated during the benefits period of a program that was confirmed in 2013 or earlier, the tax rate is 15%. In certain circumstances, no tax is payable on dividends distributed by an approved/benefited enterprise to another Israeli company, provided the dividends arise from income produced or accrued in Israel that has been subject to tax.

Dividends distributed by a preferred technological enterprise or a special preferred technological enterprise to an individual out of technological earnings (earnings derived in the enterprise's ordinary course of business from a qualifying intangible owned by the enterprise) are taxed at a 20% rate. No tax is payable on dividends distributed by a preferred technological enterprise or a special preferred technological enterprise to another Israeli company, provided the dividends arise from income produced or accrued in Israel that has been subject to tax. When the distribution is made to a nonresident company, a reduced rate of 4% applies, which may be further reduced under an applicable tax treaty.

Dividends distributed to a resident or nonresident shareholder from accumulated income as from 15 August 2021 are taxed at a 15% rate. (See “Taxation of dividends” under “Corporate taxation,” above.)

Interest: Corporate income tax (currently 23%) is withheld from interest payments to a resident or nonresident recipient that is a “body of persons.”

The withholding tax rates applicable to interest paid to a resident individual are as follows:

- 20% on interest paid by a provident fund (15% where the interest is derived from amounts deposited in the fund before 8 May 2000);
- 25% on bank interest (15% where the interest is payable in respect of an asset that is not index-linked);
- 35% on interest paid on debentures or government bonds issued before 8 May 2000 to a recipient who at the time of payment of the interest, or at any time during the preceding 12 months, held less than 10% of the shares of the payer; and
- 47% where the recipient of the interest at the time of receipt of the interest or at any time during the preceding 12 months controlled at least 10% of the payer (by reference to any measure of control), is an employee of the payer, or provides services to or sells products to the payer.

Any other interest paid to an individual is subject to withholding tax at 25% (15% where the interest is payable in respect of an asset that is not index-linked).

The ITA may issue an exemption certificate or a reduced withholding certificate allowing interest to be paid to resident companies and individuals without the deduction of withholding tax or subject to a reduced withholding tax rate.

Interest paid to a nonresident individual is subject to withholding tax at 25%. The withholding tax rate on interest paid to nonresidents may be reduced under an applicable tax treaty. Interest on certain public bonds paid to nonresidents may be exempt from withholding tax.

Royalties: Royalty payments made to resident entities and individuals are subject to withholding tax at 20% where the recipient can demonstrate that it maintains books of account and has filed the necessary returns; otherwise, the rate is 30%.

The ITA may issue an exemption certificate or a reduced withholding certificate allowing royalties to be paid to resident companies and individuals without the deduction of withholding tax or subject to a reduced withholding tax rate.

Royalty payments to nonresident entities and individuals are subject to withholding tax at 23% and 25%, respectively. The rate may be reduced under an applicable tax treaty.

Fees for technical services: Technical service fees paid to resident entities and individuals are subject to withholding tax at 20% where the recipient can demonstrate that it maintains books of account and has filed the necessary returns; otherwise, the rate is 30%.

The ITA may issue an exemption certificate allowing technical service fees to be paid to nonresident companies and individuals without the deduction of withholding tax where the income from the services is not taxable in Israel (i.e., where the services are provided outside Israel by a nonresident).

Technical service fees paid to nonresident entities and individuals are subject to withholding tax at 23% and 25%, respectively. The rate may be reduced under an applicable tax treaty.

Branch remittance tax: There is no branch remittance tax.

Other: Other payments to foreign corporations and foreign individuals are subject to withholding tax at 23% and 25%, respectively. The rate may be reduced under an applicable tax treaty. If a service is provided or business income is generated outside of Israel by a nonresident, and is therefore not subject to tax in Israel, approval not to deduct withholding tax may be granted by the ITA.

Anti-avoidance rules

Transfer pricing: The transfer pricing rules are based on the OECD guidelines and apply to transactions between an Israeli resident and a related nonresident. A hierarchy of transfer pricing methodologies applies, with preference given to transaction-based methods over profit-based methods. Documentation requirements mandate that the taxpayer attach a statement to the annual tax return and provide a detailed transfer pricing study at the request of the ITA. An APA may be obtained.

