

# THE OECD TAX-BENEFIT MODEL FOR ISRAEL

Description of policy rules for 2019



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This version : February 2020 – via <http://www.oecd.org/els/benefits-and-wages.htm>

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## Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

### Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2019**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

## The OECD tax-benefit model for Israel: Policy rules in 2019

### 1. Reference wages

The national currency of Israel is the New Israeli Shekel (ILS).

Average wage [AW]: The OECD tax-benefit model uses Secretariat estimates of the average full-time wage (available [here](#)).<sup>1</sup> If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth<sup>2</sup> to the latest available wage estimate.

The minimum wage [MIN] as of 1 January 2019 is ILS 5,300 per month (ILS 28.49 per hour). In the model, the annual minimum wage is computed by multiplying the minimum monthly wage (as of 1 January 2019) by 12, i.e.  $ILS\ 5,300 * 12 = ILS\ 63,600$  (multiplying the minimum hourly wage by 186 hours and by 12 months gives the same result, i.e.  $ILS\ 28.49 * 186 * 12 = ILS\ 63,600$ ).

### 2. Unemployment benefits

There is a monthly unemployment insurance benefit (described in Section 2.1) as well as grants given to special groups:

- Person working at low wages (see Section 2.1.7);
- Person in vocational training (not covered in TaxBEN, see Annex);
- Person working at unsuitable work (not covered in TaxBEN, see Annex);
- Demobilized soldier (not covered in TaxBEN, see Annex).

There is no unemployment assistance benefit.

#### 2.1. Unemployment benefit (דמי אבטלה (יזמיים))

Variable names:<sup>3</sup> [UB; UI\_p; UI\_s]

This is an unemployment insurance benefit. It is contributory, not means-tested and taxable.



##### 2.1.1. Eligibility conditions

**Age:** People from 20 years old to retirement age (currently 67) are eligible. Special rules apply to 15-18 year-olds who took part in vocational training (not covered in TaxBEN).

<sup>1</sup> Average Wages are estimated by the Centre for Tax Policy and Administration at the OECD. For more information on methodology see the latest Taxing Wages publication.

<sup>2</sup> Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

<sup>3</sup> The variable names ending with “\_p” refer to the first adult (so-called “principal” adult) whereas those ending with “\_s” are related to the spouse.

**Contribution/employment history:** Unemployment benefit qualifying period is 12 work months for which insurance contribution were paid out of the 18 months prior to determining date<sup>4</sup>.

The qualifying period for minors (age 15-18) is 100 days for which insurance contributions were paid out of the 360 days prior to the determining date.

**Behavioural requirements and related eligibility conditions:**  A person must be registered at the labour exchange as lacking work, and being ready and able to work at any suitable work (and the labour exchange has not offered such work to the person). TaxBEN assumes that these compulsory conditions are satisfied when simulating unemployment benefits.<sup>5</sup>

### 2.1.2. Benefit amount

The benefit is calculated on the basis of daily average wage of the unemployed person during the last 75 workdays of qualification period. In 2019, benefit amounts are:

Gross salary subject to insurance contributions (ILS)		Unemployment Benefit, for those aged 28 or over			Unemployment Benefit, for those below the age of 28		
Monthly	Daily	per day (ILS)	per month based on 25 days (ILS)	as % of salary	per day (ILS)	per month based on 25 days (ILS)	as % of salary
3 000	120	96	2 400	80	72	1 800	60
4 000	160	128	3 200	80	96	2 400	60
5,000	200	152.65	3816	76	115.10	2878	58
6 000	240	172.65	4316	72	131.10	3278	55
7 000	280	191.81	4795	69	146.26	3657	52
8 000	320	209.81	5245	66	160.26	4007	50
9 000	360	226.46	5662	63	173.36	4334	48
10 000	400	238.46	5962	60	183.36	4584	46
11 000	440	250.46	6262	57	193.36	4834	44
12 000	480	262.46	6562	55	203.36	5084	42
13 000	520	274.46	6862	53	213.36	5334	41
14 000	560	286.46	7162	51	223.36	5584	40
15 000	600	298.46	7462	50	233.36	5834	39
16 000	640	310.46	7762	49	243.36	6084	38
17 000	680	322.46	8062	47	253.36	6334	37
18 000	720	334.46	8362	46	263.36	6584	37
19 000	760	346.46	8662	46	273.36	6834	36
20 000	800	358.46	8962	45	283.36	7084	35
23 275	931	410.92	10 273	44			

<sup>4</sup> The 1<sup>st</sup> of the month in which the unemployment period began.

<sup>5</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see [Immervoll and Knotz \(2018\)](#), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

25 000	1000	410.92	10273	41	333.36	8334	33
32 775	1311	410.92	10273	31	410.92	10273	31

For the first 125 days of payment in the unemployment year, the daily unemployment benefit may not exceed the daily average wage (ILS 410.92 in 2019). Beginning with the 126<sup>th</sup> day of payment, the daily unemployment benefit shall not exceed 2/3 of the daily average wage (273.95 in 2019).

### 2.1.3. Benefit duration

For a person with less than 3 dependents:

- 50 days for an unemployed person under 25.
- 67 days for an unemployed person aged 25 to 28;
- 100 days for the unemployed person aged 28 to 35;
- 138 days for an unemployed person aged 35 to 45;
- 175 days for an unemployed person aged 45 or over.

For a person with at least 3 dependents:

- 138 days for an unemployed person under 35;
- 175 days for an unemployed person aged 35 or over.

Within a 4-year period, an unemployed person under the age of 40 shall not be paid an unemployment benefit for a period exceeding 180% of the maximum period to which he is entitled. The rate of the unemployment benefit for additional period (beyond 100% of the maximum period) shall not be over 85% of the maximum daily unemployment benefit (not covered in TaxBEN).

Unemployment benefit is not paid for the first five unemployment days in each period of four consecutive months from the determining date (not covered in TaxBEN).

