

**Weinstein & Co's  
Israel Payroll Overview**

Weinstein's Israel Payroll Overview

**Contents**

1.	Registrations and Establishing an Entity	1
2.	Tax and Social Security	2
2.1	Income Tax	2
2.2	Social Security	3
3.	Reporting	4
4.	New Hires	5
5.	Leavers	5
6.	Employment Law	5
6.1	Holiday Accrual / Calculations	6
6.2	Maternity Leave	6
6.3	Paternity Leave	6
6.4	Sickness	6
7.	Employee Benefits	6
7.1	Expenses	7
8.	Visas and Work Permits	7
9.	Banking	8
10.	Working Week	8
11.	Contact	9

## Weinstein's Israel Payroll Overview

### 1. Registrations and Establishing an Entity

The Israeli Companies Law (ICL) defines a company as a corporation formed and registered in Israel, in accordance with the Israeli law.

It is necessary to register the company with the Registrar of Companies. While Hebrew and Arabic are the official languages of Israel, in practice, the Registrar will generally accept corporate documents in English. However, the Company Registrar does require that the Articles of Association be translated into Hebrew.

In order to register a business with the Registrar of Companies the following documents must be submitted:

- Form No.1 of the Company Registrar - An application form to register a company.
- Memorandum of Association, which establishes the corporate identity and principal objectives of the company, shareholders' responsibility and shares issued.
- Articles of Association, which set forth rules of conduct for the company. Should a company not submit its own articles of association, then the standard articles which are listed in the Companies Law will be in force for this company

The fee for registering a company is currently 2,640 NIS.

After the registration is complete, the registrar will issue a certificate of incorporation and a company number.

An Israeli lawyer is required to verify the company documents. A lawyer will usually handle the process for most requests and will represent the company at the Companies Registrar Office as well.

Once the company has been registered with the Registrar, it must be registered with the appropriate Tax Authorities.

Registration as a company should be made at the tax authority upon commencement of operations. The filing number is usually the same one as the one issued by the Registrar of Companies. Registration is made using form 4436, which includes basic details of the company.

Most companies limit the personal liability of their members, usually in the form of shares. In this case, the term "Limited" (or the abbreviation "Ltd.") must appear as part of the full name of the company.

A company may be registered as a "Private Company" or a "Public Company", with securities registered on a Stock Exchange. Both types of company must present annual reports, including audited financial statements to their shareholders.

A company incorporated overseas may establish a branch or local office in Israel as long as it is registered as a foreign company with the Registrar of Companies within a month of its establishment.

If the company uses the term "limited" as part of its name, then it must display its name and the name of the country in which it is incorporated on every invoice, letter, announcement, advertisement or other official publication. In order to register, a foreign company must submit all

## Weinstein's Israel Payroll Overview

the necessary documents to the Registrar of Companies. There is no requirement to publish financial statements of a private company.

More information for Tax and Registration can be found at the following links:

- Israel Tax Authority: <https://taxes.gov.il/>
- Employment Law: <http://economy.gov.il/Employment/WorkRights/Pages/workrights.aspx>
- National Security: <http://www.btl.gov.il/>

## 2. Tax and Social Security

The tax year runs from 1st January to 31st December.

### 2.1 Income Tax

Income tax is deducted from the salary by the employer and transferred to the Tax Authorities.

Note: The employer is required to pay to the authorities various fees to attain the permission to employ migrant workers. The employer should not deduct any such fees from the salary.

Self-employed individuals pay income tax on taxable income at rates ranging from 10% to 50%, plus national insurance up to 16.23% on the first NIS 43,370 of monthly income. However, 52% of these national insurance payments are deductible for income tax purposes in the year they are paid, resulting in an effective combined maximum 57.3%, decreasing to 48% beyond NIS 43,370.

Taxes of up to 50% are levied on most domestic Israeli expenses, unless the recipient holds confirmation from the Israeli Tax Authority allowing a lower rate.

Israeli banks must withhold tax, generally at rates of 25-31%, on remittances from Israel, unless the remittance is related to imported goods.