Israel has signed the multilateral agreement for the automatic exchange of country-by-country (CbC) reports and legislation enacted during 2022 with retroactive effect introduced CbC reporting requirements as from tax year 2022. The legislation amended Israeli transfer pricing legislation and regulations and introduced additional reporting and documentation requirements for multinational enterprise (MNE) groups that include an Israeli entity. MNE groups whose transaction turnover in the year preceding the reporting year exceeds NIS 150 million are required to submit a master file. CbC reporting is required by a "final parent entity," as defined in the Income Tax Ordinance (ITO), that is a resident of Israel and belongs to an MNE group whose transaction turnover in the year preceding the reporting year exceeded NIS 3.4 billion.

Interest deduction limitations: There are no interest deduction limitations other than the restrictions under the transfer pricing rules.

Controlled foreign companies: A foreign company that is controlled by Israeli shareholders and that has accumulated undistributed passive profits taxed at a rate not exceeding 15% is considered a controlled foreign company (CFC). The Israeli shareholder controlling the CFC is treated as if it had received its proportionate share of the profits as dividends (deemed dividends). No deemed tax credit is granted on the deemed dividend. When the profits are distributed, the Israeli controlling shareholder is eligible for a deduction of the amount of the gross notional dividends that was subject to Israeli tax (limited to the amount of the distribution), in addition to a tax credit for foreign tax paid. If the tax credit cannot be utilized, the ITA will repay the credit to the taxpayer, generally indexed to take account of inflation.

Hybrids: There is no specific anti-hybrid legislation. However, provisions in the ITO that allow the ITA to recharacterize or disregard a transaction if tax avoidance is the main purpose of the transaction may apply. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force for Israel on 1 January 2019, and the application of the provisions of an applicable tax treaty interpreted in accordance with the anti-abuse provisions of the MLI also may result in effective anti-hybrid measures.

Economic substance requirements: There are no specific economic substance requirements, although provisions in the ITO that allow the ITA to recharacterize or disregard a transaction if tax avoidance is the main purpose of the transaction may apply. The application of the provisions of a relevant tax treaty interpreted in accordance with the anti-abuse provisions of the MLI also may result in effective economic substance requirements.

Disclosure requirements: The taxpayer generally must disclose all facts relevant for tax purposes, particularly with respect to transactions with related parties. Taxpayers are required to disclose certain tax planning and tax positions adopted and certain tax opinions obtained. An updated list of reportable tax positions is published annually by the ITA.

Exit tax: Israeli resident entities and individuals who cease to be Israeli residents for tax purposes are deemed to dispose of all assets (other than assets located in Israel, such as real estate, that remain within the charge to Israeli tax) the day before the change in residence status.

Assets generally are deemed to have been sold at their fair market value, and the tax is payable on the date of the change in residence status. Alternatively, the assessment of the liability can be deferred to the date of the actual disposal of the asset when tax is payable on a proportion of the real capital gain based on the period for which the asset was held by the taxpayer as an Israeli tax resident. This proportionate capital gain calculation does not apply to assets liable to tax at the date of their realization but subject to the general capital gain rules.

General anti-avoidance rule: Provisions in the ITO allow the ITA to recharacterize or disregard a transaction if tax avoidance is the main purpose of the transaction.

Other: Under certain circumstances, direct or indirect withdrawals of funds from a company by a substantial shareholder (including resident and nonresident companies and individuals) may be subject to taxation at the shareholder level as deemed dividends (or as employment or business income if the company has insufficient earnings to cover the amount of the dividends). Withdrawals of funds may include loans or other debts, or cases where a shareholder directly or indirectly makes use of a company's assets. Any direct or indirect withdrawal of funds that has not been returned by the shareholder within one year from the end of the year in which the funds were withdrawn is included in the shareholder’s taxable income.

Value added tax

Rates	
Standard rate	17%
Reduced rate	0%

Taxable transactions: VAT applies to most goods and services, and on imports.

