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Subject: New Legislation Regarding New Immigrants and Returning Residents – Relief under the Israeli Income Tax and National Insurance Regimes

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General Background

In 2026, two new statutory arrangements entered into force with the stated purpose of encouraging immigration to Israel and return thereto.

The first is the Encouragement of Immigration to Israel and Return to Israel Law (Temporary Provision), 5786-2026 (hereinafter: "**Encouragement of Immigration Law**"), which provides, subject to specified conditions, an exemption from Israeli income tax with respect to a portion of certain active income derived in Israel.

The second is the National Insurance Law (Amendment No. 262 – Temporary Provision), 5786-2026 (hereinafter: "**National Insurance Law Amendment**"), which, under certain circumstances, grants new immigrants from the United States an exemption from the payment of Israeli National Insurance contributions for a period of five years.

Although both legislative measures were enacted against the same general policy backdrop, namely, facilitating the initial years of integration in Israel, they operate in two distinct legal spheres: the former in the field of income tax, and the latter in the field of National Insurance.

Relief under the Income Tax Regime

The Encouragement of Immigration Law applies to a new immigrant who immigrated to Israel during the period commencing on November 5, 2025 and ending on December

31, 2026. In addition, the law applies to a senior returning resident[1] who returned to Israel during the same period.

For these purposes, the law requires that a new immigrant hold an immigrant visa or immigrant certificate, whereas a senior returning resident must hold a returning resident certificate issued by the Ministry of Aliyah and Integration.

The law further establishes a continuity condition. Specifically, where an individual ceases to be an Israeli resident during either of the 2028 or 2029 tax years, and is present in Israel for fewer than 75 days in such year, the benefit shall not apply. Stated differently, the legislative intent appears to have been to extend the benefit to individuals who genuinely relocate their center of life to Israel on an ongoing basis, and not to individuals whose presence in Israel is merely temporary or short-term.

Subject to the foregoing, the law grants, for a period of five years, a tax exemption at varying thresholds with respect to active income derived in Israel, including, inter alia, employment income, professional income and business income. By contrast, the law does not provide an exemption with respect to passive income derived in Israel, such as interest, dividends, rental income or capital gains.

Annual Exemption Thresholds

Tax Year	Exemption Threshold
2026	Up to NIS 600,000[2]
2027	Up to NIS 1,000,000
2028	Up to NIS 1,000,000
2029	Up to NIS 350,000
2030	Up to NIS 150,000

Where the relevant income is received from a "relative"[3], the annual cap for the years 2026 through 2029 is reduced to NIS 140,000 per annum. Accordingly, in appropriate circumstances, the benefit may result in highly material tax savings.

[1] An individual who returned to Israel after having resided abroad for at least 10 years.
[2] Or proportionately to their period of Israeli residency during 2026.
[3] As defined in Section 88 of the Income Tax Ordinance [New Version], 5721-1961 (the "Income Tax Ordinance"), except for a company that constitutes an immigrant enterprise.

It should be emphasized that this new exemption is intended to operate in addition to the exemptions already available under existing Israeli law to new immigrants and senior returning residents[4]. Such existing benefits include, among others, an exemption with respect to passive income derived from foreign assets and, where applicable, an exemption with respect to active income actually derived outside Israel.

At the same time, an important legislative distinction must be noted. Individuals who arrive in Israel as new immigrants or senior returning residents on or after January 1, 2026 remain entitled to an exemption from Israeli tax with respect to foreign-source income; however, the reporting exemption previously available in respect of such income has been repealed. Consequently, such individuals are now required to report even foreign-source income that remains exempt from Israeli tax. This stands in contrast to individuals who obtained such status on or before December 31, 2025, who, subject to the applicable rules, also benefited from an exemption from reporting in Israel with respect to income derived outside Israel.

A further component of the Encouragement of Immigration Law addresses circumstances in which a new immigrant or senior returning resident performs work from Israel for a foreign-resident entity. As a general rule, the personal activities of an individual carried out in Israel on behalf of a foreign company may, under certain circumstances, give rise to a permanent establishment of that company in Israel, potentially resulting in Israeli tax exposure for the foreign company.

Against that background, the law provides that such activity, in and of itself, shall not create Israeli tax liability for the foreign-resident entity. This relief, however, is expressly limited. It does not apply where the individual is a substantial shareholder in the foreign entity, namely, a holder of 10% or more of the means of control therein, nor does it apply in the case of a transparent entity[5], to the extent of the portion of income attributable to an Israeli resident.

Accordingly, this provision appears intended to facilitate remote work from Israel for foreign corporations, while at the same time delineating clear boundaries designed to prevent overly broad reliance on the relief.

Relief under the National Insurance Regime

[4] Pursuant to Sections 14 and 91 of the Income Tax Ordinance.

[5] An entity whose taxable income is attributed to its shareholders (for example, a U.S. LLC or a French SCI).

Alongside the Encouragement of Immigration Law, the National Insurance Law Amendment introduced a separate and distinct relief under the Israeli National Insurance framework.

Pursuant to Section 350A, as enacted under the National Insurance Law Amendment, and as a temporary provision in force from January 1, 2026 through December 31, 2035, an Israeli resident who is a new immigrant from the United States shall be exempt in Israel from the payment of National Insurance contributions with respect to employment income or business income, provided that social security contributions are paid on such income in the United States.

This provision carries practical significance. The United States is not among the countries with which Israel has entered into a social security treaty. As a result, new immigrants from the United States may, in many instances, be exposed to double social security contributions, namely, both in the United States and in Israel, in respect of the same income. The purpose of the amendment is to mitigate such duplication.

In suitable cases, the economic value of this exemption may be considerable and may reach very substantial amounts. Eligibility for the exemption extends for the first five years following the date of receipt of an immigrant visa, immigrant certificate, or other appropriate certificate issued by the Ministry of Aliyah and Integration.

That said, the scope of the exemption should be stated with precision. First, the exemption applies only to National Insurance contributions, and does not extend to health insurance contributions. Second, where the immigrant has additional income in respect of which no social security contributions were paid in the United States, such income may still remain subject to contribution obligations in Israel.

Conversely, the legislation includes an important protective mechanism: for purposes of entitlement to benefits, the exempt period shall be deemed to be a period in respect of which contributions were paid, thereby preserving the continuity of the immigrant's future social security rights. In this respect, the legislature sought not only to alleviate the immediate economic burden during the initial years of residence in Israel, but also to avoid prejudicing future social entitlements.

Summary

The new legislation is intended to create a more favorable framework for the initial years of residence in Israel for new immigrants and senior returning residents. On the one hand, it provides an income tax exemption with respect to a portion of certain personal income derived in Israel. On the other hand, in defined circumstances, it also provides relief from the payment of National Insurance contributions. At the same time, the pre-

existing tax benefits relating to certain foreign-source income continue to apply, subject to the revised reporting rules.

Notwithstanding the significance of these reliefs, their application is conditional upon strict compliance with the specific statutory requirements. Accordingly, in each particular case, careful consideration should be given to the date of immigration or return to Israel, the nature of the income, the place from which the income is derived, the structure of the relevant activity, and the continued Israeli residency status of the individual.

We would be pleased to assist with any questions or further clarification.