



# Israel

## Summary

In 2007 Israel extended their favourable tax rules for returning citizens and new residents. This regime essentially enables all foreign source income and gains received in the first 10 years to be exempt from Israeli tax.

In order to obtain immigration status in Israel there has to be some linear relation who is Jewish, however the family members who are admitted with the individual attract the tax benefits, regardless of race or religion.

In addition, as Jews returning to Israel are likely to stay permanently in the country, domicile in the UK can be shed. This brings with it the ability to pay no inheritance tax on death.

There are many more benefits, other than tax benefits under this system, which include help and assistance on:

- The tax system
- Promoting an existing business
- Establishing a new business

## Tax residency

Israeli tax residency is given to individuals whose centre of life is in Israel. This is an objective test and looks at the individual's family, and his/her economic and social ties. Such matters evaluated include the location of:

- The permanent home
- Where their family reside

- Employment, or place of work
- Economic interests
- Social interests

The courts also established a subjective test of where the individual sees his centre of life.

It is assumed that the centre of life is in Israel if the individual is:

- present for 183 days or more per annum in Israel, or
- spent more than 30 days in Israel in the year but spent more than 425 days in Israel including this tax year and the preceding two.

## Tax treatment

Beneficial tax treatment applies to returning or new residents of Israel under Aliyah for a period of 10 years. This was extended to cover foreign income or gains generated from foreign sited assets, regardless of when they were acquired.

### Income tax

Income that arises outside of Israel, is exempt for 10 years.

Active income:

- Salary/business income earned whilst physical outside Israel

Passive income:

- Dividends
- Royalty
- Interest
- Rental income
- Pension

Israeli income is not exempt but attracts certain tax credits for 3.5 years.

### Capital gains tax

The gain that an individual makes on the disposal of a foreign asset within the first 10 years is exempt from capital gains tax, regardless of when the asset was acquired.

If an asset is sold outside of the 10-year period, an individual will be liable to capital gains tax but a partial exemption may for assets acquired before the 10-year exemption expires.

### Rates after 10 years

Once the exemption period is over, the normal Israeli tax rates apply. The rates are progressive and are set out below:

- Income tax is generally from 10% - 47%
- Passive income from securities is generally taxed at rate between 25% - 33% with special rates for rental income.
- A 3% surcharge to income tax arises on very high levels of income
- Capital gains is taxed 25% - 50%
- National insurance applies even to some passive income

### Inheritance and gift tax

There are no gift taxes on gifts that are passed to Israeli residents. However, gifts (other than cash) to foreign residents, and the sale of assets that have been acquired by way of gift or inheritance will be subject to capital gains tax of between 25-50%.

In Israel there is no inheritance tax. However, if an individual remains UK domiciled because he/she has not decided to stay in Israel permanently, he/she will remain liable to UK inheritance tax on their worldwide assets. To be able to avoid inheritance tax on the assets held at death will require a change of domicile to Israel.

To discuss how we can help, please contact:



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