

Israel: 2009-2010 Budget designed to stimulate economy

The 2009-2010 Israeli Budget includes a broad range of modifications to the tax regime, including bolder rate reductions than previously planned, incentives to encourage immigration and capital investment and an increase in the threshold to qualify as an "exempt dealer" under the VAT rules. The budget was established in the Economic Efficiency Law published on 23 July 2009.

Corporate tax rate

The 26% corporate tax, already scheduled to be reduced to a final rate of 25% as from 2010, will now be further reduced over the next six years: 24% (in tax year (TY) 2011); 23% in TY 2012; 22% in TY 2013; 21% in TY 2014; 20% in TY 2015; and 18% as from TY 2016.

Marginal progressive personal tax rate

Under current tax law, the top marginal rate for personal income tax was scheduled to decrease from 46% to 44% as from TY 2010. According to the amendment, the marginal rate will gradually be reduced to 39% during the period 2010 through 2016 as follows: 45% in TY 2010-2011 (rather than 44%); 44% in TY 2012; 43% in TY 2013; 42% in TY 2014; 41% in TY 2015; and 39% as from TY 2016.

Benefits period for eligible immigrants

Changes were introduced in 2008 to the incentives for new immigrants and "senior returning residents" (the latter are former Israeli residents who have been reclassified as foreign residents for a period of at least 10 consecutive years) to encourage these individuals to immigrate to Israel. The 2008 law grants eligible immigrants a 10-year exemption from taxation and reporting requirements in Israel for income derived from or accrued outside Israel or sourced from assets outside Israel. Under the budget measures, the benefit period may be extended for a maximum additional 10-year period provided eligible immigrants fulfill certain investment criteria and approval is obtained from the Minister of Finance. The extension of the benefits period may vary depending on the type and scope of the investment, as well as its location, among other factors. Regulations will be issued within the next few months to provide further details of the changes.

Capital investment incentives

Reduced corporate income tax rates under the Law for the Encouragement of Capital Investments will be extended to qualifying hotel and tourism activities, as well as certain investment in renewable energy in Israel as from 1 January 2010.

VAT relief

The annual revenue threshold to qualify as an "exempt dealer" under the VAT law will be increased to NIS 100,000 (from NIS 70,605) as from 1 January 2012. Such dealers are exempt from output VAT and receive relief from filing periodic VAT returns (other than the annual declaration reporting annual turnover) but can still claim input VAT (subject to several exceptions).

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