



State Comptroller Of Israel | Special Report: The State of Israel's
Coping with the Covid-19 Pandemic | 2021

Economic and Budget Topics

Municipal Property Tax Discounts for Businesses during the Covid-19



Municipal Property Tax Discounts for Businesses during the Covid-19 Pandemic Period

Background

The transfer of funds to the local authorities from the state budget allowed the authorities to grant businesses municipal property tax¹ discounts due to the Covid-19 pandemic. The assistance was provided in two rounds and within two frameworks: Round One – according to a Government decision from April 2020 and the Arrangements in the State Economy Regulations (Municipal Property Tax Discounts) from April 2020 (First Coronavirus Regulations); and Round Two – according to the Arrangements in the State Economy Regulations (Municipal Property Tax Discounts) from September 2020 (Second Coronavirus Regulations). In Round One – the entitlement to a discount was determined based on the classification of the property occupied by the business, and total discounts were estimated at NIS 2.8 billion, with NIS 2.7 billion provided from the state budget and the remainder funded by the local authorities. The discount was granted on a one-time basis to all eligible businesses, at 25% of the annual municipal property tax or at 100% of the municipal property tax charged from March to May 2020. In Round Two – the entitlement to a discount was determined based on a significant decrease in the revenue of a business, and total discounts were estimated at NIS 3.5 billion from June 2020 to June 2021, with NIS 1.3 billion provided during June to December 2020, and the remaining NIS 2.2 billion during January to June 2021.

1 Municipal property tax (Arnona) is an annual tax levied by local authorities in Israel on residents occupying a property within their jurisdiction. The levy funds the authority's activities. The tax is determined based on the zoning, size and location of the property. The rules applicable to municipal property tax are established both in the primary legislation – namely, the Municipalities Ordinance [New Version] and the Local Council Orders, and in the subsidiary legislation. These include regulations and orders issued by the Interior and Finance Ministers, as well as Municipal Property Tax Orders that are updated annually by the local authority councils.



Key figures

**Approx. NIS
2.8 billion**

Round One – an estimated total of discounts for businesses, of which NIS 2.7 billion was funded from the state budget and the remainder by the local authorities. These budgets were fully utilized (see the breakdown in Table 6 below)

**Approx. NIS
275 million**

Round One – a budgetary supplement of NIS 223 million was added to the initial budget estimate (NIS 2.3 billion), that was earmarked in advance for deviations from the initial assessment, and a budgetary supplement of NIS 52 million was approved after the actual expenditure. The budgets were fully utilized (see the breakdown in Table 6 below)

**Approx. NIS
1.3 billion**

Round One – amount transferred from the Interior Ministry's reimbursement budget for municipal property tax discounts to 29 resilient local authorities where most business activity occurs

**Approx. NIS
150 million**

Round One – total participation from the Cleaning Fund of the Ministry of Environmental Protection in municipal property tax discounts, transferred to the local authorities that receive an equalization grant

**NIS 3.5
billion**

Round Two – the sum of discounts approved for businesses from June 2020 to June 2021

**Approx.
80,000
requests**

Round Two – the number of requests submitted from June to December 2020 (as of April 2021)

**NIS 280
million**

Round Two – total reimbursement paid by the Economy Ministry's Agency for Small and Medium Businesses to local authorities for businesses whose request was approved by it, from June to December 2020 (as of April 2020). This sum is 22% of NIS 1.3 billion allocated for that period

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the number of local authorities included in the reimbursement agreement: 195 received an equalization grant; 29 are resilient local authorities; 33 did not receive an equalization grant and were not resilient



Audit Actions

From September to November 2020, the State Comptroller's Office audited the aid provided by the government due to the Covid-19 pandemic in the form of municipal property tax discounts for businesses. The audit included inter alia an examination of the process by which the local authorities granted municipal property tax discounts to businesses and the process of reimbursement of those local authorities from the state budget for the decrease in their revenues. The audit report deals primarily with Round One, as at the time the audit was completed, the handling of requests for discounts in Round Two had just begun. The audit was conducted at the Ministry of Interior and four local authorities: the Tel Aviv-Yafo municipality, the Kiryat Gat municipality, the Nazareth municipality, and the Nof HaGalil (formerly – Nazareth Illit) municipality. Supplementary examinations were performed at the Ministry of Finance, the Local Government Center, the Center for Regional Councils, and the Agency for Small and Medium Businesses (the Agency) in the Ministry of Economy and Industry.

