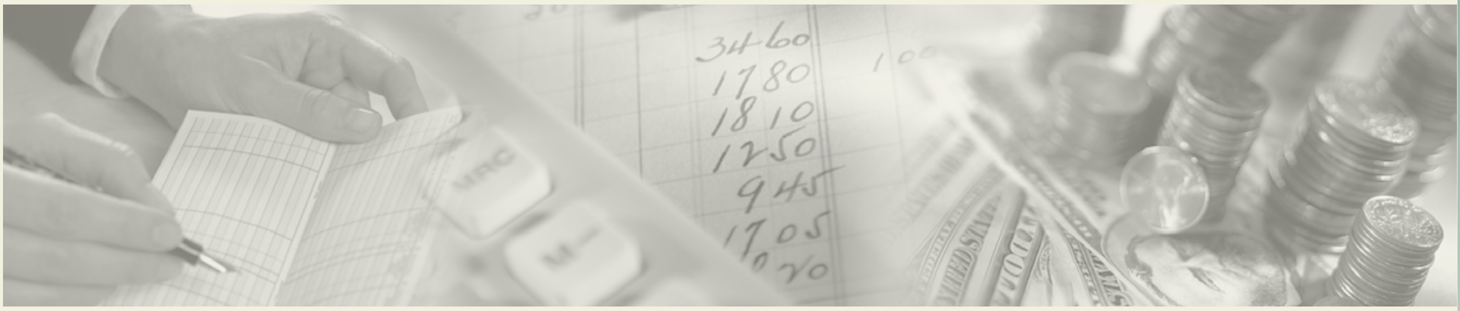
Income tax

Historical Background

- Until recently, there were two tax systems in use in the West Bank and Gaza Strip. In Gaza, the Egyptian Income Tax Act No. (13) of 1947 was enforced, while in the West Bank, the Jordanian Income Tax Act No. (25) of 1964.
- A unified tax law for the West Bank and Gaza Strip, the Income Tax Act No. (17) of 2004 came into effect as of January 1, 2005.
- Amendments to some articles of the law were adopted by the Cabinet of Ministers and referred to the President for signature in early 2008. These were essentially simplifications and tax cuts, and were approved by the President under 'Decree-Law No. (1) 2008 for amending the Tax Law No. (17) 2004'.

Main Provisions and Amendments Related to Businesses

- **Encouraging individuals to invest in Public Shareholding companies,** by adding an item to the original law exempting profits, dividends, and dividends of the company residing in Palestine.
- **Encouraging companies to search for new markets,** by adding this as a new item to the income tax deductibles, to a maximum of $100,000 or 1% of total income, whichever is lower.
- **Encouraging banks and financial institutions to consider securities in their portfolios**, since the amendments exempt capital gains arising from securities.
- **Encouraging companies to conduct research and development and scientific research**, by adding a new R&D item to the income tax exemptions, to a maximum of $100,000 or 1% of total income, whichever is lower.
- **Encouraging companies to train staff**, by increasing the exemption ceiling for training expenditures to $100,000 instead of $30,000 in the original law, or 1% of total income, whichever is lower.
- **Encouraging companies to adopt Palestinian specifications and standards, and to apply best practices of corporate governance, including the adoption of international accounting standards,** by adding this as a new item to the income tax deductibles with a ceiling of $100,000 or 1% of total income, whichever is lower.
- **The amendments took into consideration the difficult economic conditions experienced by the Palestinian economy, and the losses companies have been facing:**
- The Decree allowed spreading losses from previous years over the next five years equally, provided that such losses are not a result of the re-evaluation of assets.



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- The Decree raised the ceiling of deductible hospitality expenses to $50,000 from $15,000 in the original.
- The Decree amended the law regarding bad debts in respect of the inability of the debtor to pay for a period of three years. It raised the rate to 5% instead of 2% in the original law, and the ceiling to $300,000 instead of $50,000 for public shareholding companies.
- The Decree raised the ceiling of the deductible expenses of a Head Office to $100,000 from $30,000 in the original law, or 5% of taxable income, whichever is lower.
- **The amendments encourage investment in real estate,** with a 40% reduction on tax expenses paid on property and a 60% cut in the value of tax paid on buildings from taxed income earned under the provisions of the law.
- **Expressing optimism in the future issuance of a Palestinian currency,** the decree added a new item to the Tax Law No. (17), emphasizing the need for the replacement of the US dollar by a Palestinian currency. There is no doubt that a Palestinian currency is vital for the implementation of monetary policy, which will support monetary and fiscal stability and thus stimulate investment.

The amendments also **cut the rates of personal income tax.** The top rate is reduced from 16% to 15%, the middle rate from 12% to 10% and the bottom rate from 8% to 5%.

Amendments are effective retroactively starting January 1, 2008.

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