State Comptroller
of Israel

Preparations and Activities of the Tax Authority Regarding Compensation for War Damages

▪ January 2026 ▪

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Abstract

Background

On the morning of Saturday, October 7, 2023, coinciding with the holiday of Simchat Torah, the State of Israel experienced a terrorist attack of unprecedented magnitude in the western Negev region. This attack resulted in the murder, abduction, and injury of numerous civilians and military personnel. In response to this terrorist attack, the Israel Defense Forces (IDF) declared a state of war known as "Swords of Iron", and a special state of emergency was instituted on the home front. This enabled relevant authorities within the IDF to impose restrictions on educational institutions, workplaces, and movement in designated areas, among other measures. On the second day of the conflict, the Hezbollah terrorist organization-initiated assaults on communities in the northern regions, utilizing a variety of weaponry, and later missiles and unmanned aerial vehicles (UAVs) were launched from Yemen, Iran, Iraq, and Syria, targeting extensive areas within Israel. Consequently, the war, which began in the southern part of the country, evolved to include additional fronts, thereby threatening and harming numerous communities nationwide.

The ongoing hostilities associated with the Swords of Iron War, the resulting restrictions and directives issued by the Home Front Command, the extensive mobilization of reserve forces, and the evacuation of residents from various localities in both southern and northern regions, have led to significant property damage and adversely affected the routine economic activities of some of the businesses in Israel.

The Property Tax and Compensation Fund Law, 5721-1961, along with the regulations enacted thereunder, govern, among other things, the issue of compensation by the state for damages incurred as a result of warfare. In 1973, the Israeli Tax Authority established the Compensation for Hostile Actions Department (Compensation Fund), an entity tasked with the implementation and enforcement of the law and regulations. This is accomplished, *inter alia*, through the processing of claims for compensation for direct property damage resulting from acts of war or other hostile actions directed against the State of Israel, as well as for indirect damages sustained by businesses due to the ramifications of the prevailing security situation on their operations.

Pursuant to the stipulations of the Property Tax and Compensation Fund Law and the accompanying regulations, a designated percentage[1] of the purchase tax collected pursuant to the Real Estate Taxation Law is earmarked for the Compensation Fund to facilitate compensation for war damages, indirect damages, and damages attributed to drought. On the eve of the Swords of Iron War, the Compensation Fund's balance stood at approximately NIS 17.7 billion.

In this context, the law and its regulations delineate compensation tracks for indirect damages incurred by businesses situated within 40 km of the Gaza Strip border, as well as within the settlements along the confrontation line in the North. Additionally, there exist further compensation mechanisms for businesses located nationwide, applicable for designated periods, alongside a fixed track established in the regulations for compensating for indirect damages to businesses in frontier communities.

1 This rate has changed over the years. As of 2024, the audit end date, this rate stood at 80%.

Key Figures

NIS 17.7 billion	NIS -1.1 billion	59,000 claims for direct damages	525,000 claims for indirect damages
The balance in the Compensation Fund at the end of September 2023, on the eve of the Swords of Iron War	The difference between the total compensation paid from October 2023 to December 2024 from the fund (NIS 18.8 billion for the Swords of Iron War and other damages) and the balance of funds credited to the Fund (NIS 17.7 billion)	Submitted to the Compensation Fund from the beginning of the Swords of Iron War until the end of December 2024; compared to approximately 56,000 cumulative claims, over the course of 18 years, from 2006 to 2023, that were submitted during the Second Lebanon War and all rounds of fighting during these years	Submitted to the Compensation Fund from the beginning of the Swords of Iron War until the end of October 2024; compared to approximately 197,000 cumulative claims, over the course of 18 years, from 2006 to 2023, that were submitted during the Second Lebanon War and all rounds of fighting during these years

NIS 17 billion

Total compensation payments disbursed by the Compensation Fund by the end of December 2024 for damages caused during the Swords of Iron War, of which NIS 1.9 billion for **direct damages** and NIS 15.1 billion for **indirect damages**

57 days

The average time that elapsed from the date the indirect damage was caused to businesses in the Swords of Iron War until the date the legal provisions regulating the compensation tracks for these damages came into effect, and in most periods even longer than that. For example, in the turnover[2] track for the period of March–April 2024, 92 days passed from the date the indirect damage was caused until the legal provisions came into effect

851 days (2.3 years)

