



Israel Tax Briefing Inbound

2021

Contents

Residential status	03
Employment income	05
Foreign Expert special tax regime	06
Illustrative list- Heads of Income	07
RSU Award granted while working for an Israeli Employer	08
RSU Award granted while working for a non-Israeli Employer	09
Modes of tax payment	10
Income tax rates for individuals	11
National insurance and Health tax rates for Israeli residents	12
National insurance tax rates for non-Israeli residents	13
Employee Obligation	15
Compliance Actions, Tax Return & Payment Timeline	17

Residential status, background

- Israeli Tax Year is from 1 January to 31 December.
- Residential status is required to determine the scope of taxation in Israel and is based on the “center of life” test and the physical presence of the individual in Israel (“days test”).
- It should be noted that the below criteria are currently at the examination of the Israeli Government and will probably changed in the new future.



Residential status

Main criteria for Individual to be regarded as an Israeli Tax Resident (IL-R)

1. The rule to determine an individual as an Israeli tax residency is “center of vital life”. In accordance with the Israeli Tax Ordinance (the "ITO"), in determining the individual’s center of vital life, the individual’s family ties, and economic and social contacts shall be taken into consideration, including:

- The location of such individual’s permanent home;
- The place of residence of the individual and his family;
- The place of the individual’s regular or permanent place of employment or the place where he is employed;
- The place of the individual’s active and substantive economic interests (i.e., assets and investments);
- The place where such individual is active in organizations, societies and various institutions.
- The above list of parameters are not a close list and may be changed upon Israeli tax authorities' disclosure.

2. Two technical "days" tests determined that an individual shall be presumed to have his vital center of interests in Israel in such tax year if:

- He has been present in Israel during the certain tax year for 183 days or more; or
 - He has been present in Israel during the certain tax year for 30 days or more, and a total of 425 days or more during such tax year and the two previous tax years (on aggregate)
- For that matter a "day" is considered as any part of the day

The above "days" tests are presumptive only and may be overridden based on the location of the individual's “center of life”.

Employment income

Section 2 of the ITO determines that an Israeli Resident is taxable on his/her worldwide income, and a non-Israeli resident is subject to income tax on income which is performed or sourced in Israel.

Section 4A of the ITO provides sourcing rules to determine when income will be regarded as being from an Israeli source. These rules provide that, in the case of employment income, the income is regarded as being sourced at the place where the related work is performed. Thus:



Remuneration is taxable in Israel if services are rendered in Israel irrespective of the residential status.



Remuneration is not taxable in Israel for foreign resident if services are rendered out of Israel and regarded as sourced out of Israel.



Relief in accordance with domestic tax laws granted for duration of 12 months of stay in Israel to “Foreign Experts” (see following in detail).

"Foreign Expert" special tax regime

"Foreign Expert" special tax regime

A Foreign Resident(F-R) that fulfil the conditions for "Foreign Expert" status entitled to the following deductions from his Israeli sourced income for a period not exceeding twelve months of employment in Israel:

- A. Documented accommodation costs;
- B. An amount paid for daily living allowance for each day actually present in Israel. The amount of the living allowance is up to NIS 330 daily (amounts in affect for the 2021 tax year);

In order to qualify as a "Foreign Expert" employee must meet all following conditions:

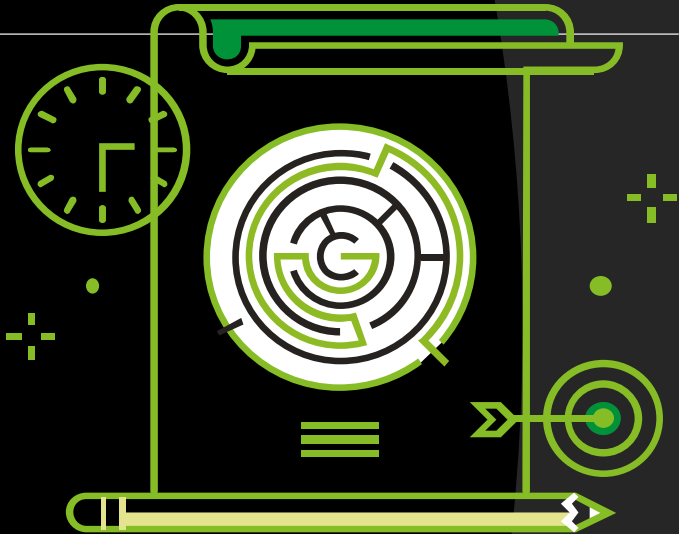
- A. The employee must reside/work in Israel legally (i.e., with a work permit issued by the Ministry of the Interior);
- B. The employee invited to work in Israel by an Israeli resident entity, which is not a manpower company or temporary agency, to perform duties for the inviting Israeli entity, in his area of expertise;
- C. The employee perform his duties in the area of his expertise, for which he was invited to Israel, for the entire period of his stay and not perform some other duties; and
- D. The employee earn more than NIS 13,300 monthly (amounts in affect for the 2021 tax year - this amount could be adjusted in subsequent years) for performance of the services in Israel, and from which Israeli taxes are withheld at source, in accordance with prevailing laws.

Double Taxation Avoidance Agreement (DTAA) Perspective

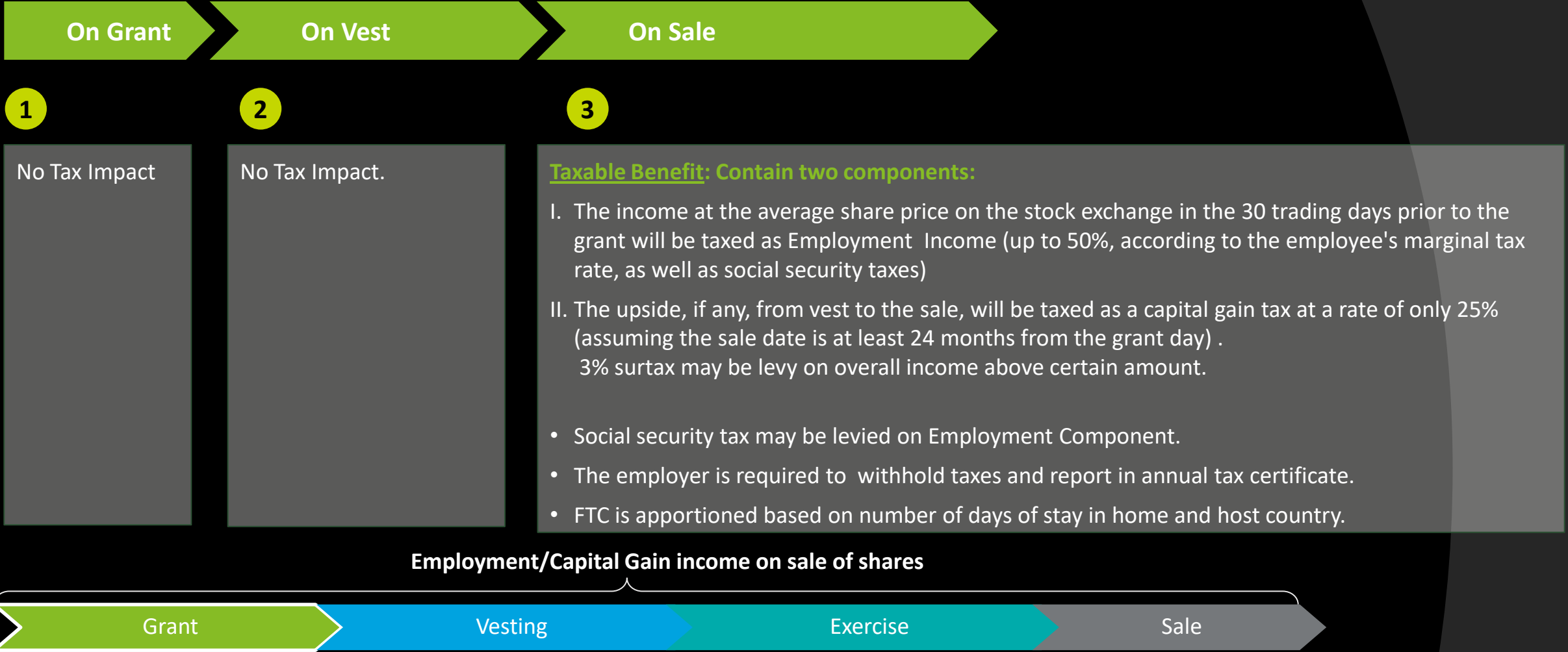
If the income is subject to tax in home country as well as host country, relief can be claimed for double taxation based on Double Taxation Avoidance Agreement.

