

## Israel defers periods for certain tax procedures in response to COVID-19; additional tax relief published

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On 27 March 2020, the Israeli Government approved emergency regulations (the Regulations) that define the period between 22 March to 31 May 2020 (the Defined Period) as a period that will not be taken into account for the periods under the relevant tax sections listed in the Regulations (income tax, withholding tax, value-added tax and others), if the end of such periods falls within the Defined Period or two months thereafter.

It is noted that most of the listed sections are relevant for decisions and announcements that should be made by the Israeli Tax Authority (ITA) rather than by the taxpayer.

**The following is a non-exhaustive list of the main income tax and withholding tax (WHT) procedures that have been postponed by the Regulations:**

- ▶ **Income tax statute of limitations period** - the approval of the taxpayer's self-assessment or the assessment by the ITA should be given within four years from the end of the tax year in which the tax return was filed. This deferral is mainly relevant for taxpayers with a special tax year (i.e., that is not based on a calendar year).
- ▶ **Application for re-examination of a books-disqualification decision** - the application should be made within 30 days from the decision date.
- ▶ **The authority of the ITA Director to review and correct an income tax assessment.**

- ▶ **WHT statute of limitations period** – should be the latest of: (i) the income tax statute of limitations period for the relevant tax year; or (ii) four years from the end of the tax year in which the taxpayer's annual WHT return was submitted.
- ▶ **Filing of appeal on an income tax and WHT assessments received** – should be filed within 30 days from the day of an income tax assessment, and two weeks from the day of a WHT assessment.
- ▶ **The decision of the ITA Director on a transfer pricing ruling** – should be received within 120 days (or 180 if extended by the ITA Director) from the application date.
- ▶ **The ITA's approval on a grant plan and/or a trustee for stock-based compensation grants under Section 102 of the Income Tax Ordinance (ITO)** – should be received within 90 days of filing.
- ▶ **A decision that a merger plan meets the relevant conditions for a tax-free reorganization** – should be received within 90 days (or 180 if extended by the ITA Director) from the application date.
- ▶ **A decision on the denial of tax benefits of a merger** – should be given within four years from the end of the tax year in which the relevant tax return was filed.

**The following is a non-exhaustive list of the main value-added tax (VAT) procedures that have been postponed by the Regulations:**

- ▶ **VAT statute of limitations period** – should be 5 or 10 years from the return filing.
- ▶ **Filing of VAT appeal** – should be filed within 30 days from the day of the VAT assessment receipt, unless the VAT authority Director extended such period.
- ▶ **Statute of limitations of a VAT appeal** – if the VAT authority Director does not provide his decision within a year from the appeal filing, it is considered as accepted.
- ▶ **Response from the VAT authority Director on various registration requests** – if a response is not received within 90 days from filing of the request, it is considered that the Director denied the request.

The Regulations also refer to other tax laws, such as the Customs Ordinance, the Real Estate Tax Law, the Capital Investment Encouragement Law, and others.

It is noted that the Defined Period also defers the 90-day period following a tax year in which innovative companies can apply to the Israeli Innovation Authority in order

to qualify for the Israeli IP box regime, if they establish an innovation level that is similar to or higher than the innovation level that is acceptable worldwide in the main technological field of the company.

## Other tax measures and relief

**ITA approval on stock-based compensation deposits with a trustee under Section 102 of the ITO.** Whereas in order to be eligible for the capital gains tax track under Section 102, it is required, among others, to deposit the signed grant letters with a trustee within 90 days, the ITA approved a relief that allows that deferral of such deposit until 1 May 2020 (where on that date, the ITA may re-examine the economic developments and update the deferred period accordingly). It should be emphasized, however, that the Board of Directors' decision approving the grants and the grants detailed database are required to be deposited on time, as required in the ITA guidance.

**Input VAT offset relief.** In general, a VAT dealer is entitled to offset input VAT only when he has an original or digitally signed tax invoice produced in accordance with the relevant bookkeeping rules.

In light of the COVID-19 crisis and the existing restrictions on businesses, the VAT authorities published a lenient VAT ruling (no. 6782/20), which allows a supplier to send a copy of a scanned tax invoice by e-mail, without a digital signature, whereas at the same time, he will send the original copy of the tax invoice as a hard copy. The tax invoice recipient will record the said invoice in his bookkeeping records and may offset the input VAT based on the invoice sent by e-mail without a digital signature. Additional conditions are listed in the ruling.

**Relief for Grants-Track Enterprises (for manufacturing equipment, buildings and fixed assets).** The Investment Authority of the Ministry of Economy and Industry has issued a procedure that stipulates administrative relief for investment programs under the Grants-Track. The following are the main leniencies included:

- ▶ Extension of the performance period of approved programs from two to five years, with respect to active approval letters, as well as for approval letters to be issued in 2020.
- ▶ No application will be required to extend the date of implementation of the approved program until the end of the fifth year.

- ▶ This relief will also apply to pending applications for extension of the performance period of up to five years, provided that five years have not yet elapsed since the date of the program's approval.
- ▶ A company that reported on the performance of 100% of the approved investments will be required to submit a final performance report within three months of the completion of the investments.
- ▶ The administration's discretion will be expanded to confirm that the objectives have been reached for companies that have reached 70% of the objectives and met the threshold of a "Competitive Enterprise."
- ▶ The Administration's discretion will be expanded to consider partial reimbursement of benefits, and additional "COVID-19 Impact" consideration will be added.

Other leniencies are included in the procedure.

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