Audit findings

Comparison of main parameters between Round One and Round Two		
Parameter	Round One	Round Two
type of discount	exemption from municipal property tax for the period from March to May 2020, or a 25% discount on the municipal property tax for 2020	municipal property tax discount for businesses hit by the Covid-19 pandemic, at a rate of 95% to 100% from June 2020 until June 2021
budget per round, including the amount of participation of the local authorities and the Cleaning Fund	NIS 2.8 billion for the period from March to May 2020	NIS 3.5 billion for the period from June 2020 until June 2021
budget utilization percentage (as of April 2021)	100%	22% – NIS 280 million out of NIS 1.3 billion allocated for the period from June to December 2020
discount entitlement criterion	all businesses occupying properties, according to the rules established in the regulations	businesses with a turnover of up to NIS 400 million whose turnover was significantly affected, according to the rules established in the regulations



Comparison of main parameters between Round One and Round Two		
recipients of reimbursement for the discount	all local authorities, of which 29 are resilient authorities that received NIS 1.3 billion out of the Interior Ministry's budget (57%)	local authorities with businesses located in their jurisdiction have approved a discount by the Agency. The local authority received the funds from the government and credited the businesses' accounts.
processing time for granting the discount to a business	immediate	two to three months at a minimum (excluding delays)



Round One – Grant of discounts to businesses – In Round One, eligibility for a municipal property tax discount was determined based on the type of property and its use. This method was intended to provide an immediate and rapid response for local authorities and businesses found eligible for a discount. There was no requirement to prove a decline in the business activity during the Covid-19 pandemic period (except for a property classified as "another property").



Round One – Classification of properties to determine eligibility for the discount – The Ministry of Interior had not established a uniform standard for classifying properties by which it and the local authorities determine the municipal property tax charges. The existence of multiple property classifications could affect the grant of discounts to businesses, meaning that an error in the classification of a property could result in an eligible business owner not receiving a discount and vice versa.



Round One – Records and controls for funding from the Cleaning Fund –

- In April 2020, the Cleanliness Maintenance Law was amended to provide a one-time assistance grant to treat household waste, for a total of NIS 150 million, to be paid from the waste burial levy fund (Cleaning Fund) local authorities receiving an equalization grant in 2020. The amendment stated that local authorities classed in clusters 1 to 6 in the socio-economic ranking (10 is the highest-ranking) would receive an additional grant of a total of NIS 40 million. It is apparent from the Law that the above two grants – a total of NIS 190 million that were to be transferred from the Cleaning Fund, were designated for expenses regarding household waste treatment only.
- Although the NIS 150 million in assistance money were disbursed from the Cleaning Fund and ostensibly were intended for cleaning expenses, the amount was included in the property tax discount reimbursement model.
- It emerges from reports by the Nof HaGalil and Kiryat Gat municipalities that the local authorities were not instructed to keep separate records and controls for the



amounts that were received from the Cleaning Fund, and it was unclear for what purpose these amounts were intended – whether for the decrease in municipal property tax from businesses or for cleaning expenses.

- The Interior Ministry and the Environmental Protection Ministry representatives stated that no plan was formulated to settle accounts with the local authorities regarding the additional cleaning costs arising from waste treatment.



Round One – Interior Ministry controls over the reimbursement funds – The data and reports in possession of the Interior Ministry concerning three categories: government assets, other assets, and correction of discrepancies, have made it difficult for the ministry and for external control entities to distinguish between these categories and to carry out the necessary controls.



