

Charitable organisations in Israel: overview

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A Q&A guide to charity law and practice in Israel.

The country-specific Q&A guide provides a structured overview of the key practical issues concerning charity law in this jurisdiction, including the legal framework and legal definition of a charity; principal sources of law; forms of organisation used for charitable purposes, and the qualification requirements/formalities to set these up; main regulatory authorities; management; accounting/financial reporting requirements; tax; overseas charities; and reform.

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Overview and main trends

1. What is the historical background to charity law and charitable organisations?

Tzedakah is the Hebrew word for charity: giving aid, assistance and money to the poor and needy, or to other worthy causes. However, the nature of *tzedakah* is very different from the idea of charity. The word "charity" suggests benevolence and generosity, a magnanimous act by the wealthy and powerful for the benefit of the poor and needy. The word *tzedakah* is derived from the Hebrew meaning righteousness, justice or fairness. In Judaism, giving to the poor is not viewed as a generous, magnanimous act; it is simply an act of justice and righteousness, the performance of a duty, and giving the poor their due.

During the Ottoman period, from 1517 to 1917, public endowments had to be established by the Muslim Tribunal in accordance with Sharia law. The public endowments were registered in the Endowments Books, some of which have survived to date. Under Sharia law, it is forbidden to revoke a public endowment once it has been established.

In 1909, the Ottoman Associations Law (*number 121*) (Associations Law) was enacted, which was intended to regulate the establishment of charities and their activities. The Associations Law continues to apply, in a limited manner, to associations that were established until 1980 under the Associations Law.

The King's Order In Council 1922 to 1947 (*section 53*) was enacted during the period of the British Mandate (1917 until 1948), which existed until the establishment of the State of Israel. Under this, each of the Jewish and Muslim faiths had autonomy regarding the establishment and management of religious endowments (that is, in the case of the Jewish faith, the tribunal had jurisdiction to give decisions in accordance with Jewish Law).

The Endowments for Charities Ordinance was enacted in 1924. Under this, the District Court registered non-religious endowments. In addition, the Endowments for Charities Ordinance (Public Trustee) was enacted in 1947, together with the Charities regulations, under which the Public Trustee was vested with both:

- Broad authority regarding the registration of endowments.
- The right to participate in the management of endowments.

Under the British Mandate there were two parallel ways in which endowments could be established:

- Establishing an endowment under the applicable religious law as a religious endowment.
- Establishing an endowment in accordance with the Endowments for Charities Ordinance 1924 and its regulations.

Since the establishment of the State of Israel, a number of laws and regulations have been enacted to establish a substantive legal basis for charities, including their encouragement and regulation.

2. Are independent charitable organisations common and significant? What is the current size and scope of the sector and the main trends?

There are about 37,450 Amutot (*see Question 3*), 1,430 registered charitable companies, and 3,200 endowments.

According to the Central Bureau of Statistics, the total amount of donations (by individuals and corporations, both Israeli and foreigners) made to non-profit organisations (NPOs) in Israel during 2016 was about ILS21.5 billion.

The Israeli Center for Third Sector Research has categorised the main activities of NPOs into the following areas:

- Religion.
- Culture and recreation.
- Health and welfare.
- Education and research.
- Philanthropy.
- Community based organisations.
- Housing and development.
- Trade unions.
- Environment.
- Memorial.
- International organisations.

Legal framework

3. Is there a legal definition of a "charity"? What are the principal sources of law and regulations relating to charitable organisations and activities?

Definition of charity

The promotion of non-profit activities is effected through non-governmental/non-profit organisations (NPOs). Although charity has a long tradition in Jewish culture, the term "charity" has no clear definition under the legislation applicable to NPOs (see [Question 4](#)). NPOs' objectives are not defined under the applicable laws as "charity" but rather as "public benefit" objectives. However, Israeli tax legislation has recognised charity for tax purposes and offers certain tax benefits for NPOs that are classified as public institutions (see [Question 9](#)).

