2026 ,3 אוגוסט

The ITA Published a Circular Regarding the New Temporary Tax Exemption on Israeli Income for New Immigrants and Returning Residents

Client Updates

In April 2026, we reported on the enactment of the "Law for Encouraging Immigration to Israel and Return Thereto (Temporary Provision), 2026" (the "**Temporary Provision**"). Our client update on the enactment of the law is available **here**.

Recently, the Israel Tax Authority (ITA) published Income Tax Circular 07/2026 (the "**Circular**"), which addresses the practical application of the Temporary Provision and adds guidance on its implementation and interpretation.

The Temporary Provision grants eligible individuals who become Israeli residents between November 5th, 2025, and December 31st, 2026 (the "**Statutory Period**"), a tax exemption on taxable earned income derived in Israel, in addition to the existing benefits available to first-time Israeli tax residents and veteran returning tax residents with respect to income derived outside Israel.

The Temporary Provision caps the amount of Israeli earned income that may enjoy the exemption over the 2026-2030 period, 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.

For income earned from a relative during the years of 2026-2029, the cap set in the Temporary Provision is NIS 140,000.

Who Can Benefit and What Does the Circular Clarify?

In addition to meeting the Income Tax Ordinance (ITO) definitions of "first-time Israeli resident" or "veteran returning resident", based on the substantive center-of-life test, to benefit from the Temporary Provision, an individual must also hold the relevant approvals from the Ministry of Aliya (for new immigrants: an Oleh visa, Oleh certificate or an eligibility for an "Absorption Basket"; and for a veteran returning resident a "returning resident certificate"). Holding such a certificate is not required to enjoy the 10-year holiday exemption set in the ITO but is rather a unique requirement for the Temporary Provision.

The Circular clarifies that the determining date is the date on which the individual transfers their center of life to Israel. For the purpose of the Temporary Provision, the center-of-life transfer to Israel must occur within the Statutory Period, and an Aliya Ministry certificate, as described above, must also be in hand (even if issued before the actual move to Israel).

The Circular also emphasizes that an election for a "year of acclimation" does not change the date of immigration or return to Israel for these purposes. As recalled, the choice of an acclimation year allows a new immigrant or a veteran returning resident to be considered as a foreign resident for tax purposes for the first year of their stay in Israel.[1] However, such a choice would not change the date of immigration for the purpose of their eligibility for Temporary Provision benefits, and the date of the shift of the center of life to Israel will be the determining one for the Temporary Provision's application. Therefore, if an individual made a choice for an acclimation year when arriving in Israel before November 2025, he would not be eligible for the Temporary Provision despite not being considered an Israeli tax resident during that time. On the other hand, an individual who relocates his center of life to Israel during 2026 will be considered to meet the 'time of immigration' condition, even if he chooses an acclimation year.

As the Temporary Provision is intended to encourage long-term immigration to Israel, it also includes a claw-back provision, determining that if the individual ceased their Israeli tax residency in 2028 or 2029, and stayed in Israel less than 75 days during one of those years, they would retroactively lose eligibility for the exemptions set in the Temporary Provision. The Circular clarifies that the claw-back mechanism under the Temporary Provision will apply only if both conditions are met: i.e., the individual ceases to be an Israeli resident for tax purposes in 2028 or 2029 and is present in Israel for fewer than 75 days in one of those years. A temporary absence from Israel, on its own, should not result in loss of the relief.

Advance Relief - Which Income Qualifies and Which Is Excluded?

Eligible individuals may seek advance relief during the year, in opposed to paying full taxation and getting tax refunds only after submitting the annual tax return in the following year. Employees may request tax coordination, and self-employed individuals may apply to reduce their tax advancements.

This advance route is subject to a stay-days test for the individual and spouse for the years 2016-2025 and requires supporting documents. A person who does not qualify for advance relief may still claim the benefit later in the annual tax return under the regular "center-of-life test".

The advance relief is capped at NIS 300,000 or NIS 500,000 per year, depending on filing status.[2] Income from a "relative" is excluded and may be claimed only through the annual tax return.

Income from Transparent Entities or other Certain Foreign Resident Entities

The Temporary Provision applies only to earned income produced in Israel, but excludes income attributed to an individual from a "transparent entity" in which the individual holds 10% or more, but less than 100%, of the rights, and which is not a "wallet company." The Circular clarifies that the exclusion applies to the entity's attributed income; by contrast, salary, management fees, or consultancy fees received by the individual from such an entity may still qualify. The Circular also reiterates that a company under the individual's full ownership is not treated as a "relative" for purposes of limiting the exemption on income from a "relative".

Under the Temporary Provision, business income of a foreign resident entity in the years 2026-2030 that is produced in Israel solely due to the individual's personal services in Israel may be exempt from Israeli tax. The Circular confirms that this relief may apply even where the individual's activity in Israel would otherwise create a permanent establishment for the foreign entity. At the same time, it emphasizes that the relief does not apply where (i) the foreign entity would have been taxable in Israel even without that activity, (ii) the individual holds directly or indirectly 10% or more of the rights in the foreign entity, or (iii) in the case of a transparent entity, to the share attributable to Israeli resident owners.

Mixed Income (Israel and abroad)

For an individual whose personal exertion income is generated partly in Israel and partly abroad, the portion of the income attributed to their activity abroad will be **fully** exempt from tax, while the portion attributed to the activity in Israel will be eligible for the exemption under the Temporary Provision up to the annual ceiling. A like application would be made for mixed income, from unrelated parties and from a relative.

In conclusion, the Circular provides guidance on the scope and operation of the temporary tax relief through 2030. At the same time, its application still depends on close analysis of the relevant definitions, factual circumstances, documentation requirements, family relationships, and the distinction between substantive entitlement and advance relief.

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[1] In such a case, if the individual leaves Israel within the acclimation year, their period of non-Israeli residency will not be considered interrupted, allowing them to return to Israel in the future and still be eligible for immigration benefits. To the extent that the individual decides to remain in Israel, the acclimation year period will be considered part of their ten-year exemption.

[2] The NIS 500,000 cap relates to individuals required to file an annual tax return, and the NIS 300,000 cap relates to individuals not so required.

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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