Illustrative list - Heads of Income

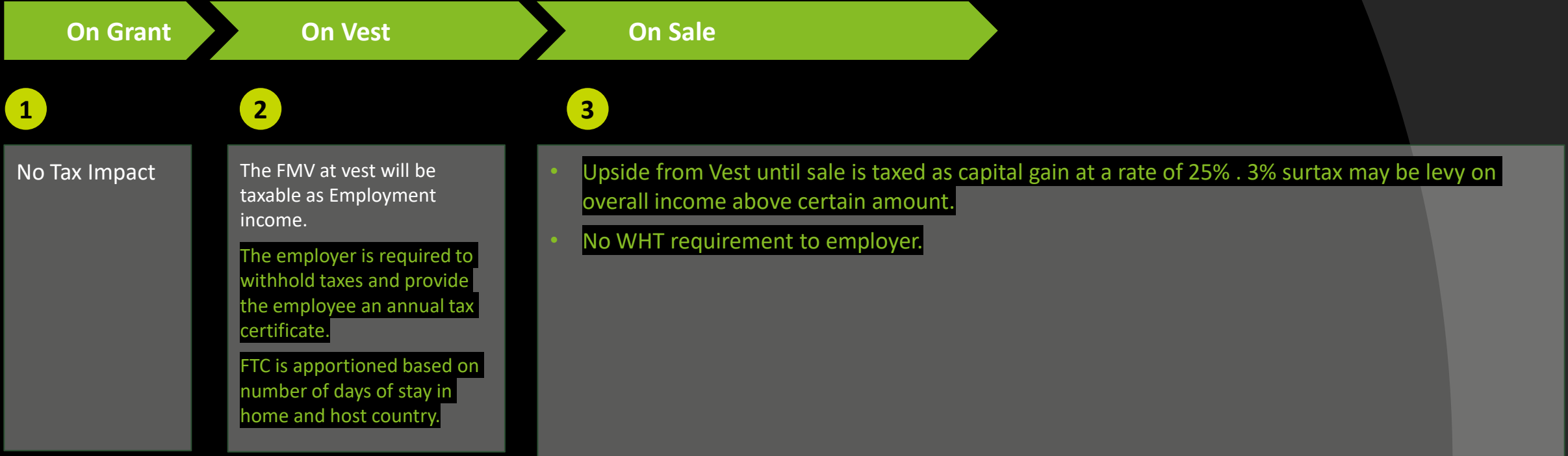
Heads of Income	Illustrative List of Income
Salaries	Salary and allowance and benefits in cash/kind provided by employer.
Income from House Property	Rental income from Private House Property in Israel
Capital Gains	Profit/loss on sale of shares, mutual funds, properties etc.
Income from other sources	Interest on fixed deposit, dividend etc.



RSU Award granted while working for an Israeli Employer subject to Section 102 - Capital Gain with a Trustee track



RSU Award granted while working for a non-Israeli Employer subject to Section 3(i) – Employment Income



Allotments post arrival to Israel -Employment income on sale of shares. Work Component according to share price at closing



Allotments prior to arrival to Israel- grant to vest:
IL-R: Work income on the vesting of shares according share price at vest.
FTC/exempt may apply on vesting abroad according to specific circumstances.

Allotments prior to arrival to Israel- vest to sale:
IL-R: Capital gain on the sale of shares according to share price at sale. In certain conditions an exemption may apply. F-R exempt from capital gain.

Modes of tax payment

Withholding Tax

- Tax to be withheld on the salary and benefits provided by the employer.
- Annual certificate to be issued by the employer for salary and benefits.
- The trustee will withhold tax on sale of shares under section 102.
- Another common example for tax withholding could be made by bankers on income and capital gains at the financial markets.