Principal sources of law

The principal sources of law depend on the type of NPO:

- **Amuta.** These are non-profit societies/organisations (which are called in Hebrew "Amutot", the plural of Amuta). They are incorporated as legal entities which have a legal personality and are governed by the Amutot Law 1980 (Amutot Law).
- **Charitable company (CC).** These companies are incorporated as legal entities and are governed by the Companies Law 1999 (Companies Law) and the Amutot Law with modified changes. Charitable companies are also sometimes referred to as Public Benefit Companies.
- **Charitable fund (CF).** Similar to CCs, these companies are incorporated as legal entities and are governed by the Companies Law. A CF must first be registered as a CC and only if it meets certain additional criteria, can it be registered as a CF.
- **Public endowments.** These are regulated under the Trust Law.

This Q&A largely considers the Amuta and CC, as these are the most common forms.

Legal bodies

4. What are the forms of organisations that are used for charitable purposes? What are their advantages/disadvantages?

Non-profit organisations (NPOs) are established and operated under the following statutory frameworks:

- **Amuta.** The Amutot Law established a relatively uncomplicated way to create a non-profit legal entity, so the vast majority of NPOs are incorporated as Amutot.

An Amuta must register with the Registry of Amutot (which is an integral part of the Ministry of Justice). A requirement of incorporation is that the purposes of the Amuta must not be contrary to the interests of the State of Israel, and the main purpose of the Amuta must not be making profit.

For its incorporation, an Amuta must submit to the Registrar of Amutot, among other things:

- a list of its purposes; and
- its bye-laws, which could either be the standard bye-laws appearing in the Amutot Law or original bye-laws drafted by the founders.

The Amuta must not distribute any profits, directly or indirectly, to its members, including its founders. In addition, an Amuta cannot be registered if any of its objects negates the existence or democratic nature of the State of Israel, or if there are reasonable grounds for concluding that the Amuta will be used as cover for illegal activities. The Amutot Law does not specify a list of purposes, so an Amuta's purposes can be any legal not-for-profit purposes that are not aimed for distribution of profits to its members.

- **Charitable company (CC).** A CC must be registered by both the Registrar of Companies and by the Registrar of Endowments (both integral parts of the Ministry of Justice).

A CC's objectives must be set out in its bye-laws and state one of the following "public purposes", specified in the schedule to the Companies Law:

- quality of the environment, protection of the environment of knowledge of nature and of the environment;
- health or lifesaving;
- religion, tradition or commemoration;
- protection of animals and concern for their welfare;
- human rights;
- education, vocational training, culture and art;
- science, research or higher education;
- sport;
- immigration, immigrant absorption or settlement;
- charity or welfare;
- community welfare, or social or national activity;
- the rule of law, government or public administration; and
- the establishment of funds or organisations for the encouragement or support of bodies active for one or more of the purposes listed in the schedule to the Companies Law.

(Section 345A, Companies Law.)

For a company to be recognised as a CC, its bye-laws must prohibit any distribution of any dividend to the CC's shareholders.

- **Charitable fund.** The Companies Law defines a "Charitable Fund" as charitable company with bye-laws that include the purpose of funding one or more of the following:
 - charitable companies;
 - public endowments registered with the Registrar of Endowments;
 - non-profit associations operating for public purposes;
 - non-profit higher education institutions;
 - health organisations;
 - hospitals;

- other entities whose purposes are aimed at promoting or funding public activities, and which were so approved by the Registrar of Endowments.

In addition, the company must have a liquid capital of NIS5 million or more.

The Companies Law provides for three kinds of CFs:

- charitable family fund;
- charitable private management fund;
- charitable public management fund.

The material differences between the CFs relate to the ability to control the CF, the number of donors to the CF and the reporting obligations to the Registrar of Endowments.

The approval of a CC as a CF in accordance with the Companies Law is not automatic and is given only on a company's request to the Registrar of Endowments. Even if a CC fulfils the conditions for becoming a CF, it does not have to become a CF.

Advantages of a CC:

- The Companies Law, under which a CC is incorporated, is a relatively new and sophisticated law addressing all aspects of CCs.
- The possibility of creating de-facto control over the CC by allotting shares to the shareholders in different holding rates.
- The possibility to appoint board and audit committee members who are not shareholders.
- The possibility to transfer shares of the CC to another shareholder.
- The possibility of allotting shares of the CC to corporate entities (including foreign entities).

Disadvantages of a CC:

- Reporting to the Companies Registrar any transfer of shares.
- Annual reporting obligation to both Registrar of Endowments and Companies Registrar.

