



State Comptroller of Israel | Annual Report 72a – Part Two | 2021

Israel Tax Authority

Exercise of Tax Benefits by the Tax Authority – Extended Follow-up Audit



Exercise of Tax Benefits by the Tax Authority – Extended Follow-up Audit

Background

Non take-up of rights is a phenomenon whereby individuals entitled to benefits and certain rights do not exhaust them. Studies in various countries indicate the problem of non-exhaustion of rights in the fields of social security, such as receiving unemployment insurance fees, receiving tax benefits, ensuring income, compensation following work injury, and more. As for the exercise of tax benefits, it should be stated that only some of the public can enjoy certain tax benefits in the first place, among others due to income level or due to the manner of providing the benefit.

Key figures

76% of the deficiencies

Raised in the previous report, were not rectified or only slightly rectified.

NIS 1 billion


The estimated excess taxes overpaid annually by the public. Only a minority of these taxpayers submit reports in order to receive the overpaid taxes.

NIS 3.6 billion

The estimated excess taxes paid by citizens that are not required to submit an annual report, in approximately 2 million cases, during 2016–2019.



Audit actions

-  The State Comptroller's Annual Report 66a, published in 2015 (previous audit) dealt with exhausting tax benefits at the Israel Tax Authority ("the authority"). From January to March 2021 the State Comptroller examined the rectification of the deficiencies by the Tax Authorities raised in the previous report and the implementation of the recommendations by the exercise of rights team established by the Tax Authority following publication of the report, and additional issues regarding the exhaustion of tax rights.



First chapter – Follow-up of the rectification of the deficiencies raised in the previous audit

Key figures

37% of the recommendations

Of the committee for exhausting rights at the Tax Authority established following the previous report – were implemented. 28% were partially implemented, and 35% were not implemented.

NIS 12.2 billion

The Tax Authority charged for betterment tax, individual taxpayers that carried out real estate transactions, during 2016–2019.

8.7% of betterment tax assessments

That stated spouses, separate assessment were issued during 2016–2019 for both spouses.

Only 4%

Of taxpayers under age 60 that requested layout of the capital gain (betterment) and to exercise the tax benefit, in 2016–2019.

NIS 9.7 million

3,831 citizens did not receive work grants between 2013 and 2019, for failing to update bank accounts.

1,000 entitled

For a work grant for tax year 2013–2014, did not receive the grant and have been waiting for over 6 years.

NIS 670 million

The estimated excess tax collected from over 380,000 citizens that did not submit tax refund reports for 2014, which has expired.



Key findings



Data collection and estimating for exercising rights and providing tax benefits

– the previous audit raised that although the Authority has information on revenues of taxpayers, it does not have information that enables concluding how they exercise the tax benefits to which they are entitled, and that the Authority did not review the obstacles preventing the public from exercising their rights. The follow-up audit findings show that this deficiency was only slightly rectified, and that the Tax Authority did not act to receive all the information to enable it exercising taxpayers rights, including taxpayers that do not have to submit reports to the Tax Authority.






Excess tax collection from employees – the previous audit showed that when the Authority had information of monetary affect caused to citizens that did not exercise their rights, it did not initiate refund of these amounts and did not inform the citizens that according to its data they are entitled to a refund. The previous audit also found that the accrued amount of excess tax paid over the years by employees who worked in two jobs during the same tax year is estimated at several hundreds of millions of NIS. The follow-up audit findings indicate that this deficiency was not rectified, and that every year hundreds of thousands of families pay excess taxes for an extent of NIS one billion. The follow-up audit findings further indicated that hundreds of thousands of families that paid excess taxes do not submit tax refund reports at all and therefore do not exercise their rights. In addition, the follow-up audit found that as of February 2021, according to the Tax Authority calculations for tax years 2013–2019 it owes in approximately 2 million cases (individuals that are not obliged to submit annual income tax reports) a total estimated amount of NIS 3.6 billion. This population of employees includes, for instance, employees that reported working in two jobs, paid maximum tax rates, but did not adjust the taxes; employees that worked part of the tax year and did not submit a refund report for excess tax payment. The follow-up audit also indicated that other than the pilot performed by the Tax Authority in 2015, within which it sent 1,700 letters to alleged entitled who overpaid tax, the Authority did not take action on an annual basis to refund the excess taxes collected.



