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The Property Tax Regime in Israel for Foreign Residents

With effect from 1.1.14, there have been significant changes to the property tax regime in Israel, particularly with regard to foreign residents (i.e. those who are not tax resident in Israel). The following is a brief guide to these changes.

Tax on the sale of a property

Under the previous tax regime, any individual could claim an exemption from Capital Gains Tax on the sale of qualifying residential property in Israel once every four years. This applied even if the property was not the seller's main residence and whether or not the seller was an Israeli tax resident.

From 1st January 2014, this is no longer the case and foreign residents are no longer entitled to an exemption from tax on the sale of property in Israel. The regime is based on tax residence and not the nationality of the tax payer.

Tax on the sale of property (Mas Shevach) is levied on the gain made by the seller, calculated as the difference between the acquisition price and the sale price, with allowance for certain deductions.

The tax rate is 0% for the period up to 1.1.14 and at 25% for the period after that date, calculated on a linear basis as follows:

$$\frac{\text{Number of days between 1.1.14 and the date of sale}}{\text{Total number of days the property has been owned}} \quad \text{X} \quad \text{Gain on the sale} \quad \text{X} \quad 25\%$$

For example, a property bought for NIS 5 million at the start of 2010 and sold for NIS 10 million at the start of 2015 was owned for 5 years, one of which is after 1.1.14, and there is a taxable gain of NIS 5 million. The tax is therefore: 1/5 x 5 million x 25% = NIS 250,000.

The implication of this is that the longer the property is owned after 1.1.14, the greater the proportion of the tax which will be payable on the sale.

The only circumstances in which a foreign resident is entitled to an exemption from tax on the sale of residential property in Israel is if the foreign resident does not own a residential property anywhere else in the world and they can provide the specified documentary evidence required. If the property in Israel is the seller's only property then they will be entitled to the same exemption on tax to which Israeli residents are entitled, once every 18 months, if they do not own any other residential properties. This would entitle the seller to a complete exemption from tax on a sale price of up to approximately NIS 4,500,000. If the sale price exceeds this amount, the seller will be taxable proportionately on the gain made on any amount above this.

Purchase tax

Purchase tax is an incremental tax where the rate of tax increases in graded bands as the price of the property rises. The current purchase tax rates for foreign residents are 8% up to an amount of NIS5,872,725 (- correct to December 2023. The amount is updated annually in line with inflation) and 10% on the balance.

The purchase tax on non-residential property is 6% (a flat rate) but in certain circumstances where land is purchased to build a residential property, a rebate of 1% of the tax may be claimed once planning permission has been granted.

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Tax on rental property

In recent months, the tax authorities have targeted property owners who are renting out properties but not paying tax on the rental income, in particular owners of “luxury” apartments and foreign residents.

The law provides that rental income on a residential property up to the exempt amount is not reportable and not taxable. The exempt amount for the tax year 2023 is NIS 5,471.

Any amount over this is reportable and taxable in Israel either at a flat rate of 10% without deductions for expenses or depreciation payable by 31st January of the following year, or at the marginal rates of income tax on the net rental income after deductions for relevant expenses and depreciation and taking into account any exemption available.

If you would like more information on this, we can refer you to accountants who can advise on and also handle any reporting and tax due.

As an aside, it should be mentioned that if the property is rented out, depreciation on the property, whether in practice claimed or not, may be deemed to decrease the purchase price and thereby increase the taxable gain on sale.

This fact sheet is presented as a general information service only and does not constitute legal or financial advice. You should obtain specific advice before taking (or deciding not to take) any action. Please contact us for further information.