Advantages of an Amuta:

- The possibility of incorporating an NPO for any legal non-profit making purpose.
- The possibility of including in the articles of association that only one member of the Amuta can appoint all of its management committee's members.
- No need to file notices about changes in the members of the Amuta and easier to manage NPOs with a large number of members.

- Quick registration procedure if submitted to the Registrar of Amutot with the common bye-laws of the Amutot Law.

Disadvantages of an Amuta:

- Creating control over an Amuta is a much complicated procedure.
- Amending the bye-laws is subject to the prior approval of the Registrar of Amutot.

5. What are the qualification requirements/formalities to set up these organisations?

Amuta

For an Amuta to be registered, certain mandatory provisions apply relating to the:

- Founders of the Amuta:
 - there must be at least two founders;
 - the founders must be at least 18 years old;
 - the membership in an Amuta is personal, not transferable and cannot be bequeathed. Additional members must be at least 17 years old.
- Purpose of the Amuta:
 - it must be legal;
 - it cannot be for the distribution of profits to its members;
 - the main purpose cannot be profit making;
 - it cannot be a purpose that denies the existence or democratic character of the State of Israel, and there must not be reasonable grounds for concluding that the Amuta will be used as a cover for illegal activities.
- Name of the Amuta:
 - cannot be misleading or abusive;
 - cannot be identical or similar to a name of another corporation that is registered in Israel or which was registered in Israel in the two years that preceded the incorporation of the Amuta, or to the name of another Amuta that has already commenced its incorporation process.

Charitable company (CC)

For a charitable company to be registered, the following rules apply:

- **Registering a new company as a CC.** For a new company to be registered as a CC, the company must file a request to the Registrar of Endowment. This request should include various documents, including:
 - general documents that are required to register a company under the Companies Law. These documents should include the company's bye-laws, which determine that the company is a CC;
 - a declaration signed by the first members of the company's audit committee, stating their willingness to be appointed as members of the audit committee;
 - details regarding the company's founders, including their identification numbers and addresses;
 - a breakdown of the assets that will be granted to the company; and
 - signed affidavits of the company's shareholders, directors and members of the audit committee, stating that they are aware of the request to register the company as a CC.
- **Registering an existing registered company as a CC.** For a company acting for profitable purposes to be registered as a CC, the company should resolve (shareholder special resolution) to amend the company's bye-laws so that the company's purposes are replaced with at least one of the public purposes appearing in the second schedule to the Companies Law. In addition, a section prohibiting any distribution of dividends to the shareholders must be added to the Company's bye-laws.

The company's amended bye-laws must be approved and registered by the Registrar of Endowments before the company can be registered as a CC. In addition, a company requesting to be registered as a CC must submit the following documents to the Registrar of Endowments:

- a copy of the company's constitutional documents including the company's bye-laws;
- an affidavit signed by the majority of the company's directors and its general manager stating the company's bye-laws were amended;
- the amended bye-laws and a copy of the shareholders' signed resolution to amend the bye-laws;
- a declaration signed by the first members of the company's audit committee stating their willingness to be appointed as members of the audit committee;
- signed affidavits by the company's shareholders, directors and members of the audit committee stating that they are aware of the request to register the company as a CC.

Ongoing regulatory requirements

6. What are the main regulatory authorities for charitable organisations? What are their powers of investigation/audit/sanctions?

Regulatory authorities

Amutot. These are regulated by the Registrar of Amutot.

Charitable companies (CC). These are regulated by the Registrar of Endowments. Charitable companies must be registered with the Companies Registry (using a single application procedure for registry with both bodies).

Powers

Amuta. The Registrar of Amutot's powers of investigation and supervision includes:

- The authority to demand information from functionaries of the Amuta.
- Entry to various places where the Amuta allegedly operates from.
- Appointment of inspectors from the Ministry of Justice for the purpose of auditing and supervising the Amuta's actions.
- Appointment of external examiners to examine an Amuta's compliance with the provisions of applicable law and the provisions of its articles of association.

