

# Israel

## Transfer Pricing Country Profile

Updated May 2019

	SUMMARY	REFERENCE
<b>The Arm's Length Principle</b>		
1	<p><b>Does your domestic legislation or regulation make reference to the Arm's Length Principle?</b></p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>	Section 85A of the Income Tax Ordinance (New Version), 5721- 1961
2	<p><b>What is the role of the OECD Transfer Pricing Guidelines under your domestic legislation?</b></p> <p>According to section 6 of the Income Tax Regulations (Determination of Market Conditions), 5767-2006:</p> <p>"A market conditions study that was conducted before the publication of these regulations will be regarded as a market conditions study that was conducted in accordance with these regulations, this for two years from the date of their publication, provided that it was conducted in accordance with the accepted guidelines published by the OECD or its member countries."</p> <p>The regulations were published on November 2006.</p> <p>There is no other reference in the domestic legislation to the TPG. However, the TPG can be regarded as one of the interpretation aids.</p>	Section 6 of the Income Tax Regulations (Determination of Market Conditions), 5767-2006
3	<p><b>Does your domestic legislation or regulation provide a definition of related parties? If so, please provide the definition contained under your domestic law or regulation.</b></p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>“<b>Special relationships</b>” – including relationships between a person and his relative, as well as control of one party to a transaction over the other, or control of one person over the parties to the transaction, directly or indirectly, alone or together with another;</p> <p>“<b>Control</b>” – a holding, directly or indirectly, of 50% or more in one of the means of control, at least one day during the tax year;</p> <p>“<b>Relative</b>” – as defined in Paragraph 76(d).</p> <p>“<b>Means of control</b>” and “<b>Together with another</b>” – as defined in Paragraph 88.</p> <p>“<b>Relative</b>”- spouse, brother, sister, parent, parent's parent, descendant, the spouse's descendants and the spouse of any of these;</p>	<p>Section 85A(b) of the Income Tax Ordinance (New Version), 5721- 1961</p> <p>Section 76(d) of the Income Tax Ordinance (New Version), 5721- 1961</p>

“**Means of control**” – in a body of persons – each of the following:

- (1) the right to profits;
- (2) the right to appoint a Director or General Manager of the company, or holders of similar positions in other bodies of persons;
- (3) the right to vote at the company's General Meetings, or in the corresponding body of another body of persons;
- (4) the right to a share of the balance of assets after debts have been paid at liquidation;
- (5) the right to instruct the holder of one of the rights said in paragraphs (1) to (4) how to exercise that right;

all whether by virtue of shares, rights to shares or other rights, or in any other manner, including through voting or trusteeship agreements;

“**Together with another**”- Together with his relative, and also together with a person who is not his relative, if they regularly – directly or indirectly – cooperate by agreement on matters substantive to the body of persons.

Section 88 of the Income Tax Ordinance (New Version), 5721- 1961

**Transfer Pricing Methods**

4 **Does your domestic legislation provide for transfer pricing methods to be used in respect of transactions between related parties?**

**Yes**  
 **No**

If affirmative, please check those provided for in your legislation:

CUP	Resale Price	Cost Plus	TNMM	Profit Split	Other (If so, please describe)
<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

The definition of "others" in the section 2(3) of the Income Tax Regulations (Determination of Market Conditions), 5767-2006 :

"Should it not be possible to use a price comparison method or one of the methods detailed in sub-paragraph (2) – another method that is the most suitable in the circumstances, which compares the international transaction with a similar transaction"

Section 2(a) in the Income Tax Regulations (Determination of Market Conditions), 5767-2006