Exercising tax benefits entailed in deposits for pension savings – the previous audit indicated that the method of calculating benefits due to deposits for pension savings is complicated, employees that do not understand the substance of the benefit offered are not expected to use it and the Authority has not developed computerized tools for exercising the benefits within the family unit. The follow-up audit findings show that the deficiencies were not rectified, including the finding regarding the fact that at the time of submitting tax refund reports, the Authority did not provide the public with tools to assist it in registration of the family deposits to pension funds on the tax refund





forms, in a manner that would benefit the family (by increasing the family tax return or decreasing tax liability). Moreover, the Authority did not develop computerized tools to present the full tax saving potential from deposits to provident funds that would assist taxpayers when submitting reports.


-  **Locating citizens with credit balances** – the previous audit showed that the Tax Authority frequently does not transfer to individuals (citizens that are not obliged to submit reports) the credit balances accrued. Whether due to lack of updated bank details, or whether due to the need to take action for locating the eligible. The follow-up audit findings indicate that the deficiency was only slightly rectified. However, the Tax Authority notified the State Comptroller's Office that in 2020 it had refreshed the instruction concerning the obligation to input bank details to the tax authority computers as stated by the submitters of tax refund reports, particularly when the Authority does not have the bank details of report submitters. Moreover, although the Tax Authority has verified over a million bank accounts, there are approximately half a million accounts that have not yet been verified, and as a result there is no updated information concerning bank account details of all citizens.
-  **Handling credit balances of citizens entitled to work grants** – as of March 2021 3,831 individuals entitled to work grants for tax years 2013–2019 have not yet received their grants, due to their bank accounts not being updated in the Tax Authority computers. It should be noted that at the beginning of 2021 the Tax Authority updated bank accounts of 856 (18%) of the eligible enabling transfer of the grant to their accounts. The follow-up audit also raised that as of March 2021 there is a credit balance of NIS 9.7 million in favor of the entitled individuals with missing updated bank accounts details.
-  **Exercising betterment rights** – the previous audit indicated that the tax benefits, such as allowing a payment dispensation of betterment (attributing the income from capital gains over several tax years) and its division between both spouses of the family, designed to reduce the family's tax liability, are not exercised. The follow-up audit findings indicated that five (50%) out of ten deficiencies relating to aspects of services in handling applications for payment dispensation of betterment tax payments were fully or to a great extent rectified. However, five (50%) of the ten deficiencies relating to exercising rights entailed in the payment of betterment tax were not rectified or only slightly rectified. For example, only a small part of taxpayers obliged to pay betterment tax (11% of age 60 and over and 4% under age 60) submitted an application for a payment plan the capital gain, did not offset the capital gain against other capital losses and only a few (2,338 additional assessments were performed to spouses out of 188,755 taxable betterment land assessments) shared the capital gain between both spouses partners to the land transaction, and the Authority on its behalf did not provide the citizens with a simulator to assist them in exercising their rights.



The audit also found that evident that between 2016–2019 the potential betterment that can be shared between spouses on land transactions was estimated at NIS 20 billion, due also to the fact that 67% of women (wives) do not reach income tax threshold, or they are unemployed – and remain with unused credit points that can be offset against betterment. Therefore, there is concern that some individuals paid excess betterment tax, derived from non-exhaustion of tax rights entailed in sharing the betterment between spouses.

 **Exercising retirement rights** – the follow-up audit findings indicate that the Authority did not complete establishing a consulting body that would clarify to workers over the course of retirement, the taxation alternatives available for pension savings, and therefore many retirees are not aware of these alternatives.

 **Tax loss due to tax year statute of limitations** – approximately 380,000 individuals or families that are not obliged to file annual income tax reports have lost a total amount of NIS 670 million for tax year 2014 because of not filing tax refund reports. Based on 2014 data, it can be assumed that public losses (individuals or families not obliged to file annual income tax reports) have totaled billions of NIS over the years. The audit also found that as of 2021, 435,546 families have not yet filed income tax reports for tax year 2016. The tax refund these families are entitled to is estimated at NIS 803 million. According to the law, if no tax refund report is submitted to the Tax Authority for this year by the end of tax year 2022, the families will lose this amount.

 **Implementing the recommendations of the Tax Authority Committee for Exercising Rights** – as of March 2021 the Tax Authority implemented 19 (37%) of the 51 recommendations of the Tax Authority Committee for Exercising Rights reviewed by the State Comptroller's Office. It was also found that 14 (28%) of the recommendations were only partially implemented, and 18 recommendations were not implemented at all.








Exercising rights of persons with disabilities and holocaust survivors – the Tax Authority has acted to promote exercising the rights of holocaust survivors and of parents to children with disabilities.

