



Office of the State Comptroller
Annual Report 71A | 2020

Israel Tax Authority

Implementation of the work Grant Program in The Tax Authority – Expanded Follow-up Audit

Abstract

Implementation of The Work Grant Program in the Tax Authority Expanded Follow-up Audit

Abstract

Background

In 2007, the Israel Tax Authority began paying a grant to employed citizens within the scope of the provisions of the Law to Increase the Participation Rate in the Workforce and to Narrow Social Gaps (Work Grant) ,2007 (Work Grant Law), which was designed to improve the welfare of working families whose wages were ranked at the lowest wage levels, by providing an incentive for them to enter the labor market and increase their disposable income, and to reduce poverty and inequality among families in which one family member is employed.

Key figures

ILS 8.6 billion

were paid to entitled citizens as work grants for the tax years 2007 – 2018

ILS 3,660

sum of the average work grant paid to entitled citizens for the 2017 tax year

2.37 million

citizens received work grants for the tax years 2007 – 2018

2.7 million

letters were sent by the Tax Authority to citizens potentially entitled to a grant for the tax years 2007 – 2018

611 post units

post office branches and agencies where work grant applications may be submitted

125 days

average time of handling inquiries of entitled citizens who had not received the grant sums in their bank accounts in 2019

69.8%

was the average utilization rate of the work grant for the 2017 tax year, out of the potentially entitled citizens according to the Tax Authority

5,688 people

with disabilities who received a work grant for the tax years 2007 to 2018, out of which 2,120 for 2018, out of about 6,000 potentially entitled disabled citizens in 2018


486,035 people

despaired of being left on hold to speak with for the answer of a call center representative, out of about 1.44 million people who applied to the service center in 2018 and 2019

20 minutes

citizens' average waiting time to speak to the call center in 2018 and 2019




Audit actions

 **The focus of the follow-up audit** – the State Comptroller's Report 66A, which was published in 2015 (the previous report or the previous audit) focused on the implementation of the work grant program in the Israel Tax Authority. After more than a decade has passed since the launch of the program, and after it stabilized, the Office of the State Comptroller chose to focus on several matters in its follow-up audit, including: (a) rectification of the deficiencies raised in the previous report; (b) exercise of the right to a work grant among disadvantaged populations, including people with disabilities whom the Ministry of Labor has determined have partial work capacity, domestic workers and several communities in the Arab sector and in the Haredi (ultra-orthodox Jewish) sector; (c) issues relating to exercise of the right to a work grant, including work-grant-related actions by the Israel Postal Company; (d) work grant targets from the local and international perspective.


From January to March 2020, the Office of the State Comptroller examined rectification of deficiencies that were specified in the previous report in the Tax Authority. Supplementary audits were conducted in the Israel Postal Company, in the Bank of Israel, in the Budget Department in the Ministry of Finance, in the Ministry of Labor, Welfare and Social Services Unit for Integrating People with Disabilities in the Labor Market (the Integration Unit), in the National Insurance Institute (NII) and in the Commission for Equal Rights of Persons with Disabilities in the Ministry of Justice (Equality Commission).

Section 1 – Follow-up on rectification of deficiencies

Key findings

-  **Work grant utilization ratio** – the number of applications for a work grant increased by about 25% in the tax years 2012 to 2017. Despite the continuous improvement in the utilization ratio of the grant since the beginning of the implementation of the Work Grant Law in 2008 relative to the total of the potentially entitled citizens according to the Tax Authority, this ratio still reaches only about 70% for the 2018 tax year.
-  **Publicizing the right to a work grant** – the previous audit found that the distribution of explanatory pamphlets regarding the work grant in the employment service offices was discontinued. The follow-up audit found that this deficiency has not been rectified.
-  **The Tax Authority's database on real estate is outdated** – the previous audit found that the Tax Authority's database of real estate was not updated, also due to omissions by the Authority, inter alia, because the Tax Authority had not properly

updated the database with regard to the public's real estate assets, a failure that resulted in unjustified rejections of citizen's work grant applications or delays in determining entitlement. The follow-up audit found that this deficiency has not been rectified.

 **Reports of the employment of domestic workers and forwarding of the information to the Tax Authority** – the previous audit found that only a small ratio of domestic workers claim the work grant, and some are not receiving the grant because their private employers are not reporting their employment to the NII. The follow-up audit found that these deficiencies have not been rectified.



Allocating a budgetary item for funding a work grant – the previous audit found that a separate budgetary item in the State budget for funding the grant was not allocated. The follow-up audit found that the deficiency has been rectified and, as of 2017, a special budgetary item is allocated in the annual budget law, which guarantees the sources for funding the grant to entitled citizens.