5	<p><b>Which criterion is used in your jurisdiction for the application of transfer pricing methods?</b></p>	<p>Please check all that apply:</p> <p><input checked="" type="checkbox"/> Hierarchy of methods</p> <p><input checked="" type="checkbox"/> Most appropriate method</p> <p><input type="checkbox"/> Other <i>(if so, please explain)</i></p> <hr/> <p>For the purpose of determining whether an international transaction that has been conducted is a transaction in market conditions, a market conditions study will be conducted in which an international transaction will be compared with similar transactions of the tested party, <u>in accordance with one of the methods detailed below:</u></p> <p>(1) A method that compares between the price determined in the international transaction and the price determined in a similar transaction (in these regulations – the compared price method);</p> <p>(2) <u>Should it not be possible to use the price comparison method</u> – in accordance with one of the following comparison methods <u>that is the most suitable in the circumstances:</u></p> <p>(a) A method that compares the profitability margin between the international transaction and the similar transaction;</p> <p>(b) A method that compares the international transaction with the similar transaction, in accordance with the accepted distribution of profit and loss between parties in joint activity, taking into account the contribution of each party to the transaction, including the party’s exposure to risks and rights to the assets connected with the transaction;</p> <p>(3) <u>Should it not be possible to use a price comparison method or one of the methods detailed in sub-paragraph (2)</u> – another method that is the most suitable in the circumstances, which compares the international transaction with a similar transaction.</p> <p><b>Profitability margin</b> defined as follow:</p> <p>(1) In an area of activity in which a method is accepted determining a transaction price as a profit at a fixed rate that is added to the direct costs is– the profit at the fixed rate that was obtained in similar transactions;</p> <p>(2) In an area of activity in which a method is accepted determining a transaction price as a gross profit at a fixed rate of the sales of the purchasing party that is the tested party or a party similar to it the gross profit margin that was obtained in similar transactions;</p> <p>(3) <u>Should it not be possible to determine the profit margin as said in sub-paragraphs (1) or (2)</u> – the profit margin according to one of the following profitability indexes, <u>which is most suitable</u> for activity in the international transaction:</p> <p>(a) The operating profit margin or operating loss margin according to profit and loss statements obtained in similar transactions;</p> <p>(b) The ratio between the profit or loss, as applicable, and assets, liabilities and capital, in whole or in part, as applicable;</p> <p>(c) Another profitability index that is the most suitable in the circumstances.</p>	<p>Section 2(a) of the Income Tax Regulations (Determination of Market Conditions), 5767-2006</p> <p>Section 1 of the Income Tax Regulations (Determination of Market Conditions), 5767-2006</p>
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6	<p><b>If your domestic legislation or regulations contain specific guidance on commodity transactions, indicate which of the following approaches is followed.</b></p>	<input type="checkbox"/> For controlled transactions involving commodities, the guidance contained in paragraphs 2.18-2.22 of the TPG is followed. <input type="checkbox"/> Domestic legislation mandates the use of a specific method for controlled transactions involving commodities ( <i>if so, please explain</i> ) <input checked="" type="checkbox"/> Other ( <i>if so, please explain</i> )	
<p>Israel's legislation does not contain a special treatment for commodity transaction in regards to TP transaction.</p>			
<b>Comparability Analysis</b>			
7	<p><b>Does your jurisdiction follow (or largely follow) the guidance on comparability analysis outlined in Chapter III of the TPG?</b></p>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b>	<p>The Income Tax Regulations (Determination of Market Conditions), 5767-2006</p>
8	<p><b>Is there a preference in your jurisdiction for domestic comparables over foreign comparables?</b></p>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>	
9	<p><b>Does your tax administration use secret comparables for transfer pricing assessment purposes?</b></p>	<input type="checkbox"/> <b>Yes</b> <input checked="" type="checkbox"/> <b>No</b>	
10	<p><b>Does your legislation allow or require the use of an arm's length range and/or statistical measure for determining arm's length remuneration?</b></p>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b> <p>An international transaction will be regarded as a transaction at market conditions if as a result of its comparison in accordance with the comparison methods for similar transactions, the result obtained does not exceed the inter-quarterly range obtained in the comparison with similar transactions. Should however the comparison method be the price comparison method and adjustments were not made for cancelling out the effect of the difference on the comparability criteria, the transaction will be regarded as a transaction at market conditions if the price does not exceed the value range in similar transactions.</p> <p>Should it not be possible to regard an international transaction as a transaction at market conditions as said in sub-regulation (b), the transaction price will be reported according to the value located in the 50th centile in the value range.</p>	<p>Section 2(b) and 2(c) of the Income Tax Regulations (Determination of Market Conditions), 5767-2006</p> <p>Section 2(c) of the Income Tax Regulations (Determination of Market Conditions), 5767-2006</p>
11	<p><b>Are comparability adjustments required under your domestic legislation or regulations?</b></p>	<input checked="" type="checkbox"/> <b>Yes</b> <input type="checkbox"/> <b>No</b> <p>The definition of <b>Similar transaction</b>:</p>	<p>The Income Tax Regulations (Determination of Market Conditions), 5767-2006</p>