### 2.1.4. Means test

The benefit is not means-tested.

### 2.1.5. Tax treatment

The benefit is taxable at the same rates as income from work.

National Insurance is deducted from this benefit at the minimum rate of ILS 25 per month (as of 1 January 2019).

Health insurance is deducted from this benefit at a rate equivalent to that deducted from income from work.

### 2.1.6. Interactions with other components of the tax-benefit system

For a person receiving an old-age pension, the entire pension is deducted from the unemployment benefit due to him (not covered in TaxBEN).

### 2.1.7. Combining benefit receipt and employment/starting a new job

There is a special benefit for unemployed persons who start working at low wages (i.e. lower than the unemployment benefit due to them). In order to be eligible to this benefit a

person must have worked at this work for at least 25 days and have not used up the maximum period of payment of unemployment benefit. The benefit is calculated for every day at the rate of the difference between the actual wage and 75% of the wage, which served as the basis for calculating the unemployment benefit. The grant is paid for the maximum period of 150 work days, in 2 payments: the first after 75 work days and the second after every additional 25 work days.

### 3. Social assistance and housing benefits

The main benefit to insure means of subsistence to those Israeli residents who cannot earn a living on their own is income support benefit (covered in Section 3.1). 3.1. There are also two housing benefits: public housing benefit (not covered in TaxBEN but further details in the Annex) and Rental Assistance (covered in Section 3.2).

#### 3.1. *Income support benefit* (הגמלה להבטחת הכנסה)

Variable names: [\[SA\]](#)

This is a non-contributory benefit, means-tested and not taxable.

##### 3.1.1. *Eligibility conditions*

- Continuity of residence: Israeli resident for 24 consecutive months preceding the submission of claim;
- Aged 20 and over;
- The incomes of claimant and spouse are lower than the minimum level determined in the law;
- Registered as unemployed and reporting to Employment Service about job search. The reporting requirement to the Employment Service applies to the claimant and his spouse. There are persons exempt from the requirement, e.g. a mother of a child up to two years old. 

##### 3.1.2. *Benefit amount*

The income support benefit has a number of rates. Each rate can be paid fully (*income support*) or partially (*income supplement*). Listed below are the various benefit rates as a percentage of the basic amount for income support (ILS 8,778 since 2019).

#### **For those under the age of 55:**

- Single individual: 20.0%;
- Couple without children: 27.5%;
- Couple with one child: 30.0%;
- Couple with two or more children: 33.5%.

Higher rates may apply if an increased rate has been granted in December 2002 (not covered in TaxBEN).

#### **For those under the age of 25:**

- The benefit rate is 80% of the rates listed above (if not defined as one of the exceptions in the law).

- Young persons under the age of 20 are entitled to the benefit as one of the exceptions set down in the law, such as a parent of a child in his custody, or pregnant and not living with parents provided that one of them receives an income support benefit, an orphan or an abandoned child (not covered in TaxBEN).
- Persons at the age of 18 or over are eligible if they lack the capacity to work due to illness, are released prisoners, prisoners working at service jobs, persons in severe distress (not covered in TaxBEN).

**For those aged 55 or over up to retirement age:**

- Single individual: 25.0%;
- Couple without children: 37.5%;
- Couple with one child: 43.5%;
- Couple with two or more children: 49.5%.

**For single parents, separated persons and widows (not entitled to survivors benefits):**

- under the age of 55:
  - with one child: 33.5%;
  - with two or more children: 39.0%.
- for those aged 55 or over up to retirement age:
  - with one child: 42.5%;
  - with two or more children: 52.5%;
  - → to both rates a reduction of one child allowance special basic amount applies for income support (ILS 142, see Section 4.1).

**Other special groups** include immigrants, orphans or abandoned children, relatives of deceased (not covered in TaxBEN).

### 3.1.3. Benefit duration

For an unlimited time, as long as the conditions of entitlement to benefit are fulfilled.

### 3.1.4. Means test

The benefit is means-tested (see Section 3.1.7).

### 3.1.5. Tax treatment

Health insurance is deducted from this benefit at the minimum rate of ILS 104 per month (as of 1 January 2019).

### 3.1.6. Interaction with other components of the tax-benefit system

For purposes of the income support benefit, the amounts of alimony or child support are deducted from the amount of the income of a person who pays alimony or child support under a court judgment to a partner or child not living with the person. However, the deducted amount may not exceed the income support benefit of the person according to the family composition.

### 3.1.7. Combining benefit receipt and employment/starting a new job

In the income test for entitlement to the income support benefit, the amount of income (from work and pension) not considered as income is:

- ILS 514 for an individual under age 55;
- ILS 719 for a person under age 55 with dependents;
- ILS 1,335 for an individual aged 55 or over;
- ILS 1,746 for a person aged 55 or over with dependents.
- Above this income, the benefit is decreased by one ILS for every ILS of income from pension (100%) and by 70% for singles and couples without children below age 55 (67.5% for couples with one child; 62.5% for couples with two or more children; 25% for single parents up to 3473 ILS and 60% above it; and 60% for those aged 55 or over) of income from work.

As a result, the maximum income from work that still entitles one to the minimum benefit is:

**For those under the age of 55:**

- ILS 3023 for a single;
- ILS 4168 for a couple;
- ILS 4620 for a couple with one child;
- ILS 5425 for a couple with two or more children;
- ILS 7227 for a lone parent with one child;
- ILS 8031 for a lone parent with two or more children.

**For those aged 55 or over:**

- ILS 3904 for a single;
- ILS 5599 for a couple;
- ILS 6215 for a couple with one child;
- ILS 6974 for a couple with two or more children;
- ILS 8735 for a lone parent with one child;
- ILS 10197 for a lone parent with two or more children.

### 3.2. *Rental assistance* (דירה בשכר סיוע)

In January 2014 the Public Housing Law (1998) has been modified coming into effect from 1 January 2013 for the following 5 years. In June 2014 the rental assistance was extended to all areas including small locality.