Advance Tax

- Advance tax payable on rent income for apartments in Israel at the rate 10% until 31 January following year.
- In case the rent under certain rate (under monthly sum of NIS5,070 -in 2021) its is exempt from tax.
- Additional way to pay tax on rent is by declaring the income in the tax return as fully taxable and deduct taxable expenses.

Self assessment Tax payable at the time of filing tax returns

Income tax rates for individuals the period 1 January 2021 to 31 December 2021*

Slab of annual income (NIS)	Tax rate	Slab of monthly income (NIS)	Tax rate
Up to 75,480	10%	Up to 6,290	10%
75,481 to 108,360	14%	6,291 to 9,030	14%
108,361 to 173,880	20%	9,031 to 14,490	20%
173,881 to 241,680	31%	14,491 to 20,140	31%
241,681 to 502,920	35%	20,141 to 41,910	35%
502,921 to 647,640	47%	41,911 to 53,970	47%
Above 647,640	50%	Above 53,970	50%

*Information subject to change

National insurance and Health tax rates for Israeli residents - the period 1 January 2021 to 31 December 2021*

Annual

Slab of annual income (NIS)	% rate	Slab of annual income (NIS)	% rate
Employee		Employer	
0-75,972	3.5%	0-75,972	3.55%
75,972-528,240	12%	75,972-528,240	7.6%

Monthly

Slab of monthly income (NIS)	% rate	Slab of monthly income (NIS)	% rate
Employee		Employer	
0-6,331	3.5%	0-6,331	3.55%
6,331-44,020	12%	6,331-44,020	7.6%

*Information subject to change

National insurance tax rates for non-Israeli residents, from country with an agreement - the period 1 January 2021 to 31 December 2021*

Annual

Slab of annual income (NIS)	% rate	Slab of annual income (NIS)	% rate
Employee		Employer	
0-75,972	0.40%	0-75,972	3.55%
75,972-528,240	7%	75,972-528,240	7.6%

Monthly

Slab of monthly income (NIS)	% rate	Slab of monthly income (NIS)	% rate
Employee		Employer	
0-6,331	0.40%	0-6,331	3.55%
6,331-44,020	7%	6,331-44,020	7.6%

*Information subject to change

National insurance tax rates for non-Israeli residents, from country without agreement (US)- the period 1 January 2021 to 31 December 2021*

Annual

Slab of annual income (NIS)	% rate	Slab of annual income (NIS)	% rate
Employee		Employer	
0-75,972	0.04%	0-75,972	0.59%
75,972-528,240	0.87%	75,972-528,240	2.65%

Monthly

Slab of monthly income (NIS)	% rate	Slab of monthly income (NIS)	% rate
Employee		Employer	
0-6,331	0.04%	0-6,331	0.59%
6,331-44,020	0.87%	6,331-44,020	2.65%

*Information subject to change

Employee Obligation : Filing of tax return

Due date to file the tax return is 30 April the following year unless extension provided

Who is required to file tax return?

- Mandatory to file income tax return, where the total income exceeds the basic exemption limit; (i.e., ILS 649,000 for tax year 2020) .
- An Israeli Resident having foreign assets above certain amount (the amount of NIS1,872,000- for 2020).
- Deposits in foreign banks more than certain amount (NIS1,872,000- for 2020).

What are the consequences of non-filing?

- Non filing of the tax return / delayed filing attracts a penalties(mainly civil).
- Main fines for delay in filing the annual tax return:
 - 4% annual Interest and linkage from the end of the applicable tax year.
 - Monthly fine of NIS 510 for each month of delay.
 - Other fines at the discretion of the tax authorities.