Recording of work grant claims – it was mentioned in the previous audit that thousands of work grant applications were not approved due to a failure to record the grant applicants' details, or due to partial recording of applicants' data in the post office, and that citizens entitled to a work grant did not receive the grant sums in their bank accounts due to erroneous data entries at a post office. The follow-up audit found that the deficiencies have largely been rectified and that the Postal Company is taking action to minimize data entry errors.

Impact of employers' reports on the receipt of the grant – the previous audit found several deficiencies including: (a) due to the fact that some employers failed to report wages, citizens' claims to receive a grant were drawn into unnecessary clarification proceeding; (b) a significant ratio of the grant applicants were not found in the employers' wage forms due to errors in entering their details. The follow-up audit found that the deficiencies have largely been rectified and the impact of employers' reporting on nonpayment of the grant to entitled citizens has diminished.





Reports of employment of IDF employees – it was mentioned in the previous audit that the payments unit in the IDF failed to report salaries of its employees to the Tax Authority since 2009. The follow-up audit found that the deficiencies have largely been rectified and the IDF payments unit reported salaries of its employees to the Tax Authority for the tax years 2018 and 2019. However, the Tax Authority and the IDF payments unit have still not settled the technical deficiencies between them, when their rectification will enable online receipt of IDF employees' wage reports at the Tax Authority.

Handling of inquiries regarding a work grant at the public inquiries department – the previous audit found that the tax assessment offices and the call center were using a computerized system to manage inquiries, and deficiencies were found regarding the cumbersome operation of the system and the validity of its data, which had an impact on the start of the essential handling of inquiries. The follow-up audit found that

the deficiencies have largely been rectified and the system was replaced with a CRM system. However, additional deficiencies were found in the activity of the call center and in the CRM system, which does not document the handling of public inquiries in all of the Tax Authority's units.

Increasing the grant to various groups – over the years, benefits were given to the self-employed, to single parents, to women who gave birth and to heirs of deceased individuals, and benefits was given to people with disabilities for whom a personally adjusted minimum wage was defined and to others.




Key recommendations

-  **Increasing the exercise of the right** – the Tax Authority should take action to rectify the deficiencies specified in this report and to increase exercises of the right among citizens entitled to the grant who are employees receiving the lowest wages; to reduce the bureaucratic burden imposed on entitled citizens when they try to exercise their right; and to improve the efficiency of the procedure for issuing the grant to entitled citizens.
-  **Sums of the work grant** – the Tax Authority should examine the decrease in the average sum of the grant being paid to entitled citizens in order to minimize the erosion of this incentive to join the labor market as a result of the reduction of the grant sums, and should take action to increase the incentive for employees to remain in the labor market.
-  **Equating the grant given to males to the grant given to females** – it is suggested that the Tax Authority should consider recommending that the grant given to males should be equated to the grant given to females (in similarity to the “Family Net” program for the 2018 tax year). The findings of a Bank of Israel survey published in 2016 reinforce the conclusion of the studies presented in the previous report of the advisability of cancelling the gender differentiation, which is that the height of the work grant given to earners of low wages affects their willingness to continue working and their scope of working hours.
-  **Publicizing the right to a work grant** – it is recommended that the Tax Authority, which is responsible for implementing the Work Grant law, and the Employment Service, should resolve the logistic and budgetary issue relating to the distribution of explanatory pamphlets and should take action to resume their distribution at all employment branches. It is also recommended that the Tax Authority should also consider distributing them at Israel Postal units, since the target populations for receiving the grant are not necessarily exposed to digital media.