Rental assistance is a non-contributory benefit, means-tested and not taxable.

Code in the OECD tax-benefit model: [\[HB\]](#)

The reference date for policies described in this chapter is 1 January 2019.

#### 3.2.1. *Eligibility conditions*

The benefit is subject to a "credit system" which ranks eligibility for housing benefit (credit points of entitlement). The following persons are eligible:

- An individual or a family, who do not share partial or complete rights to an accommodation - existing or in building process in the last 10 years;
- Exploitation of earning capacity- At least one spouse works full-time or is provided income support via an unemployment benefit.

1. Eligibility for working individuals depends on:

- size locality (not modelled in TaxBEN)
- marital status and number of children
- level of income
- residency area (not modelled in TaxBEN)

2. Eligibility according to income support unemployment benefit depends on:

- Age
- Marital status and number of children
- Recipient's disability benefit (not modelled in TaxBEN)

There is also special treatment of particular groups (not modelled in TaxBEN), including:

- New immigrants
- Career soldiers who settle in the Negev
- Homeless
- Inmates liberated
- Battered Women
- Expelled beating men

### 3.2.2. *Benefit amount*

The benefit is calculated according to several parameters:

- Area of residence: those who do not live in priority development area are entitled to larger benefits in accordance with higher rents required in these areas;
- Family situation (couples, single parents, singles);
- Age (relevant only for singles);
- Number of children;
- Income test (for families with at least one parent working full-time whose total family income is low);
- Eligibility to certain benefits (e.g. disability benefit, of at least 75% and an income support benefit);
- An increased rate of 10% is given to holocaust survivors, Second World War veterans or victims of the Chernobyl nuclear reactor disaster (*not covered by the model*).

The table below shows the amount ranges for household types when receiving unemployment benefits. The ranges refer to the minimum and maximum benefits amounts for each category across localities. These include: large localities, small non-priority localities, and small A-B priority localities (TaxBEN models the maximum amounts)<sup>6</sup> :

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<sup>6</sup> For more details, see:

[https://www.gov.il/he/Departments/Guides/rental\\_assistance\\_amounts?chapterIndex=4](https://www.gov.il/he/Departments/Guides/rental_assistance_amounts?chapterIndex=4)

<b>Category</b>	<b>Amount, (ILS)</b>
Individuals Aged 55+ receiving income supplement benefit	370-580
Couples with no children	550-850
<u>Lone parents or couples with children:</u>	
- Up to 3 children (incl.)	760 - 1170
- 4 children or more	950-1,470
<u>Non-immigrant citizens Old citizens (men aged 67, and women aged 62):</u>	
Individuals	1079 – 1365
Individual living with relative	961 – 1043
couples	1329 – 1740
Couples living with relative	1183 – 1447
Couples with children	1687 – 2130
Couples with children living with relative	1483 – 1747

In the model the highest possible benefit amounts are applied (i.e. the upper bound).

The table below shows the amount ranges for household types when employed. Assistance is provided to households whose full-time salary is below the listed income threshold. Households receive an amount according to their locality (TaxBEN models the maximum amounts):

<b>Category</b>	<b>Amount, (ILS)</b>	<b>Full time salary (ILS)</b>
Couples with no children	340- 850	0 - 5775
Couples with one child	480 - 1170	0 - 6345
Couples with 2-3 children (incl)	480 - 1170	0 - 7745
Couples with 4 children or more	600 - 1470	0 - 7745
Lone parents or couples with children		
- Up to 3 children (incl.)	480 - 1170	0 – 10,039
- 4 children or more	600 - 1470	0 – 10,039

Other categories not currently modelled in TaxBEN:

Category	Amount, (ILS)
<u>Waiting for public house:</u>	
Individual	600 - 1644
Family or lone parents with 1-3 children	1850 - 3100
Family or lone parents with 4 children or more	2400 - 3900
Individual - A disabled confined	1850 - 3100
couple without children- A disabled confined	2400 – 3100
<u>Handicapped -disability benefit of at least 75% and an income support benefit.</u>	
Individual	490 – 770
Couples without children	670 – 1040
Family or lone parent with 1-3 children	850 – 1310
Family or lone parent with 4 children or more	1060 - 1640

- Treatment of particular groups:  
New immigrants, Career soldiers who settle in the Negev, homeless, liberated inmates, battered women, expelled beating men (*not covered in the tables*).

### 3.2.3. Benefit duration

Maximum duration is 1 year.

### 3.2.4. Means test

Households must meet an income test, depending on their situation:

- At least one spouse works full-time, provided that their income does not fall below the minimum wage.
- The gross monthly income of both spouses does not exceed NIS 5,775 per month.
- Families with one child - their gross monthly income does not exceed NIS 6,345 per month.
- Families with 2 or more children - their gross monthly income does not exceed NIS 7,745 per month
- Lone parent families - their gross monthly income does not exceed NIS 10,039 per month.

### 3.2.5. Tax treatment

Benefits are not taxable and there are no tax benefits.

### 3.2.6. Interaction with other components of the tax-benefit system

Benefits are not taxable and there are no tax benefits.

### 3.2.7. *Combining benefit receipt and employment/starting a new job*

Not benefitted.

## 4. Family benefits

### 4.1. *Child allowance (קצבת ילדים)*

Variable names: **[FB; FB\_I; FB\_supp]**

This is a contributory benefit, though only the employer pay contributions as a part of National Insurance contributions (see section 7.2. ).<sup>7</sup> It is not means-tested and not taxable.

#### 4.1.1. *Eligibility conditions*

An insured parent can receive a monthly allowance for children under the age of 18, living in Israel and not married.

An insured person who supports a child who is not his for at least 12 months is also eligible (not covered in TaxBEN).

An increment to child allowance is paid to large families (i.e. families with three or more children) that receive a subsistence benefit (e.g. income support, alimony, disability, old age, or survivors).