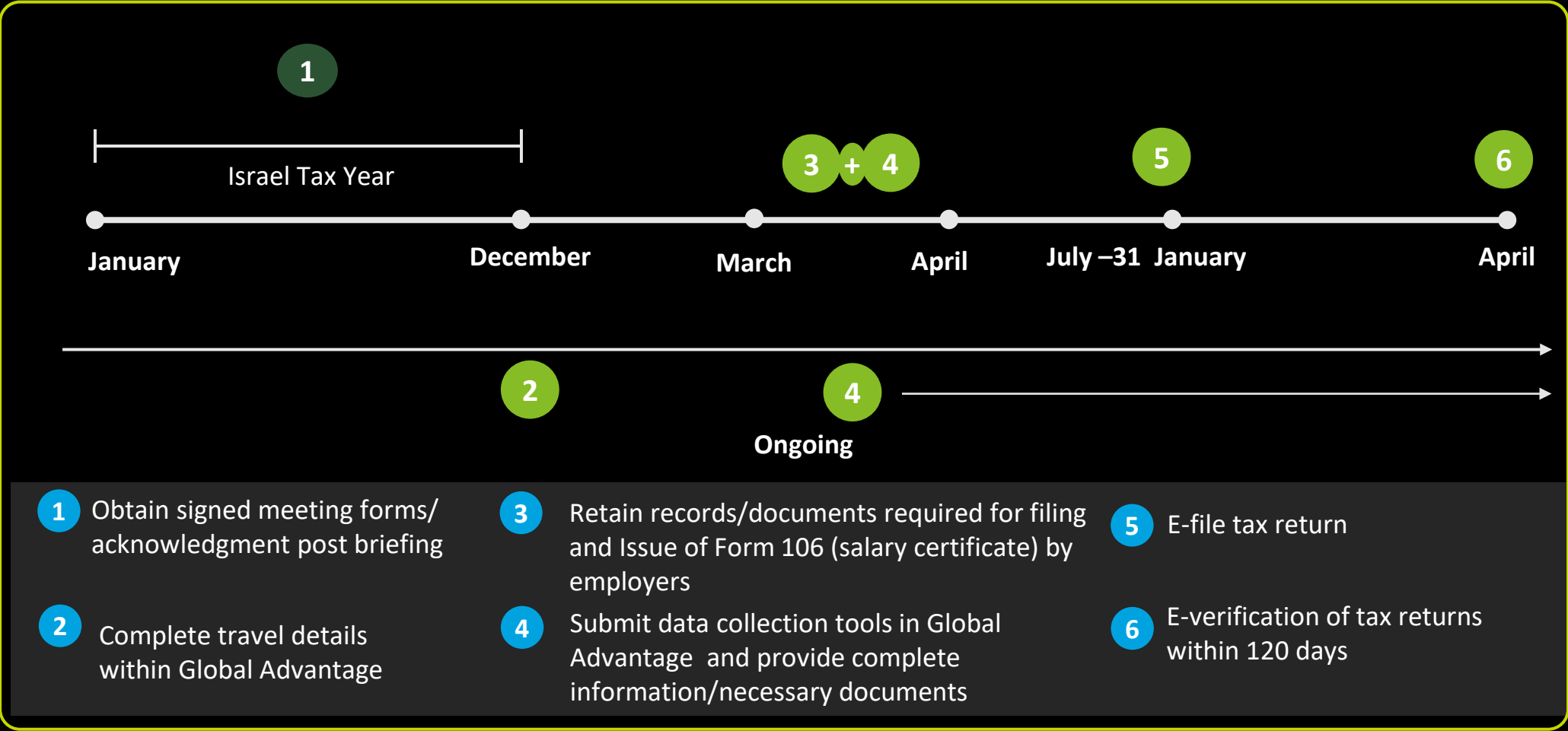
List of Documents to be retained for Tax return filing*

List of Documents

- Copy of Form 106/foreign annual summery reports received from Employer for the relevant Financial year;
- Rental agreement;
- Meal's documentation (restaurants etc.)
- Investment proofs - Life Insurance & Medical Insurance Premium;
- Certificate from Israeli Bank - form 867;
- Bank Statements from abroad- For details with respect to savings interest earned/any other income received;
- Capital Gains - Statement from the Brokerage house;
- Let-out property - Municipal taxes, electricity, water, house committee etc.;
- Donations receipts;

* Kindly note that the above list of documents are illustrative in nature

Compliance Actions, Tax Return & Payment Timeline



www.deloitte.co.il

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Israel & Co. is a firm in Deloitte Global Network. Deloitte Israel Group a leading professional services firms, providing a wide range of world-class audit, tax, consulting, financial advisory and trust services. The firm serves domestic and international clients, public institutions and promising fast-growth companies whose shares are traded on the Israeli, US, European and foreign capital markets.

© 2021 Deloitte Israel & Co.