An exemption or reduction in tax withholding may be obtained for certain cases such as when a treaty applies or when the payments are for services that are rendered entirely abroad.

Failure to withhold will result in a denial of the relevant expense and possible penalties.

An employer is required to open a withholding tax file and withhold income tax from employment remuneration paid to employees, for work performed in Israel.

The withholding tax file should be opened with the tax authorities prior to making remuneration to employees or payments to other recipients.

Income tax is paid to the authorities every month.

These payments must be made by the 15th day after the month's end and can be paid at a Bank or Post Office.

Late payments generate a penalty.

## Weinstein's Israel Payroll Overview

Employers provide all employees with annual earnings and deductions statement.

### 2.2 Social Security

Every Israeli resident aged 18 and over is obliged under law to be insured by National Insurance and to pay the National Insurance contributions, except for a housewife (a married woman who is not employed outside the household) and for a person who first became an Israeli resident over the age determined by law (the age increased gradually from 60 to 62).

Every resident of Israel aged 18 and over is also obliged to be covered by Health Insurance and to pay the health insurance contributions to the National Insurance Institute together with the national insurance contributions. A housewife is exempt from payment of health insurance, with the exception of a housewife who is an old-age pension recipient or whose spouse receives a supplement to his old-age pension.

Every insured person must be registered in one of the healthcare funds and is entitled to the health services defined by law.

Payment rates of national insurance and health insurance are calculated according to the insured's earned and unearned income, and according to their work status (employee, self-employed, unemployed, student, etc.).

Payments will not be less than the minimum specified by law and will not be more than the maximum income ceiling for insurance contributions.

A resident who does not work and has no income will pay the minimum insurance contribution of NIS 171 per month.

An insured person is obligated to pay insurance contributions for any period he/she is temporarily absent from Israel.

**National Insurance (In Hebrew: Bituach Leumi)** fees are deducted from a foreign employee's salary and cover the following:

- Work-related injuries
- Maternity allowance
- Unpaid wages or severance pay in case your employer goes bankrupt (see below)

The rate of national insurance deduction for a foreign employee is 0.04% for the first NIS 5,944 of their salary, and 0.87% of every shekel above NIS 5,944.

You can find detailed information on National Insurance benefits and deductions on the National Insurance Institute website.

**Housing and Health Insurance:** additional deductions for a foreign employee include housing expenses and health insurance costs. The employer may also deduct from the employee's salary, sums that the employee owes them (such as loans and recruitment fees), but only if the employees agrees in writing to such a deduction.

## Weinstein's Israel Payroll Overview

Rates of National Insurance (Social Security) and Health Insurance for residents of Israel are as follows:

	Up to 60% of the Average Salary 5,678 NIS		Over 60% and up to 5 times the Average Salary	
	Employee	Employer	Employee	Employer
Social Security	0.4%	3.45%	5%	7.5%
Health Insurance	3.10%	-	7%	-
Total	3.5%	3.45%	12%	7.5%

The employer is legally obliged to arrange accommodation for a foreign employee. The law further details the required standards and costs of employees' residence.

### 3. Reporting

The following are the reporting requirements to the authorities in Israel:

#### Monthly

Companies must also file monthly returns on accounts accompanied by tax payments. Bimonthly returns are sometimes acceptable for small businesses.

These filings and payments must be made by the 15th day after the month's end and can be paid at a Bank or Post Office.

Late payments generate a penalty.

#### Yearly

The employer must give each employee a Form 106, which is an annual statement of wage and tax, to the end of March. The employer also has to give to the Income Tax Authority Form 126 to the end of April. The employer also has to give to the National Insurance Institute Form 126 to the end of July, January and April.

Taxes to be filed include:

- Company Tax Instalments - a percentage of the company's monthly sales revenue.
- Supplementary company tax instalments with respect to certain non-deductible expenses.
- Tax withheld from salaries and remittances to suppliers when applicable.
- Value-added Tax (VAT).
- National Insurance.

All companies doing business in Israel are required to file audited annual tax returns and financial statements within 5 months after their fiscal year. Extensions may be obtained. Filings may sometimes be spread over a period of up to 13 months after the tax year-end.