The following specific rules apply:

- **External examiners.** External examiners can conduct inspections in relation to a restricted list of matters published by the Registrar of Amutot on the Ministry of Justice's website, in the manner and frequency as directed by the Registrar of Amutot. The matters include:
 - inspection as to whether a certain Amuta is conducted in accordance with the Amutot Law and in accordance with its public objectives and articles of association;
 - examination of the Amuta's financial reports and its financial viability;
 - examination of the possibility of the existence of conflicts of interest between the Amuta's bodies, management committee, office holders and other different special committees.

In addition, external examiners can demand information from the Amuta and its:

- members;
- functionaries except for its internal auditor;

- employees;
- other related persons to be determined by the Minister of Justice, regarding the Amuta.

Further, the Registrar of Amutot can instruct the external inspectors to require information from anyone who had any of these roles during the four years preceding the date of the request. The Amutot Law also regulates the manner in which the external examiner must file a report.

- **Inspectors.** The Registrar of Amutot can conduct an investigation into the activity and conduct of Amutot, including with respect to each Amuta's management committee, office holders and different committees and, importantly, its financial operations. The investigation powers granted to an inspector appointed by the Registrar of Amutot are very wide. The appointed inspector must submit his conclusions to the Registrar of Amutot, which can include a recommendation for the Amuta to be wound up.
- **Documents.** The Registrar of Amutot can require the Amuta to submit various documents. Further, in accordance with the Amutot Law, an Amuta must report to the Registrar of Amutot, during its ongoing activities, with respect to several changes and updates, such as notices of change of address, election or expiration of office of a management committee member, appointment or resignation of the auditors of the Amuta, and any legal proceedings brought against the Amuta or against a member of the management committee (*section 38, Amutot Law*).
- Any change/amendment to the Amuta's name, purposes, and bye-laws must be submitted to the Registrar of Amutot and is subject to the Registrar's approval.
- Further, once a year, an Amuta must file with the Registrar of Amutot its financial statements, together with a narrative report. The narrative report contains basic corporate details such as the names of the Amuta's management committees (such as board, general meeting and audit committee). For more details with respect to an Amuta's financial reporting requirements, see below.
- The documents submitted with the Registrar of Amutot are available for public inspection on demand, as well as:
 - the findings of the Registrar of Amutot or an inspector appointed by it;
 - the final report of an independent auditor;
 - the final report of an investigation;
 - an application for a liquidation filed by the Registrar of Amutot;
 - any other document held by the Registrar of Amutot regarding the Amuta.

This is as long as the Registrar of Amutot is not of the view that any document or part of it should be prevented from being accessed by the public.

Documents relating to pending procedures regarding the investigation, audit or enforcement are only available for public scrutiny at the end of the procedure (*Amutot Law*). In addition, the Registrar of Amutot can limit access to only the conclusions arising from the procedure.

The Registrar of Amutot can advertise online, itself or through others, the documents that are submitted by the Amuta, as long as the names of those who provided the documents are not published. The Registrar of

Amutot can also determine rules regarding online publications. A list of the five highest salaries (without names) is posted on the Registrar of Amutot's website.

- **Guidance.** The Registrar of Amutot can publish information and guidance to an Amuta, including training to assist in managing its affairs in accordance with the provisions applicable to the Amuta and its affairs. In this regard, the Registrar of Amutot published guidelines for proper management of Amutot (Guidelines for Amutot), which include explanations and examples for managing an Amuta in accordance with the restrictions of the Law and regulations that apply. The Guidelines for Amutot also include instructions for Amutot that wish to obtain a certificate of proper management (*see Question 8*).
- **Name of the Amuta.** The Registrar of Amutot, with the consent of the legal adviser to the government, can unilaterally change the name of an Amuta if the Amuta did not change its name in the manner required by the Registrar of Amutot.
- **Imprisonment.** Members of an Amuta, its employees and the audit committee are subject to a term of three years' imprisonment if the information provided under the Amutot Law is false.

CCs. All reporting duties that apply to Amutot also apply with respect to a CC. A CC is also subject to the Guidelines of Amutot. Further, a CC must comply with the additional reporting duties to the Registrar of Endowments, including in relation to (*section 140, Companies Law*):

- Changes in the CC's bye-laws.
- Change of the registered office of the CC.
- Any change in the composition of the CC's board of directors, and appointments and resignations from the board of directors.
- Transfer of shares or the allotment of new shares.