Round One – Differences between estimate and discounts actually given (under- or over-reimbursement) – It was found that the reimbursement agreement does not contain any provision regarding surpluses or deficiencies between the initial reimbursement and the discounts given in respect thereof. Therefore, in cases where the local authority has accrued a surplus beyond the initial reimbursement, it can retain it. In cases where the local authority has incurred a deficiency, the Interior Ministry will not transfer funds to cover it. Additionally, the information provided by the four audited local authorities demonstrated differences in the controls over the classification of properties in the local authorities and the conformance of the category to the provisions of the First Coronavirus Regulations. Among them was the absence of a uniform standard for classifying properties for all the local authorities and reporting by the authorities according to such an agreed classification. It should be noted that these differences could result in errors in determining eligibility for discounts, in the calculation of municipal property tax, and, as a result, in the calculation of the discounts derived from the tax.



Rounds One and Two – Municipal property tax discounts to lessors of properties – The First Coronavirus Regulations and the Second Coronavirus Regulations do not offer a solution for cases where the lessee of a property broke the lease over reasons having to do with the coronavirus. The lessor of the property was unable to find a new lessee in that period.



Round Two – Handling of requests for municipal property tax discounts – It was found that during the audit period, there was a difference in the processing time of requests, depending on the time of the month in which the request was submitted. Thus, according to the Agency, if a business submitted a request on the 11th of the month, its request was held until the 10th of the following month. It was then forwarded to the local authorities until the 20th of that month. When the request for a business was submitted on the 9th of the month, it reached the local authority within ten days.



Round Two – Percentage of utilization by businesses – It was found that the amount utilized from the assistance budget allocated under the Second Coronavirus



Regulations was NIS 280 million, which was paid out as of April 2021 for June to December 2020. For that period, the budget utilization percentage was 22% of the budget earmarked by the Finance Ministry for municipal property tax discounts in Round Two.



Round Two – Collection and enforcement actions by the local authorities –

When the Second Coronavirus Regulations came into force, no mechanism existed for postponing the collection of municipal property tax payments from businesses entitled to such a postponement, including interest charges on arrears.



Round One – Mechanism for the grant of discounts – The mechanism, developed by the Interior Ministry and the Finance Ministry, was simple to apply for all businesses. The drafting of the regulations, preparing the reimbursement framework, calculating the estimated cost and budget, finalizing and signing the reimbursement agreement, and transferring the reimbursement were all accomplished within a short time after the Government decision. This provided businesses with an immediate solution and supported the budgetary stability of the local authorities. The majority of businesses were not required to submit requests, forms, and documents. Under regulations, businesses eligible for a discount received direct credit for the discount, primarily by crediting their municipal property tax account.

Round Two – Improvement in handling requests for municipal property tax discounts – At the beginning of the process, businesses requesting a municipal property tax discount were required to deal with several bodies, which placed a heavy bureaucratic burden on them and resulted in delays in the handling of requests. In the course of the audit, the Agency and the Tax Authority improved the submission and handling of the requests. In December 2020, an online interface was set up between the Agency and the Tax Authority, with businesses now submitting a request to the Agency online via the Internet, without having to provide approval from the Tax Authority.

Key recommendations



Round One – Establishment of an agreed classification for properties – It is recommended that the Interior Ministry, the Finance Ministry, and the local authorities draw up an approved list of sub-classifications for the collection of municipal property tax and rules for uniform measurement. This will lead to a more equal and transparent tax distribution among the taxpayers in all the local authorities since relying on taxpayers' requests to correct the classifications is inefficient and inadequate. It is recommended to limit the number of zones defined in the Municipal Property Tax Order of each local



authority and set fixed criteria for their allocation. This will simplify the municipal property tax imposition process, avoid uncertainty and erroneous classification of properties and contribute to a just, uniform, and transparent tax distribution among the taxpayers in all the local authorities.



