

Israel Tax Knowledgebase

Employee personal income tax

Tax residence

Under the Israeli Tax Ordinance (ITO), a person is considered an Israeli resident if their “centre of life” is in Israel. This is determined based on various personal and economic ties.

There are two rebuttable presumptions of residency:

- Presence in Israel for 183 days or more in a tax year;
- Presence for 30+ days in a tax year and 425+ days over that year and the two preceding years combined.

These day-count tests are only indicators – the main criterion remains the centre of life test. A person may still be considered a resident even if the day-count thresholds aren’t met.

If an individual is also a resident of another country, tax residency is resolved through tie-breaker rules in applicable tax treaties, which consider factors such as permanent home, centre of vital interests, and nationality.

A person is deemed a foreign tax resident if they:

- Spent at least 183 days outside Israel in two consecutive years; and
- Did not have their centre of life in Israel during the following two years.

New immigrants and returning residents (those who have been abroad for 10 years or more) are granted a one-year “acclimation period” during which they may elect not to be treated as Israeli tax residents. This election must be made within 90 days of arrival and is subject to specific rules.

Conditions for the obligation to file the PIT

Israeli tax residents are taxable on their worldwide income.

Non-resident individuals are subject to income tax on Israeli-source income and to capital gains tax on capital gains from assets situated in Israel.

Who must submit the annual tax report?

- Holders of an income tax file in the relevant tax year;
- Individuals who operate and own an independent business (not a company);

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- Salary recipients who are required to submit an annual tax report for various reasons, such as those with high salary income;
- Those with income from one of the following sources: work, business, controlling shareholders in the company, or a professional occupation;
- Individuals who request a tax refund and have an income tax file (they have previously submitted an annual tax report) or are required to submit an annual tax report for various reasons.

A married couple living together may opt for separate tax assessment in certain circumstances; otherwise, they may file jointly.

Tax report in question (Form name)

- Form 1301 - Annual tax reports for individuals and non-corporate business owners;
- Form 1320 - Profit and loss declaration for independent business owners;
- Form 1321 - Calculation of non-business taxable income (interest, dividend);
- Form 1327 - Report on income in Israel and abroad in the tax year - Report for a trustee;
- Form 1322 - Capital gains from marketable securities (traded on the stock exchange);
- Form 1324 - Income from outside Israel (Abroad);
- Form 1348 - Declaration of residency;
- Form 1385 - Statement of international transactions

Tax year

A tax year for individuals is a calendar year.

Tax rates

Individual income tax rate:

- Up to ILS 84,120 - 10%;
- ILS 84,121 - ILS 120,720 - 14%;
- ILS 120,721 - ILS 193,800 - 20%;
- ILS 193,801 - ILS 269,280 - 31%;
- ILS 269,281 - ILS 560,280 - 35%;
- ILS 560,281 - ILS 721,560 - 47%;
- Over ILS 721,560 - 47% (50% including surtax).

Tax returns and payment of tax

Subject to certain exceptions, an individual who is a resident of Israel is required to file an annual tax return. Should a tax return be required, 30 April is the prescribed filing due date, subject to extensions.

A resident taxpayer may not be required to file a tax return for 2025 where tax is withheld at source from one's wages and at the prescribed levels from other specified sources (e.g. rent, dividends, interest, and capital gains) unless one of the following exceptions apply, in which case the individual would be required to file a tax return (detailed rules apply; certain further exceptions may also be applicable):

- Wages exceeded ILS 723,000;
- The taxpayer or spouse are subject to the 3% surtax in 2025 (income exceeded ILS 721,560);
- Any of the following categories of income exceeded ILS 375,000:
 - 1) Rental income;
 - 2) Foreign income;
 - 3) Non-exempt foreign pension income;
 - 4) Certain other income (detailed definitional rules apply).
 - Income from the sale of traded securities (turnover) exceeded ILS 2,810,000;
 - Interest income exceeded ILS 717,000;
 - The taxpayer, together with one's spouse and children under age 18 at any time during the year, owned:
 - 1) shares of a foreign non-publicly traded company, foreign assets having a value of at least ILS 2,086,000, or
 - 2) deposits with a foreign banking institution of ILS 2,086,000 or more.
 - The taxpayer is the settlor or beneficiary of a trust during the tax year.
 - The taxpayer received a distribution (direct or indirect) from a trust or from the creation of a trust, in the form of an amount exceeding ILS 100,000 (in cash or its equivalent), even if not subject to tax in Israel.

These amounts are periodically updated.