Deficiencies reported in the previous audit report	Not rectified	Somewhat rectified	Considerably rectified	Fully rectified
The funding of the grant was not allocated under a separate budgetary item				
The Tax Authority did not hire enough employees in order to implement the law and clarify public inquiries				
Hundreds of claims for a grant are submitted directly to the tax assessment offices after the statutory deadline.				
The work grant simulator operates only in Hebrew				
Some employers failed to report, which led a significant ratio of grant claims being subject to clarification, resulting in the grant not being paid to entitled citizens.				
A significant ratio of the grant applicants were not found in employers' wage forms due to errors in entering their details.				
The IDF's payment manager has not transferred the wage reports to the Tax Authority since the 2009 tax year.				
The computerized system for managing inquiries, the "service desk," is cumbersome, unreliable and delayed the handling of inquiries.				
Data about public inquiries that were entered into the system were deleteable; the system did not constitute a reliable source of documentation.				
Thousands of applications were not approved due to incomplete data entries or due to data entry errors by the Israel Postal Company.				
In relation to hundreds of grant applications submitted through the Israel Postal Company, the grant sum was not received in the entitled citizens' bank accounts.				
In the 2012 entitlement year, more than half of the entitled citizens filed their applications only after receiving the Tax Authority's letter.				
The handling of inquiries referred for handling of real-estate taxation takes a considerable length of time, which delays the determination of the entitlement to a work grant.				
The Tax Authority's estimate of people with disabilities who are entitled to an increased grant is inaccurate and only about one third of them have exercised their right.				
Forms are partial and do not enable analyses or the performance of surveys.				
The distribution of pamphlets at employment offices has been discontinued.				
A small ratio of domestic workers claim the grant; some of their claims were denied because their employment was not reported by their employers.				
Applications are not being approved by the Tax Authority because the real-estate taxation database is not up-to-date.				
Citizens' work grant applications are being denied because of the real-estate data – unjustifiably.				

Key findings

-  **The average ratio of utilization of the work grant in the Arab sector** – the utilization ratio in the Arab sector is lower than its ratio in the entire the population. For example: 60% of the citizens in the Arab sector included among the potentially entitled citizens according to the Tax Authority's data¹ did not file a claim to receive a grant, even after the Tax Authority sent the letter to them, compared to 47% of the entire population. Furthermore, only 50% of the grant claimants in the Arab sector were found to be entitled, compared to 61% of the entire population.
-  **The exercise ratio of the right to the grant among employees in the Haredi sector who were employed by multiple employers** – the ratio of entitled citizens among claimants for a work grant in the Haredi sector is higher than the ratio of entitled citizens in the entire population. However, the more employers that a grant claimant has, the smaller is the ratio of entitled citizens among the grant claimants.
-  **Required assistance among people with disabilities** – some people with disabilities are encountering difficulties exercising their right to a work grant by themselves and need the assistance of a family member, a social worker or of private NPOs. This situation is even more severe due to the lack of a body responsible for exercising their right to the grant and for identifying and removing obstacles that are preventing the exercise of this right, and which possesses all information regarding potentially entitled citizens. Furthermore, people with disabilities who are employed by a family member are not entitled to a grant (due to employment by a relative). About 2,000 people with disabilities file claims for a work grant each year, out of about 6,000 people whom the Integration Unit has determined have partial work capacity. This attests that, among this population, entitlement to a grant and grant claims are not being fully utilized, despite the fact that, among 5,688 people with disabilities who claimed the grant for the tax years 2007 to 2018, the ratio of disabled citizens who were entitled to the grant was 92%.

¹ The number of citizens potentially entitled to a work grant, who meet all eligibility criteria for the grant (income, census registry and real estate) according to the Tax Authority's data, but did not file a claim for a work grant by August of the current year for the previous tax year.



The activities of the Tax Authority's work grant team – the team took personal initiative and exerted efforts from 2018 to 2020 to ensure that about 400 employees of the "Hameshakem" plant² exercised their right, who are people with disabilities who were defined as workers with partial work capacity. Upon completing the audit in March 2020, the team sent about 33,000 text messages to the mobile phones of citizens who are potentially entitled to a work grant for the 2018 tax year.

Adapting the activities of the Israel Postal Company for use by people with disabilities – the company adapted most of its units and the service provided in them for the use of people with disabilities.

Key recommendations



It is recommended that the Tax Authority should take action to increase awareness of the grant among the Arab population, should clarify the reason why the ratio of entitled citizens among claimants is far lower than its ratio of the entire population, and should clarify what are the obstacles prevent this population from exercising its right to a work grant, including language accessibility. It is also recommended that the Tax Authority should ensure, in coordination with the Israel Postal Company, that mail that it sends to potentially entitled citizens in the Arab sector is indeed reaching its destination.



Publicizing the right to a work grant among disadvantaged populations – it is recommended that the Tax Authority, which is responsible for issuing the work grant, should take action so that the right to exercise the work grant is optimally accessible, particularly by people with disabilities, and it should take action, with assistance from the Integration Unit, to increase the exercise ratios of this right. Inter alia, it is proposed that the Tax Authority should publicize the right to a work grant in a focused manner to all people with disabilities who are employed in the labor market.



Promoting cooperation to implement the right to a work grant among people with disabilities – it is proposed that the Tax Authority should consider cooperating with the Integration Unit and the Equality Commission in relation to people with disabilities, and with the National Insurance Institute, so that all of these bodies will assist in publicizing the right to a work grant among people with disabilities.