The average time taken to complete the processing of appeals submitted to the Compensation Fund's appeal committees; compared to the average time required to process appeals submitted to the Ministry of Justice's appeal committees, which is 103 days (approximately 3.5 months)

NIS 3.1 billion

Total excess compensation paid to businesses, to which they were not entitled by law, during the Swords of Iron War, in rounds of fighting in previous years, and during the COVID-19 pandemic (of which, NIS 1.5 billion were paid during the Swords of Iron War). NIS 1.9 billion of the total excess compensation has yet to be collected

31 only

The number of individuals acquiring insurance to protect against direct damage to household items prior to the onset of the Swords of Iron War. Furthermore, only 3,090 citizens opted for the insurance following the outbreak of the war, subsequent to the advertising campaign in March 2024, which raises concerns regarding the adequacy of the proposed insurance mechanism in addressing the needs of the citizens

NIS 2.8 billion

The cumulative gap for the years 2011–2023 between the interest income credited to the Fund and the income received by the Accountant General on its deposits at the Bank of Israel (prime interest)

2 A track providing businesses with compensation for a decrease in their transaction turnover caused by the Swords of Iron War.

Audit Actions

From February to December 2024, the Office of the State Comptroller examined aspects of the Tax Authority's preparations and activities for the handling and disbursement of claims for compensation related to both direct and indirect damages. The audit was primarily conducted at the Tax Authority and the Ministry of Finance. Supplementary examinations were carried out at the Ministry of Justice, the Ministry of Agriculture, the Hof Ashkelon and Sha'ar HaNegev Regional Councils, as well as the Tekuma Directorate.

Key Findings

The Tax Authority's Preparations Prior to the Swords of Iron War

The Tax Authority's Preparations for the Provision of Compensation for Indirect Damage – The Compensation Fund Law and its accompanying regulations outline, among other aspects, the conditions under which businesses in frontier communities may qualify for compensation due to indirect damages resulting from war-related incidents. Given the substantial economic disruptions experienced by certain businesses in Israel during the Swords of Iron War, the aforementioned legislation established compensation tracks for indirect damage to businesses located within 40 km of the Gaza Strip border and along the northern confrontation line, along with additional compensation tracks for businesses nationwide, for defined periods. By the end of December 2024, the total disbursements from the Compensation Fund for indirect damage to businesses amounted to NIS 15.1 billion. The Ministry of Finance and the Tax Authority did not initiate, through permanently valid legislation, regulation of the terms of eligibility for compensation for indirect damages and the method of calculating them; rather, the regulatory framework took the form of temporary provisions with limitations tied to specific events. Thus, from 2006 until the onset of the Swords of Iron War, a total of 12 temporary provisions were established to address various combat situations. During the Swords of Iron War, 22 temporary provisions were enacted regarding diverse compensation tracks for different categories of affected parties and types of damages sustained during specified intervals, as specified within each temporary provision. This manner of regulating compensation required the initiation of recurrent legislative procedures amid states of emergency, thereby underscoring the need for a permanent legal framework as opposed to a transient temporary solution.

In the absence of legal provisions that offer a permanent response regarding entitlement to compensation for indirect damages arising from combat scenarios, the Tax Authority, the Ministry of Finance, and other stakeholders initiated legislative procedures in the course of each round of conflict, specifically tailored to that event. This process extends the period between the date on which the affected parties sustained indirect damages and the earliest date on which they become eligible for compensation. It was thus found that the average interval between the occurrence of indirect damage and the effective date of the legal provisions was 57 days, with some instances extending to 92 days. Such delays contribute to an escalation of economic uncertainty, compelling affected businesses to find sources of funding to sustain their operations until they receive compensation. This predicament complicates the recovery of these enterprises from sustained damages and potentially jeopardizes their operational continuity, including the employment of their workforce.

Preparations for the Payment of War Damages – On the eve of the Swords of Iron War, the balance of the Compensation Fund, amounting to NIS 17.7 billion, was lower than the expenditure on direct and indirect compensation during the war, from October 2023 through the end of 2024 (NIS 18.8 billion), and even lower than the estimated direct damages alone (NIS 36.2 billion). Over the years, the Ministry of Finance has neither determined nor presented to the Knesset Finance Committee an appropriate scenario for which the Fund was to be prepared, nor articulated the necessary balance within the Fund or the optimal capital structure relative to the Fund's exposure, resulting in inadequate preparations for potential wartime exigencies.