Married couples are permitted to file separate or joint returns. In the latter case, a separate calculation may still be obtained for tax on income from personal exertion in any business or vocation or from employment, provided the income is from independent sources.

A non-Israeli tax resident employee will generally not be required to file an Israeli income tax return for 2025 if proper withholdings were remitted to the tax authorities, the employee's 2025 annual income did not exceed ILS 721,560, and the employee had no other Israeli-source income.

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Tax advances are required to be paid by an individual for interest, dividends, capital gains, and rental income in amounts and according to specific deadlines set out in detailed Israeli tax rules. Self-employed individuals are generally required to make monthly or bimonthly advance tax payments, usually based on a percentage of turnover (usually the prior year's turnover).

Personal deductions (salary)

Employees are entitled to relatively few deductions. However, subsistence expenses, if required to travel out of town or abroad, may be deducted in accordance with detailed rules.

Contributions to an approved provident fund and a training fund are deductible up to predetermined limits for the self-employed and certain employees.

Tax credits and deductions are available for certain payments related to life insurance premiums and contributions to provident and pension funds.

Self-employed individuals are subject to special rules for determining the deductibility of expenditure on the maintenance of private and small commercial vehicles, as well as other expenditures, such as telephone costs, when the business is conducted from the taxpayer's house.

Tax allowances

In Israel, generally, all fringe benefits are taxable. The only exception is related to the one-time performance bonuses, which may be excluded if stated in the employment agreement.

Additional tax reliefs (not mentioned above)

In Israel, there are no additional tax reliefs.

How to submit the tax return

The tax return can be filed in three ways:

1. Online - for 2019 reports and later: After entering the reporting system, the taxpayer should select the option "Submit an annual report for individuals" and complete the online form, attaching the relevant required documents as necessary. The taxpayer should make sure that the report submission is completed after transmission by obtaining an online submission confirmation.

2. Combined submission: online and in-person: After entering the reporting system, the taxpayer should select "Submit an annual report for individuals". The second step is to complete the online form, print and sign it, and attach the required documents. The taxpayer then submits 2 copies of the report, together with the required attachments and certifications, to one of the income tax assessment offices, and they will receive a submission attestation on the copy of the report.

3. In-person submission: for individuals who, by law, can submit the report offline (manually), can:

- Print the annual tax return form (1301), fill in all details and sign it;
- Attach all required attachments and documents;
- Submit 2 copies of the signed report form, including the attachments and the documents, to one of the income tax assessor offices and receive a submission attestation of the copy of the report.

Others

As of 2025, the portion of an individual's taxable annual income from capital sources (e.g. capital gains, real estate appreciation, dividends, interest, CPI linkage differentials, rental income, passive royalties) exceeding a certain threshold (ILS 721,560 in 2025) is subject to an additional surtax of 2%. This is in addition to 3% surtax on an individual's annual taxable income from all sources exceeding a certain threshold (ILS 721,560 in 2025).

Israel imposes an additional 3% on personal income at the highest marginal rate (which increases the highest tax marginal rate from 47% to 50%). A luxury tax is also imposed on the purchase of certain yachts and luxury cars.

Israel imposes excise taxes on a variety of goods (e.g. gasoline and diesel fuel used for transportation, tobacco, and alcohol). Excise taxes are levied item by item, and the rates vary.

Employee taxation of income (int, div, royalties)

Interest income: Tax rates

Interest income shall generally be subject to tax at a rate of 25%.

Interest from investments in financial institutions or in traded securities that are not linked to the CPI may be eligible for a 15% rate.

For a non-resident, the tax rate may be reduced under an applicable tax treaty.

Interest paid to a non-resident from deposits of foreign currency with an Israeli bank is exempt from tax, subject to certain conditions.

To promote foreign investment in the Israeli corporate bonds market, an exemption from tax is provided for interest income received by foreign investors on or after January 1, 2009, on their commercial investments in Israeli corporate bonds traded on the Tel Aviv Stock Exchange (TASE), subject to certain conditions.

As of 2025, the portion of an individual's taxable annual income from capital sources (e.g. capital gains, real estate appreciation, dividends, interest, CPI linkage differentials, rental income, passive royalties) exceeding a certain threshold (ILS 721,560 in 2025) is subject to an additional surtax of 2%. This is in addition to 3% surtax on an individual's annual taxable income from all sources exceeding a certain threshold (ILS 721,560 in 2025).

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Dividend income: Tax rates

Dividends shall generally be subject to tax at the rate of 25% (or 30% in the case of a 10% or more shareholder).