		<p>Any one of these, providing that, if no identical comparability criteria existed, <u>adjustments were made in a manner whereby the impact of the difference between the comparability criteria of the results is canceled out:</u></p> <p>(1) A transaction between the tested party and a party that does not have special relationships with that party, in which the comparability criteria are identical, in their entirety or most of them, to the comparability criteria in an international transaction;</p> <p>(2) If there was no transaction as said in sub-paragraph (1) – a transaction between parties among which special relationships do not exist, in which the comparability criteria are identical or similar, all or most of them, to the comparability criteria in a transaction made by the tested party;</p>	
<b>Intangible Property</b>			
12	<b>Does your domestic legislation or regulations contain guidance specific to the pricing of controlled transactions involving intangibles?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
13	<b>Does your domestic legislation or regulation provide for transfer pricing rules or special measures regarding hard to value intangibles (HTVI)?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
14	<b>Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of transactions involving intangibles?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
<b>Intra-group Services</b>			
15	<b>Does your domestic legislation or regulations provide guidance specific to intra-group services transactions?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
16	<b>Do you have any simplified approach for low value-adding intra-group services?</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	<p>Link to Circular 12/2018: transfer pricing – profitability rates and range for certain transactions:  <a href="https://taxes.gov.il/incometax/documents/hozrim/hoz_12_2018_acc.pdf">https://taxes.gov.il/incometax/documents/hozrim/hoz_12_2018_acc.pdf</a></p>

17	Are there any other rules outside transfer pricing rules that are relevant for the tax treatment of transactions involving services?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
<b>Cost Contribution Agreements</b>			
18	Does your jurisdiction have legislation or regulations on cost contribution agreements?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
<b>Transfer Pricing Documentation</b>			
19	Does your legislation or regulations require the taxpayer to prepare transfer pricing documentation?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No  <i>If affirmative, please check all that apply:</i> <ul style="list-style-type: none"> <li><input type="checkbox"/> Master file consistent with Annex I to Chapter V of the TPG</li> <li><input type="checkbox"/> Local file consistent with Annex II to Chapter V of the TPG</li> <li><input type="checkbox"/> Country-by-country report consistent with Annex III to Chapter V of the TPG</li> <li><input type="checkbox"/> Specific transfer pricing returns (separate or annexed to the tax return)</li> <li><input checked="" type="checkbox"/> Other (specify): The legislation requires the taxpayer to prepare transfer-pricing documentation including market conditions study.</li> </ul>	<p>Section 85A(c) of the Income Tax Ordinance (New Version), 5721- 1961</p> <p>Section 5 of the Income Tax Regulations (Determination of Market Conditions), 5767-2006</p>
20	Please briefly explain the relevant requirements related to filing of transfer pricing documentation (i.e. timing for preparation or submission, languages, etc.)	<p>The annual tax report requires a statement whether international transaction (according to section 85A of the Income Tax Ordinance) was conducted.</p> <p>If so, forms (1385, and if required 1485) are filed together with the annual tax report and describe the international transaction. A separate form should be filed for each transaction.</p> <p>The market conditions study should be submitted to the assessing officer at the assessing officer's request, within 60 days.</p>	<p>Section 85A(c) of the Income Tax Ordinance (New Version), 5721- 1961</p> <p>Section 5 of the Income Tax Regulations (Determination of Market Conditions), 5767-2006</p> <p>Link to form 1385:  <a href="https://taxes.gov.il/Documents/FormsTax/Income%20Tax/1385.pdf">https://taxes.gov.il/Documents/FormsTax/Income%20Tax/1385.pdf</a></p> <p>Link to form 1485:  <a href="https://taxes.gov.il/TaxesFormsList/itc1485_2018.pdf">https://taxes.gov.il/TaxesFormsList/itc1485_2018.pdf</a></p>