The Fund's Income Generated from Investments – The Property Tax Law mandates that "investment profits shall be added to the Compensation Fund and shall constitute a part of it". In other words, the Fund's financial resources should be invested, with the resultant profits credited to the Fund's balance. It was found that, contrary to the legal stipulations, the income on the Fund's balance within the Accountant General's deposit is significantly lower than the income garnered by the Accountant General on its deposits at the Bank of Israel. Had the Fund been credited with interest income commensurate with that received by the Accountant General on its deposits, the Fund's balance at the conclusion of 2023 could have amounted to NIS 15.7 billion, reflecting an increase of NIS 2.8 billion relative to the accumulated sum recorded in the Fund at that time.

Preparations for Handling Claims for Direct Damages – The Compensation Fund's field teams arrive at damage sites to assess the direct damage inflicted on the assets and enable property owners present at the site to submit claims for compensation for these damages. Within the Committee "for Examining the Implications of the Implementation of the Compensation Fund Law, Due to the Challenges of Ballistic Trajectory Weapons in the Current and Future Reality" at the Tax Authority, subcommittees were established in 2015, which include a Direct Damage Committee. The audit revealed that despite the Direct Damage Committee's recommendation, as early as 2017, to publish a tender for the characterization and acquisition of a command-and-control system for optimizing the management of field teams, receiving continuous updates on the locations of missile strikes and providing immediate response during emergency situations, and notwithstanding the Tenders Committee's approval of the development of the command-and-control system in 2018, along with preliminary approval, in 2020, of the Director of the Tax Authority for the development of the module within the then Home Front Command's civilian *Shual* system (Hebrew acronym for National Home Front Command and Control), as at the audit end date, the Tax Authority had not issued a work order. Furthermore, no contractual agreement had been established with the external supplier, and the process of developing the command-and-control system for the utilization of field teams and Compensation Fund centers remained unfinished.

Moreover, it was found that despite a recommendation from the Compensation Fund Director to develop the capability for submitting digital claim forms via terminals, claims for direct damages continued to be filed by field teams utilizing the manual claim form as at the audit end date. The delay in development of the command-and-control system, in which was due to come into use as early as August 2023, compelled local service center managers within the Compensation Fund to plan the work schedule for the field teams and prioritize their tasks in manual lists, based on media coverage and citizen reports of missile strikes and enemy aircraft incursions. This deficiency in a dedicated system to control and monitor field team activities has resulted in protracted timelines for handling the claims of affected individuals and for repairing the damages sustained by them in their time of difficulty.

It should be noted that following the onset of the conflict, and in light of the extensive combat zones along with the direct damage sustained to properties, the Compensation Fund reached out to an external supplier to develop a system that would be partially informed by the *Shual* system (the limited system), at a cost approximating NIS 1.9 million, for the purpose of "providing a swift response to the prevailing special circumstances". In July 2024, the Compensation Fund Director opted to conduct a preliminary examination (pilot) to assess the operation of the limited system at the Tiberias district service center. Thirty terminals were acquired for the examination, and in November 2024, the field teams at the Tiberias service center began using the limited system.

Preparations for the Repair of Extensive Damage to Buildings and Infrastructure – A 2017 report from a Tax Authority committee stated that "in order to enhance the Compensation Fund "toolbox" for the restoration of damaged buildings, particularly in the context of a significant event, governmental ministries should collaborate to the extent possible, with the objective of ensuring that each ministry leverages its respective advantages for the restoration of properties as expeditiously and efficiently as possible". However, the audit revealed that despite the Tax Authority committee's recommendation to establish a cooperative working procedure with the Ministry of Construction and Housing to formulate an "operational toolbox for implementation" for the restoration of war-damaged properties, such a procedure had yet to be established as at the audit end date. Additionally, visits made by the State Comptroller to the communities of Kiryat Shmona, Metula, Mevo'ot Hermon, and other areas adjacent to the border in May and December 2024 disclosed that some local authorities – particularly in the northern and southern regions, which had sustained considerable damage and had been allocated substantial budgets for their rehabilitation – had nevertheless encountered difficulties in managing and executing the requisite rehabilitation processes, constrained by both personnel limitations and a shortfall of professionals adept in overseeing complex projects of this scale. Furthermore, it became evident during these visits that a mechanism for consolidating budgets designated for rehabilitation of war damage was lacking, with funds being allocated to authorities from multiple budgetary entities, such as the Ministry of Interior, the Ministry of Education, and the Tax Authority, in a manner that lacked coordination and an overarching vision.

