

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



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

LEGAL WAYS TO MAKE MONEY IN ISRAEL WITHOUT PAYING TAXES

Many newcomers to Israel and veteran olim from western countries are now facing the reality of paying additional taxes on income earned abroad in addition to the heavy taxes we've gotten used to paying on earned income in Israel. However, you may be surprised to know that there are a couple of tax shelters in real estate which are usually taken advantage of by the upper class and established old timers.

1. During the tax years 2006 and 2007, an individual will be exempt from taxes on the first 3,700 shekels per month of rental income from residential properties. The income may be spread over as many apartments as one owns. If a person's rental income exceeds 3,700 shekels per month he may apply at his local income tax office for a reduced tax rate of 10% on the amount above 3,700 shekels (without deducting any expenses) on condition that he pays the 10% tax within 30 days of receiving the rental income. Upon selling the apartment the owner is allowed to deduct depreciation. The 3,700 shekel tax exemption will expire on Jan. 1, 2008.
2. If an individual has more than one apartment – he has the option to sell one every four years without paying capital gains on the sale regardless if he lived in it or not, as long as the apartment was used for residential purposes – not necessarily by the owner before the sale.

An addition to the regular tax waiver applies to a person that inherits an apartment on condition that the apartment was the sole one owned by the testator.

A once in a life time exception allows an individual to sell two apartments in order to buy a third apartment without paying taxes on the first two if he meets the following conditions:

- a. The seller is an Israeli resident.
- b. The first apartment qualifies for tax exemption as mentioned above.
- c. The second apartment is sold within twelve months of the first.
- d. The value of the two apartments does not exceed 1,522,000 Shekels.
- e. If the selling price of the two apartments is above 1,522,000 Shekels, but does not exceed 2,537,000 – the seller only pays capital gains on the difference between the two amounts which could fall between 2,537,000 less 1,522,000.*
- f. The third apartment must be acquired within a year before or after the sale of the second apartment, and must cost at least $\frac{3}{4}$ of the selling price of the first two apartments.

* These figures were in effect in the year 2002 and have been somewhat adjusted since then.