

PURCHASE TAX WHEN BUYING A PROPERTY IN ISRAEL

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The tax laws in Israel can be complicated and this is especially true when it comes to the taxes involved in real estate transactions. There are several different taxes that may be involved when you sell a property but there is only one tax when you buy a property: Purchase tax. There's often a possibility to lower the tax by structuring the transaction a certain way – so it is important that every situation be examined by an expert in this area. The following is a short summary of how this tax works.



Single home rate for Israeli residents

The rate for a buyer who does not own another residential property is based on a sliding scale that increases with the contract price. The rate changes slightly every year but, as of 2022, the first 1,805,545 is not taxed. Beyond that, the rate jumps to 3.5%, 5% and then to 8 and 10%.

As an example, the purchase tax on a property of NIS 3,000,000 would be NIS 54,682 and the tax on a property of NIS 4,000,000 would be NIS 104,682.

Contrary to popular belief, there is no full exemption on the purchase of a first home – unless the purchase price is below 1,805,545.

It is important to note that only Israeli residents are entitled to this rate. If the buyer lives in Israel for most of the year, it is generally assumed that the buyer is an Israeli resident and eligible for this lower rate – even if the buyer is not an Israeli citizen. However, many situations fall into a grey area making it unclear if the buyer is considered an Israeli resident.

Also, if the buyer moves to Israel within 2 years after signing, the buyer is entitled to the above rate as if residency was established at the time of signing. Depending on the area of the country and the policy of the relevant tax office, the buyer may have to pay the higher tax (explained below) around the time of signing but will then receive a return of the difference between that rate and the lower, Israeli resident rate – with interest.



Rate for foreign residents or Israeli residents who own other properties

The rate in this situation is dramatically higher: 8% on the value until NIS 5.25 million and 10% on the value beyond that amount.

Using the previous example, the purchase tax on a property of NIS 3,000,000 would be NIS 240,000 and the tax on a property of NIS 4,000,000 would be NIS 320,000.

Rate for new immigrants (Olim)

I'm often asked about the beneficial tax rate for Olim. While there is such a rate, there are only a few scenarios in which this rate is more beneficial than the single home rate. As opposed to the single home rate, the Olim rate can apply if the buyer already owns a property in Israel – if the buyer will live in the property after the purchase.

Also, since the rate is 0.5% on the entire value of the property, the tax will only be lower than the single home rate for properties above approximately 5.5 million. So, in many situations it is more beneficial to use the regular, single home rate.

According to this rate, the tax on a property of NIS 3,000,000 would be NIS 64,368 and the tax on a property of NIS 4,000,000 would be NIS 114,368.

In addition to the above, there are other discounted rates in other situations, such as gifts between family members and for those with disabilities.

A mistake in applying the various rates or in the tax strategy can lead to tens or hundreds of thousands in unnecessary tax so it is important to consult with an expert before any real estate transaction.

Adv. Michael (Mickey) Levine is the founder of the law firm which offers its clients professional excellence and personal service in the entire spectrum of legal and commercial services in the areas of Real Estate, Wills & Estates, and General Corporate Law.

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