The Global Residence and Citizenship

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Residence and Citizenship in Israel

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Israel, which is commemorating its 68th anniversary of independence, is a young and small nation. It has a population of approximately 8.5 million people — 75% of which are Jewish, 21% Arabic and 4% not classified by religion. The majority of the Israeli nation are immigrants, which commenced in Biblical times.

After the destruction of the Second Temple around 586 CE, immigrants were those exiled by the Roman Empire, with around 1,490 people exiled from Spain and Portugal. Between the years of 1893 and 1948, approximately 500,000 people immigrated to the land that later formed the State of Israel, and specifically between 1933 and 1939, these people came from Germany.

Since the founding of the State of Israel in 1948, there have been a number of immigration 'waves' to the nation, mainly from European countries, the US, Canada and South Africa. In 1948, the Jewish population was approximately 630,000 people and today reaches around 6 million. It is a globally oriented society, economically focused on areas such as high-tech industry, biotechnology and foreign trade.

The Law of Return

In 1948 the State of Israel was established as a State for the Jewish people. The Law of Return of 1950 granted every Jew wishing to immigrate to Israel the right to do so and to receive an immigration certificate to obtain Israeli citizenship (depending on certain qualifying factors). Israeli citizenship may be obtained without relinquishing foreign citizenship, unless such a requirement exists in the foreign country. The immigration certificate grants an individual the legal status of a new immigrant (*Oleh Chadash*) and permits residence in Israel with no visa requirements, while formal citizenship, including obtaining an Israeli passport, takes between 12 and 18 months.

There are also residence options for those who do not wish to formally immigrate to Israel, including for individuals who are not Jewish. These include different employment visas, which require administrative procedures, as well as temporary residence status with no requirement for formal immigration necessary.

Israeli Residence

Under Israeli law, an individual is presumed to be an Israeli resident if they are present in Israel for at least 183 days in a tax year, or at least 30 days in a tax year and a total of at least 425 days during a relevant tax year and the immediately preceding two tax years. The day count is a rebuttable presumption for both the individual and

Skyline of the Old City at the Western Wall and Temple Mount in Jerusalem, Israel.

the Tax Authority in accordance with the center of life test, irrespective of the days present in Israel. A person may be considered an Israeli resident if the person's center of life is in Israel (irrespective of the day count). The test is a subjective one that takes into consideration factors such as the place of residence of the person's immediate family members, his or her economic and social ties and including, without limitation, factors such as: location of the person's permanent home; location of the person's actual home and that of his immediate family members; location of the person's business or place of employment; location of the person's economic interests; and location of the person's activity in organizations, associations and institutions.

New Immigrants and Returning Israeli Residents

For Israel's 60th anniversary of independence in 2008, legislation was passed amending the Income Tax Ordinance granting greater tax benefits to new immigrants and returning Israeli residents. The Tax Ordinance now defines three classes of immigrants:

a. New immigrants, i.e., those who become residents of Israel for the first time
b. Returning residents, i.e., those who resided abroad for a period of at least six consecutive years and return to reside in Israel
c. Long-term returning residents, i.e., those who resided abroad for a period of at least ten consecutive years and return to reside in Israel

Benefits to New Immigrants and Returning Israeli Residents

The Tax Ordinance provides an exemption from tax and reporting obligations to new immigrants and long-term returning residents on all forms of income whether active or passive, earned income and capital gains, or derived from sources outside Israel for a period of 10 years. The exemption applies even if the assets are purchased after the individuals change their residence to Israel during this period.

Returning residents are entitled to tax benefits relating to assets purchased during their residence abroad after they were no longer considered residents of Israel for tax purposes. These include passive income derived from said assets (exempt from taxes in Israel for a five-year period), and capital gains derived from the sale of said assets (exempt from taxes in Israel for a period of 10 years as long as there is no right via the asset, directly or indirectly, to assets located in Israel). A new immigrant or a long-term returning resident may be entitled to a one-year accommodation period in which they will not be considered residents of Israel for the purpose of its tax laws. This enables individuals to get settled and decide whether they wish to change their jurisdiction of residence to Israel. In order to enforce this benefit, certain procedures and formalities must be followed with various offices of the Israeli Government, including the Ministry of Absorption. In the event that the individual has applied for the accommodation year and remains an Israeli resident thereafter, the one-year period will be part of their 10-year exemption period. In the event that the individual returns to his or her original home country, during or upon the termination of the accommodation period, they will not be considered an Israeli resident during the period of residing in Israel.

Under Israeli law, a corporation is an Israeli resident for tax purposes if it is incorporated in Israel or if the management and control of the corporation incorporated abroad is conducted from Israel. Where a new immigrant or long-term returning resident owning and managing a foreign corporation moves to reside in Israel, such residence in Israel by the owner does not subject the foreign corporation to Israeli taxes solely due to the residence of the owner for a period of 10 years.

Real Estate Ownership

Israel does not restrict the ownership of real property to Israeli residents, unlike certain countries such as Switzerland or Australia. Real estate may be owned by non-residents or by temporary residents as well as new immigrants or returning residents. The taxation of real estate transactions was revised in 2014 abolishing, as a general rule, tax exemptions for individual non-residents. Capital gains from the sale of real property in Israel owned by non-residents will be exempt from Israeli taxes if the sale price is up to ILS 4.5 million (USD 1.1 million) and the owner provides evidence from the tax authority in their country of residence that he or she does not own real property in that country.

Conclusion

Israel encourages immigration and has taken legislative action to stand behind its encouragement. Over the 68 years of statehood, the country has absorbed waves of immigrants from around the world, including from Western countries and societies as well as third world countries. The advantageous legislation granting tax benefits is relevant to high net worth individuals with significant assets abroad. There have been periods of protest over the past few years during governmental budget discussions to have the benefits abolished but these have been suppressed to date. In the event that the legislation will be revised or abolished, it will be likely to apply to individuals who immigrate after the legislation is revised. R