

אפריל 27, 2026

New Tax Exemption on Israeli Income for New Immigrants and Returning Residents

Client Updates

In late March 2026, the Knesset approved the "Law for Encouraging Immigration to Israel and Return Thereto (Temporary Provision), 2026" (the "**Temporary Provision**"). The Temporary Provision was enacted with the aim of encouraging immigration to Israel by populations with the potential to contribute to the Israeli economy. This legislation marks a paradigm shift in the policy of benefits for first-time Israeli residents and veteran returning residents, and for the first time grants tax benefits on earned income produced in Israel, as opposed to the reliefs granted until now, which applied only to income derived outside Israel.

We note that the final law enacted differs somewhat from the bill published in November 2025, both in terms of the definitions and exceptions and in terms of the exemption amounts - see a previous client update we published on the matter at the following [link](#).

The Temporary Provision grants a tax exemption to individuals who became Israeli residents and meet the conditions of the Temporary Provision, in respect of taxable earned income produced in Israel, and it is in addition to the existing benefits for anyone who is a first-time Israeli resident or a veteran returning resident in respect of income derived from outside Israel.

The Temporary Provision sets a cap on the amount of income that will enjoy the exemption, which gradually decreases until the expiration of the Temporary Provision in the 2031 tax year, as follows:

- 2026: up to income of NIS 600,000 (on a relative basis for the period of residency in that year).
- 2027-2028: up to income of NIS 1,000,000 for each of those years.
- 2029: up to income of NIS 350,000.
- 2030: up to income of NIS 150,000.

To whom does the Temporary Provision apply?

The Temporary Provision sets specific definitions regarding the individuals to whom the Temporary Provision applies and departs from the existing definitions in the Income Tax Ordinance (ITO) regarding a "first-time Israeli resident" and a "veteran returning resident".

For purposes of the new tax benefit, instead of the definition of a "first-time Israeli resident," the Temporary

Provision adopts the definition of a "New Immigrant (Oleh)", being a person who holds an oleh visa or oleh certificate under the Law of Return, or a person entitled to an "Absorption Basket". As for a "veteran returning resident," in addition to the existing definition in the ITO, under which a veteran returning resident is a person who returned to Israel after 10 consecutive years or more during which he was a foreign resident, the Temporary Provision adds a requirement that the individual have a "returning resident certificate" issued to him by the Ministry of Aliyah and Integration.

The bill does not explain why definitions different from those existing in the ITO were adopted in the Temporary Provision, and attention should be given to the fact that the definitions are not identical and there may be individuals who meet the provisions of the ITO but do not meet the conditions of the Temporary Provision.

The Temporary Provision entered into force on January 1, 2026, but it applies to an individual who meets the conditions of the Temporary Provision and who became an Israeli resident from November 5, 2025 (the date of the announcement of the tax benefit), through the end of the 2026 tax year. The meaning of this provision is that individuals who immigrated to Israel in late 2025 will be eligible under the Temporary Provision and, at the same time, will enjoy the exemption from reporting income from outside Israel as existed until December 31, 2025. At the same time, it was provided that an individual who ceases to be an Israeli resident during the 2028 or 2029 tax year and stayed in Israel for fewer than 75 days in either of those years will not be entitled to benefits under the Temporary Provision.

To Which Income Does the Tax Exemption Apply?

The Temporary Provision applies, as stated, only to earned income produced in Israel, but it excludes income attributed to an individual from a "transparent entity" (such as a partnership) in which the individual holds 10% or more of the entity's rights but less than 100%, and which is not a "wallet company." In addition, earned income of the individual received from a "relative" will enjoy an exemption in a lower amount (except for a company under the individual's full control).

No Tax Liability in Israel for a Foreign Resident Entity in Connection with the Activity of the New Immigrant or the Veteran Returning Resident

Under the Temporary Provision, it was provided that business income of a foreign resident entity in the years 2026-2030, produced in Israel solely due to the individual's personal services in Israel (meaning that, without the personal services of that individual, the foreign resident entity would not have had business income produced in Israel), will be exempt from tax. This addresses an additional significant barrier that had prevented individuals employed by foreign companies from coming to Israel, since according to the position of the Israel Tax Authority, the activities of such individuals could have created a permanent establishment in Israel for those entities resulting in the requirement to file returns and pay tax in Israel. However, this benefit does not apply where the individual holds (directly or indirectly) 10% or more of the rights in the

foreign entity, or where the foreign entity is a transparent entity, in relation to the individual's share in the income of the foreign entity.

In conclusion, the Temporary Provision constitutes a significant expansion of the benefits granted to new immigrants and veteran returning residents through 2030, for the first time also in relation to earned income produced in Israel. Alongside the practical potential to encourage immigration and the transfer of economic activity to Israel, the wording of the Temporary Provision also raises interpretive and practical questions, particularly regarding the scope of eligibility, the applicability of the exceptions, and the accompanying conditions for receiving the benefit.

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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