#### 4.1.2. *Benefit amount*

For a child born up to 1 June 2003:

- For the first child – the basic amount for child allowance (ILS 152);
- For the second child – ILS 191;
- For the 3<sup>rd</sup> child – ILS 191;
- For the 4<sup>th</sup> child – ILS 340;
- For the 5<sup>th</sup> and each additional child – ILS 359 (not covered in TaxBEN).

For a child born on or after 1 June 2003:

- For the first child – the basic amount for child allowance (ILS 152);
- For the 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> child – ILS 191;
- For the 5<sup>th</sup> and each additional child – ILS 152 (not covered in TaxBEN).

Increment to child allowance:

An additional increment to child allowance is paid to those households receiving income support (i.e. social assistance) for the third and fourth child in the family is 70% of the special basic amount (i.e. ILS 0.7\*142 or ILS 99) for each child.<sup>8</sup>

<sup>7</sup> In 2019 the employer paid child allowance contributions of 1.32% for the reduced rate and 2.08% for the full rate.

<sup>8</sup> There is a special basic amount for benefits based on the income support law. See:

<https://www.btl.gov.il/English%20Homepage/Mediniyut/GeneralInformation/Pages/Basicamount.aspx>

#### 4.1.3. *Benefit duration*

As long as the eligibility conditions hold.

#### 4.1.4. *Means test*

The benefit is not means-tested.

#### 4.1.5. *Tax treatment*

The benefit is not taxable.

#### 4.1.6. *Interaction with other components of the tax-benefit system*

Not applicable.

#### 4.1.7. *Combining benefit receipt and employment/starting a new job*

Not applicable.

### 4.2. *Study grant* (מצענן לימודים)

Variable names: **[FB; FB\_stud]**

This is a non-contributory benefit, not means-tested and not taxable.

#### 4.2.1. *Eligibility conditions*

Study grant is paid for every child between the age of 6 and 14 years in entitled families at the beginning of the school year. The following families are entitled to the grant:

- A lone-parent family;
- A family with 4 or more children that receives income support (see Section 3.1);
- A child orphaned from both parents (not covered in TaxBEN);
- An abandoned/orphaned child (not covered in TaxBEN);
- A child who immigrated to Israel without an insured parent (not covered in TaxBEN);
- A woman residing in a shelter for battered woman (not covered in TaxBEN);
- A person who receives an income support benefit separately from his/her spouse (not covered in TaxBEN).

#### 4.2.2. *Benefit amount*

The grant is 18% of the basic amount for income support (ILS 8 778) for children aged 6-11 and 10% of the basic amount for income support for children aged 12-14.

#### 4.2.3. *Benefit duration*

As long as eligibility conditions hold.

#### 4.2.4. *Means test*

Not means-tested.

#### 4.2.5. Tax treatment

Non-taxable.

#### 4.2.6. Interaction with other components of the tax-benefit system

Not applicable.

#### 4.2.7. Combining benefit receipt and employment/starting a new job

Not applicable.

## 5. Net costs of Early Childhood Education and Care

The **reference date** for the policy rules described in this section is **January 1, 2018**.

The Free Compulsory Education Law to children from the age of five established in 1969 that the state would provide free education, which became a "compulsory kindergarten".

According to the decision of the Israeli government, the state provides free education from the beginning of the 2012/13 school year (i.e. 27 August 2012) for pre-school children aged 3-4 in the public kindergartens.

The Ministry of Education also participates in salary payments of local authorities' kindergartens. Kindergartens for children aged 3-5 are eligible. Also recognized non-official kindergartens are eligible.

### 5.1. Gross childcare fees

Variable names: [\[ILcc\\_cost\]](#)

Average expenditure on education services for households with children aged 0-15 years (who had the relevant expenditure) in current prices in 2017 (most recent data available; in the TaxBEN model, fees are uprated to 2019 using CPI):

Type of care	Average expenditure (ILS) Per month 2017
Total	613
Day nursery	1,467
Private kindergartens	1,507
Pre-compulsory kindergartens	426
Compulsory kindergartens	339
Elementary school	475
Intermediate school	308
Afternoon education	819

Source: Israel CBS. HES survey for 2017. Note: TaxBEN applies fees for Day nursery only.

### 5.1.1. Discounts for part-time usage

None.

## 5.2. Child-care benefits for formal centre-based care

Variable names: [\[cc\\_benefit\]](#)

As of the year 2012/13, the State of Israel provides free education to children aged 3-4 and studying in public kindergartens. Below the age of 3, parents pay fees dependent on their income and household composition.

The government subsidises the day care costs for parents of children aged 3 months to 3 years. In addition, childcare services can be provided in family homes or private facilities, which are also subsidised and regulated by the government. TaxBEN models non-profit childcare services, which are described below. The rules on family homes and private facilities providing childcare is described in the Annex.<sup>9</sup>

### 5.2.1. Eligibility

A mother who has a child who is provided childcare services by either a daycare center or a family home, and her spouse meets the specified conditions (outlined in section 5.2.2 below) in the tests for providing support from the Ministry of Labor, Social Affairs and Social Services, the Daycare Department.<sup>10</sup>

Single parent families and a same-sex couple who meet the specified conditions in the tests for providing support from the Ministry of Labor, Social Affairs and Social Services, the Daycare Department.

### 5.2.2. Benefit amount

Eligible households will be entitled, according to the above, to tests for the Ministry of Labor's support for the State's participation in the cost of holding the child or his children, as the case may be, in day care centers or in the family. The table below outlines the costs and government subsidies for various income thresholds and circumstances. Note that per capita income is calculated as the gross salary of the parents divided by the number of parents and children in the household up to the age of 18.

