Dollar 3.868 0.05% | Euro 4.108 0.06% | Tel Aviv 25 1,448.49 -0.16% | Nasdaq 5380.68 -0.11%

Wage gap for Jews, Arabs is growing

Moti Bassok

Earning gaps between salaried Jews and Arabs grew significantly last year, according to a survey by the Central Bureau of Statistics.

The average employed Israeli earned a gross salary of 9,503 shekels a month last year, an increase in inflation-adjusted terms of 2.7% from 2014.

The median salary last year was 6,884 shekels a month, an increase in real terms of 3.4% from 2014.

These are the findings of a survey the Central Bureau of Statics conducted of Israeli households.

The survey found that the median salary equaled 72.4% of the average salary, a similar figure to that of the preceding 14 years.

The survey found that salary gaps between Jews and Arabs grew significantly – the average Arab earned 58.6% of what his Jewish counterpart earned last year, versus 67.2% in 2014. The gaps are larger among those with higher education: An Arab with 0-8 years of education earned 86.5% what his Jewish counterpart earned, while an Arab with 16 years of education earned 66.2% of what a Jew with a similar education level earned.

The average employed Jewish male earns a gross salary of 12,316 shekels a month, versus an average salary of 6,564 shekels a month for the average Arab male, meaning the average Arab man earns 53% of the average Jewish man's salary, versus 60% in 2014.

The average employed Jewish woman earns 8,011 shekels gross a month, versus 4,561 shekels a month for the average employed Arab woman, meaning the Arab woman earns 56% of the average Jewish woman's salary, versus 68.8% in 2014.

The survey found that 51.7% of salaried employees in Israel last year were men. The average age was 39.5, and the average number of years of education was 14.1 – 13.9 for men, and 14.3 for women.

End of 10-year tax exemption for immigrants brings new worries

Some olim fear demands to make unanticipated retroactive payments

Efrat Neuman

Next month, 10 years will have passed since a far-reaching reform giving new immigrants and returning citizens a 10-year exemption from reporting and paying taxes on income from abroad.

The exemption applies to both active and passive income, that is from wages as well as from investments or property rentals, earned outside of Israel.

Various attempts to overturn the exemption failed. The scope of the foreign income covered by the exemption is not known.

Immigrants and returning residents who arrived in Israel during 2007 will be responsible for reporting and paying taxes on all foreign-earned income. They will need to complete a tax report for 2017 and submit it in 2018, but will also need to begin reporting income earned in 2017 during that year.

New immigrants arriving from North America last year. *Gil Cohen-Magen*

What about back taxes or NII payments?

The approaching deadline is raising concerns among these citizens that they may face back taxes, particularly National Insurance Institute payments, as well as the possibility that the Israel Tax Authority could audit them to determine if they were indeed eligible for the exemption.

This is particularly relevant for individuals whose date of immigration or return to Israel, before or after the beginning of 2007, isn't entirely clear-cut.

The reform was designed to encourage Diaspora Jews to immigrate to Israel and Israelis living abroad to return. It expanded the tax benefits that had been previously available. It took force retroactively from January 1, 2007. It also granted a one-year exemption from Israeli residency for tax purposes to new immigrants and returning residents.

For instance, an Israeli physician who moved to Spain and opened a private clinic there and then returned to Israel but continued working part of the week in Spain, would be granted a one-year exemption from Israeli residency, followed by nine years during which she would not have to report income earned in Spain nor pay taxes on it.

Any income earned in Israel would be fully taxed. If she sold the clinic in Spain, the revenues would not be taxed; if she opened a new clinic in Israel, it would be fully taxed.

However, while these individuals were exempted from tax, there never was any exemption from NII payments — meaning they should have been making NII payments on foreign earnings for the past 10 years. However, because of the exemption from reporting requirements, the NII was not aware of this income.

The State Comptroller's Office pointed out problems with how the Tax Authority handled Israeli residents' income abroad in a recent report. These citizens are not exempt from NII payments, but the NII relies on reports to the Tax Authority, so it has no way to charge them, the comptroller stated. It's unlikely that many of these citizens reported on foreign-earned income to the NII.

Attorney Yair Binyamini stated that many of these citizens were concerned that when they started reporting to the Tax Authority, the NII would charge them retroactively for the entire 10-year period.

Another concern is that people who arrived as tourists in 2006 and received a legal opinion stating that they were considered residents only after the beginning of January 2007 would be open to allegations by the Tax Authority that since they arrived before the law took force, it does not apply to them, and they would be responsible for reporting and paying taxes on 10 years' income.

'It's complicated'

Now, once they start reporting, Tax Authority officials will easily be able to see that they were in Israel prior to 2007.

"Residency for tax purposes is a complicated matter," says Binyamini. "Is the Tax Authority going to start looking into 10 years worth of history?"

Hillel Moskovits, an American accountant who helps American citizens prepare U.S. taxes, cites as an example a group of immigrants who arrived with immigrant assistance group Nefesh B'Nefesh on December 27, 2006. Would the Tax Authority agree that the exemption applied to them, if they start reporting now? The answer isn't clear.

'Gray areas'

Moskovits says some of his clients applied to the Tax Authority for official confirmation of a 10-year exemption, but apparently that's not the norm. However, he notes that most tax experts believe that the Tax Authority will not start investigating the arrival dates of newcomers who start reporting foreign income in 2017, although that's not a guarantee.

The Tax Authority has not responded.

Binyamini also notes that there are more complicated cases, where the business and revenues are abroad but part of the operations are conducted in Israel.

Yair Binyamini *Eyal Friedman*

"There are many gray cases," he says. "Take the case of a British lawyer who immigrates to Israel but keeps working for a British law firm, but also starts taking on Israeli clients without settling things with the Tax Authority. No one was told what to do in such cases — divide up the income based on days? Hours? It's also a problem because a lawyer earns more for an hour of work abroad versus an hour of work in Israel. The Tax Authority needs to take this into account," Binyamini says.

The reform, carried out in order to encourage immigration on the occasion of Israel's 60th anniversary, stated that returning citizens who arrive between January 1, 2007 and December 31, 2009 would be granted that status after being abroad for only five years, versus the previous 10-year requirement. This, too, creates gray areas, such as individuals who were abroad for five years but not continuously, or students who went abroad for studies and returned to visit.

Binyamini states that the reform will also affect companies run by new immigrants or returning citizens, which had received a 10-year exemption from taxes in Israel. After the 10 years is up, these companies may be considered "Israeli residents" by virtue of being managed by Israeli residents, putting them at risk of facing tax bills both in Israel and abroad.