



Office of the State Comptroller
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**Ministry of Finance | Israel
Tax Authority**

**Tax Authority's
Supervision of
the Land Border
Crossings**

Abstract



Tax Authority's Supervision of the Land Border Crossings

Background

There are seven international land border crossings at the borders of the State of Israel, which are used by Israel and its neighbors. There are also internal land crossings between the State of Israel and the Palestinian Authority. The role of the Israel Tax Authority at border crossings is, inter alia, to enforce the law as it pertains to the legality of imports and exports and to collect taxes. For this purpose, the Tax Authority must inspect incoming and outgoing passengers, goods and vehicles at Israel's border crossings.

Key figures

7

land border crossings between the State of Israel and neighboring countries

3.41 million

travelers passed through the land border crossings between the State of Israel and Jordan in 2018

ILS 5.6 billion

volume of trade between the State of Israel and Jordan in 2018

ILS 32.7 billion

volume of trade between the State of Israel and the Palestinian Authority in 2018. According to the Tax Authority, about 22% should be added to this sum for unreported trade

1.1 million

travelers passed through the land border crossing between the State of Israel and Egypt in 2018

ILS 1.25 billion

tax loss resulting from smuggling originated in the Palestinian Authority


ILS 1.7 million

total administrative fines imposed in 2018 on those smuggling prohibited goods or transferring goods without documentation from the Palestinian Authority into Israel






802

smuggling of prohibited goods or transfers of goods without documentation from the Palestinian Authority into Israel were caught in 2018

Audit actions

 From August 2018 to February 2019, the Office of the State Comptroller audited the Tax Authority's activities at the land border crossings. The audit was conducted in the Tax Authority Management, in the designated staff unit in the Tax Authority, in the customs units at the border crossings and in the customs units at the internal border crossings in the Judea and Samaria region and in the Gaza Strip region.

Key findings





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-  Particular deficiencies were found in the Jordan River and Allenby customs offices and at the interior border crossings between the State of Israel and the Palestinian Authority.
 -  Employees of the Tax Authority at the Allenby border crossing are exposed to violence directed against them as a result of the lack of presence by the Israel Police there.
 -  The sanctions defined for purposes of enforcement and deterrence from committing offenses, such as an administrative fine and a monetary sanction, are inadequate to deter those who frequently commit these offenses from breaking the law. Instances were found where the value of the smuggled goods reached hundreds of thousands of shekels and, in one major incident, the value of the VAT and purchase tax on the smuggled goods reached ILS 1.8 million.
 -  The State of Israel transfers to the Palestinian Authority all of the import taxes that it collects for imports of goods intended to be sold within the jurisdiction of the Palestinian Authority. The audit found that, in 2018, only 59.1% of the imported cargos intended for the Palestinian Authority passed into its jurisdiction through official border crossings. Consequently, there is a concern that the goods that did not pass through the official border crossings remained in Israel and were sold in Israel. Consequently, Israel lost hundreds of millions of shekels that it transferred to the Palestinian Authority in respect of tax payments for goods that were ostensibly transferred to its jurisdiction – this in addition to the losses of VAT and income tax revenues from the unreported sales of the goods in Israel.



A new inspection station is operating at the Allenby border crossing that enables swift and convenient simultaneous inspections of four vehicles. Additionally, a new and advanced x-ray machine began operating at the Allenby border crossing in January 2018 that x-rays shipping containers, instead of the previous pallet scanner.

In 2017, inspectors in the Tax Authority administration operating in the Judea and Samaria and Gaza Strip regions caught 376 and 296 actions of smuggling prohibited goods or goods without appropriate documentation, respectively, and seized the goods; in 2018, inspectors in the Tax Authority administrations caught 410 and 392 actions of this kind, respectively.

Key recommendations

-  The Tax Authority should regularly use canines to detect drugs and money during inspections at border crossings.
-  The Israel Police should assign a police presence at the Allenby border crossing during all hours of its operation, who will maintain public order and prevent any violence against any officer performing a role at the border crossing on behalf of the State of Israel.
-  The Tax Authority should take action so that the enforcement and sanctions imposed on felons who transfer goods without appropriate documentation, and particularly tobacco and tobacco products, will be proportionate to the number of offenses that they committed and as soon as possible after the offense is committed.
-  The Tax Authority should take action to prevent and deter instances of goods arriving as imports and intended for the Palestinian Authority from leaking into the jurisdiction of the State of Israel. Additionally, the Tax Authority should promote the matter of electronic tracking devices on shipping containers intended for the Palestinian Authority in order to prevent smuggling of goods or transfer of goods other than through border crossings.

Loss of tax revenues to the State as a result of the smuggling of tobacco and cigarettes

Loss of VAT revenues to the State and of purchase tax on cigarettes totalled ILS 1.7 billion in 2017



Every year, 60 million packs of cigarettes are smuggled into Israel at the cost of ILS 1.32 billion

Furthermore, the illegal trade of smuggling of tobacco from the Palestinian Authority reaches about 400 tons of tobacco, out of which 55 million packs of cigarettes may be produced



Summary

The audit by the Office of the State Comptroller raised difficulties preventing the smuggling of goods through the border crossings. According to a Tax Authority estimate, the loss of taxes caused to the State of Israel as a result of smuggling and goods transfers without appropriate documentation is exceedingly high and reaches hundreds of millions of shekels. Some of the failures that were found could also pose a threat to national security. The Tax Authority should initiate a process to prevent smuggling at the border crossings and to enforce the tax laws as required. The Tax Authority should examine its tasks and objectives and ensure that conditions are created that will enable its employees to fully perform their roles.