**Table of tuition fees in an institution which is not a non-profit institution for September 2018<sup>11</sup>**

infant (3 - 15 months)		toddler (15 months - 3 (years old		Per capita income	Level
Government participation	Participation of parents	Government participation	Participation of parents		

<sup>9</sup> For more information, see the following link:

<https://employment.molsa.gov.il/Employment/DayCareCenters/Pages/MeonotYom.aspx>

<sup>10</sup> More details on the specific conditions are outlined here:

[https://www.gov.il/BlobFolder/rfp/daycare-subsidies-2019-2020/he/daycare-subsidies\\_2019-2020.pdf](https://www.gov.il/BlobFolder/rfp/daycare-subsidies-2019-2020/he/daycare-subsidies_2019-2020.pdf)

<sup>11</sup> <https://employment.molsa.gov.il/Employment/DayCareCenters/tuition/Pages/TuitionTables.aspx>

1,828	893	1,400	686	0-2,100	3
1,569	1,152	1,213	873	2,101-2,600	4
1,309	1,412	1,005	1,081	2,601-3,000	5
1,226	1,495	943	1,143	3,001-3,500	6
1,019	1,702	787	1,299	3,501-4,000	7
801	1,920	662	1,424	4,001-4,400	8
687	2,034	516	1,570	4,401-4,900	9
562	2,159	433	1,653	4,901-5,300	10
-	2,721	-	2,086	5,301-6,000	11
				above 6,000	12
	-	2,721	-	2,086	
946	1,775	724	1,362		13
1,928	793	1,500	586		14
2,028	693	1,600	486		15
2,119	602	1,618	468		1
2,010	711	1,540	546		2

**Notes:**

- In the case of couples, the level of government participation is influenced by the number of hours worked by the mother. If they work 36 hours or more, there is no modification to the income test. Between 32 and 35 hours of work per week, 1 level is added to the income test. Between 28 and 31 hours worked per week, 2 levels are added. Between 24 and 27 hours per week, 3 levels are added.
- Families with three or more children will be provided with a level of government participation at level 5 or less (depending on the income test).
- Households with more than one child in day care will have one level removed from their assessment.
- Level 1 and 2 are for children referred by the Department of Social Services only!
- Level 13 is designated for women who require work according to a government decision for Gush Katif evacuees.
- Level 14 is intended for families who according to the criteria and the income test are in Level 3 and have 2 children who live in a residence or a symbolized family.
- Level 15 is intended for families who according to the criteria and the income test are in Level 3 and have 3 or more children staying in a residence or a family with a symbol.
- Full monthly cost for the toddler (15 months - 3 years old): 2,086 NIS

- Full monthly cost for the infant (3 - 15 months) : 2,721 NIS

### 5.2.3. *Benefit duration*

The benefit is given to children who were at the beginning of the school year between the ages of 3 months and up to 32 months

### 5.2.4. *Means test*

The government's level of participation is determined at the period of registration according to the qualifying conditions and the household's per capita income (outlined in the table above).

### 5.2.5. *Tax treatment*

Not subject to taxation

### 5.2.6. *Interaction with other benefits*

There is no interaction with other benefits

### 5.2.7. *Combining benefit receipt and employment/starting a new job*

Not applicable.

## 5.3. *Childcare allowance for children not using child care centers*

None.

## 5.4. *Tax concessions for childcare expenditures*

There are no tax benefits for childcare expenditures. Instead working parents of young age children (up to 5 years old) are entitled to a universal tax credit (see Section 8.1.4).

## 6. **In-work benefits**

### 6.1. *Earned income tax credit*

A non-wastable earned income tax credit (EITC) was implemented in 2008 in selected geographical areas of Israel covering 15 % of the population. Entitlement to this credit is established based on earnings in the previous year. The tax credit was extended to all areas of Israel in 2012 (based on the earnings in 2011 and therefore we already included it in the 2011 version of the model). For mothers of children up to the age of 2 and for single parents the full coverage started in 2011 (based on earnings in 2010).

Variable names: **[IW; NIT\_p; NIT\_s]**

#### 6.1.1. *Eligibility conditions*

Entitlement to this credit is established based on earnings in the previous year.

### 6.1.2. Benefit amount

Under the law, workers aged 23 or more who are parents of one or two children aged less than 18 (or workers aged 55 or more even without children), and earn at least ILS 2,080 per month (ILS 24,960 per year; about 40% per cent of the minimum wage) but not more than ILS 6,348 per month (ILS 76,176 per year) are eligible for a monthly increment of up to ILS 330. The corresponding figure for a family with 3 or more children is ILS 480.

This amount of this increment increases with income at a phase-in rate of from a minimum payment, which varies according to family situation. The minimum payment is ILS 20 per month, which increases to ILS 80 per month for married couples with 1 or 2 children, and ILS 120 per month for married couples with 3 or more children. After a certain income level, the amount of the benefit is reduced as income increases according to the phase-out rate. The phase-in and phase-out rates in 2019 are as follows:

	Two-parent family		One-parent family (since 2017)	
	1-2 children	3+ children	1-2 children	3+children
Phase-in rate	16.1%	23.5%	10.8%	15.5%
Phase-out rate	23.0%	23.5%	11.6%	11.6%

Since 2016, single parents are eligible for the EITC for a wider income range – from ILS 1,280 per month (ILS 15,360 per year) to ILS 9,483 per month (ILS 113,796 per year; for a single parent of 1-2 children) or ILS 11,566 per month (ILS 138,792 per year; for a single parents of 3 or more children).

Since 2013 (based on earnings in 2012), these sums were increased by 50% for working mothers (and fathers in one-parent family).

A temporary measure (for earnings in 2018 and 2019 only) expanded the 50% bonus to all working fathers and furthermore added a bonus of 30% for families where both parents work full-time. This was included in the TaxBEN model for 2018. This provision will probably continue.

Families in which both parents work, and their joint income does not exceed ILS 12,080 per month (ILS 144 960 per year) are entitled to these benefits for each wage-earner. The grant is paid four times a year directly into the account of the eligible persons.

### 6.1.3. Benefit duration

As long as eligibility conditions hold.

### 6.1.4. Means test

The amount of the credit depends on the level of earned income.

### 6.1.5. Tax treatment

Not subject to taxation.