² "Hameshakem" is a nationwide company that employs the elderly and people with limited occupational capacity. The company, which was founded in 1962, is owned by the Ministry of Welfare and the World Zionist Organization. About 2,700 employees are employed at the plant who have limited occupational capacity and a wide spectrum of physical, sensory, cognitive, mental and social impairments.



Granting the work grant to people employed by a relative – the Tax Authority should consider criteria for also issuing the grant to people who are employed by a relative, since a sweeping disqualification of these people for a grant is discriminatory against them. At issue is a large group of people from weak population groups, without training or education, who have difficulties integrating in the labor market, including people working in a family business and people with disabilities.

Section 3 - Exercising the right to a work grant

Key findings



- Making the personal zone and online applications accessible by the public** – for the purpose of utilizing the grant, the Tax Authority provided the information fully in Hebrew, partially in Arabic, and not at all in English, Russian or Amharic.
- Handling of material inquiries submitted by the public to the Tax Authority** – the handling of the work grant is not optimal and is a prolonged process in both the public inquiries call center, in the tax assessment offices and in the real estate taxation department. For example, in the tax assessment offices, the handling of inquiries took an average of about 62 days. Only 34% of the people who called the call center about the work grant in 2019 were answered by a service representative, after they expressly requested to do so.



Assimilation of information in the personal zone – in 2019, the Tax Authority began adding information in the personal zone for the benefit of all of its customers, including representatives, taxpayers, dealers and citizens, in order to all the relevant information possessed by the Tax Authority, and to enable the updating of this information if necessary. These efforts should help citizens exercise their rights, improve the potential for citizens to be entitled to the grant and should increase the ratio of citizens who exercise their right among all entitled citizens.

The Tax Authority is sending letters – in June 2019, the Tax Authority began sending letters about the work grant to the citizens' addresses that are listed in the Population Register, pursuant to the Address Update Law.

The Israel Postal Company's service relating to the work grant – from 2014 to 2019, the Israel Postal Company took action to improve the service relating to the work grant, to improve the assistance being provided by the postal units and by the company's public inquiries department when people submit claims for a work grant, and to improve the data in the company's back office department. For example: the company receives grant claims at 611 postal units nationwide and 95.7% are physically accessible by people





with disabilities. Furthermore, the number of inquiries due to non-receipt of the grant money is negligible – only 345 (about 0.1% of all claims submitted at a postal unit).


Key recommendations

- 💡 **Publicizing the right to a grant** – it is recommended that the Tax Authority should expand its publicity about the eligibility requirements for a work grant also at postal units and at branches of the Employment Service and should adjust the mode of publicity to all of the population groups and to people with disabilities, including providing accessibility of all online means accessible to people who speak English, Arabic, Russian and Amharic.
- 💡 **It is recommended that the Tax Authority should update the data regarding people who are potentially entitled for a work grant and should eliminate obstacles among all groups of eligible citizens**, so that this potential will include all people in the possible groups of entitled citizens, while increasing the Authority's cooperation with the NII, the Equal Rights for People with Disabilities Commission and the Ministry of Labor's Unit for Integrating People with Disabilities. The Authority should consider how to enable the various groups to fully exercise their right, and it should take action to eliminate obstacles to these groups' full utilization of their entitlement, including among domestic workers, people with disabilities and the self-employed.
- 💡 **it is recommended that the Authority should continue developing a personal zone** that will present to every citizen the personal information contained in the Tax Authority's databases, will enable the citizen to update this data and will make it easier for citizens, inter alia, to fully utilize their entitlement to a work grant. The Authority should also update the databases in its possession, including information contained in the real-estate taxation department.
- 💡 **It is recommended that the Authority should set up an integrated public inquiries telephone center to handle citizens' inquiries and complaints** that will enable the Authority to provide optimally efficient service to all appliers and reduce the need to refer to the tax assessment offices.

Section 4 - Grant targets from local and international perspective


Key findings

-  **Lack of awareness of eligibility criteria for a work grant** – a 2014 work grant survey³ found that the main reason why people entitled to a grant are not claiming it is that they were unaware of it or about ways to receive it: about one quarter of entitled citizens reported that they had not known about the grant at all. The survey also shed light on the sources of information that provide entitled citizens with maximum exposure to details about the Work Grant Law, including letters about entitlement that the Tax Authority sends to entitled citizens.
-  **Reporting obligation for the purpose of receiving the grant** – the work grant is one of the types of benefits that may be utilized only through reporting, unlike other benefits in respect of work-related expenses that are granted to salaried employees through their employer, inter alia, through the credit points system that grants benefits to employees without their needing to submit documents.

