Israel

Charity Formation and Legal Framework - Although donors to charities are entitled to deduct donations as expenses, subject to certain conditions, in general charitable planning in Israel does not feature prominently in tax planning, since there is no inheritance tax in Israel. In order for gifts to be allowed as deductible expenses, they must be donated to a "public institution". A public institution is a non-profit organization ("NPO") that has obtained a certification from the Tax Authority as such. Primarily, there are four types of NPOs in Israel: Associations (1),- governed by the Law of Associations,-1980 governed by the Law of Associations,-1980; Private Companies for Public Benefit, governed by the Companies Act,- 1999; Cooperative Societies, governed by the Cooperative Societies Ordinance,- 1933; and Endowments (2), governed by the Trust Law,-1979. The formation, organization and operation of all the NPOs are governed by the relevant law. The most popular kind of NPO for charitable purposes is the Association.

Compliance, Regulation and Taxation - A NPO, once formed, does not automatically qualify for tax exemptions on its income or as an entity that is entitled to receive tax-deductible donations. To qualify as such, it must meet conditions under the Income Tax Ordinance (New Version) – 1961, and be certified as a "public institution" by the Tax Authority. The conditions required in order to qualify as a "public institution" are as follows (3).

- The entity must comprise at least seven persons, most of whom are not related, or if it is a trust, most of the trustees cannot be related.
- The entity or trust must have a "public purpose" and its property and assets must be used only for that purpose. A "Public purpose" is defined - a purpose concerned with religion, culture, education, science, health, social welfare or sport, and any other purpose approved by the Minister of Finance as a public purpose.
- The entity or trust must submit annual financial reports to the satisfaction of the Tax Authority.

An NPO - not necessarily a "public institution" - is generally exempt from value added tax (VAT) payments save for very special cases. Conversely an NPO is not entitled to deduct inputs, save in the case of an occasional transaction for the sale of immoveables. An NPO must register as such with the VAT authorities.

Donor Reliefs - Donations by a taxpayer in any tax year to "public institutions" or to a "national fund"(4) may be credited against tax owed by the taxpayer in that tax year, subject to the following conditions (5):

- The donation must be in excess of NIS 380.
- In the particular tax year, only 35% of the donation may be credited against tax owed by an individual, and only 29% of the donation may be credited against tax owed by a company.
- Total donations in any tax year cannot exceed 30% of the taxpayer's chargeable income in that year, or in excess of NIS 4,013,000, whichever is less. Excess donations may be credited consecutively during following three tax years, subject, in each year, to the foregoing ceiling.
- The above amounts are valid for the tax year 2007, and are adjustable in accordance with the Consumer Price Index."National Fund" refers to any of the following institutions: The Jewish Agency, The World Zionist Organization, The United Israel Appeal, and The Jewish National Fund.

(1)In Hebrew - Amutot (singular - Amuta)
(2)Hekdesh
(3)Section 9(2)(b) of the Income Tax Ordinance (hereinafter: "the Ordinance")
(4)"National Fund" – any of the following institutions: The Jewish Agency, The World Zionist Organization, The United Israel Appeal, and The Jewish National Fund
(5).Section 46 of the Ordinance

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