21	Does your legislation provide for specific transfer pricing penalties and/or compliance incentives regarding transfer pricing documentation?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
22	If your legislation provides for exemption from transfer pricing documentation obligations, please explain.	"A one-time transaction" legislation provides an exemption from some of the transfer pricing documentation obligations – there is no need to make and do comparability analysis.	Section 4 of Income Tax Regulations (Determination of Market Conditions), 5767-2006
<b>Administrative Approaches to Avoiding and Resolving Disputes</b>			
23	Which mechanisms are available in your jurisdiction to prevent and/or resolve transfer pricing disputes?	Please check those that apply: <input checked="" type="checkbox"/> Rulings <input type="checkbox"/> Enhanced engagement programs <input checked="" type="checkbox"/> Advance Pricing Agreements (APA) <input checked="" type="checkbox"/> Unilateral APAs <input checked="" type="checkbox"/> Bilateral APAs. <input type="checkbox"/> Multilateral APAs <input checked="" type="checkbox"/> Mutual Agreement Procedures <input type="checkbox"/> Other (please specify):  Bilateral APA is possible, though it has not been done yet.	Section 85A(d) the Income Tax Ordinance (New Version), 5721- 1961
<b>Safe Harbours and Other Simplification Measures</b>			
24	Does your jurisdiction have rules on safe harbours in respect of certain industries, types of taxpayers, or types of transactions?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Circular 12/2018: transfer pricing – profitability rates and range for certain transactions
25	Does your jurisdiction have any other simplification measures not listed in this questionnaire? If so, please provide a brief explanation.	There is special consideration for loans or capital note subject to several conditions. In those situations the taxpayer is not required to report an interest raising income from those loans. In addition there are special consideration to changes in the currency exchange rate.	Section 85A(f) of the Income Tax Ordinance (New Version), 5721- 1961 Link to Circular 13/2018: low interest loans: <a href="https://taxes.gov.il/incometax/documents/hozri_m/hoz_13_2018_acc.pdf">https://taxes.gov.il/incometax/documents/hozri_m/hoz_13_2018_acc.pdf</a> Link to form 1485: <a href="https://taxes.gov.il/TaxesFormsList/itc1485_2018.pdf">https://taxes.gov.il/TaxesFormsList/itc1485_2018.pdf</a>

## Other Legislative Aspects or Administrative Procedures

26	<b>Does your jurisdiction allow/require taxpayers to make year-end adjustments?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
		Year-end adjustments are allowed prior to submitting of the income tax report.	
27	<b>Does your jurisdiction make secondary adjustments?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No  In cases where the transaction has not been reported according to arm's length conditions set in the Income Tax Ordinance and the regulations, the difference between the price set between the related parties and the arm's length price (assuming the funds in the amount of the difference are not transferred) should be classified as a loan and/or a distribution of dividends according to the circumstances of the matter.	

## Other Relevant Information

28	<b>Other legislative aspects or administrative procedures regarding transfer pricing</b>	Circular number 3/2008 - guidelines about transfer pricing in Israel.  Circular 11/2018: determination of the appropriate TP method for activities related to distribution, marketing and sales of multinational group within the local market.	<a href="https://taxes.gov.il/incometax/documents/hozri/hoz3-2008.pdf">https://taxes.gov.il/incometax/documents/hozri/hoz3-2008.pdf</a>  <a href="https://taxes.gov.il/incometax/documents/hozri/hoz_11_2018_acc.pdf">https://taxes.gov.il/incometax/documents/hozri/hoz_11_2018_acc.pdf</a>
29	<b>Other relevant information</b> (e.g. <i>whether your jurisdiction is preparing new transfer pricing regulations, or other relevant aspects not addressed in this questionnaire</i> )	There is a bill in place to amend the transfer pricing legislation which includes changes in documentations requirement	