The Companies Law expands and defines the regulatory authority of the Registrar of Endowments and particularly the powers to appoint inspectors. This includes the authority of the Registrar of Endowments to require information from the CC's functionaries or persons related to it and enter locations where the company operates to get this information. Investigations and supervisions of CCs are conducted by the Registrar of Endowments itself or by inspectors who are nominated from the employees of the Ministry of Justice, to work under the auspices of the Registrar of Endowments.

The rules relating to external examiners, and the publishing of information online, are the same as those applying to Amutot (*see above, Amutot, External examiners*) (the only difference, as mentioned above, is that the regulatory authority for CC's is the Registrar of Endowments).

The Registrar of Endowments can also:

- File a derivative action against the CC.
- Approve changes in the CCs purposes, or its specific position and role during any liquidation process of the CC.

Any amendment to a CC's purposes is subject to the Registrar of Endowments' prior written approval. However, where the proposed amendment gives rise to a significant change to the CC's original purposes, the amendment must also be approved by the District Court. The District Court has discretion in this regard. The District Court

examines whether it is right and just to allow the amendments, taking into account the current purposes of the CC, its activities and the obligations assumed by the CC with respect to the proposed amendment. This procedure also applies where an Amuta wishes to change its purposes, except that the authorising body is the Registrar of Amutot.

7. Which bodies or persons manage charitable organisations and what general requirements must they meet?

Amuta

An Amuta must have the following bodies:

- General meeting of the members.
- Management committee (*Va'ad Menahel* in Hebrew).
- Audit committee (the general meeting can appoint an external auditor or another body approved for this matter by the Registrar, instead of the audit committee).

In addition, an Amuta must appoint an auditor if its yearly turnover exceeds the amount specified by the Amutot Law, after obtaining the audit committee's consent for the appointment. The Amuta's management committee is responsible for the approval of the internal auditor's annual work plan, after the audit committee's review and recommendations.

General meeting of the members. The general meeting of the members sets the Amuta's policy and its implementation. It usually appoints the members of the management committee and audit committee, and supervises the conduct of these bodies.

Management committee. The management committee manages the Amuta's affairs. It also has residual authority with regard to any management authorities that are not granted, by the Amutot Law or the Amuta's by-laws, to any other body.

The management committee must have at least two members, to be appointed out of the members of the Amuta. If one of the members is a corporation, it can appoint its representative as a member of the management committee.

The members must act in favour of the Amuta, within the framework of its public objects and according to its by-laws and to the general meeting's resolutions.

The Amutot Law itself does not place any duty of care, loyalty or fiduciary duty on the management committee's members, and there are no provisions regarding insurance or compensation. However, in a number of judicial decisions, the Israeli courts have stated that the members of an Amuta's management committee are subject to duties equivalent to those that exist with regard to the board of directors of regular companies. These include fiduciary duties, including:

- Refraining from any activity involving a conflict of interest between the member's position within the Amuta and another position held by the officer or their personal affairs.
- Disclosing to the company any information relating to the company's affairs that a member becomes aware of due to his position in the company.
- A duty of care.

The Amutot regulations (remuneration to a chairperson, to a member of the management committee and to a member of the audit committee), issued by the Minister of Justice, set out the fees that an Amuta can pay to the members of its management committee, which are determined according to the size and turnover of the Amuta. However, since these fees are relatively low, they cannot be considered as normal or proper payments.

Audit committee. The Amuta's audit body, which is a mandatory body elected by the general meeting of the members of the Amuta, is either an audit committee consisting of members of the Amuta or an external auditor.

The following rules apply:

- There must be at least two members.
- The members must also be members of the Amuta.
- A member of the Amuta cannot be a member of both the management committee and audit committee.
- A member can receive payment or remuneration according to the regulations set by the Minister of Justice.