### 6.1.6. Interaction with other components of the tax-benefit system

No interaction.

## 7. Social security contributions and payroll taxes

Social security contributions are made up of National Insurance and Health Insurance. The rates paid by employees and employers are applied in two brackets:

- A reduced rate is applied for income up to a level of 60% of the average wage per employee (ILS 6,164 per month in 2019).
- A full rate is applied for income exceeding 60% of the average wage per employee and up to a level of around 5 times the average wage per employee (ILS 43,890 per month (ILS 526,680 per year) in 2019).

### 7.1. Employee social security contributions

Variable names: [\[SOCSEC\\_p; SOECSEC\\_s; SSC\\_NAT\\_p; SSC\\_HLTH\\_p; SSC\\_NAT\\_s; SSC\\_HLTH\\_s\]](#)

The taxable base for social security insurance contributions paid by employees is the total amount of the gross wage or salary including fringe benefits. The assessment period is the calendar month. The effective employees' contribution rates in 2019 are as follows:

Insurance branch	Full rate contribution ( % )	Reduced rate contribution ( % )
Total for National Insurance branches	7.00	0.40
Health	5.00	3.10
Total contributions	12.00	3.50

The minimum rate of national insurance contributions for unemployed is ILS 25.67 per month (as of 1 January 2019).

A person who does not work and has no income pays the minimum health insurance contribution at the amount of NIS 104 per month.

### 7.2. Employer social security contributions

Variable names: [\[SSCR\\_general\\_p; SSCR\\_general\\_s\]](#)

Social security insurance contributions are also paid by employers on behalf of their employees. Employers pay only National Insurance contributions (and not health insurance). The employers' contribution rates in 2019 are as follows:

Insurance branch	Full rate contribution ( % )	Reduced rate contribution ( % )
Total for National Insurance branches	7.60	3.55
Health	-	-
Total contributions	7.60	3.55

### 7.3. Contributions to private pensions

Variable names: [\[NTCP\\_ee\\_p; NTCP\\_ee\\_s; NTCP\\_er\\_p; NTCP\\_er\\_s\]](#)

In 2008, a compulsory employment pension was introduced for employees with a period of employment of at least 6 months. The minimum rate of contributions is 18.5% of the employee's salary in 2019 up to the level of ILS 9,906 per month (ILS 118,872 per year). About one third is paid by the employee and two thirds by the employer. These contributions are included in the non-tax compulsory payments (NTCP) calculations in TaxBEN.<sup>12</sup>

## 8. Taxes

In general, spouses are taxed separately on their earned income, subject to the condition that its sources are independent. Since 2014, spouses could still be taxed separately, even in cases where their earned income is deemed to be interdependent. (*In the model it is assumed that spouses earn income independently*). There are no regional or local income taxes.

### 8.1. Personal income tax

Variable names: [\[IT; INCTAX\\_p; INCTAX\\_s\]](#)

#### 8.1.1. Tax allowances

There are no tax allowances in Israel. For tax credits see Section 8.1.4.

#### 8.1.2. Tax base

All benefits considered in the model, except for unemployment insurance benefit, are not taxable. In the model, tax base consists of employment income and unemployment benefits.

#### 8.1.3. Income tax schedule

The tax schedule for earned income in 2019 is as follows:

Tax rate	Taxable income
(%)	(ILS per year)
10	0 - 75,720
14	75,720 - 108,600
20	108,600 - 174,360
31	174,360 - 242,400
35	242,400 - 504,360
47	504,360 - 649,560
50	Above 649,560

<sup>12</sup> NTCPs refer to compulsory payments made by employers or employees in connection with the employees' labour activity that do not qualify as taxes and social security contributions. See the ["Associated paper: non-tax compulsory payments"](#) to the latest OECD *Taxing Wages* report for more details on NTCPs.

#### 8.1.4. Tax credits

Variable names: [\[WTC\\_p; WTC\\_s\]](#)

##### **Basic credit:**

Every resident taxpayer is entitled to 2.25 credit points (ILS 5,886 in 2019).

##### **Additional credit for women:**

Women are entitled to a further half credit point (ILS 1,308 in 2019).

##### **Child tax credit:**

Working mothers (and fathers in one parent families) with children aged under 18 are entitled to one additional credit point per child (ILS 2,616 in 2019). In 2012 this credit was increased to 2 credit points per child aged under 5. Since 2012, married working fathers with children aged under 2 are also entitled to 2 credit points per child. Since 2017, the credit for both parents was increased to 2.5 credit points per child aged under 5 (ILS 6,540 in 2019). A detailed overview of credit points for the child tax credit can be found in the Annex.

##### **Single parent tax credit:**

Single parents (both mothers and fathers) are entitled to one additional credit point (ILS 2,616 in 2019).

##### **Other tax credits:**

Other tax credits (not covered in TaxBEN) are granted for contributions to approved pension schemes; living in certain development areas or conflict zones; to new immigrants; to discharged soldiers and graduates of academic studies.

There is also **Earned Income Tax Credit**, classified in the model as in-work benefit (see Section 6.1).

## 9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Israel in 2019 (see figure below). TaxBEN by default produces the following output: 1) net household incomes (**black line**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (users are free to select many of these circumstances). The model and the related web calculator is accessible from the [project website](#). The figure below shows output for a two-adult family with two children (adults are both 40 years old whereas children are 4 and 6 years old respectively) and four different scenarios:

- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record (in months), for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas show the following household income components: **GROSS** = gross earnings; **UB** = unemployment benefits; **SA** = social assistance / guaranteed minimum

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income benefits; **HB** = housing benefits; **FB** = family benefits; **IW** = in-work benefits; **SSC** = social security contributions; **IT** = income tax. Note that these components may be the result of the aggregation of more than one benefit/tax into a composite category. Please refer to the sections above for the benefits/taxes included in each category.