## Weinstein's Israel Payroll Overview

### 4. New Hires

It generally takes 3-4 days to set up a new employee on payroll.

The information required to register a new start are:

- Personal Demographic Data: Name, Address; Proof of Address and Identification
- Tax Information
- Salary Data
- HR/Payroll Data
- Family Members
- Employee's Health Insurance
- HR/Salary Data: Employee Salary, Premiums, Bonuses And/or Allowances, Dispense Voucher, Job Title, Cost Centre, Location, Department, Work Hours, Type of Employment Contract
- New Employee Forms Completed and Registration with Authorities
- Form 101 - Workers Declaration to be filled out by employee at the beginning of employment and of each tax year, and after any change in form details
- Employment contract stating conditions between the employer and the employee, including salary components, insurance and funds, etc
- Bank account

### 5. Leavers

Upon termination, the employer must compensate the employee for accrued and unused vacation days. The redemption must be calculated in accordance with the level of salary being paid to the terminated employee at the time of termination.

### 6. Employment Law

Youth Employment Law 1953 generally forbids the employment of children who have not yet reached the age of 15 or who are subject to compulsory education under the Compulsory Education Law 1949.

Under section 2 of the Youth Employment Law 1953 it is permissible to employ a child who has reached the age of 15 and who works as an apprentice under the Apprenticeship Law 1953; a child age 15 who has completed his compulsory education; and a child age 14 whose employment has been approved by the Minister of Labour and who has been excused from compulsory education. Employers of youths of compulsory school age are required to release them to attend school, without debiting their salary, during school days and hours. Failure to fulfil this obligation is a criminal offense of the Compulsory Education Law 1949.

## Weinstein's Israel Payroll Overview

### 6.1 Holiday Accrual / Calculations

Employees are entitled to 16-28 days of paid annual leave each year, depending on the number of years with the same employer.

In addition, each employee is also entitled to nine paid religious holidays a year according to his religion or the Jewish calendar, as he chooses.

### 6.2 Maternity Leave

The maternity allowance is designed to compensate the new mother for the loss of her salary or income during the time she is not working, due to the pregnancy and birth of child.

Women are entitled to 15 weeks paid leave (105 days of entitlement).

Half of the maternity allowance is paid, if insurance contributions are paid for six of the 14 months preceding the determining date.

In order to receive the maternity allowance, employees must fill out and submit it (in person or by mail) to the National Insurance Institute branch closest to her place of residence, along with certification of the birth from the hospital. The employer may transfer this data by internet, instead of the employee.

### 6.3 Paternity Leave

The father can take seven days leave together with the mother at any time during her maternity leave; in this case, the mother will be paid for 14 weeks and the father for one week.

The mother is allowed to transfer part of her maternity leave to the father.

### 6.4 Sickness

The Sick Pay Law, 1976 (and certain other related laws), sets the right of any employee to receive sick leave at a rate of one and a half days for each month of employment with the right to accumulate up to 90 days. Employees are not entitled to any payment for the first day of illness; for the second and third day of illness, employees are entitled to 50% of the salary; and from the fourth day onward, 100% of the salary. However, in several industries it is common to pay full salary for sick leave, starting from day one.

## 7. Employee Benefits

Employee benefits in kind are not required by law.

Employee share schemes may be found in public companies; the gain is taxed.

## Weinstein's Israel Payroll Overview

### 7.1 Expenses

**Travel Allowance:** Employees that require transportation to get to their workplace are entitled to travel allowance in addition to their salary. The allowance will not exceed NIS 22.60 per day or the cost of a prepaid monthly bus ticket.

**Recuperation Pay:** Upon completion of one year of work for the same employer, employees are entitled to recuperation pay from their Employer. The daily rate is NIS 378 multiplied by 5-10 days (depending on the length of the employment period). Recuperation pay is paid once a year between June and September, but may be paid monthly.

**Pension Insurance:** Employees are entitled to pension insurance based on their salary: at least 6% is deducted from the employee, at least 6.5% + 6% is deducted from the employer.

