

משה שדה  
הנהלת חשבונות  
רח' ההסתדרות 10  
ירושלים 94230  
טל: 02-624-6057  
פקס: 02-623-6105



**Moshe Sadeh**  
**Accountant**  
10 Hahistadrut St.  
Jerusalem 94230  
Tel: 02-624-6057  
Fax: 02-623-6105

## THE ISRAELI TAX REFORM

The Israel Tax System underwent a major revision as of Jan. 1, 2003. The basis of determining whether an individual is liable to pay taxes in Israel has been changed from territorial to residential. The tax liability has been extended to include an individual's worldwide income as opposed to taxing him only on his income earned in Israel. Credit will be given to the taxpayer on taxes paid abroad.

The Israeli Tax Authority has adopted the center of life test in determining whether an individual is or is not a resident. The center of life test takes into consideration the following factors:

- Family location
- The individual's permanent home
- The place of residence of the individual and his family
- The regular or permanent place of business or personal place of employment
- Place of active and substantial economic interest
- Place of activity in various organizations, associations, and institutes

Another test that will be used by the Israeli Tax Authority is the number of days test. If a person was present in Israel for more than 183 days in the present tax year, or if the person was present in the tax year at least 30 days and the two previous tax years 425 days or more – all together – he is considered a resident.

Lightening the burden on taxes will be given to new immigrants and returning residents (if you resided outside of Israel for three consecutive years).

New immigrants will enjoy an exemption of taxes on passive income such as interest, dividends, pensions, royalties and rental income paid on account of assets outside of Israel and on condition that the income is not considered as being derived from business if they meet the following test.

- If you became a resident of Israel after 1.1.93 you will be exempt on the above income only during the 2003 tax year.
- If you become a resident of Israel 1.1.98 the exemption is granted for the latest of either 5 full years from the date of becoming an Israeli Resident, or until the end of the 2003 tax year.

### **REDUCED TAX RATES WILL BE GRANTED IF YOU COME UNDER THE FOLLOWING QUALIFICATIONS:**

- An individual reaching the age of 60 after 1.1.2003 will qualify for the reduced tax rates upon becoming 60.
- If you are 60 as of 1.1.2003 or before this date, you will be entitled to the reduced tax rates if you qualify under one of the following categories.
  - You were at least 50 years of age at the time of first becoming a resident.
  - If a person first became a resident of Israel between the ages of 40 to 50 the reduced tax rates will apply to you if you declare before the tax authorities that the

source of the foreign securities was from assets outside of Israel that were in your possession before you made Aliya to Israel and less than 20 years has passed since you first became a resident of Israel.

<b>TYPE OF ASSET</b>	<b>REDUCED TAX RATES</b> FOR THE YEARS 2003-2005	<b>REGULAR TAX RATES</b> FOR THE YEARS 2003-2005	<b>UNIFORM TAX RATES</b> FROM THE YEAR 2006
Interest from foreign bank accounts	15%	35%	20%
Dividends from foreign securities	25%	35%	20%
Real capital gains from foreign securities	15%	35%	20%

**WAIVER ON TAXES (UPDATED 2020)  
FROM A NEW IMMIGRANT'S BUSINESS LOCATED ABROAD.**

You are entitled to an exemption from tax on income from your business located abroad for 10 years from your date of Aliya on condition that this business was yours 5 years before you made Aliya. This exemption does not apply to returning residents. According to a recent court case in tax year 2020, "Yehuda Talmi vs The ITA", a new immigrant is only entitled to exclude employment income from Israeli tax based on the number of working days that he spent outside of Israel, which is determined on a pro-rata basis.

**WAIVER ON TAXES FOR RETURNING RESIDENTS**

Returning residents (one who resided outside of Israel for three full years) have a five year exemption on income from assets outside of Israel on condition that he acquired them during his period abroad. The waiver pertains to income from interest, dividends, pensions, royalties and rent.

**WAIVER ON TAXES ON THE SALE OF AN ASSET ABROAD**

An asset owned by you before you become a resident will be exempt for a period of 10 years from the date of your becoming a resident. If the asset is sold after 10 years – you'll get a partial exemption.

**REDUCTION OF TAX ON A PENSION RECEIVED BY A NEW IMMIGRANT**

If you are eligible for a pension due to work performed in the past outside Israel, the total amount of tax due in Israel will not exceed the tax you would have paid on the pension had you remained abroad. This means that the pension income will be taxed according to the same tax rate you would have been taxed on it abroad.

**INCOME FROM SAVINGS PLANS AND DEPOSITS**

If both spouses are over 65 as of 1/1/2005 they qualify for a 6,360 shekel deduction from their taxable income in this category. If only one spouse is over 65, the deduction is 4,320 shekels. For example, if a married couple both over 65 received 10,000 shekels in interest income they will be liable to pay 15% tax on 3,640 shekels after the 6,360 shekel deduction.

**REDUCTION OF TAXES FOR LOW INCOME EARNERS  
(INCLUDING PENSION RECIPIENTS)**

If a family's total income (including their children's income under 18 and their children's bituach leumi allowance) from all sources is below 48,000 shekels during the tax year they are eligible for a deduction of 5,000 shekels from their interest income.

If a family's total income is above 48,000 shekels but less than 53,000 shekels the 5,000 shekel deduction is reduced in accordance to the income earned above 48,000 shekels.

**CHANGES PROPOSED FOR TAX YEAR 2007** – Beginning in the year 2007 you will be able to offset losses from foreign securities against capital gains from Israeli securities and the other way around. In addition, it's proposed to allow offsetting capital losses against dividends and interest income from securities.