BEPS Actions implementation by country

Israel

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On 5 October 2015, the G20/OECD published 13 final reports and an explanatory statement outlining consensus actions under the base erosion and profit shifting (BEPS) project. The output under each of the BEPS actions is intended to form a complete and cohesive approach covering domestic law recommendations and international principles under the OECD model tax treaty and transfer pricing guidelines. The G20/OECD output broadly falls into the following categories:

OECD categorisation	Definition
Minimum standard	All G20/OECD members are committed to consistent implementation
Revision of existing standard	
Common approach	Common approaches to facilitate convergence of national practices
Best practice	Guidance drawing on best practices

It is now for governments to digest and introduce the necessary legislation. The table below sets out a summary of the expected local country implementation and timing in Israel.

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Action	OECD categorisation	Notes on local country implementation	Expected timing
VAT on business to customers digital services (Action 1)	Common approach	The VAT authorities have issued a circular setting out the circumstances in which a foreign corporation providing electronic services in Israel will be required to register with the Israeli VAT authorities. The VAT authorities are discussing the possibility of imposing VAT on electronic transactions between Israeli and non-Israeli residents, and the Ministry of Finance is considering the creation of a designated registry under which foreign businesses providing digital services to Israeli individual consumers would be required to register.	Not yet known
Hybrids (Action 2)	Common approach	Not yet known.	Not yet known
CFCs (Action 3)	Best practice	The existing CFC regime was revised and expanded in 2014. It is not known if further changes will be made.	Not yet known
Interest deductions (Action 4)	Common approach	Not yet known	Not yet known
Harmful tax practices (Action 5)	Minimum standard	The Israeli Law for the Encouragement of Capital Investments was amended in December 2016 and a new IP box regime was introduced, which offers even lower tax rates (6%/12%) in order to encourage multinational companies to maintain the IP in Israel.	As from tax year 2017

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Prevent treaty abuse (Action 6)	Minimum standard	Israel already has general anti-abuse provisions that are applied in the context of tax treaty benefits. It is not yet known if further amendments will be made.	Not yet known
Permanent establishment status (Action 7)	Revision of existing standard	The tax authorities have published a circular that would provide guidance on internet-based activities conducted in Israel by non-residents, in particular, with respect to what constitutes auxiliary services and when an agent would be considered as materially able to enter into a contract on behalf of its principal. The tax authorities have not made any other announcement with respect to Action 7.	Not yet known
Transfer pricing (Actions 8-10)	Revision of existing standard	The tax authorities have published a circular that provides high-level guidance on conducting a functional analysis when attributing profits to a permanent establishment in Israel. The tax authorities have not made any further announcements with respect to Actions 8-10.	Not yet known
Disclosure of aggressive tax planning (Action 12)	Best practice	Income tax and VAT disclosure regulations published in 2006 require taxpayers to disclose certain transactions that are considered to be "tax planning." Taxpayers are required to disclose certain tax positions and tax opinions obtained after 1 January 2016.	Not yet known
Transfer pricing documentation (Action 13)	Common approach	On 4 January 2017, the government published proposed legislation to adopt transfer pricing documentation rules in the context of Action 13.	If approved, as from tax year 2017

CbC reporting (Action 13)	Minimum standard	Israel is one of the countries that signed a multilateral competent authority agreement for the automatic exchange of CbC reports. On 4 January 2017, the government published proposed legislation that requires multinationals with an ultimate parent in Israel to submit an annual report with information on the business and financial data concerning its affiliates. The report would have to be submitted by the end of the following tax year.	If approved, as from tax year 2017
Dispute resolution (Action 14)	Minimum standard Complemented by best practice	Not yet known.	Not yet known
Multilateral Instrument (Action 15)	Applicable across all four categories	Not yet known.	Not yet known

Unilateral BEPS Actions

The ITA published a circular in April 2016 that sets out its interpretation of BEPS Action 1 (Digital Economy) that addresses internet-based services provided by foreign entities and are supported by Israeli affiliates. The circular sets out the circumstances in which the foreign entity would be deemed to have a permanent establishment in Israel and the basic principles for attributing profits to the permanent establishment. The circular also identifies cases in which such foreign entities would be required to register for VAT purposes.

The ITA previously published a circular on business model restructuring and the resulting disposal of intellectual property it considers to have taken place for tax purposes where there has been sufficient shifting of risks and functions. The ITA has stated that it plans to examine the circumstances of each business model restructuring to assess whether dividend, royalties or capital gains should be recorded.

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Other Tax Developments

No other tax developments to note.