 **The work grant is effective in narrowing social gaps** – according to an analysis by the Ministry of Finance's Chief Economist, the work grant is an effective tool for reducing poverty and social gaps. About 80% of the grant payments reach households in the four lowest deciles.

The poverty level of households with two wage-earners, and a decrease in the inequality index – according to an analysis by the Ministry of Finance's chief economist, the work grant leads to improvement in the poverty index, particularly among households with two and more wage-earners, and increases their disposable income.

Key recommendations

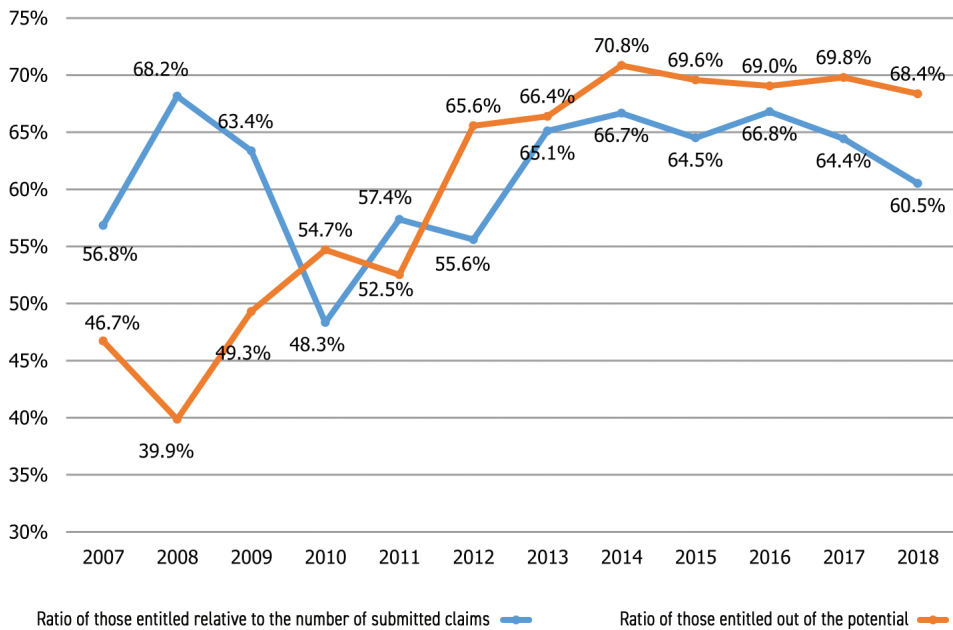
-  **It is recommended that the Tax Authority, the Chief Economist's department in the Ministry of Finance, the National Insurance Institute and the Central Bureau of Statistics** should jointly formulate a full database and a reliable and agreed method of measurement that will be used to deduce, inter alia, the impact of the grant as a tool for reducing poverty in Israel and for increasing the employment ratio.

3 By the inter-ministerial team headed by the Bank of Israel regarding a work grant.



It is recommended that the Tax Authority should consider increasing taxpayers' utilization of rights, including a work grant, using a declarative reporting method or in ways that will enable a reduction in bureaucracy for improving the efficiency of the process.

Work grant utilization ratios in the 2007 to 2018 tax years (%)



Summary

After more than a decade has passed since the beginning of the implementation of the Work Grant Law, it appears that the work grant is having a positive impact on employment in all population groups, among males and females alike, is reducing people's motivation to stop working and is reducing social gaps among the employed. The audit raises substantive obstacles to utilizing the entitlement to receive the grant, which derive from a shortage of information and the Tax Authority's failure to provide full and adequately accessible information in various languages, or because service that it is providing to those applying regarding their entitlement is deficient. These obstacles are harming disadvantaged populations, including people with disabilities.

The Tax Authority should work with the relevant authorities to ensure that all entitled citizens utilize their right to a grant and should remove the various obstacles to utilizing it, some of which were already raised in State Comptroller Report 66A of 2015 regarding

the implementation of the work grant program in the Tax Authority, and which have not yet been rectified. In this way, the Authority will increase its effectiveness as the authority responsible for implementing the Work Grant Law and will create suitable mechanisms to control its implementation and increase utilization among entitled citizens.

The importance of this report is magnified in light of the COVID-19 crisis, which emphasizes the need to provide service and assist the population of citizens entitled to the work grant at this time.