For a non-resident, the tax rate may be reduced by an applicable tax treaty.

A rate of 15% to 20% generally applies to dividends distributed from certain enterprises qualifying under The Law for the Encouragement of Capital Investments. A lower rate may be available for non-residents for distributions from certain types of qualifying enterprises, as well as under a relevant tax treaty.

Under the controlled foreign corporation (CFC) regime in Israeli tax law, an Israeli individual may be taxed on a proportion of the undistributed profits of certain Israeli-controlled non-resident companies in which the Israeli shareholder has a controlling interest (10% or more of any of the CFC's 'means of control'). A CFC is a company to which a number of cumulative conditions apply. These include the fact that most of its income or profits in the tax year derive from passive sources (e.g., capital gains, interest, rental, dividends, royalties), and such passive income has been subject to an effective tax rate that does not exceed 15%.

As of 2025, the portion of an individual's taxable annual income from capital sources (e.g. capital gains, real estate appreciation, dividends, interest, CPI linkage differentials, rental

income, passive royalties) exceeding a certain threshold (ILS 721,560 in 2025) is subject to an additional surtax of 2%. This is in addition to 3% surtax on an individual's annual taxable income from all sources exceeding a certain threshold (ILS 721,560 in 2025).

Capital gains: Tax rates

A tax on capital gains is imposed on the disposal of fixed and intangible assets when the disposal price exceeds the depreciated cost. Capital gains tax is generally payable on capital gains by residents of Israel on the sale of assets (irrespective of the location of the assets) and by non-residents on the sale of the following:

1. Assets located in Israel;
2. Assets located abroad that are essentially a direct or indirect right to an asset or to inventory, or that are an indirect right to a real estate right or to an asset in a real estate association located in Israel. Taxation applies only in respect of that part of the consideration that stems from the above property located in Israel;
3. Assets that are a share or the right to a share in an Israeli entity;
4. Assets that are a right in a foreign resident entity that is essentially a direct or indirect right to property located in Israel. Taxation applies only with respect to that part of the consideration that stems from the property located in Israel.

The cashless transfer of rights and assets arising from certain mergers, spin-offs, and asset transfers may be exempt from tax if certain requirements are met.

Special provisions apply to part of the real gain that is attributed to the seller's share of retained profits in the case of a sale of:

- 1) non-traded shares that were acquired prior to 1 January 2003; or
- 2) publicly traded shares where the seller was a shareholder with a 10% or greater stake.

The share of 'retained profits' is the amount of gain equal to the proportional part of the retained profits of the company that the seller of the shares would have rights to by virtue of those shares. Detailed rules govern the determination of this profit component.

The portion of the retained profits attributed to the period ending December 31, 2002, will be subject to tax at a reduced rate of 10%. Generally, the seller's proportionate part of the company's retained profits will be taxed as if this amount had been received as dividends immediately before the sale (e.g. at a tax rate of 25% or at a tax rate of 30% where the seller is a 10% or more shareholder).

Non-residents are exempt from tax on capital gains from a sale of shares of an Israeli company traded on the Israeli stock exchange or on a foreign stock exchange.

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For non-traded shares of an Israeli company acquired from 1 January 2009 and thereafter, a non-resident shall be exempt from tax on capital gains, provided that the following conditions are met:

- The investment is not in a company in which, on the date of its purchase and in the two preceding years, the main value of the assets held by the company, directly or indirectly, was sourced from an interest in:

- 1) real estate or in a real estate association (as defined in the ITO);
- 2) the use in real estate or any asset attached to land;
- 3) exploitation of natural resources in Israel; or
- 4) produce from the land in Israel.

- The investment is not in a company the majority of whose assets are real estate assets in Israel;

- The shares were not purchased from a relative.

A foreign resident may also be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty.

Royalty income: Tax rates

Royalties are usually withheld by the source.

Withholding

Withholding tax on interest: Rates

The withholding tax rates applicable to interest paid to a resident individual are as follows:

- 20% on interest paid by a provident fund (15% where the interest is derived from amounts deposited in the fund before 8 May 2000);
- 25% on bank interest (15% where the interest is payable in respect of an asset that is not index-linked);
- 35% on interest paid on debentures or government bonds issued before 8 May 2000 to a recipient who at the time of payment of the interest or at any time during the preceding 12 months held less than 10% of the shares of the payer; and
- 47% where the recipient of the interest at the time of receipt of the interest or at any time during the preceding 12 months controlled at least 10% of the payer, is an employee of the payer or provides services to or sells products to the payer.