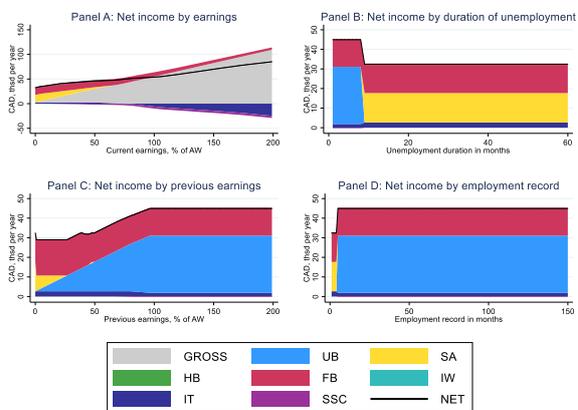
Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

**Panel A** assumes that one adult family member (the so-called ‘second adult’ using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (the so-called ‘first adult’) is employed full-time throughout the entire year at different earnings levels ranging between 0 and 200% of the average wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits (again, e.g. because they have expired) but claiming social assistance or guaranteed minimum income benefits, as applicable.

**Panels B to D** assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The x-axis in Panel B measures the time of benefit receipt, starting from the first month. The x-axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2<sup>nd</sup> month of unemployment benefit receipt. In Panel B and D, previous earnings are assumed to be equal to the average wage.

**Figure 9.1. Selected output from the OECD tax-benefit model**

Couple with two children



Source: Calculations based on the OECD tax-benefit model.

## Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Israel that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

### *Unemployment benefit for persons in vocational training* (דמי אבטלה למשתתף בהכשרה (מקצועית)

If an unemployed person participates in vocational training, the amount of the benefit is equivalent to the difference between the payment given to the person during training and 70% of the unemployment benefit to which he would have been entitled had he been unemployed. The maximum period of payment for a person with less than 12 years of schooling is 138 days (even if his maximum period according to general rules is less than that).

### *Unemployment benefit for persons working at unsuitable work* (דמי אבטלה לעובד בעבודה לא מתאימה)

Work is considered suitable if it meets 3 conditions:

- A type of work at which the unemployed person worked in the 3 years preceding his unemployment, or any other work suiting the persons professional training, education level and health condition;
- The wages of the work offered are at least equal to the unemployment benefit which would be due to him, were he entitled to it;
- The work offered does not require a change in residence.

If an unemployed person starts working at an unsuitable job, he receives a benefit which is the difference between the average daily income from work and the amount equivalent to the unemployment benefit or the amount equivalent to 75% of the average daily wage which served as the basis for calculation of the unemployment benefit (if the latter difference is higher). The benefit is paid for the first 60 days after the beginning of unemployment.

### *Unemployment benefit for demobilized soldier* (דמי אבטלה לחייל משוחרר)

The minimum daily unemployment benefit for a demobilized soldier is determined on the basis of the daily average wage, calculated as 60% of half the basic amount for income support (ILS 8 778), but no more than 80% of the minimum wage.

Furthermore, a demobilized soldier who works at a job recognised as a preferred/required job (at unsuitable work) may be eligible for a grant at the rate of half the unemployment benefit due to him for a period of 138 days. This benefit can also be paid as a partial grant (subject to certain conditions).

The grant is tax deductible and treated as an income by the Income Tax Authority.

### **Public housing benefit (ציבורי דיור)**

Public housing is an "inventory" of apartments that belongs to the state for the use of those in need. Public housing benefit provides subsidized rental apartments.

The benefit is subject to a "credit system" which ranks eligibility for housing benefit (credit points of entitlement). The inventory of apartments in public housing is very limited, therefore eligibility is restricted to persons who are in a state of economic or functional stress:

- An individual or a family, who do not share rights partial or complete rights to an accommodation - existing or in building process.
- Persons holding a certificate to prove that he/she are lacking an apartment.
- Families:
  - Where both parents have accumulated at least 1400 "credit points".
  - That has 3 or more children.
  - Whose income is less than the maximum amount of social security that a couple with 2 children can receive.

Working to their full earning capacity.

It should be noted that there is an extended waiting period for public housing apartments. During this period a special assistance for rental accommodation is provided.

### **Hospitalisation grant (מענק אישפוח)**

This is a grant given to the hospital due to hospitalisation in connection with giving birth.

A woman who needs to be hospitalized in connection with giving birth is eligible for the grant if she belongs to one of the following categories:

- An insured woman or a wife of an insured person (even if she gave birth outside Israel);
- An employed or a self-employed woman working in Israel or a wife of an employee or a self-employed person;
- Working in Israel for at least 6 month immediately preceding the birth even if not a resident in Israel (provided she gave birth in Israel).

The above does not apply to a person living in an area or in territories of the autonomy who is not an Israeli resident.

The amount of the grant is set by the regulations and is updated on ad hoc basis

### **Birth grant (מענק לידה)**

This is a grant given to the woman giving birth. Eligibility is the same as for the hospitalization grant. In case of one child being born, the grant is:

- 20% of the basic amount for the birth grant (ILS 8 888) for the first child of the family;
- 9% of the basic amount for the second child of the family;
- 6% of the basic amount for the third or any subsequence child of the family.

In case twins are born, the grant is 100% of the basic amount. An additional 50% of the basic amount is paid for every additional child born in the same birth.

### ***Child birth allowance (קצבת לידה)***

This is an allowance given due to the birth of 3 or more children in one birth. Eligibility is the same as for the hospitalization grant. On condition that the mother is entitled to maternity grant and that at least 3 children remained alive at the end of the 30<sup>th</sup> day period following the birth, the allowance (a percentage of the basic amount for the birth grant, ILS 8 888) is paid for 20 months.

### ***Maternity allowance and vacation pay (דמי לידה)***

This is an allowance given due to maternity leave. In order to be eligible for this allowance a mother (or a father) should have paid insurance contributions as an employee or self-employed for 10 out of the 14 months or for 15 out of the 22 months (or for 6 out of the 14 months - for mothers only) preceding the determining date<sup>13</sup>.