Pension continuity for retirees – the follow-up audit findings concerning time limitation for selecting an alternative of retirement grant indicate that the deficiency was rectified in 2017. As part of Amendment 232 to the Income Tax Ordinance an article was added to section 9(7a)g1) according to which an employee that retired and the amounts available at his disposal in the compensation component do not exceed the section ceiling, shall be regarded as having submitted a request for pension continuity, unless requested otherwise.



Key recommendations

-  **Exercising rights of citizens not obliged to file annual reports** – it is recommended that the Tax Authority act to exercise the rights of citizens that are not obliged to file annual income tax reports on all relevant matters.
-  **Refund of excess paid taxes** – it is recommended that the Tax Authority carry out a detailed mapping of excess paid taxes, giving priority to those paid in early years and to the subjects on which there is reasonably high certainty of excess paid tax. It is further recommended that the Authority initiate an approach to taxpayers and provide them the data concerning excess payment of tax they made and instruct them on how to exercise their rights to a refund.
-  **Exercising rights on pension savings** – it is recommended that the Tax Authority act to exercise all family rights to pension savings according to the Ordinance. It is further recommended that the Tax Authority act as much as possible to develop appropriate professional tools, including computerized tools, to enable taxpayers that are not represented to exercise their full rights. Moreover, in view of the importance of tax benefits on pensions and in view of the complexity of the matter, it is recommended that the Tax Authority provide the public with appropriate professional tools that will award taxpayers with comprehensive information on the subject of exercising pension rights, such as a pension deposits calculator, that will assist families in exercising their full rights to tax benefits. This will act as an incentive to the public for savings and will increase their financial security during their pension years.
-  **Exercising rights in real estate taxation** – it is recommended that the Tax Authority act to exercise taxpayer's rights concerning the refunding of excess betterment tax; act to locate cases where the seller of an asset or their spouse did not exercise their rights to lower tax rates or their tax credit points to which they are entitled, and inform them of their alleged entitlement to betterment tax refund. It is also recommended that the Authority locate taxpayers that according to its data, have accrued capital losses, and inform them that betterment can be offset against capital losses. It is further recommended that the Authority provide its employees with a computerized system for calculating betterment payment dispensing, and provide the taxpayers and their representatives a simulator of this system, to assist them in making decisions on the feasibility of dispensing betterment amounts and on the best way of dividing betterment between spouses in the family.
-  **The establishment of a consulting body for retirees** – it is recommended that the Authority complete writing the retirement manual and publish it alongside preparing a



simulator that will be available to the public. It is further recommended that the Ministry of Finance review the possibility of establishing a retirement consultation center.



Formulating a list of tax benefits and acting towards their realization – it is recommended that the Tax Authority join the "National Rights Engine" project, and for this purpose formulate a list of all the tax benefits taxpayers of all sectors can enjoy, and in addition, formulate a separate list of all potentially entitled taxpayers to all tax benefits, which will constitute a basis for establishing a tax simulator to enable taxpayers to exercise all their rights.



Easing the bureaucratic burden imposed on persons with disabilities – it is recommended that the Ministry of Welfare and Social Affairs and the "Egov" Department at the Government ICT Authority act to complete the project for issuing digital blind certificates thereby assisting persons with disabilities to exercise their rights for tax benefits, and ease the burden imposed on these persons when exercising their rights.



second chapter – Aspects of exercising rights and tax benefits

Key figures

54% of individuals

(Employees and self-employed) do not reach tax threshold, and cannot enjoy the tax benefits. As of tax year 2019.

NIS 28 billion

Total evaluated tax benefits for pension savings in 2019.

67% of women

And 44% of men do not reach tax threshold and to not enjoy the tax benefits they are entitled to.

41%

Of the total tax benefits for pension savings received by top decile employees. 1.6% are received by employees in the four low deciles.

In 50% of the families

Where both spouses work, credit points awarded to women are not exercised or only partially exercised.

NIS 900 million

Received by top percentile employees as tax benefits for deposits in pension savings, whereas the four low deciles received NIS 370 million, for tax year 2019.

NIS 2,330 million

The estimated tax benefits for residents of beneficial settlements in 2019.

54 employers

At most, had given a permission to their employees to receive tax credits for donations through their paychecks During 2015–2019.