Any other interest paid to an individual is subject to withholding tax at 25% (15% where the interest is payable in respect of an asset that is not index-linked).

The ITA may issue an exemption certificate or a reduced withholding certificate, allowing interest to be paid to resident individuals without withholding tax deduction or subject to a reduced withholding tax rate.

Interest paid to a non-resident individual is subject to withholding tax at 25% but may be reduced under an applicable tax treaty.

Withholding tax on dividends: Rates

Dividends paid to an Israeli resident individual are generally subject to withholding tax at 25%. A 30% rate applies where, at the time of receipt of the dividend or at any time during the preceding 12 months, the individual controlled at least 10% of the payer company by reference to any measure of control.

The ITA may issue an exemption certificate or a reduced withholding certificate allowing dividends to be paid to resident companies and individuals without the deduction of withholding tax or subject to a reduced withholding tax rate.

Dividends paid to a non-controlling non-resident company or individual are subject to 25% withholding tax; the rate is 30%. These rates may be reduced under an applicable tax treaty or incentive regime (such as the special tax regime for Israeli holding companies).

Dividends distributed by a preferred enterprise to a resident individual or non-resident shareholder are taxed at a 20% rate (in non-resident shareholders' case this rate may be reduced under an applicable tax treaty).

Withholding tax on capital gains: Rates

Individuals who are non-residents may be exempt from Israeli capital gains tax on gains from the sale of securities.

Withholding tax on royalties: Rates

Royalty payments made to resident individuals are subject to withholding tax at 20% where the recipient can demonstrate that it maintains books of account and has filed the necessary tax returns; otherwise, the rate is 30%. The ITA may issue an exemption certificate or a reduced withholding certificate, allowing royalties to be paid to resident individuals without withholding tax deduction or at a reduced withholding tax rate. Royalty payments to non-residents are subject to withholding tax of 25%. The rate may be reduced under an applicable tax treaty.

Fees for technical services:

Technical services fees paid to resident individuals are subject to withholding tax at 20%, provided the recipient can demonstrate that they maintain books of accounts and have filed the necessary returns. Otherwise, the tax rate is 30%. Technical services paid to non-residents are subject to withholding tax at 25%. The rate may be reduced under an applicable tax treaty. The ITA may issue an exemption certificate, allowing technical service fees to be paid to non-residents without withholding tax, where the income from the services is not taxable in Israel.

Employee tax - Special regimes to apply

Special tax regimes (if applicable)

In Israel, there are no other special tax regimes that are applicable in case of individuals or self-employed persons.

Impatriate Law (Inbound employee regulations)

"Foreign expert" status is granted to a non-resident who, while abroad, has been invited by an Israeli individual or an Israeli resident entity (excluding manpower companies and temporary agencies) to provide services in their area of expertise for the inviting party. The following conditions must be met by the "foreign expert":

1. The person must reside/work in Israel legally;
2. The person must perform duties in their area of expertise for the entire period of their stay and not perform any other duties;
3. The person must earn more than ILS 14,800 monthly for the performance of the services in Israel.

Additional qualifying conditions apply.

Expatriate Law (Working abroad rules)

Individuals who become Israeli tax residents, either as new immigrants or as returning residents after having lived abroad for a continuous period of at least ten years, may be eligible for significant tax incentives. For returning residents who came back to Israel between January 1, 2007, and December 31, 2009, a minimum foreign residency period of five years is sufficient to qualify for these benefits:

General tax benefits (10-year exemption)

1. Passive foreign income

A 10-year exemption from Israeli tax applies to passive income that originates from outside of Israel or from foreign-held assets. This includes dividends, interest, rental income, royalties, pensions, annuities, and similar sources.

2. Active foreign income

Income derived from a business, profession, or employment carried on outside of Israel is also exempt from Israeli tax for 10 years. However, certain limitations may apply depending on specific case details.

3. Capital gains on foreign assets

Capital gains from the sale of assets located outside Israel are exempt for a 10-year period. This applies even if the asset was acquired during the exemption period. For sales occurring after the ten-year window, a linear allocation method is used to determine the taxable portion of the gain.

4. Reporting relief

Beneficiaries are not required to report foreign-sourced income or income derived from overseas assets during the 10-year benefit period.

Individuals who re-established Israeli tax residency in 2007, 2008, or 2009, and had been foreign residents for at least five consecutive years, are also eligible for these benefits, under special transition rules.

Digital nomads' tax regimen

Israel does not have a special tax regime specifically for digital nomads. Instead, digital nomads are taxed based on the general tax residency rule.

