



State of Israel
State Comptroller and Ombudsman
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Government Actions to Reduce the Bureaucratic Burden on Businesses

Abstract

Government Actions to Reduce the Bureaucratic Burden on Businesses

Background

The administrative authorities in the state determine, inter alia, the conditions (hereinafter administrative requirements) for the operations of the business sector. When it comes to business licensing, the purpose of regulation is, inter alia, to preserve public peace and keep the public safe from various dangers. The administrative requirements for the public are intended to preserve public resources and allow scrutiny and control before one right or another is granted. At the same time, these requirements are bothersome and represent a bureaucratic-administrative burden (henceforth: bureaucratic burden or burden) for entrepreneurs, business owners, and businesses themselves, and should be reduced to the absolute minimum need.

Key figures

NIS 58 billion

4.6% of GDP: the one-time estimated increase in economic activity were the bureaucratic burden reduced by 30%

55,000

businesses open in Israel every year 42,000 businesses close every year 500,000 active businesses in Israel

59

Israel's ranking among 140 countries in the 2018 World Economic Forum (WEF) survey in the "regulatory burden" rubric

35

Israel's ranking in the World Bank's Doing Business Report 2020. 49th: Israel's ranking in 2019.

11 days

the average time required to register a business with the various authorities in Israel in 2019

24%

the percentage of applications for a building permit submitted to local committees that were authorized only after more than year


11

of ~200 businesses for which a "specification" was written by March 2019 containing the requirements the business has to meet





200 days




the average time to receive a building permit. There are 20 authorizing entities whose authorization is required to receive a building permit including departments at local authorities and various government offices

Scope

 From September 2018 to January 2019, the State Comptroller's Office examined aspects connected to the reduction of the bureaucratic burden imposed on the business sector as a whole, and on industrialists in particular, at several government ministries. At the Ministry of Economy and Industry, we examined the measures taken to reduce the bureaucratic burden on industry, while at the Tax Authority we examined the process of registering a business and the process of making tax payments to the Authority. Supplemental examinations were carried out, inter alia, at the Prime Minister's Office, the Department of Business Licensing, the Planning Administration, the Israel Lands Authority, and the National Fire and Rescue Authority.

Key Findings

-  The World Economic Forum (WEF) has found that ineffective government bureaucracy is the one factor most responsible for creating the greatest difficulties for businesses in Israel. Government ministries have yet to study or implement the use of shared service centers in many areas, e.g. allocating land for industry, issuing a building permit for industrial and labor purposes, and licensing businesses at the Ministry of the Interior.
-  Many government ministries have yet to formulate a program to reduce regulation as required by the 2015-2019 five-year plan. Of the 370 programs that should have been formulated by the end of the five-year program, only 160 programs had been formulated. Of these 160, some were only partially carried out.
-  Tax directives in Israel are complex. Directives are scattered among the Income Tax Ordinance, orders by virtue of the ordinance, and regulations and administrative instructions by the director of the Tax Authority. Businesses are required to submit various reports to the Tax Authority based on varying criteria at different dates and via different interfaces. Many times, the tax directives are not clear to the public and to entrepreneurs and they are forced to turn to representatives just to in order to report and make payment to the Tax Authority or in order to clarify their debt or credit balance. Assesseees can still not view their account with the Tax Authority directly via the internet.
-  Corporations cannot be established with the Registrar of Corporations, the Tax Authority, and the National Insurance Institute at the same time through a common online form.

-  The procedure of allocating land for an industrial business takes several months. About 40% of land allocation applications submitted to the Ministry of Economy in 2017 have yet to be completed by 2019. Of the applications submitted to the Israel Lands Authority from 2014 to 2016, 35% took more than six months to be processed, while 17% of applications took more than a year.
-  According to the measurements employed by the World Bank, Israel ranks low in terms of the time required to obtain a permit (29th out of 36 OECD countries) and stands at about 200 days. In terms of the financial cost, the issuing of the permit constitutes around 1.7% of construction costs (23rd out of 36 OECD countries).
-  In November 2010, it was decided that all licensing entities, regulators, and the Department of Business Licensing at the Ministry of the Interior should formulate uniform specifications for licensing businesses. By March 2019, specifications had been issued for only 11 out of 200 different business classifications. The number of businesses in fields from which specifications were published is about 20,000 of some 150,000 businesses requiring licensing.









