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PRIVATE CLIENT

Private client law in Israel: overview

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TAXATION

Tax year and payment dates

1. When does the official tax year start and finish in your jurisdiction and what are the tax payment dates/deadlines?

In general, the tax year for all taxpayers is a twelve-month period that commences on 1 January and ends on 31 December each year (unless certain conditions are met). The filing deadline of tax returns is 31 May for individuals filing returns online and 30 April for other individuals. Extensions for filing can be requested from the Income Tax Authority (ITA).

Domicile and residence

2. What concepts determine tax liability in your jurisdiction (for example, domicile and residence)? In what context(s) are they relevant and how do they impact on a taxpayer?

Israeli resident individuals are subject to income tax on their worldwide taxable income. Non-residents are subject to tax only on income derived from an Israeli source. The taxable income can be modified by the terms of double tax treaties between Israel and other countries.

An individual is considered an Israeli resident for income tax purposes if the "centre of his life" is in Israel (*see below, Centre of life test*). In addition, Israeli law provides two presumptions (the "days test") according to which, an individual is presumed to be an Israeli resident if he stays in Israel for a specific number of days (*see below, Residency test*).

Centre of life test

Israeli case law lists a number of criteria that are used to determine the individual's centre of life:

- The place of the individual's permanent house.
- The place in which the individual and his family live.
- The individual's regular or permanent place of business or his permanent place of employment.
- The individual's place of vital and active economic interests.
- The place in which the individual is active with regard to various organisations, unions or institutes.

However, the above criteria should not be considered as being definitive.

The centre of life test is a "facts and circumstances" test and no "bright line" test is available. The case law concerning this issue sets out two aspects of the centre of life test:

- The first examines the objective nexus of the individual to Israel.
- The second examines the subjective intention of the individual to locate his centre of life in Israel.

Residency presumption

Israeli law creates a presumption (residency presumption) according to which an individual is considered an Israeli resident if the individual stays in Israel for the relevant tax year for:

- 183 days or more.
- 30 days or more, and 425 days or more during that tax year and the preceding two years.

The residency presumption is solely a presumption and as such, can be rebutted by both the Israeli tax authority and the taxpayer based on the centre of life test.

Taxation on exit

3. Does your jurisdiction impose any tax when a person leaves (for example, an exit tax)? Are there any other consequences of leaving (particularly with regard to individuals domiciled in your jurisdiction)?

The Israeli Income Tax Ordinance (Ordinance) imposes an exit tax on individuals who have ceased to be Israeli residents. Under section 100A of the Ordinance, the assets of an individual who was an Israeli resident and has ceased to be an Israeli resident are deemed to have been sold one day prior to his cessation of residency. An individual who leaves Israel has two alternatives regarding the payment of the tax due on the deemed sale of its assets to pay the:

- Tax due on the deemed sale when he leaves Israel.
- Applicable taxes only when he sells the asset. In such a case, capital gains are apportioned on a linear basis and only the part of the capital gain which was accrued from the date the asset was purchased until the exit date, is subject to tax in Israel.

Temporary residents

4. Does your jurisdiction have any particular tax rules affecting temporary residents?

Israel has no tax rules that affect temporary residents.

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