Preparations for Providing Alternative Housing for Evacuated Residents – In compliance with the Compensation Fund Regulations and the procedural guidelines established by the Tax Authority, the decision to evacuate tenants to suitable alternative housing, such as hotels, or to pay rent for the required period, in instances of direct damage rendering a building uninhabitable, may be made by the manager of the Compensation Fund service center. This decision is contingent upon the recommendation of a qualified appraiser or engineer and requires coordination with the Compensation Fund headquarters. The audit found that despite the Tax Authority committee's recommendation in 2017 to publish a tender for hotel services, the Compensation Fund had not published such a tender by the audit end date.

Public Awareness of Insurance for Household Items – According to the Property Tax and Compensation Fund Regulations, owners of household items that sustain direct damage shall be entitled, without charge, to compensation for restoration of the damaged items, up to a stipulated limit as defined in the regulations, based on the type of item and the composition of the family unit. Individuals who wish to insure their household items for an amount exceeding this limit may secure insurance, in order to claim compensation that surpasses the regulatory cap. The audit revealed that although millions of households in Israel face the risk of damage from rocket, missile, and UAV attacks, which are likely to exceed the compensation limits prescribed by law, from 2019 to 2023 only a few dozen households (between 22 and 73 annually) acquired insurance for household items, enabling them to receive broader compensation for damage to these items.

Furthermore, despite the negligible number of households purchasing the insurance, the actions undertaken by the Tax Authority to promote awareness of household item insurance from 2019 to October 2023 resulted in only two publicity campaigns, one in 2019 and another in 2021. It was noted that this publicity was confined to the Tax Authority's social media platforms, which do not reach a significant portion of the general public. It was found that in October 2023, an informational video concerning insurance for household items was disseminated on the Tax Authority's social media channels; only approximately five months after the onset of the Swords of Iron War, in March 2024, did the Tax Authority publicize additional informational videos and advertisements across the media, including its official website, newspapers, and commercial television, for a duration of approximately two weeks. As a result of the publicity campaign, and up to the audit end date, the number of policyholders increased from 31 on the eve of the war to 3,090; however, this figure remains inconsequential in relation to the total population of Israel, raising doubts as to the appropriateness of the insurance mechanism for household item owners.

It was also found that according to the regulations, the annual insurance premium shall be paid for the whole year, even if the insurance is acquired mid-year, and that coverage may only be obtained after the commencement of the insurance year, precluding the option of advance purchase for the subsequent year. Consequently, residents wishing to obtain insurance must await the start of the new year, leaving them vulnerable to risks of damage to uninsured items during the interim period. For instance, on January 1, 2024, at 00:01, numerous localities across Israel were subjected to missile attacks. At that time, residents in these areas were unable to purchase insurance for their household items for the year 2024; thus, any damages incurred precluded compensation claims exceeding the existing legal compensation limits.

Failure to Collect from Businesses Compensation Payments Made in Excess for Periods Prior to the Swords of Iron War – The Tax Authority has not yet collected approximately 47% of excess payments disbursed to businesses not entitled by law to such compensation during the COVID-19 pandemic and Operation "Guardian of the Walls" (2021), totaling around NIS 655 million, with some excess payments dating back four years. The Tax Authority's failure to recover debts amounting to hundreds of millions of NIS, several years after they were incurred, has detrimental effects on the state treasury and the principle of equity, underscoring the need to develop mechanisms aimed at preemptively preventing excessive payments. Furthermore, the likelihood of successful debt collection diminishes considerably over time.

Classification of Communities as "Frontier Communities" – Despite the importance of designating certain localities as 'border localities' for determining the eligibility of businesses to file claims for indirect damages, the Compensation Fund Regulations lack uniform and objective criteria that determine whether a certain locality qualifies as a border locality. It was also found that since the initial publication of the list of border localities in 1959 and until the audit end date, no localities had been removed from it, despite changes over the years in the scope, nature, and location of security threats to communities in Israel, including peace agreements with Egypt and Jordan and alterations to the nation's borders. For instance, the report from the Indirect Damage Committee within the Tax Authority asserts that "no rationale has been found over the past 40 years to maintain the designation of localities situated along the borders of Jordan and Egypt as border localities".

