IPTI Xtracts

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ISRAELI REAL ESTATE TAX PROPOSALS

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The Israel Tax Authority (ITA) on January 13 published proposals for amending real estate taxation in Israel. Below is an overview of what the ITA wants to achieve. The proposals are at an early stage and have yet to be debated and approved by the Israeli cabinet or the Knesset.

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Land purchased before November 7, 2021

It is proposed to temporarily reduce the rate of land appreciation tax (Mas Shevach) on such land from the taxpayer's marginal rate of up to 47% to 25% of real (inflation adjusted) capital gains. This would be conditional on building homes on the land within eight years after the purchase if they possess planning permission for this.

Comment: This proposed amendment is long overdue. The 25% tax rate already applies to individuals on the pro rata portion of gain arising after November 7, 2011. The 47% tax rate was a deterrent to selling real estate acquired before that date and probably deterred people from selling (especially if betterment levy also applies to gains from re-zoning land from agricultural to developable).

Adjusted purchase tax rates

It is proposed to adjust the limits for purchase tax in order to reduce the tax on homes of medium value and raise the tax on pricier homes. For example, it is proposed there be no purchase tax on certain types of new only homes under construction worth up to NIS 1,930,000 instead of NIS 1,805,545 currently in 2022.

Closing loopholes

In 2014 the law was amended to allow owners of more than one home to retain an exemption for the pre-2014 portion of any sale gain. But it seems this exemption also applies to land, which wasn't intended, so it is proposed to close this loophole over a four-year transition period.

Second, it seems the 3% surtax shouldn't apply at present to high income taxpayers with income over NIS 663,240 per year (in 2022) on homes sold for up to NIS 4.75 million approximately. It is proposed to impose the 3% surtax on capital gains/land appreciation in such cases.

Comment: In practice, ITA's real estate taxation branch operates separately from the income tax branch, so do their respective computer systems. The 3% surtax is one of the regular chestnuts resulting in surprise 3% tax assessments from the income tax branch. So at least the situation may be clarified soon.

Third, purchase tax is not always collected at present on the construction price when construction services are supplied separately from the land. It is proposed to collect tax on the finished home price.

Fourth, reduced purchase rates may apply to owners of more than one home if that situation lasts for up to two years. It is proposed to reduce the two-home temporary period to one year.

Foreign residents

Foreign residents reportedly own about 83,000 Israel homes, of which around 40,000 are in Jerusalem or Tel-Aviv.

If they rent out these homes, it is proposed to abolish for foreign residents for rental income of up to NIS 5,196 per month (in 2022) and the partial exemption above this amount, commencing in 2024. Other real estate tax reliefs may also be denied for foreign residents.

Comments: The proposals to tighten up taxation of foreign residents seems regrettable. They enlarge the Israeli property market. And importantly, many foreign investors go on to become immigrants and reside in what was initially their vacation home in the Promised Land.

Rental projects

As mentioned in a separate article, more measures are contained in the recent budget package that offer tax incentives for long term residential rental projects.

The budget amendment adds "institutional rental buildings" approved up to the end of 2031. Approval must be requested with a copy building permit before the end of construction. There should be at least 10 homes generally, or six homes if the building is in a prescribed peripheral area. The Investment Center board must be satisfied that the homes are to be rented out on average 15 years out of 18 years after the end of construction.

Rental and sales gains of companies in qualifying cases may be taxed at 5%-11%. Dividends are taxable at 20% subject to any applicable tax treaty.

Rental profit and sales gains of individuals in qualifying cases may be initially taxed at 29%, potentially decreasing to 27.5% after five years rental, 25.5% after 10 years rental, 24% after 15 years rental.