

# Living and Working in Israel

Living and working in Israel for non residents can be a unique experience. A western culture, side by side with oriental eastern culture, Modern state side by side with many famous historical places, religious sites for all three monotheists religious and a fast, strong and modernised economy.

Unique as it is, any person who comes to Israel to work and not to travel must be concern of tax issues. Israel's taxes should be a major factor in calculation of profitability and a proper planning and preparations can resolve many taxes and future debates.

## I. Israel tax system

The Israeli tax system is based on both, territorial system and personal system. According to the territorial system the state of Israel taxes incomes that were produced in the state territory regardless who produced it. According to the personal system the state of Israel taxes its residents regardless of where their incomes were produced. Shortly, Israel taxes residents and non-residents on incomes that were produced in its territory and only residents when it comes to incomes that were produced elsewhere.

## II. I am working in Israel, am I a resident?

Unfortunately, the line that separate between residency and non residency is thin and any case should be dealt and answered separately.

The term "resident" is defined in Israel Tax Ordinance. An Israeli resident is an individual who is centre of life is in Israel. In order to establish where the individual's centre of life is, the individual's family, economic and social ties should be measured and evaluated. According to the Ordinance this ties can be found in the following:

The Location of the individual's permanent home;

The Location of the individual's actual home and that of his family;

The fixed Location of the individual's business or work;

The location of the individual's economic interests;

The Location of the individual's activity in organisations, associations and institutions.

As if not complicated enough the court in several rulings established another test which is the "subjective test", meaning where the individual himself sees his centre of life.

Another test is the 183 days test. If an individual stayed in Israel for a period of 183 days or more he is considered an Israeli resident but the individual is entitled to contradict the test by proving his centre of live is elsewhere.

### **III. What exactly is the deference between a resident and a foreigner?**

Major differences are as follow:

- A. A resident liable on its incomes world wide, while a non resident is liable only on incomes he or she produced in Israel. For example, if a non resident have a deposit in a bank account in Australia and the deposit earn him interest the interest is not liable to tax while if it was a resident's deposit the interest was subject to tax.
- B. A resident is entitled to several tax credits which a non resident is not.
- C. A few tax benefits (see in chapter VI) are preserved for non residents only.

### **IV. What about taxes I paid or liable to in my home country?**

In the absence of a tax treaty Israel will ignore any such problem and tax the income fully according to its rules.

### **V. Can I work in Israel but receive the money after I am long gone**

Apart from the fact that this is illegal, Israel imposes a strict deduction at source rules. According to these rules any person who pays to a non resident should deduct from the payment the correct amount of taxes as the law orders him. In case the payer fail to do so, he is liable to pay the taxes as if they were his own. Furthermore, the Israeli

banks will refuse to cooperate with such payments abroad without the proper approval from a Tax Assessing officer.

## **VI. Tax benefits for foreigners**

### **A. A foreign lecturer and a foreign expert**

A foreign lecturer and a foreign expert are entitled to deduct from their liable income several staying expenses. A foreign lecturer is a foreign professor or a foreign teacher that was invited to Israel for a lecture or research and receives income from a high education institute. A foreign expert is a foreign resident that was invited to Israel by an Israeli resident, he work in his Israel in his unique expertise and he received at least 10,800 NIS (approximately \$2500 or €1900) per month of work.

Deductible staying expenses are rent of an apartment or other sleeping arrangements and meals expenses. All expenses are deductible for a limited period of time and meals expenses are also limited to a certain amount.

### **B. A foreign journalist**

A foreign journalist is permitted to deduct from his income the same expenses as foreign professors and experts. Furthermore, the tax rates on a foreign journalist will be 25% and not the regular tax rates. This benefit is for a limited period.

### **C. A foreign professional athlete**

A professional athlete is treated in the same way as a foreign journalist.

## **VI. Reports duties**

A foreign individual who has income in Israel is liable to file a tax report annually. The tax report should be delivered to the local tax assessing officer until the 30<sup>th</sup> of April the following year. In certain terms are fulfilled the individual can be exempt from reports duties.

Every corporation has to file a tax report annually. No exemptions are available.

## VII. Residents of Tax Treaty Countries

When a tax treaty is in force, the instructions of that treaty usually overcome the internal rules. Usually a treaty country will not be allowed to tax incomes from personal services given by an individual resident of the other country unless he or she stayed for a substantial period of time. For example, if the individual is a resident of the United State, incomes he produces in Israel from personal services as a self-employed person are not taxable in Israel. Notwithstanding, if that individual stayed in Israel for a period of 183 days or more during a tax year then his income becomes taxable in Israel. If the self-employed person is a UK resident his income will be taxable in Israel only if he has a Permanent Establishment in Israel regardless of his period of staying. If he is a resident of France then his income will be taxable either by the 183 days test or by the regular base test.

Salaried employee working in Israel can usually be taxed on both countries and Israel will be forbidden to tax only if several conditions are met. For example if the salaried employee is a resident of the UK then his salary will not be taxable in Israel only if he stayed in Israel for a period of less then 183 days during the tax year **and** the salary is paid by an employer who is not resident of Israel **and** the salary is not deducted from the profits of a Permanent Establishment operates in Israel.

Of course every tax treaty has its own instructions and even the examples brought above have exceptions.

## VIII. Conclusions

Living and working in Israel can be a unique experience and of course a profitable one. Nevertheless, tax issues can make a significant change in profitability and only proper preparations can solve many of them. Isn't it a shame to find out that if you had taken a flight home a day earlier, 49% tax could have been avoided?

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