Management and Utilization of Compensation Fund Resources – The audit revealed that the Ministry of Finance has managed the Compensation Fund merely as a registration fund, with its accumulated moneys not being invested in identifiable assets. Furthermore, the Ministry has utilized the Fund's resources continuously, without a legally substantiated basis and without a comprehensive economic assessment. As of September 2023, the total recorded balance in the Fund stood at NIS 17.7 billion.

Presentation of the Compensation Fund in the State Budget – In the budgetary documents submitted annually by the Ministry of Finance to the Knesset, only the budget deficit is presented. The audit found that extra-budgetary expenditure deficits, such as those anticipated for war damage compensation, are not disclosed. Highlighting this deficit is important due to the special characteristics of the Compensation Fund and the potential for a rapid escalation in the deficit necessitating prompt financing. Such a situation could lead to higher borrowing costs due to the need to secure substantial debt during wartime conditions.

The Tax Authority's Activity Since the Outbreak of the Swords of Iron War

The Organizational Structure of the Compensation Fund Service Centers – The direct damage service centers comprise five district service centers and thirteen local service centers dispersed nationwide and operating during emergencies. Some of these centers function within various units of the Tax Authority throughout the country and are subordinate to their management. It was found that, with the exception of one employee, all permanent staff members of the direct damage service centers are organizationally linked to other units within the Tax Authority, and over the years have been tasked with fulfilling the responsibilities of the Compensation Fund alongside their standard duties. As early as 2017, the Direct Damage Committee recommended the complete transfer of the permanent employees of the direct damage service centers to "full subordination" under the Compensation Fund, thereby "generating significant managerial flexibility". However, as of the audit end date in December 2024, the staff of the direct damage serve centers, apart from the aforementioned employee, remain professionally subordinate to the Compensation Fund and administratively subordinate to the management of their respective units. This dual subordination is liable to impair the ability to meet the needs of property owners whose property has been damaged during the conflict, due to the conflicting directives received by personnel from both the Compensation Fund and unit managers.

Failure to Collect Compensation Payments Disbursed to Businesses Not Legally Entitled to Receive Them Following the Outbreak of the Swords of Iron War – The Compensation Fund issued payments to businesses during the Swords of Iron War, as well as during previous conflicts and during the Covid pandemic, in excess of over NIS 3 billion for indirect damages, where claimants lacked lawful entitlement; NIS 1.5 billion of these payments constituted excess advances disbursed during the Swords of Iron War. The audit revealed that 83% of these excess advances (NIS 1.25 billion), relating to claims filed after the Swords of Iron War, had not been collected as of the audit end date.

Red flags System – In light of the substantial volume of claims submitted for compensation due to indirect damage incurred during a round of fighting or other emergency situations, an automated computerized review of all submitted claims is performed to identify any red flags. Claims identified as suspicious are subsequently forwarded to audit teams. It was discovered that despite evidence indicating overpayments in approximately 33% of claims identified as exhibiting suspicious signs, and despite the ability to implement in the system automatic blocks on advance payments associated with claims exhibiting certain predetermined suspicious signs, the Compensation Fund failed to examine the feasibility of implementing this measure, and in any case, no suspicious signs were classified as such.

The Appeals Committees in Claims Made to the Compensation Fund – An Inherent Conflict of Interest and Associated Delays in their Operations – An appeals committee functions as a quasi-judicial entity under the executive authority, tasked with resolving disputes within a specific legal domain involving an administrative authority. There exist two types of appeal committees addressing claims submitted to the Compensation Fund: The Compensation Fund Appeal Committee and the Ministry of Justice Appeal Committee, the latter having been established in response to the COVID crisis. The audit found that the administrative operations of the Compensation Fund Appeal Committee were conducted by its employees, notwithstanding the fact that the Compensation Fund is a party to the appeals process, and approves the payment of committee members, whose discretion is scrutinized by the committee; and notwithstanding the fact that the Deputy Director of the Tax Authority expressed concerns, as early as 2021, regarding the "potential appearance of a conflict of interest" stemming from the management structure of the Fund's appeal committees, and expressed the need to transfer full responsibility for the management of the committees to the Ministry of Justice. This resulted in an inherent conflict of interest that may notably influence the management of the committees and their decision-making processes.