Key findings



Promoting social objectives by giving tax benefits – in 2018 and 2019 the rate of employees whose income was lower than the tax threshold (do not pay taxes because of their low income and personal details) was 57%, compared to the rate of self-employed whose income was lower than the minimum taxable income which was 40%. The audit also found that the income of 67% of women was lower than the tax threshold. The income of 44% of men was lower than the tax threshold. As a result, they are potentially unable to enjoy the tax benefits.



Tax coordination on the Internet – the audit found that there are taxpayers unable to perform tax a coordination via the Internet, and can do so only via the regional assessment office. For example: Persons requesting special tax exemptions, including exemptions for pension; persons who reached pension entitled age before validity of Ordinance Amendment 190 and owe tax on all income; new immigrants; returning residents; persons awarded tax benefits such as 100% disability or sight impaired; persons with credits from donations to recognized institutions.



Tax benefits due to consolidated family calculation – for spouses that are not required to submit annual income tax reports it appears that the Authority does not perform hindsight calculations to verify that the family received all the tax benefits it is entitled to. Moreover, after receiving employer reports the Authority does not perform calculations to verify whether tax benefits were exercised, and to determine the reporting channel that would be better for the family – separate or consolidated reporting. Moreover, the authority does not inform the taxpayers if they are entitled to tax refunds for overpayments, and thereby does not allow them to exercise their rights by filing reports for tax refunds.



Exercising credit points of new immigrants and returning residents – the audit indicates that the Authority does not have data regarding the number of new immigrants and returning residents that are entitled to credit points, and of those eligible that did not do so. As a result, it is not possible to inform those eligible of rights not used, and the Authority on its behalf is not able to credit them.





Exercising tax benefits on deposits to pension savings by deciles – lower decile employees do not reach the tax threshold and cannot exercise the benefits entailed in deposits for pension savings.



Exercising tax benefits for donations – for each of the years 2015–2019, approximately 54 employers at most of the employers registered at the Tax Authority exercised each year their prerogatives as employers, and enabled their employees to





receive tax credits for donations to recognized public institutions through their paychecks. The audit also found that the simulator installed on the Authority website does not indicate to taxpayers that the amount inputted as their and their spouses donations, does not grant the optimal tax benefits receivable by dividing donations between spouses.

- 
The commencement of entitlement to tax benefits in national priority settlements – having failed to publish the peripheral index on the date originally determined by law, January 2017, there has been a substantial delay in validation of entitlement to tax benefits of approximately two hundred settlements entitled to benefits according to the outline of the Benefits Law, home to 700,000 capita, due to the fact that their entitlement became valid in 2018 instead of 2017.
- 
An active mechanism for exercising rights – the Authority does not have an active mechanism for exercising social rights with direct interfaces to target populations. Had there been such a mechanism available it would have been able to establish a process of providing service of reaching out its services to target populations.



Automatic approvals for tax coordination – in preparation for tax year 2020, the Tax Authority sent automatic approvals for tax coordination for the new year to 300,000 employees thereby saving them the need to perform a new tax coordination. The Authority also sent a letter to 73,000 pensioners who fixed their rights in the calculation of their allocated pension, regarding the updating of the exemption rate they are entitled for the regular monthly pension.

Key recommendations

- 
Increasing progressivity in tax benefits for pension savings – it is recommended that the Authority, in coordination with the Capital Market Authority and the "Digital Israel" staff, complete the examination of the "Leaving the Workplace" project and include it in the Authority's annual work programs, including setting a schedule for its implementation.
- 
Developing digital applications to exercise rights – it is recommended that the Tax Authority examine promoting processes for developing digital applications that will allow citizens to exercise their rights regarding all matters discussed in the follow-up audit, to locate data mistakes in their affairs, and to permanently update their details. It is recommended that the Authority provide to the public information regarding all rights it is entitled, simply and clearly, accompanied by explanations and instructions, in order to assist the public to exercise its right and reduce its tax liability.



The declarative reporting model for promoting exercise of rights – it is recommended that the Ministry of Finance in coordination with the Tax Authority examine the possibility of implementing the declarative reporting model in Israel, among others through learning and drawing conclusions from implementation of this model worldwide. This model, combined with the use of internet and cellular platforms, may expand the extent of exercising rights of all taxpayers, and particularly rights of disadvantaged populations.