Rates: The standard VAT rate is 17%. Certain items are subject to a 0% rate, including exported goods, intangible goods, the provision of certain services to nonresidents (such as tourism services), the transport of cargo to and from Israel, the sale of certain goods and services to the Eilat free trade zone, and the sale of fresh fruits and vegetables. Imported services are subject to the reverse charge mechanism. Certain types of transaction are exempt from VAT. Input VAT may be offset only against VAT chargeable at the standard and 0% rates. Payroll tax at a rate of 7.5% of payroll is levied on nonprofit organizations in lieu of VAT. For financial institutions, a 17% tax based on payroll and profits is imposed in lieu of VAT.

Registration: An Israeli company, or a foreign company conducting business in Israel, generally must register for VAT purposes. A nonregistered foreign company operating in Israel generally must register within 30 days. A foreign company registered in Israel or a nonregistered foreign company that carries on an activity or business in Israel must appoint a local representative for VAT purposes within 30 days of commencing its domestic activities and must notify the VAT office closest to its place of business.

Filing and payment: The business is required to collect output VAT on the goods, services, or assets it sells. The VAT collected is transferred to the VAT authorities either monthly or once every two months, whichever is determined to be more appropriate by the authorities based on the annual turnover projection (monthly if the annual turnover is greater than NIS 1.535 million). The business may offset the output VAT against any input VAT paid in the course of doing business. The annual revenue threshold to qualify as an “exempt dealer” under the VAT law is NIS 107,692. Such businesses are exempt from output VAT and receive relief from filing periodic VAT returns (other than the declaration reporting the annual turnover). Exempt dealers are not entitled to recover their input VAT.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: National insurance is required by law, covering allowances and stipends for pensioners, widow(er)s, disability, maternity, children's allowances, industrial accidents, military service pay, and unemployment. Employers and employees are required to pay national and health contributions, and employee contributions are withheld by the employer.

Payroll tax: There is no general payroll tax, but payroll tax is levied on nonprofit organizations in lieu of VAT at a rate of 7.5% of payroll. For financial institutions, a 17% tax based on payroll and profits is imposed in lieu of VAT.

Capital duty: There is no capital duty.

Real property tax: Property betterment tax applies to sales of real property. The principles of the tax are similar to those of capital gains tax. For companies, the betterment is calculated from the date of purchase until the date of sale, and the amount of betterment is subject to the corporate tax rate as at the date of sale.

For individuals, the tax regime uses a linear tax model that taxes the real betterment at different tax rates, depending on the dates on which the betterment was accrued. Betterment accrued from the date of purchase through 7 November 2001 is subject to the marginal individual tax rates; betterment accrued from 8 November 2001 through 1 January 2012 is subject to the marginal individual tax rates up to 20%; and betterment accrued after 1 January 2012 is subject to the marginal individual tax rates up to 25% (30% if the seller holds 10% or more of a real estate company).

If the asset is a residential apartment, all real betterment accrued before 1 January 2014 is exempt, and all subsequent betterment is subject to the marginal individual tax rates up to 25%, if certain conditions are fulfilled.

Individual purchasers of real property are subject to a purchase tax (acquisition tax) of 6%. When the asset purchased is a residential apartment, the purchaser is subject to purchase tax at progressive rates ranging from 0% to 10% (assuming the residential apartment is the only residential apartment owned by the purchaser).

In certain cases, including on the sale of real property, the municipal authorities may impose a "betterment levy" at a rate of 50% on the betterment the real property has gained as a result of actions of the local municipal authorities. The betterment levy paid may be deducted from the betterment subject to the property betterment tax.

Transfer tax: See "Real property tax," above.

Stamp duty: There is no stamp duty.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Other: A purchase tax (also applicable to individuals) is levied on certain imports or local industrial production and is collected from local manufacturers 15 days after the end of the month in which the goods are sold. Importers are required to submit the collected tax when the goods are released from customs.

Tax treaties: Israel has concluded more than 60 tax treaties. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force for Israel on 1 January 2019. For information on Israel's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Ministry of Finance, Israel Tax Authority

Contact us:

Aviram Gueta
Email: agueta@deloitte.co.il

Yitzchak Chikorel
Email: ychikorel@deloitte.co.il