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New Tax Exemption for New Israeli Immigrants Who Will Move to Israel During 2026

Client Updates

The Government of Israel recently published several draft resolutions as part of the discussions on the state budget for 2026. One such proposal, titled **"Encouraging Aliyah and Return to Israel through Tax Benefits,"** seeks to introduce a temporary provision granting tax exemption to individuals who will become during 2026 Israeli residents for the first time or veteran returning residents.

The background for this new proposal is the sharp rise in antisemitic incidents worldwide, which has significantly intensified since the outbreak of the war on October 7, 2023. It is estimated that following these circumstances, high-socioeconomic individuals may seek to relocate elsewhere, and Israel aims to encourage them to immigrate to Israel, assuming that a strong population contributes substantially to the Israeli economy.

According to the proposal, an individual who immigrates to Israel during 2026 (and during that year only) and qualifies as a **"first-time resident"** or a **"veteran returning resident"** (i.e., an individual who has been a foreign resident for ten consecutive years prior to returning to Israel) (collectively, **"Eligible Individuals"**), will be entitled to an exemption on **Israeli-sourced earned income** as follows: for 2026–2027, up to NIS 1,000,000; for 2028, up to NIS 600,000; for 2029, up to NIS 350,000; for 2030, up to NIS 150,000.

Israeli-sourced earned income exceeding the above exemption thresholds will be taxable in Israel, but will enjoy the lower progressive tax brackets applicable to earned income, as well as standard personal tax credits and deductions. It may be cautiously assessed that, given the proposed exemption amounts, the benefit will be most relevant to professionals (e.g., physicians, engineers, software developers, etc.) who are expected to derive substantial Israeli earned income.

These new tax benefits will be **in addition to** the existing ten-year exemption applicable to first-time residents and veteran returning residents on **foreign-sourced income** generated during the ten years following their immigration to Israel.

At the same time, it should be noted that any individual who becomes an Israeli resident for the first time or a veteran returning resident on or after **January 1, 2026** will be subject to **full reporting obligations** with respect to all assets and income worldwide. The existing reporting exemption will remain in force only for those who immigrate to Israel **by the end of 2025**.

The reporting exemption applicable to first-time residents and veteran returning residents was repealed by a legislative amendment enacted in **April 2024** (the "**Amendment**"), aimed at implementing broader reporting and transparency standards for tax purposes, following the recommendations of the **Global Forum on Transparency and Exchange of Information for Tax Purposes**. The Amendment expanded disclosure and reporting obligations applicable to such individuals, as well as to related trusts and foreign entities. [\[See our previous client update from April 2024\]](#)

In connection with the repeal of the reporting exemption, the Israel Tax Authority recently published a **draft circular** for public comments, outlining the Authority's interpretation and implementation guidelines for the Amendment. The draft circular stipulates, *inter alia*, that foreign-sourced income during the exemption period must be reported through a designated form to be attached as an annex to the individual's annual income tax return and to any applicable trust return. The form requires comprehensive disclosure of all worldwide income, categorized by source and converted into NIS. Classification and computation are to be made pursuant to the Israeli Income Tax Ordinance, unless the income is reported in the individual's tax returns submitted in a country with which Israel has a tax treaty (either where the income was generated or where the individual resided prior to immigration), in which case the classification and computation may follow the returns filed in that tax treaty country.

The draft circular also addresses additional matters arising from the new reporting obligations effective January 1, 2026, such as: reporting foreign assets in the **declaration of capital** (where required); the ITA's interpretation for the "acclimation year" application; reporting by a foreign company controlled by an Eligible Individual (if required); reporting by an Eligible Individual who is a "representative assessee" in a **Family Company** or **Land Company**; treatment of a U.S. LLC owned by an Eligible Individual; reporting by Eligible Individuals holding controlling interests in CFCs or FOCs; reporting obligations related to the creation or amendment of trusts; and reporting by trusts where the settlors and/or beneficiaries are Eligible Individuals or foreign residents, among others. These issues included in the draft circular, and others such as reporting duties of controlling shareholders in corporations and trusts, are beyond the scope of this summary.

In conclusion, individuals transferring their center of life to Israel and becoming Eligible Individuals **by the end of 2025** will continue to enjoy an exemption from reporting foreign assets and income but will **not** be eligible for the proposed exemption on Israeli-sourced income during 2026-2030. Conversely, those becoming Eligible Individuals **during 2026** will benefit from the new Israeli-source income exemption but will be **subject to comprehensive worldwide reporting obligations**. It should be noted that the exact date of an individual's acquisition of Israeli tax residency may be scrutinized by the Israel Tax Authority.

This update is intended to provide general and concise information only. It does not constitute a full or complete analysis of the issues discussed, does not constitute a legal opinion or legal advice, and should not be relied upon as such.

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