## 8. Visas and Work Permits

There are two types of Israeli work permits that a foreigner can receive from the Ministry of Interior:

- An open (B1) work permit, allowing a person to work without restrictions, other than a one year (renewable) time limit
- A restricted work permit, initiated by a sponsoring Israeli Employer, limiting employment to the specific company

The B1 permit is open for renewal should the requirements be met and provide the job seeker with complete flexibility.

The visa process can take from weeks to months to complete. The employment contract and letter from the employer stating that they are interested in hiring the applicant is helpful in the process. The B1 Work Permit only suggests that the applicant is eligible to work. This visa is for a person whose stay in Israel is approved for a limited period of time for the purpose of work. This visa is given to experts and artists, among others, and is granted solely with the approval of the Ministry of the Interior.

The fee is paid by the applicant when the application is submitted to one of the population administration offices of the Ministry of the Interior. Upon receipt of approval from the Ministry of the Interior, the mission will issue the B/1 Work visa after interviewing the applicant and obtaining from him the following documents:

- A Verified Certificate of good conduct
- Certification of Medical Examinations performed in clinics or hospitals recognised by the mission and the results of blood tests.
- A declaration of the taking of a fingerprint (the State of Israel has begun to take a fingerprint from foreign workers who enter the country to work) and a photograph.
- A completed Application for a Visa
- Two Passport Pictures

## Weinstein's Israel Payroll Overview

The validity of the B/1 Work visa will be in accordance with Ministry of Interior guidelines. The worker must enter Israel within the period of time specified in the visa and stay in the country as specified in the visa. A person who receives such a visa may apply to one of the population administration offices of the Ministry of the Interior to extend the visa.

## 9. Banking

It is not mandatory to have an in-country bank account to process the payroll. Salary and third party payments can be made on behalf of the company. Monthly payments to the authorities are made by cheques and in shekels. Payments to employees are made using bank transfers or cheques. Bank transfers are usually made within the same day in Israel.

There are not very many banks in Israel. Moreover, the Israeli banks have set special branches for foreign residents who wish to open a bank account in Israel, this also applies to local companies that have foreign shareholders.

The main payment systems in Israel are:

- Zahav system, which is designated for immediate and final settlement of large and urgent payments
- Paper-Based Clearing House for paper transmissions (checks and various credits and debits)
- Masav (banks' automated clearing house, which settles electronic debit and credit instructions)
- TASE Clearing Houses (the securities of clearing houses) and the credit card companies

Participants in the various payment systems are mostly commercial banks and large financial institutions. The public use the means of payment directly, and need to use the inter-bank payment systems for the transfer of money from bank to bank.

The standard bank opening hours are 8.30am to 12.30pm on Sundays to Fridays and 4.00pm to 6.00pm on Mondays and Thursday afternoons. Some branches are closed on Fridays or Sundays.

## 10. Working Week

Working hours in Israel are generally 8.00am to 17.00pm on Sundays to Thursdays. Companies that work on Friday are generally open from 8.00am to 1.00pm.

The working week for employees 18 years of age or over who are employed full time consists of 43 hours. Employing more than 12 hours a day or 15 overtime hours a week is illegal.

Different rules apply for employees classified as part time, handicapped, absent and apprentices. All employees are entitled to a weekly rest period of at least 36 hours - on Friday, Saturday and/or Sunday, depending on their religion.

Employees are entitled to overtime pay after 8:36 hours (in a 5-day workweek) or after 8 hours (in a 6-day workweek). For the first two hours of overtime each day, payment is 125% of the regular hourly wage; for each additional hour, the rate is 150% of the regular hourly wage.

Weinstein's Israel Payroll Overview

## 11. Contact

Dov Weinstein  
Telephone +972 77 738 6666  
Email [w@wcpa.co.il](mailto:w@wcpa.co.il)

Idan Weinstein  
Telephone +972 77 738 6676  
Email [idan@wcpa.co.il](mailto:idan@wcpa.co.il)

Our office is located at 17 Kissufim Street, Jerusalem, Israel

Weinstein's Israel Payroll Overview

Contact