

Passive Income Exempt from Bituach Leumi (National Insurance) and Tax on Rental Income

A recent amendment to the Bituach Leumi Law provides for exempting rental income from residential property, but within the parameters of the Income Tax exemption (see hereunder). The amended Income Tax provision exempts rental income from residential property for the 2004 tax year up to a monthly ceiling of NIS 7,540. (The ceiling will be reduced to NIS 5,655 monthly in 2005 and NIS 3,770 in 2006.)

It should be noted that the amount exempt from Income Tax is reduced by the amount in excess of the ceiling; the non-exempt income is taxable at regular tax rates. The alternatives to this are the fixed 10% rate on the rental income or regular tax rates on the net income after expenses and deductions. (These should be carefully evaluated.)

Bituach Leumi payments will apply to amounts in excess of the tax exemption ceilings, as indicated. The Bituach Leumi amendment also exempts passive income from the financial investments, now subject to tax under the Income Tax Reform. The Bituach Leumi exemption includes interest and dividends (capital gains are exempt under other provisions) including on foreign investments. ("Controlling Shareholders" under Sec. 32(9) of the Income Tax Ordinance are excluded from the exemption.)