Round One – Examination of the difference between the reimbursement and the discounts given

– It is recommended that the Interior Ministry and the Finance Ministry examine actual results to obtain feedback at the end of the reimbursement process and grant of the discounts. It should determine the difference between the reimbursement received by each local authority and the discounts it granted (reimbursement deficiency or surplus). This will enable an evaluation of the model and its application in similar cases in the future. If other entities participate in the reimbursement, all the budgeting, recording, reporting conditions, and the purview of responsibility of the Interior Ministry and the participating entities should be determined in advance. Based on these data, the Finance Ministry and the Interior Ministry can consider returning the surplus funds and draw further conclusions.



Round Two – Unification of the assistance mechanism with other assistance mechanisms

– It is recommended that the Interior Ministry and the Finance Ministry evaluate the method of operation of the assistance mechanism established in Round Two to adapt it to the needs of businesses. As part of this evaluation, it is recommended to consider unifying the municipal property tax assistance mechanism for businesses with other business assistance mechanisms to reduce the bureaucratic burden on businesses and increase the mechanism's efficiency.



Round Two – Low utilization of the municipal property tax assistance program

– It is recommended that the Economy Ministry and the Finance Ministry analyze the reasons for the low utilization rate (22%) of the assistance budget and realization of the rights of businesses in Round Two. It should find ways to improve the model and operation and induce business owners entitled to a municipal property tax discount to exhaust their rights.



Round Two – Consideration of municipal property tax assistance to other entities

– It is recommended that the Finance Ministry and the Agency consider a complementary mechanism for entities not defined as "businesses" that are likely to be affected by the Covid-19 pandemic. Since these entities were not included in the assistance program and its budget, it will be necessary to assess the required budgetary expenditure if it is decided to set up a state reimbursement framework.



Round One + Round Two – Consideration of municipal property tax discounts for property lessors

– It is recommended that the Interior Ministry and the Finance Ministry consider, in times of crisis, providing a solution for lessors whose properties remain unoccupied following their abandonment by lessees due to the constraints of the crisis. The answer should be independent of the discount for unoccupied property, which is limited in time under the discount regulations.



Estimate of reimbursement to local authorities by groups in Round One (NIS in millions)

group of local authorities as defined in the Government decision and the agreement	receive an equalization grant	they are not resilient and do not receive an equalization grant	resilient authorities	total
number of authorities	195	33	29	257
the total population according to data of the Population Authority for 2018 (in thousands)	5,171	1,283	3,108	9,562
estimate of discounts for eligible properties	748	420	1,429	2,597
amount of participation of the local authorities	-	17	114	131
percentage of estimated reimbursement out of total funding from the state budget	%30.3	%16.4	%53.3	%100
total funding from the state budget	748	403	1,315	2,466
total funding from the Interior Ministry's budget	598	403	1,315	2,316
total funding from the Cleaning Fund	150			150



Summary

Government aid to businesses due to the Covid-19 pandemic through municipal property tax discounts was provided in two rounds. In Round One – in April 2020 – the Government decided to aid businesses whose revenue was hit by the Covid-19 pandemic by adopting a mechanism for the grant of discounts on municipal property tax payments developed by the Interior Ministry in collaboration with the Finance Ministry. The solution was immediate, with the discount granted to many businesses across the economy while supporting the local authorities' cash flow and economic resilience. In Round Two – in September 2020 – criteria were established for channeling the aid to hard-hit businesses. For this purpose, a complex mechanism was built to transfer data between three critical entities in the process – the Tax Authority, the Agency for Small and Medium Businesses, and the local authorities. In this mechanism, the bureaucratic burden imposed on the businesses was heavier, the duration of the processing of the requests was longer, and at the beginning of its operation, delays occurred in handling the submitted requests. In the course of the audit, the Agency and the Tax Authority improved the process of submission and handling of requests, and the bureaucratic burden was reduced, with businesses now submitting requests to the Agency online via the Internet, without having to provide approval from the Tax Authority.

It is recommended that the Interior Ministry and the Finance Ministry cooperate further in analyzing the needs of businesses and local authorities and do whatever is necessary to increase the realization of rights of eligible businesses. It is also recommended that they act to correct the deficiencies found by the audit and establish guidelines for future assistance programs, should they be necessary.