The roles of the audit committee or the audit body are to:

- Examine the order of the Amuta's operations and the conduct of its bodies, including the suitability of the conduct in relation to the Amuta's objects.
- Examine whether the implementation of the Amuta's objects are performed in an effective and economical way.
- Monitor the execution of the general meeting's and management committee's resolutions.
- Recommend possible solutions to the management committee to correct defects in the Amuta's conduct.
- Examine the Amuta's financial affairs.
- Examine the Amuta's conduct in general.
- Examine the Amuta's internal audit system and the functioning of the internal auditor, and the internal auditor's work plan, before the management committee approves it. If required, the audit committee should propose changes to the work plan.
- Examine the scope of work of the Amuta's accountant, including their remuneration, and make recommendations to the body that determines their remuneration, in accordance with the Amutot Law.
- Determine the arrangements regarding the treatment of complaints raised by the Amuta's employees relating to:
 - defects in the management of the Amuta's affairs; and

- protective measures to be provided to employees who have raised complaints against the Amuta.
- Bring its conclusions to the general meeting and the management committee.

The audit committee can invite an employee of the Amuta to participate in its discussions. However, the employee cannot be present at the time of the decision making. The audit committee can invite the Amuta's secretary and/or its legal adviser to be present during deliberations and decision making. In addition, the Amuta's internal auditor is invited to attend meetings of the audit committee and can convene the audit committee if necessary. The Amuta's accountant will be invited to attend meetings of the audit committee to discuss issues regarding the Amuta's financial reports.

Charitable companies (CCs)

A CC's management is similar to the management of any company acting for profitable purposes. A CC has a:

- General meeting of the company's shareholders as the decision-making body.
- Board of directors.
- A general manager as its management body.

In addition, a CC's general meeting must appoint an audit committee, whose members cannot at the same time act as officers of the company.

The roles of the audit committee of a CC are identical to those of an Amuta (*see above, Amuta*), with certain additions such as the duty to determine whether to approve specific transactions with related and interested parties. Among other things, an agreement with an officer who is not a director or a member of the audit committee regarding their terms of service and employment requires the approval of both the audit committee and the board of directors. In addition, the audit committee can decide on whether these transactions are significant or in the ordinary course of business. In addition, the audit committee must report on its meetings to the internal auditor and its accountants.

A CC's board of directors must appoint an internal auditor if its yearly turnover exceeds NIS10 million.

CC's management bodies are subject to a number of other limitations and requirements:

- The shareholders and board members are subject to the duties that exist with regard to regular companies. For directors, this includes the duty of care and a fiduciary duty. This includes refraining from any activity involving a conflict of interest between the officer's position within the company and another position held by the officer or related to his personal affairs. The rights, obligations and liabilities of the members of the audit committee are the same as of the members of the board. For shareholders, these include the duty to act in good faith and in the customary manner, and to refrain from any abuse of power in the company.
- Any transaction of a CC is subject to the sections of the Companies Law (*Chapter Five*) which apply to public companies, if a conflict could arise and if the transaction is:
 - with a director or member of the audit committee, or with a corporation controlled by them;

- an exceptional transaction with a director's relative, an audit committee member's relative, the shareholder of the company or their relative, and the CC's entrepreneur or their relative.

In this regard, the approval of the audit committee, the board of directors and the general meeting of shareholders is required. In addition, the court must approve the transaction, after it has given the registrar of endowments an opportunity to comment. The court can approve the transaction only after it is satisfied that, in the circumstances of the case, it is just and proper to do so (*section 354L(a), Companies Law*).

The application of these provisions of the Companies Law results in CCs being subject to a far higher level of control and supervision than private companies.

- Regulations published by the Ministry of Justice determine a maximum rate for the benefits that a director or a member of a CC is entitled to receive.

8. What are the accounting/financial reporting requirements?

Amuta

An Amuta must maintain books of account and an accounting system that includes, as a minimum:

- A receipts and expenditures book.
- An external documentation file.

In addition, once a year, the management committee must prepare a balance sheet and a report on income and expenses (financial reports), together with an annual narrative report specifying the conduct of the Amuta for the year of the report. The financial report must be provided to the Amuta's audit committee (or the external auditor or other body approved for this matter by the registrar) and subsequently approved by the general meeting of the members of the Amuta.

As well as the conduct of the Amuta for the year of the report (which also includes special and unique events that occurred during the year of the report), the narrative report contains basic details such as:

- The names of the members of the management committee (*Va'ad Menahel*).
- Details of the officers of the Amuta.
- Details of the audit body of the Amuta and its authorised signatories.
- The number of employees and volunteers working for the Amuta.

