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Uri Geller Challenges Israel’s Tax on His Lease in Artists’ Colony

By Matthew Kalman

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- Millionaire celebrity benefits from special terms for struggling artists
- Tax appeal could have implications for owners of many leasehold properties

Uri Geller, the spoon-bending celebrity psychic, is relying on the more mundane magic of courtroom lawyers to challenge a tax ruling on his property in Jaffa that could have a far-reaching impact on other Israeli taxpayers.

Geller is challenging the Israel Tax Authority’s demand for a tax on a long-term lease he renewed in 2017. He is arguing that the law clearly states that leases longer than 25 years aren’t subject to tax when renewed, only when they are first purchased. But tax authorities have taken the opposite view.

Many properties in Israel are held on leases assigned by municipalities, churches, and other public bodies for long terms, typically 49 or 99 years. The decision in Geller’s case could affect the tax treatment of broad swaths of Israel’s real estate.

“It is very clear. When you read the tax authority’s own interpretation of the law, you can see that they tax you on all the value of the land from the beginning,” Yoad Cohavy, a real estate tax lawyer at Gornitzky and Co. law firm in Tel Aviv, told Bloomberg Tax. The authority’s demand for tax on the renewal is “unfair and not according to the law.”

Practitioners blame a pair of conflicting court rulings over the past few years for muddying the issue and encouraging the tax authority to aggressively seek taxes on the renewal of leases longer than 25 years. The supreme court favored the taxpayer in a 2010 opinion on a similar case, but a 2017 district court opinion sided with the tax authorities. That opinion is being appealed to the supreme court.

Practitioners hope that a favorable decision in Geller’s case could influence the supreme court to rule in the taxpayers’ favor.

If the supreme court sides with the tax authorities, Geller could owe them thousands of dollars. And other taxpayers who renew leases longer than 25 years could find themselves in the same predicament.

The Israel Tax Authority and Geller’s lawyers declined to comment.

Lack of Clarity

The ruling relates to a lease renewal Geller signed in March 2017 for his Jaffa seafront property, which he first acquired in 1973. The tax authority says that because Geller renewed the lease in 2017, he must pay a 6 percent tax on the value. Geller argues in a Feb. 10 appeal that the lease renewal wasn't a tax event and doesn't give him ownership of the land, so it shouldn't be subject to purchase tax. Geller's appeal was first reported in the Calcalist business daily.

Geller's lawyers told the court that the original 1973 lease included in its value the right to extend it, and tax on that was paid when he first acquired it.

Under a 1963 revision of Israel's real estate law, such long-term leases are subject to tax when first acquired, but not when renewed.

"I don't see how the tax authority can come to the lessee after 49 years and ask for tax," Cohavy said. The Jaffa leases are for a period of 49 years, like many in Israel.

Cohavy said the authority's demand for tax on the renewal is "unfair and not according to the law."

"This is a big problem because we have a lot of lack of clarity," he said.

Dispute Over Assessments

Geller took an interest in the properties after returning to his native Israel in 2016 after a high-profile career bending spoons and reading minds. He now has two buildings in the sought-after location of Jaffa's old city, overlooking the port where Napoleon landed in an ill-fated attempt to conquer the Holy Land.

One building, which Geller says he bought outright for $2.4 million, is being transformed into a museum for his collection, including a car to which he has welded bent spoons belonging to a Who's Who of stars, including his friend Michael Jackson. The other, a three-story apartment where Geller now lives, is at the heart of a dispute with the Israel Tax Authority.

The apartment is among 130 properties overseen by the Old Jaffa Development Co., a municipality-controlled corporation set up in the 1960s to oversee the revival of Old Jaffa, which was then a crime-riddled slum of crumbling buildings. The corporation established the area as an artists' colony by offering cheap 49-year leases to struggling artists for unoccupied homes or those abandoned by Palestinian families fleeing the 1948 war.

Geller's seafront apartment with its prime location in a historic preservation area was independently assessed at just 2.3 million shekels ($637,469). Geller renewed his lease on the apartment in 2017 for a one-off payment of 356,500 shekels plus an annual payment of 11,500 shekels.

Even if he is liable for a tax pegged to the renewal, Geller's lawyers dispute the authority's assessment and calculations. Under Israeli tax law, he would be exempt from the first 1.5 million shekels for the purchase of his sole residence, they argued.

Conflicting Rulings

Geller's Feb. 10 appeal of the assessment cites Israel's supreme court ruling 151 from 2010, where a lease purchaser successfully appealed a similar tax decision.

"The answer of the Israeli supreme court was that this is really a part of the original transaction which already took into consideration any future extension by way of options or any other way," said Yair Benjamini, a partner at Benjamini and Co. law firm in Tel Aviv.

He added that surprisingly, the district court gave a verdict in another case two years ago that was "exactly the opposite," indicating tax is payable when a new lessee acquires a lease before it has expired.

"Some of the parties to the supreme court ruling were parties that took over the lease in the middle. That distinction made by the district court in our opinion—and a lot of opinions—was not correct," Benjamini said. "The legal situation is unclear. Now the tax authorities have received encouragement to start taxing these lease extensions and the Geller case is just one example of this phenomenon."

The district court's decision is currently being appealed in the supreme court.

Waiting for Supreme Court Decision

"The supreme court will need to give its opinion again on these cases and say whether or not its original ruling was also relevant to people who bought the leases in the middle of the term. Cases like Uri Geller's case will not really be moved forward until there is a new supreme court decision. It's really an issue that should be ruled on in principle," Benjamini said.

Taxpayers purchasing or renewing leases won't have certainty until the new supreme court appeal is decided. "They very much have certainty that someone will attempt to tax them," he said

The Old Jaffa Development Co.'s parent company, Atarim, said the rents paid by the lessees in Old Jaffa are calculated solely from the value of the land, which is determined according to an appraisal.

"The method of calculation is detailed in the procedure published on the Company's website and which applies to all the lessees in Old Jaffa in an egalitarian and transparent manner. For reasons of privacy protection, the company does not discuss the financial data regarding a specific lessee or leased property in Old Jaffa. We emphasize that the purpose for which the property is leased is to serve as the residence and studio of an artist. Mr. Geller was approved by an artists' committee and was recognized as an artist in accordance with standard procedure, " Atarim said in a Feb. 14 email.

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