International Tax
Palestinian Territories Highlights 2017

Investment basics:

Currency – New Israeli Shekel (NIS)

Foreign exchange control – None, and there are no restrictions on the import or export of capital. Repatriation payments can be made in any currency. Both residents and nonresidents can hold bank accounts in any currency.

Accounting principles/financial statements – IAS/IFRS is required for financial service entities and companies listed on the Palestine stock exchange. Financial statements must be prepared annually. Semi-annual financial statements must be prepared for financial institutions and listed companies.

Principal business entities – These are the public shareholding company, private shareholding company with limited liability, partnership, sole proprietorship and branch of a foreign corporation.

Corporate taxation:

Residence – A corporation is resident if it is incorporated in Palestine or managed and controlled in Palestine.

Basis – Residents and legal entities, including branches of foreign entities, are taxed on their taxable income in Palestine computed in accordance with the tax law.

Taxable income – Corporate tax is imposed on a company's net profits, which consist of business/trading income and passive income. Taxable income of resident persons and companies includes foreign income derived from their funds or deposits sourced from Palestine.

Taxable income is computed on an accrual basis, except for interest and commissions on doubtful debts of financial institutions, which are taxable on a cash basis. Taxable income of certain professions is computed on a cash basis in accordance with directives issued by the tax department.

Taxation of dividends – Dividends paid to a resident company from another resident company are tax exempt. Dividends received from a nonresident entity are taxed at the regular rates.

Capital gains – Capital gains derived from the sale of investments in equity securities and bonds are exempt. Capital gains derived from the sale of tangible assets and real property are taxable at the regular corporate tax rate.

Losses – Tax losses may be carried forward for five years. Such losses do not include unrealized losses from revaluations or losses incurred on transactions that were tax exempt. The carryback of losses is not permitted.

Rate – The standard rate is 15%. Life insurance businesses are subject to a reduced rate of 5% with respect to premiums. The taxable income of telecommunication companies and companies that enjoy specific privileges or monopolies are taxed at 20%.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – Certain entities are granted tax incentives if approved by the agency for the encouragement of investment. Incentives are in the form of tax rate reductions for specified periods of time.

Withholding tax:

Dividends – A 10% withholding tax is levied on dividends paid to a resident or a nonresident. The withholding tax was suspended during 2015 and 2016, but no guidance has been issued on the status for 2017.

Interest - The requirement to withhold a 5% tax on interest paid to resident and nonresident individuals and entities has been abolished.

Royalties – A 10% withholding tax is levied on royalties paid to a nonresident.

Technical service fees – Payments made for services provided by nonresident entities are subject to a 10% withholding tax unless exempt under a tax treaty.

Branch remittance tax – No

Other – Payments for good and services are subject to a withholding tax rate ranging from 5% to 10% unless the payee provides a tax certificate issued by the tax department.

Other taxes on corporations:

Capital duty – No

Payroll tax – There is no payroll tax on corporations. Salaries are taxed at the level of the individual.

Real property tax – Tax on property is levied at a rate of 17% of the assessed value of rental income. The law allows 40% of the rental value to be deducted as an expense in computing taxable income, with the remaining 60% available as a credit to be set off against the income tax liability.

Social security – No

Stamp duty – No

Transfer tax – No

Anti-avoidance rules:

Transfer pricing – No

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – Audited financial statements and related notes, as well as a reconciliation between financial income and taxable income approved by a licensed auditor, must be attached to the corporate income tax return.

Compliance for corporations:

Tax year – The tax year generally is the calendar year. Approval must be obtained to use a fiscal year.

Consolidated returns – Consolidated returns are not permitted; each company must file a separate tax return.

Filing requirements – A self-assessment regime applies. Advance payment on account of tax liabilities for the year must be made, and the timing and incentives for early payment are determined based on directives issued by the minister of finance. The tax return must be filed within four months of the end of the tax year. If the tax return is filed within two months of the end of the tax year, a discount of 4% is granted on the balance of tax as per the self-assessment (after deducting tax advances made on which a discount previously was granted); a discount of 2% is granted if the tax return is submitted during March and April of the following year.

Penalties – A penalty equal to 3% of the tax liability per month, up to a maximum of 20%, is imposed for the late payment of tax. The minimum penalty is NIS 3,000 for corporations. Penalties of 2% of the tax liability per month also apply for the late payment of payroll and withholding tax.

Rulings – No

Personal taxation:

Basis – Palestinian residents and nonresidents are taxed only on income sourced in Palestine.

Residence – The following individuals are considered to be resident in Palestine: (1) Palestinian individuals who have lived in and maintained their principal activities in Palestine for at least 120 days during the year; and (2) non-Palestinian individuals who have resided in Palestine for at least 183 days during the year.

Filing status – Each individual must file a tax return unless the individual's total income is from employment. Joint filing is not permitted unless approved by the tax department.

Taxable income – Taxable income comprises income from all sources (unless specifically exempt by law), less allowable expenses incurred in the production of the income and the standard deduction (see under "Deductions and allowances").

Capital gains – Capital gains are taxed at regular rates, but capital gains derived from the sale of investments not held for trading are tax exempt.

Deductions and allowances – Individual income is reduced by a standard deduction of NIS 36,000 per year. There is a one-time deduction of NIS 30,000 for the purchase of a residence, or NIS 4,000 per year in interest deductions on a home mortgage for a maximum period of 10 years. A university education deduction of NIS 6,000 per year is granted for up to two dependents at university. Up to 10% of an individual's salary is tax-exempt as a transportation cost.

Rates – Individual income tax is charged at progressive rates ranging from 5% to 15%. The first NIS 75,000 is taxed at 5%, the next NIS 75,000 at 10%, and the remainder at 15%.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Tax on property is levied at a rate of 17% of the assessed value of rental income. The law allows 40% of the rental value to be deducted as an expense in computing taxable income, with the remaining 60% available as a credit to be set off against the income tax liability.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – No

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities. Self-employed individuals and employed individuals with income from other sources must file a self-assessment return within four months of the end of the tax year.

Penalties – Penalties are imposed for a late payment of tax.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods and the provision of services, and on imports.

Rates – The standard VAT rate is 16%. Certain transactions are zero-rated or exempt. For financial institutions, VAT is levied at a rate of 16% on gross salaries and on taxable income. VAT paid on salaries is not deductible in the computation of VAT on taxable income. VAT paid on salaries and on taxable income are deductible for income tax purposes.

Registration – All entities and individuals must register for VAT purposes; there is no minimum threshold.

Filing and payment – A VAT return generally must be filed on a monthly basis or other basis, as required.

Source of tax law: Income Tax Law No. 8 of 2011 and amendments issued in 2014 and 2015

Tax treaties: There are tax treaties with Egypt, Jordan and Serbia

Tax authorities: Income Tax Authority, VAT Authority, Ministry of Finance

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