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Lead Report

## **Israel**

### **Israel Wants to Be First Country to Collect Tax Via Airbnb**



*By Matthew Kalman*

Israel is trying to persuade Airbnb to collect income tax on Israeli vacation rentals and remit the amounts directly to the Israel Tax Authority.

Airbnb currently collects tourist taxes on behalf of hosts in more than 340 jurisdictions around the world, and has so far remitted more than \$510 million, an Airbnb spokesman said by email March 28. Israel is thought to be the first country

to collect income tax via the platform.

"Hosts want to pay their fair share of tax and we want to help, which is why we are working together with the Tax Authority and Tourism Ministry on measures to help make tax simple for everyone. We want to lead our industry on this matter," the Airbnb spokesperson said, adding that discussions are still in the "early stages."

The Israel Tax Authority "is currently formulating the final recommendations," an authority spokesman said by email March 26, declining to comment any further on Israeli media reports that Ofri Shalev, head of the authority's professional division, was preparing plans whereby Airbnb Inc. would deduct up to 20 percent tax from holiday rentals in Israel.

Israeli officials are divided between the tax authority, which wants to collect revenue from holiday lettings estimated at about 1 billion shekels (\$286 million) a year, and the tourism ministry, which views Airbnb and similar platforms as essential to the development of incoming tourism which increased year-on-year by 25 percent to 3.6 million visitors in 2017, and grew by a further 28 percent in the first two months of 2018, according to ministry statistics.

The expansion of hotel accommodation has failed to keep pace with the rise in tourists, and officials are aware that many visitors wouldn't come at all without online holiday apartments. By 2016, about 13,000 Israeli apartments were listed on Airbnb, just under half of them in Tel Aviv, according to company records. While it supports efforts to regulate the vacation lettings market and collect taxes, the tourism ministry doesn't want to deter either Airbnb or Israeli landlords with a high tax rate or burdensome bureaucracy.

"The Ministry of Tourism encourages diversification of accommodation options in Israel and is working to promote regulation in the field of rental apartments for tourists," a spokesperson said by email March 25.

Conversely, the tax authority wants all Airbnb hosts to register as small businesses, said David Shilon, chief coordinator of assessment review and VAT advisory and directives at the Israel Tax Authority. That could require every Airbnb host to keep computerized books, hire an accountant, submit tax returns and register for VAT.

#### **Passive Income**

Israeli law allows extensive tax breaks on passive income from long-term residential lettings. Landlords can receive a full tax exemption on regular monthly income up to 5,030 shekels (\$1,438), a partial exemption on larger amounts, pay a flat 10 percent tax on the gross, or claim expenses and depreciation against the rental income and include it in their standard tax return.

Many vacation hosts have applied the same tax regime to short-term rentals—if they are declared at all—but the tax authority says they are businesses and not eligible for the breaks on residential lettings.

Hosts will benefit from having Airbnb collect and remit their taxes without having to register as businesses, said Harel Perlmutter, a tax partner at Barnea, Jaffa, Lande and Co. law firm in Tel Aviv.

#### **Snapshot**

- Israel Tax Authority, Ministry of Tourism in talks with online vacation giant
- Special low-rate income tax would be collected and remitted from Israeli hosts

"If someone is earning a few thousand shekels a month, to open a file, submit reports, get an accountant—it's not worth it. So sometimes we're encouraging people not to report and pay the taxes," Perlmutter told Bloomberg Tax March 27. "An automatic withholding mechanism through Airbnb will help people follow the law, it will be easy, and I think it's a really good idea."

A business would also be liable for VAT. "It doesn't mean they have to add VAT. I think they should have an exemption up to a certain amount," said Perlmutter.

The tax-free allowance and tax rate should be the same as long-term residential lettings. "I don't see why we need to make a distinction between those people who are renting for short term and long term. I think all of them have to be on the same page," he said.

In January, the tax authority scored a major victory when Israel's high court accepted its appeal against lower courts decisions in the cases of two landlords who owned and rented out more than 20 properties each. The court ruled they couldn't claim the tax benefits on passive rental income because the large number of properties, together with a "mechanism" of employees and bureaucracy they used to manage the rentals, meant that they were running a business.

### **Draft Circular Targets Rentals of 5-10 Homes**

In February, the authority published a draft circular seeking to expand the court's decision into long-term policy, saying anyone renting out more than 10 homes would be considered a business, five properties would not, and those in between would be assessed. It emphasized that the circular "does not apply to vacation apartments."

Meanwhile, the authority has been conducting raids on Airbnb hosts each year since 2015, booking apartments and then summoning the landlords for interrogation.

"They shot themselves in the foot with that circular," said Leon Harris, a CPA at Harris Consulting and Tax in Ramat Gan, whose clients have been questioned by the tax authority about Airbnb income. "The tax authority says in this circular they'll look at 5 to 10 homes. Now people on Airbnb are in trouble for renting out one room in one home, not 5 to 10 homes. They really have to sort out their logic."

It is unclear whether the tax authority has the mandate to impose its classification of a business when the court was ruling related to owners of more than 20 homes. The application of VAT on a business clashes with VAT exemptions on residential lettings of less than 25 years, Harris said.

"People renting out a home or part of a home might be exempt from VAT up to 99,000 shekels. Or they may be able to invoke an exemption under 31(1) of the VAT Law 1975," Harris said. "I really think the Israeli Revenue are in for a hiding here. They'd have to change the law."

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