Summary

The grossed up financial extent derives from taxpayers not fully exercise their rights and the excess tax collected is estimated at several billions of NIS. The audit findings show that the Tax Authority does not fully initiate provision of these rights to those entitled; among others the Authority does not act to provide full and transparent information to the public, particularly information concerning the existence of the right to exercise various tax benefits and the conditions for receiving those rights. The audit also found that the Authority did not promote removal of the bureaucratic burden imposed on citizens wishing to exercise their rights – rights in tax return reports, rights in betterment payments and rights of retirees. The Authority also did not promote the handling of overpayments made by the public to the Tax Authority.








The Authority did act to assist persons with disabilities, parent of a child with a disability and holocaust survivors to exercise their rights. The Tax Authority must initiate on-line steps for exercising citizens' rights, with supervision and control. It is recommended that the Authority include within those steps an examination of the extent of non-take-up of rights, and what are the obstructions contributing to its occurrence.








The level of rectification of deficiencies stated in the previous audit

The Chapter	Estimates – Absence of estimates and monitoring the rate of exercising tax benefits	Not rectified	Slightly rectified	considerably rectified	Fully rectified
Estimates – Absence of estimates and monitoring the rate of exercising tax benefits	Despite the Authority having information on taxpayers income, it does not have information to conclude how they exercise their entitled tax benefits.				
	The Authority did not review the obstruction preventing the public from exercising their rights.				
	As part of the Authority's work plans it did not include reviewing the rate of exercising tax benefits.				
Losses due to surplus tax collection	Even when the Authority had information concerning monetary injury to citizens that did not exercise their rights, it did not take initiative to refund these amounts, and did not inform them of their entitlement to a refund according to its data.				
	Surplus tax collected from employees that did not work an entire year.				
	The accumulated amount of surplus tax paid over the years by employees working at two work places during the same tax year is estimated at several hundreds of millions of NIS.				





The Chapter	Estimates – Absence of estimates and monitoring the rate of exercising tax benefits	Not rectified	Slightly rectified	considerably rectified	Fully rectified
<p>Non-take-up of benefits on deposits for pension savings</p>	<p>The method of calculating benefits for deposits to pensions savings is complex.</p> <p>Encouraging deposits for pension savings – workers that do not understand the benefit substance are not expected to take advantage thereof.</p> <p>Non-take-up of tax benefits for families deposits to pension funds.</p> <p>Non-development of computerized tools to enhance family deposits.</p>	   			
<p>Non-take-up of benefits for the matter of betterment tax</p>	<p>Only some citizens that paid betterment tax asked for dispensation of the capital gain, which could have reduced the tax liability for some of them.</p> <p>Non offsetting of capital gains and utilization of personal credit points against betterment tax paid.</p> <p>At the time of selling rights in land by two spouses the Land Taxation Office issues the assessment on the name of the registered spouse only, and the betterment assessment determined by the Land Taxation Office does not benefit the family.</p>	  			



The Chapter	Estimates – Absence of estimates and monitoring the rate of exercising tax benefits	Not rectified	Slightly rectified	considerably rectified	Fully rectified
	<p>In few cases the family requested dividing the capital gain (betterment) between the two spouses, as part of the real-estate property sale.</p> <p>The Authority directives do not determine means for monitoring transfer of taxpayer applications for betterment dispensation from the Assessment Office to the Land Taxation Office.</p> <p>The Assessment Offices delay transfer of the betterment payments dispensation applications to the Land Taxation Offices.</p> <p>The land taxation Offices delay handling the applications for betterment payments dispensation transferred from the Assessment Offices upon their arrival.</p> <p>The connection between the Income Tax Offices and the Land Taxation Offices is deficient concerning handling of betterment payments dispensation.</p> <p>Most of the land taxation employees, the Land Taxation workers do not have access authorization to data used to determine the income tax assessment.</p>				  



The Chapter	Estimates – Absence of estimates and monitoring the rate of exercising tax benefits	Not rectified	Slightly rectified	considerably rectified	Fully rectified
	The Authority did not provide its employees, or the public, with a computerized system (simulator) that would assist in calculating the betterment tax through capital gain dispensation.				
Refund of credit balances to the public	The Assessment Offices do not initiate any actual actions to locate persons entitled to tax refunds whose bank account details are not updated in the Tax Authority databases.				
Handling of pensioners	<p>The public is not well versed in the taxation alternatives available at retirement, and does not have sufficient information on the subject.</p> <p>Taxpayers are allocated a limited time to select the taxation alternatives of retirement grants, and once the taxpayers have made their decision on the subject, they are not entitled to change it.</p> <p>If the employee did not select the option of continuous pension, he was not entitled to continuous pension.</p> <p>The Tax Authority did not provide the public a retirement simulator for use.</p>	