The plans to reduce the bureaucratic burden published by the Department of Home Affairs, Planning and Development in the Prime Minister's Office, which were included in the five-year plan, are expected to result in savings of NIS 2.67 billion each year in direct costs and to savings of more than 40 million "waiting days" once they are implemented.

Israel's ranking in the World Bank's Doing Business Report 2020 improved in some of the clauses surveyed.

The Tax Authority is developing possibilities for assesseees to report and pay online.

Key recommendations

-  The Department of Home Affairs, Planning and Development in the Prime Minister's Office must continue to study how it can assist in reducing the bureaucratic burden that falls on the business sector in cross-ministerial procedures. The Department must supervise and guide the completion of some 210 programs to reduce regulation that have yet to be formulated as part of the five-year plan.
-  To the extent possible, the Ministry of Justice, the Corporations Authority, the Tax Authority, and the National Insurance Institute must unify the system of an online form for fast-tracking the registration of businesses, with all the aforementioned at the same time. Furthermore, they must study the necessity of the documentation requested during the procedure.

-  The Ministry of Finance and the Tax Authority must jointly study the reason that Israel ranks so low on the World Bank index of the cost and time required to make a report and carry out payment to the Tax Authority. According to the World Bank, the action requires the employment of an employee over a period of more than a month. In 2020, there was no improvement in this index. The Tax Authority must simplify the requirements of businesses throughout the tax system and make those requirements as flexible as possible, including the dates of reporting that it requires and, to the extent possible, make the data in the system accessible to all assesseees.
-  The Ministry of Economy and the Israel Lands Authority must combine procedures for land allocation for industry, so that both bodies carry out their examinations simultaneously. Furthermore, they must study the need for one service point for land allocation.
-  The Planning Administration must study the need for authorization by the many authorizing entities, as required by law, in accordance with the essence of the requested building permit.
-  Entities providing authorizations must complete a specification for each of the occupations, and the Ministry of the Interior must consolidate them into one specification and publish the requirements (and the date they go into effect) so as to implement the business licensing reform and bring clarity and certainty to businesses with regard to the conditions they are required to meet to obtain a business license.

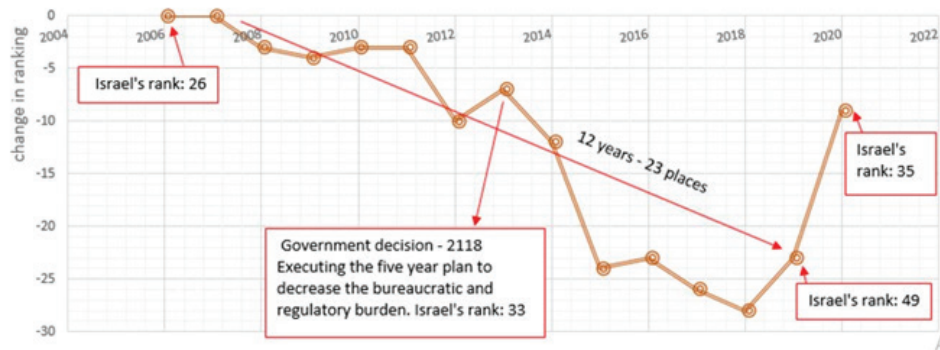
Summary

Businesses in Israel suffer from a heavy regulatory burden in several fields. The entire public service, led by the Prime Minister's Office, must apply itself to the mission of reducing the regulatory burden on businesses through technological improvements, coordination among regulators, joint action by them, and setting goals to reduce unnecessary requirements. Recently, the regulatory burden on businesses has been reduced, but not sufficiently; barriers should continue to be removed and ideas from overseas adopted.



The change in Israel's ranking in the World Bank Index from 2006 to 2020 (among 190 countries)

The index is a major indicator for investors world-wide



Source: World Bank Doing Business Report 2020