Moreover, it was found that the average time required for processing appeals submitted to the Compensation Fund appeals committees is 851 days, equating to approximately 2.3 years. In contrast, appeals submitted to the Ministry of Justice appeals committees are processed in an average timeframe of 103 days, or roughly 3.5 months. The protracted processing of appeals by the Compensation Fund's appeal committees negatively impacts the service provided to the affected parties, leading to prolonged uncertainty for business owners who have sustained indirect damages and property owners, regarding their eligibility for compensation. This extended processing time, averaging eight times longer than that of the Ministry of Justice appeals committees, with certain appeals extending beyond ten years, contravenes the obligations imposed on an administrative authority to operate with fairness, efficiency, and reasonableness, and is at odds with the principles of good governance.

The Activities of the Compensation Fund Teams in the Field and the Organization of Conferences and Seminars for Business Owners – The Office of the State Comptroller commends the activity and service orientation demonstrated by the employees of the Compensation Fund, exemplified by their proactive engagement in visiting damage sites prior to receiving any requests for assistance from the owners of the affected properties, by providing assistance in filing claims, and by advancing the handling of damages. The Office further commends the initiative taken by the Compensation Fund to convene conferences addressing compensation tracks for indirect damages and the eligibility criteria applicable in the impacted localities, amidst ongoing hostilities, aiming to facilitate access to pertinent professional information and to assist affected business owners in exercising their right to compensation through the in-person meetings.

Key Recommendations

It is recommended that the Tax Authority, in collaboration with the Ministry of Finance, initiate a legislative proposal with permanent validity to regulate compensation tracks for indirect damage. Furthermore, it is advised that the relevant authority be granted the power to define, through secondary legislation, the compensation rates applicable to each track and period, as well as the specific localities where affected parties will be entitled to compensation under such track, in line with the conditions arising from each round of conflict.

The Tax Authority should implement procedures to recover all excess payments resulting from disbursements from the Compensation Fund, while optimizing the utilization of the human resources and technological tools available for this purpose. Additionally, it is suggested that the Compensation Fund conduct a thorough analysis to identify the circumstances that lead to overpayments, formulating a list and ranking of red flags that signify the potential existence of these circumstances in particular claims. Once this list is established, these indicators should be integrated into the claims system, establishing that in cases where indicators are identified, and according to their ranking, there shall be a cap on the rate of advances or an automatic blocking of advance payments, in whole or in part. This approach aims to mitigate the damage to the state treasury due to overpayments and to enable the Fund to allocate many more resources towards the prompt and efficient processing of claims for compensation for indirect damages.

It is recommended that the Tax Authority and the Ministry of Justice expedite the initiation of a legislative amendment empowering the appeals committees within the Ministry of Justice to adjudicate all appeals against decisions made by the Compensation Fund regarding claims for compensation, under the Compensation Fund Law and its regulations. This action is necessary to address the conflict of interest inherent in the current legal framework and to facilitate the effective processing of appeals related to both direct and indirect damages in a timely and independent manner. Moreover, until such an amendment is enacted, it is advisable for the appeals committees to take measures to reduce timelines and provide responses within reasonable timeframes.

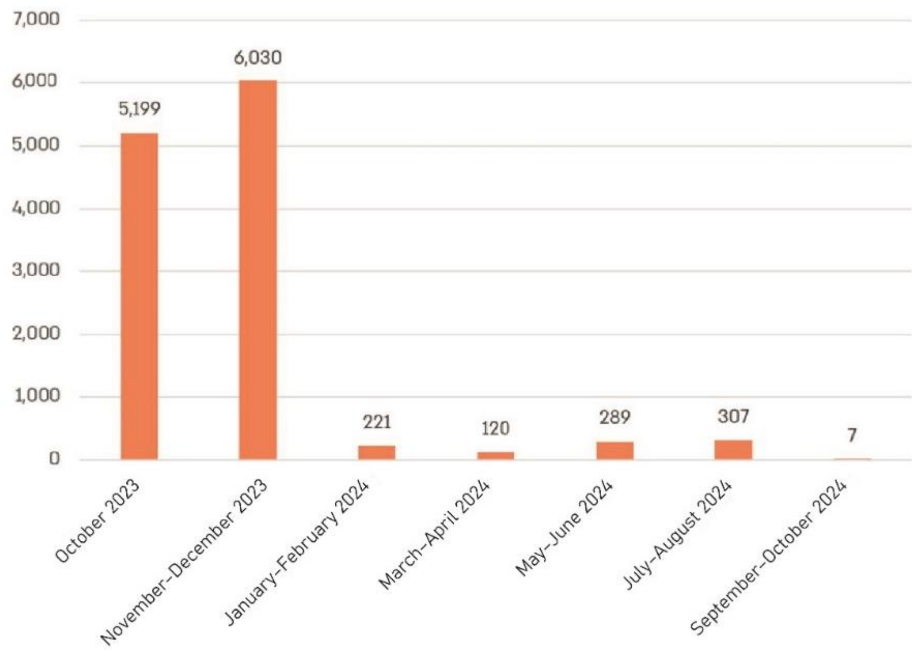
The Tax Authority and the Ministry of Housing should approve a procedural framework that regulates the principles of rehabilitation, operational processes, and the division of responsibilities and authorities between the Compensation Fund and the Ministry of Housing. Additionally, it is recommended that the Ministry of Interior devise a mechanism to assist local authorities in managing rehabilitation projects according to predetermined criteria. Furthermore, it is recommended that the Ministry of Finance formulate a procedure to pool budgets for local authorities, aimed at facilitating the swift and efficient rehabilitation of war-related damages.

