

Israel**Israel Steps Up Campaign Against Tax-Evading Airbnb Landlords**

By Matthew Kalman

The Israel Tax Authority says landlords letting apartments for short-term visitors should be paying more tax—if the policy is upheld, it could reduce the number of properties available in Israel through Airbnb and similar sites.

For the third summer in succession, tax authority inspectors booked apartments online, arrived to meet the owner, and presented them with tax demands on undeclared income, the Israeli business daily Globes reported.

Israeli law allows landlords extensive tax breaks on letting residential apartments, but the growing popularity of online vacation sites has highlighted the grey area of short-term rentals, which have not always been declared as businesses. Meanwhile, Israeli hoteliers have lobbied for increased taxes and greater regulation on landlords, fearing the growth of the vacation apartment business.

“The Tax Authority is acting to enforce the payment of legal tax on rental of apartments for the short term,” a spokeswoman told Bloomberg BNA Aug. 23. The authority’s position is that “renting an apartment for short and occasional periods, whether by the landlord or its tenants, is like renting a holiday cabin or any other business. Therefore, according to the law, it is subject to tax as business income, and it is not possible to receive the benefits stipulated in the law for renting residential apartments.”

A spokesman for Airbnb Inc. said the company wants to work with governments around the world on progressive tax rules for occasional hosts and looks forward to constructive discussions in Israel.

“There is a big difference between regular people occasionally sharing their homes and professional operators running a business,” the spokesman said by email on Aug. 23. “The typical Airbnb host in Israel shares their home for 22 nights a year to boost their income and support their families—they are not businesses or professionals. Airbnb wants to be regulated and hosts want to pay their fair share of tax, and we encourage the government to follow the example of other countries around the world that have introduced clear, fair and proportionate rules for regular people who share their homes.”

Rental Income Exemption

Israeli landlords can receive a full tax exemption on regular rental income up to 5,010 shekels (\$1,394), a partial exemption on larger amounts, pay a flat 10 percent tax, or claim expenses against the rental income and include it in their standard tax return.

Carmit Bar-On, a partner who heads the Hotel and Tourism Law Department at the Tel Aviv law firm Yehuda Raveh & Co., said the Tax Authority campaign began after a concerted lobbying effort that she coordinated on behalf of the Israel Hotel Association in 2014, when there were 6,000 online vacation apartments in Tel Aviv compared with 7,000 hotel rooms. Bar-On said the hoteliers objected to the Airbnb-led rental market as unfair competition because it is unregulated in terms of municipal oversight, zoning, business licensing and safety. They also raised the tax issue, which the authority promised to deal with.

“I think definitely the pressure had some effect on the tax authority’s crackdown now,” Bar-On said in a phone interview on Aug. 23.

Today there are more than 8,955 Tel Aviv vacation homes listed on Airbnb alone but the number of hotel rooms has risen to only about 7,883, according to the Central Bureau of Statistics.

Multiple Home Tax

Faced with a severe shortage of affordable housing for young couples, Finance Minister Moshe Kahlon has vowed to increase the number of apartments for sale by increasing pressure on multiple homeowners. A bill to tax owners of three or more homes—approved by the Finance

Snapshot

- Israel says tax breaks do not apply to short-term rentals
- Airbnb says it “wants to be regulated”

Committee but rejected by the Supreme Court—is now being considered by the Knesset parliament.

Kahlon wants “more apartments for the public to be able to purchase. For young couples who want to purchase, these apartments are not available for them,” said Mirit Hoffman Reif, a partner at Dave Wolf and Co. law firm in Jerusalem. “It's definitely something that people are going to look at and start thinking should they rent out their apartment through Airbnb, and should they rent it out long-term or short-term.”

“This is news for the small people, who've been doing it on the fly,” Hoffman Reif said by phone on Aug. 24. “This is something that's relatively new so only time will tell if that will make an impact on rentals in the long term or not.”

She said the campaign was also linked to a broader initiative to enforce regulation and increase collection.

“They are saying this isn't just a regular rental where you can have some exemptions, now we're going to look at it as if it's a business. That brings up different ways of taxing it which the person who owns it might not be very happy to hear about because it's more invasive,” she said.

“Everything is tightening at the moment. It started with FATCA and it's going to continue. There's going to be a huge big explosion of OECD and CRS reporting which is going to come into effect in Israel in September 2018.”

Vacation Rentals to Rise

Ranit Nachum-Halevi, editor of the Israeli real estate website Lagur.com, said vacation rentals will continue to grow.

“They've been speaking about this for the past year. They've also been speaking about a tax on ghost apartments. They speak about a lot of taxes but they're not doing a lot,” Nachum-Halevi told Bloomberg BNA Aug. 23. “I don't think it will affect the market now. As long as the people in Israel don't see this talk turn to action I don't think it's going to threaten anything in the market. I think things will remain as usual.”

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