

Government actions following the report

1

The Tax Authority has initiated “roundtable” events with representatives and Professional Bureau in order to identify challenges and needs, and develop action plans designed to promote cooperation and realize the tax potential from crypto income.

2

The first draft memorandum of law in the field of digital assets has been published. The memorandum includes definitions, such as classifying a digital asset as property under the Income Tax Ordinance, with profits from it subject to capital gains tax. Additionally, the memorandum outlines the rules for determining when profits from digital assets are considered to have been generated in Israel.

3

The Minister of Finance announced Israel's commitment to the OECD to implement the Crypto-Asset Reporting Framework (CARF), which establishes a set of rules for information exchange in the digital asset sector.



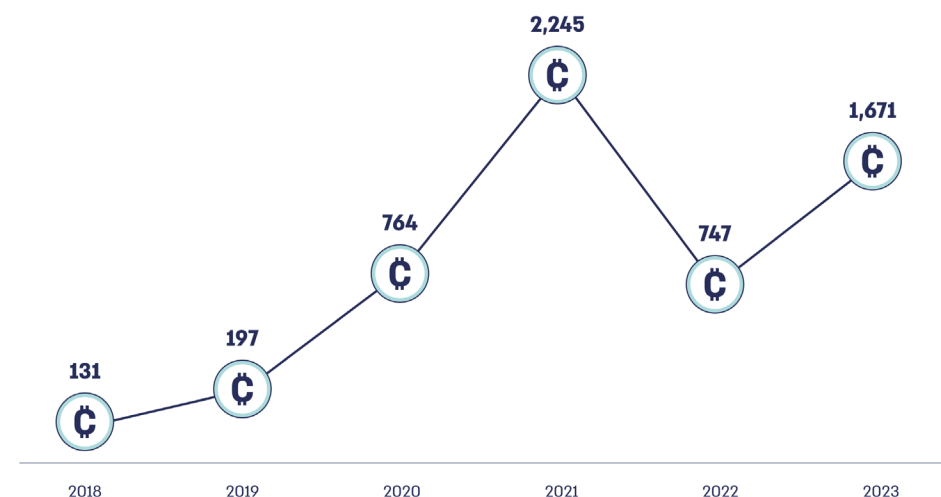
The global digital asset market



Over the past 15 years, there has been significant growth in the financial market for digital assets worldwide, including in Israel. These assets encompass digital currencies (crypto).

Regulation in the crypto sector that creates tax certainty can also support economic growth by attracting foreign investors, increasing employment, and maintaining Israel's global standing as a powerhouse in technology and its resulting innovations.

Chart: market value of digital assets worldwide at year-end, 2018–2023
(in USD billions)



The chart illustrates that the digital asset market is highly volatile but has shown an upward trend over the years.



Taxation of Digital Currencies

Ministry of Finance of Israel
Tax Authority

November 2024

Audit topics



Regulation and oversight of the digital currency sector



Reporting on digital currency activity



Public awareness and education



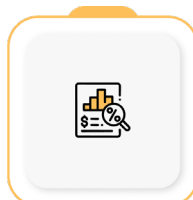
Resources for handling assessments on digital currency activity



Intelligence and enforcement actions



Collaboration in Israel and globally



Tax payment

Key figures

Approximately 0.2–1.67 million digital wallet holders in Israel in 2023, according to various estimates.

NIS 2–3 billion: Estimated tax collection potential from crypto in Israel.

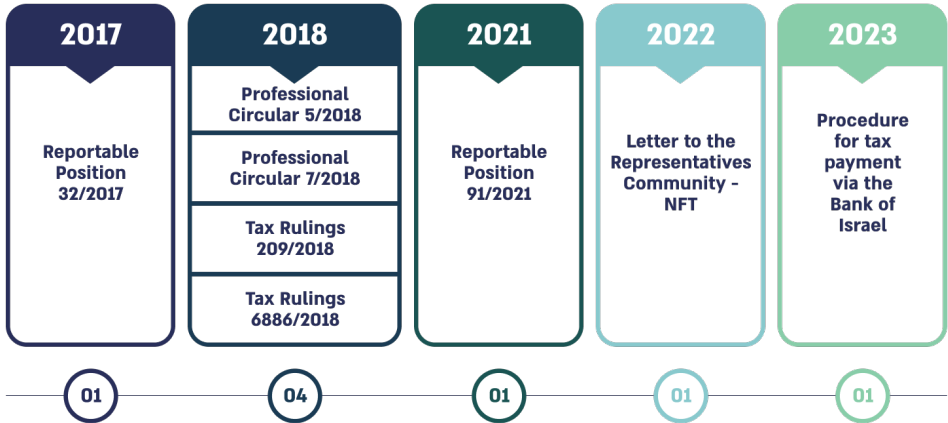
Only approximately 0.25% report their digital currency activity to the Tax Authority. On average, 500 filings were submitted annually between 2018–2022, out of an estimated minimum filing potential of 200,000.

A 31.5% decrease in the number of tax inspectors and coordinators at the Income Tax Authority from 833 in 2019 to just 570 in 2023.

Recommendations

Regulation

Chart: crypto taxation rules published by the Israel Tax Authority

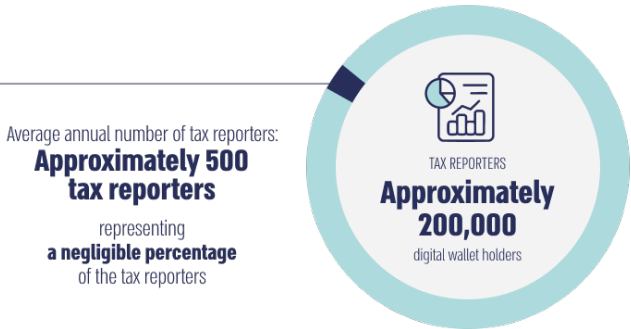


The crypto taxation rules published by the Israel Tax Authority do not comprehensively address the subject and have not been codified into law, leaving considerable uncertainty.

It is recommended that the Tax Authority expedite the codification of crypto taxation rules into legislation. Until a formal legislative process is completed, the Authority should publish its positions through the available channels.

TAX REPORTERS

Chart: average annual number of Tax Reporters on crypto activity compared to the estimated minimum Tax Reporters potential, 2018–2022



Due to the low tax reporting rate of crypto activity (approximately 0.25%), it is recommended that the Tax Authority identify the factors contributing to the low reporting rate for digital currency activity and develop a plan to address the situation. Additionally, the Tax Authority should take action to regulate retroactive reporting of crypto income, and it is recommended that such regulation be implemented through legislation.



International Collaboration

It is recommended that the Tax Authority announce its participation in the Crypto-Asset Reporting Framework (CARF) for the exchange of information on crypto assets. This would allow the Tax Authority to obtain information about crypto users in Israel who do not report taxable activities and bring them under the tax framework.

Tax payment

Tax payments in Israel can only be made in shekels from an Israeli account, and commercial banks in Israel impose restrictions on receiving funds originating from crypto due to money laundering risks.

It is recommended that the Bank of Israel take measures to ease the process of tax payments through commercial banks. To this end, the Bank of Israel should collaborate with the Tax Authority and the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA).

Resources for tax assessment

Professional and efficient tax assessment for crypto cases requires, among other things, the use of technological tools to evaluate reporting and complex calculations. The procurement process for tax calculation technology has been ongoing for over three years and remains incomplete.

It is recommended that the Tax Authority expedite efforts to bridge the gap with the market in its ability to evaluate capital gains and tax calculations, including through the completion of the technological procurement process.