The Tax Authority should take immediate action to finalize the development of the command-and-control system in alignment with the requirements of the Compensation Fund and to implement it across all operational service centers. This initiative will enhance the efficiency of field teams, reduce the time taken for them to reach damage sites and the timelines for submitting claims through them, improve oversight of their activities, and elevate the quality of service provided to parties entitled to compensation for property damage.

It is recommended that the Ministry of Finance conduct a legal examination to determine whether the management of the Fund, as a registration fund whose assets are not allocated to identified investments, and the utilization of these funds, align with the provisions of Section 2A of the Property Tax Law and its sub-sections. Additionally, the Ministry should undertake comprehensive staff work concerning the feasibility of employing the funds of the Compensation Fund to underwrite government expenditures, particularly in view of the potential risks associated with increased debt raising costs and the prevailing market conditions during wartime, and should manage the Fund's resources accordingly.

It is recommended that the Ministry of Finance present to the Knesset, within the context of the budgetary documentation, the anticipated deficit that may necessitate financing during emergencies, including liabilities owed to the Compensation Fund and the financing costs linked to debt raising amid wartime conditions. The Ministry of Finance, in collaboration with the Tax Authority, should analyze potential war scenarios necessitating preparedness to compensate affected parties for damages incurred, and based on this analysis, recommend the requisite fund balance and the optimal capital structure necessary for fulfilling payment obligations, should such scenarios materialize.

Amounts of Compensation Paid for Indirect Damages in the Swords of Iron War, Broken Down by Periods (in NIS millions)



Source: The Tax Authority.

Dates of Entry into Effect of the Provisions of the Law and the Number of Days that Elapsed from the Date of the Indirect Damage to Said Dates, according to the Period of Damage and the Claim Track

The track	The period in which the indirect damage was caused	Date the provisions of the law came into effect	The number of days that passed from the date of the damage until the provisions of the law came into effect
Nationwide track	October 2023	November 9, 2023	21
	November–December 2023	January 15, 2024	61
	January–February 2024	March 31, 2024	61
	March–April 2024	June 5, 2024	66
Turnover track	October 2023	November 20, 2023	32
	November–December 2023	January 28, 2024	74
	January–February 2024	April 9, 2024	70
	March–April 2024	July 1, 2024	92
	May–June 2024	July 1, 2024	31
	May–June 2024 – Tourism Industry	August 18, 2024	79
	July–August 2024	August 18, 2024	18
	September–October 2024	December 9, 2024	70

The track	The period in which the indirect damage was caused	Date the provisions of the law came into effect	The number of days that passed from the date of the damage until the provisions of the law came into effect
Salary track	**October 2023**	November 20, 2023	32
	November–December 2023	January 28, 2024	74
	January–February 2024	April 9, 2024	70
	March–April 2024	July 1, 2024	92
	May–June 2024	July 1, 2024	31
	May–June 2024 – Tourism Industry	August 18, 2024	79
	July–August 2024	August 18, 2024	18
	September–October 2024	December 9, 2024	70
Agriculture track	**October 2023**	November 20, 2023	32
	November–December 2023	January 28, 2024	74

A Residential Building that was Evacuated due to Direct Damage Sustained

Source: The Tax Authority.

A Vehicle that Sustained Direct Damage

Source: The Tax Authority.