For a father employer's authorization to take the leave is also necessary. Furthermore, the mother must be entitled to maternity leave of at least 14 weeks from the birth, agree waive part of her maternity leave, and return to work not before the end of 6 weeks from the birth (unless she is not able to take care of the child due to her medical condition).

The allowance is 100% of the average daily income liable for insurance contributions of the entitled person in the three-month preceding the determining date. The allowance is granted for a period of:

- 14 weeks – if insurance contribution were paid for 10 months out of 14 or for 15 months out of the 22 months.
- 7 weeks (for mother only) – if insurance contribution were paid for 6 months out of 14 or for 15 months out of the 22 months.
- Father's maternity leave is at least 21 consecutive days.

The taxes are paid at the rate of the parallel income amount received from work. National insurance contributions and health insurance contributions are deducted from these benefits.

### ***Risk pregnancy benefit (קצבה לשמירת היריון)***

This is a benefit given during the pregnancy for a woman in risk due to her pregnancy. The following eligibility conditions should hold:

- A resident of Israel;
- Employee or self-employed woman;
- Absent from work due to a medical condition endangering the insured woman or her foetus;
- Qualifying period up to determining date for risk pregnancy;
- A period of precautionary rest of at least 30 consecutive days due to risk pregnancy;
- Non-receipt of payment for risk pregnancy from any other source.

For every day of precautionary rest due to risk pregnancy, the lowest of the following amounts is paid:

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<sup>13</sup> The day on which the insured woman ceased working while pregnant.

- A sum equivalent to the basic amount (ILS 8 888), divided by 30.
- The insured woman's income in the 3 months preceding the day of her cessation of work, divided by 90.

The taxes are paid at the rate of the parallel income amount received from work. National insurance contributions and health insurance contributions are deducted from these benefits.

### *Payroll taxes*

The following payroll taxes exist in Israel but they have limited coverage:

- Wage tax on the non-profit institutions: the VAT law imposes a 7.5% on the wage-bill on the non-profit sector including Government;
- Wage tax on the financial institutions: the VAT law also imposes a 17.00% tax on the wage-bill of the financial institutions.

### *Child tax credit – additional details on credit points*

The following information refers to the child tax credit described in Section 8.1. In 2012 and again in 2017, the tax credit for younger children was increased as follows:

		Number of credit points per child, by age of the child:							
		0	1	2	3	4	5	6-17	18
Up to 2011	Mothers	0.5	1	1	1	1	1	1	0.5
	Fathers	0	0	0	0	0	0	0	0
2012-2016	Mothers	0.5	2	2	2	2	2	1	0.5
	Fathers	1	2	2	1	0	0	0	0
Since 2017	Mothers	1.5	2.5	2.5	2.5	2.5	2.5	1	0.5
	Fathers	1.5	2.5	2.5	2.5	2.5	2.5	0	0

### *Childcare services: Tuition fees applicable in private facilities (as of September 2019)*

infant (3 - 15 months)		toddler (15 months - 3 years old)		Per capita income	Level
Government participation	Participation of parents	Government participation	Participation of parents		
1,701	866	1,300	669	0-2,100	3
1,461	1,106	1,133	836	2,101- 2,600	4
1,210	1,357	934	1,035	2,601- 3,000	5

1,137	1,430	882	1,087	3,001- 2,500	6
897	1,670	725	1,244	3,501- 4,000	7
741	1,826	579	1,390	4,001- 4,400	8
595	1,972	474	1,495	4,401- 4,900	9
490	2,077	381	1,588	4,901- 5,300	10
-	2,567	-	1,969	5,301- 6,000	11
-	2,567	-	1,969	above 6,000	12
866	1,701	673	1,296		13
1,801	766	1,400	569		14
1,901	666	1,500	469		15
1,993	574	1,530	439		1
1,879	688	1,447	522		2

- Level 1 and 2 are for children referred by the Department of Social Services only!
- Level 13 is designated for women who require work according to a government decision for Gush Katif evacuees.
- Level 14 is intended for families who according to the criteria and the income test are in Level 3 and have 2 children who live in a residence or a symbolized family.
- Level 15 is intended for families who according to the criteria and the income test are in Level 3 and have 3 or more children staying in a residence or a family with a symbol.
- Full monthly cost for the toddler (15 months - 3 years old): 1,969 NIS
- Full monthly cost for the infant (3 - 15 months): 2,567 NIS

***Childcare services: Tuition fees applicable in family homes (as of September 2019)***

infant (3 - 15 months)		toddler (15 months - 3 years (old		Per capita income	Leve 1
Government participation	Participation of parents	Government participation	Participation of parents		
1,285	743	1,238	710	0-2,100	3
1,137	891	1,089	859	2,101-2,600	4
967	1,061	930	1,018	2,601-3,000	5

914	1,114	877	1,071	3,001-3,500	6
744	1,284	707	1,241	3,501-4,000	7
596	1,432	569	1,379	4,001-4,400	8
469	1,559	442	1,506	4,401-4,900	9
373	1,655	357	1,591	4,901-5,300	10
-	2,028	-	1,948	5,301-6,000	11
-	2,028	-	1,948	6,000 above	12
670	1,358	644	1,304		13
1,385	643	1,338	610		14
1,485	543	1,438	510		15
1,508	520	1,439	509		1
1,434	594	1,375	573		2

- Level 1 and 2 are for children referred by the Department of Social Services only!
- Level 13 is designated for women who require work according to a government decision for Gush Katif evacuees.
- Level 14 is intended for families who according to the criteria and the income test are in Level 3 and have 2 children who live in a residence or a symbolized family.
- Level 15 is intended for families who according to the criteria and the income test are in Level 3 and have 3 or more children staying in a residence or a family with a symbol.
- Full monthly cost for the toddler (15 months - 3 years old): 1,948 NIS
- Full monthly cost for the infant (3 - 15 months): 2,028 NIS