Double taxation agreements (link website)

https://www.gov.il/en/Departments/DynamicCollectors/international_agreements?skip=0&limit=10&type=03

Impatriate Law (Inbound employee regulations)

How to apply and deadlines for employees

A non-resident who is granted "foreign expert" status is entitled to deduct from Israeli taxable income the following items for a period not exceeding 12 months of employment in Israel:

1. Documented rent and certain utilities (gas, water, electricity) costs or accommodation expenses. Therefore, the employee should retain a copy of rental contracts, hotel bills, and utility charges.

2. Daily living expenses (per diem): In accordance with the ITA guidelines, these expenses are limited to ILS 360. This deduction is only for the actual days that the employee is physically present in Israel and is dependent upon the presentation of sufficient documentation of the expenses.

"Approved specialists" (non-residents approved by the director of the Investment Centre at the Ministry of Industry and Trade), provided they are experts who possess skills not readily available locally, are taxed at a maximum rate of 25% on their earnings for a period of three years, with a possible extension of up to a further five years. They are also entitled to the benefits available to foreign experts in the first 12 months. Approval is generally given on income up to 75,000 United States dollars (USD) per annum.

Expatriate Law (Working abroad rules)

How to apply and deadlines for employees

Partial tax relief for short-term returning residents

Those who were foreign residents for fewer than ten years but at least six years before returning to Israel may qualify for limited benefits, as follows:

1. Exemption on passive income (excluding pensions)

For a period of five years, Israeli tax does not apply to passive income derived from assets acquired while abroad. This exemption does not extend to foreign pension income.

2. Capital gains on foreign assets

A 10-year exemption from capital gains tax is granted for profits from the sale of assets situated outside Israel, but only for assets purchased during the individual's period of foreign residency.

Digital nomads' tax regime

How to apply and deadlines for employees

Israel, often called the "Startup Nation," is quickly emerging as a favourite destination for digital nomads. Digital nomads are attracted to Israel because it offers a dynamic tech ecosystem centred in Tel Aviv, reliable high-speed internet, and a rich mix of cultural experiences ranging from historic Jerusalem to vibrant Tel Aviv and scenic Haifa. Additionally, its strategic location between Europe, Africa, and Asia makes it an ideal hub for easy international travel. Despite these appealing factors, Israel's visa policies can be complicated to navigate.

Understanding the available visa options is crucial for digital nomads who want to stay in Israel legally and avoid overstaying. Here are the main visa types:

1. B/2 tourist visa: This is the most common entry method for digital nomads. Many nationals (including those from the U.S., Canada, the U.K., the EU, and Australia) receive a 90-day tourist visa upon arrival. This visa allows visitors to stay but prohibits them from working locally. Digital nomads can use the B/2 visa to work remotely for clients outside Israel, but cannot engage in business with Israeli companies. After 90 days, travellers must leave the country—either by visiting a nearby nation and returning or by applying for an extension.

2. Visa extensions: For those wanting to remain beyond 90 days, extensions can be requested at Israel's Ministry of Interior offices (Misrad HaPnim). Approval depends on the reason for staying and financial status. Extensions typically grant an additional 30 days, although longer extensions may be possible.

3. B/1 work visa: If you plan to work for an Israeli employer or join a local startup, a B/1 Work Visa is required. This visa is generally employer-sponsored, meaning a company must hire you and apply on your behalf. While digital nomads may not seek this initially, it's an option for those aiming to build a local career network.

Introducing the Israel ETA IL visa:

In 2024, Israel launched the ETA IL—an electronic travel authorisation designed to simplify entry for visitors from eligible countries. This option is ideal for digital nomads seeking to base themselves in Israel for a few weeks or months without the hassle of obtaining a traditional visa.

Key points of the Israel ETA IL visa:

1. Duration: Allows stays up to 90 days, with multiple entries permitted.
2. Eligibility: Citizens from numerous countries (including the U.S., Canada, EU members, and more) can apply online.
3. Purpose: Intended primarily for tourism but well-suited for digital nomads working remotely for foreign clients, provided they do not engage with Israeli businesses.
4. Cost: Involves a small processing fee, with approvals typically issued within days.

Benefits for digital nomads:

- Ease of application: Fully online process makes it faster and simpler than conventional visas;
- Flexible short-term stay: The 90-day allowance fits perfectly for nomads seeking a temporary base, especially those comfortable moving between countries regularly.

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- Remote work friendly: Similar to the B/2 Tourist Visa, the ETA IL permits remote work for overseas clients without violating local employment laws.