Summary

The audit disclosed that no permanent legal provisions had been established to specify the eligibility criteria for compensation for indirect damages or the methodology for their calculation, despite the State of Israel's involvement in wars and military operations over the past two decades. During this period, various restrictions were imposed upon the Israeli population and economy, resulting in direct damage to property and indirect damage to businesses. The absence of regulated legislation with permanent validity, alongside the time taken to establish temporary provisions pertaining to indirect compensation tracks, has increased uncertainty for those affected during wartime, lengthened the lapse between the occurrence of damages to businesses and the receipt of corresponding compensation, and complicated the recovery process for affected enterprises.

Furthermore, it was revealed that the Compensation Fund disbursed excess payments for indirect damages to businesses during the Swords of Iron War, as well as in previous military engagements and throughout the COVID-19 pandemic, to the sum of over NIS 3 billion, despite their not being legally owed to the claimants. Approximately NIS 1.5 billion of this amount was disbursed following the Swords of Iron War. As of the conclusion of the audit in December 2024, NIS 1.9 billion of this sum had not yet been returned to the Fund. Additionally, deficiencies were identified in the protracted processing of appeals against the Fund's decisions submitted to the Property Tax Appeals Committee, including the division of appeal handling between the Ministry of Justice's Appeals Committee and the Property Tax Appeals Committee. Other defects related to the oversight concerning the processing of claims and compensation payments; to the Fund's preparedness to address significant direct damages; to a lack of specialization of the Fund's employees in the field of appraisal; to the development of control and supervisory systems for field teams; and to the enhancement of public awareness vis-à-vis eligibility for purchasing insurance for personal items.

It was moreover found that the Ministry of Finance had administered the Fund merely as a registration entity without identified assets, and had consistently utilized the Fund's financial resources without a substantively supported legal rationale or a comprehensive economic analysis. The Fund's financial resources accrue minimal interest, insufficient to mitigate the impacts of inflation, and do not align with the variable interest rate environment. It was also determined that prior to the onset of the Swords of Iron War, the Fund's balance (NIS 17.7 billion) was lower than the expenses associated with direct and indirect compensation during the war, from October 2023 to the end of 2024 (NIS 18.8 billion) and even fell short of the estimated direct damages (NIS 36.2 billion). The Ministry of Finance did not determine or present to the Knesset Finance Committee, over the years, the scenarios for which the Fund should be prepared, the requisite balance within the Fund, nor the optimal capital structure relative to the Fund's exposure, thus failing to adequately prepare for a wartime scenario.

It is recommended that the Tax Authority and the Ministry of Finance initiate a legislative proposal with permanent validity concerning compensation tracks for indirect damage, with the objective of reducing the time lag from the occurrence of damage to the ability to file claims and receive compensation, thereby providing businesses with assurance during emergencies. Additionally, the Tax Authority should pursue collection procedures for all excess payments associated with Compensation Fund disbursements, assess methods for optimal utilization of available human resources and technological tools for this purpose, and take measures to develop and implement

computerized controls within the Compensation Fund systems to diminish the damage to the state treasury due to compensation payments to ineligible claimants.

Furthermore, it is advisable that the Tax Authority and the Ministry of Justice act expeditiously to initiate a legislative amendment that would empower the appeals committees within the Ministry of Justice to adjudicate all appeals against the decisions of the Compensation Fund pertaining to claims for compensation under the Compensation Fund Law and its accompanying regulations. This would address the inherent conflict of interest present in the current legal framework and facilitate efficient resolution of appeals regarding direct and indirect damages within shortened timeframes and an independent context. It is additionally recommended that until the proposed arrangement is enacted, the appeals committees expedite their timelines and deliver responses within reasonable timeframes.

The Ministry of Finance should conduct a legal examination to determine whether the management of the Fund, as a registration fund whose assets are not allocated to identified investments, and the utilization of these funds, comply with the provisions of Section 2A of the Property Tax Law and its sub-sections. Furthermore, a thorough evaluation regarding the feasibility of leveraging the Compensation Fund's resources to finance governmental expenditures should also be conducted. The Ministry of Finance should formulate staff work and define objectives and funding sources, while periodically reviewing and adhering to updated estimates, and present to the Knesset, within the budget documentation, any deficits that might necessitate financing during emergencies, including obligations to the Compensation Fund and the costs of debt financing during times of conflict. Presenting such data will enable decision-makers to take into account potential war scenarios and other disaster scenarios when approving the state budget.