Where an Amuta's turnover exceeds NIS300,000, it must specify in its financial reports any donation exceeding NIS20,000 made to the Amuta by a foreign state or governmental body of a foreign state. Members of an Amuta, its employees and the audit body are subject to three years' imprisonment if the information provided is false.

To receive funding from the State of Israel, all Amuta must first obtain a certificate of proper management, which must be renewed annually and which can only be obtained after at least two years of activity. An Amuta that is applying for a certificate of proper management from the Registrar of Amutot must also report in its financial reports the identity of any donor whose donations to the Amuta exceed NIS100,000 in a given year, or NIS50,000, if such amount represents at least 20% of the Amuta's turnover. An Amuta which has been issued a certificate of proper management for five consecutive years and no defect found in its activity will be granted a certificate of proper management valid for two years. The purpose of the certificate of proper management is to ensure that the public funds provided to Amutot, either through state grants or by donations from the public, both:

- Are applied in accordance with proper management procedures.
- Will be used to promote the purposes for which they were established.

To obtain such a certificate, the Amuta must establish that for a consecutive period of two years it has acted in accordance with applicable law, including complying with its reporting obligations to the registrar.

Further, the application by an Amuta to be granted a certificate of proper management should include the following:

- The most recent financial report.
- The most recent narrative report that includes a description of the Amuta's activities, its income, its financial requirements, its use of money received by the Amuta, the number of employees and volunteers working for the Amuta, and so on.
- Minutes of the general meeting that approved the annual and the narrative reports.
- A recommendation issued by the audit committee regarding the financial report.
- A list of the five top salaries in the Amuta.
- Receipt of payment of annual fee.

Charitable companies (CCs)

All accounting/financial reporting duties that apply to Amutot also apply to CCs (*see above, Amuta*). However, unlike an Amuta (which submits its accounting reports to the Registrar of Amutot), a CC must submit its accounting reports to the Registrar of Endowments.

The financial report and the narrative report must be approved by the general meeting of the CC's shareholders and be filed with the Registrar of Endowments no later than 30 June of the year after the year of the report.

Further, a CC must also file an annual corporate report with the Companies Registrar, 14 days following the general meeting of the CC's shareholders. The annual corporate report contains basic corporate details such as the names of directors and shareholders, and the number of shares of each shareholder. It also includes a confirmation that an annual meeting of the shareholders was held and that the board has approved the financials. Accordingly, the report

can only be filed after the financial statements of the CC have been approved by the board of directors of the CC and presented during the general meeting of the CC's shareholders.

As with an Amuta, for a CC to receive funding from the State of Israel, it must first obtain a certificate of proper management. A CC that is applying for a certificate of proper management from the Registrar of Endowments must also report in its financial statements the identity of any donor whose donations to the CC exceeded NIS100,000 in a given year, or NIS50,000 if such amount represents at least 20% of the CC's turnover .

Disclosure duties

On 12 July 2016 the Disclosure Duty for Those Supported by a Foreign State Entity Law (Amendment) 2016 (Disclosure Law) was approved by the Israeli parliament. It entered into force on 1 January 2017 and will apply to donations received as of that date.

The Disclosure Law (unofficially, the Transparency Law) includes amendments to three laws: the Amutot Law, the Companies Law and the Disclosure Duty regarding Those Supported by a Foreign State Entity Law 2011.

The Disclosure Law imposes increased reporting and disclosure duties on NPOs the main funding of which is derived from foreign state entities.

The Amutot Law defines the term "foreign state entity" in a relatively broad definition, to mean:

- A foreign country, including union, organisation or a group of foreign countries (foreign union).
- An organ, authority or an agency of a foreign country or a foreign union.
- A foreign local or district authority, governmental authority of a foreign country or of a country which is a member of an alliance of countries in a foreign country (foreign body).
- Union, organisation or a group of foreign bodies.
- The Palestinian Authority as defined under Israeli law.
- A statutory corporation incorporated under a law of a foreign country or where the body holds more than one-half of a certain means of control in a corporation, or in the event the body appointed a corporation to act on its behalf.
- Where a foreign company's annual turnover during the last fiscal year for which it had to file financial statements was mainly originated from any of the bodies listed above.

The Disclosure Law determines that an NPO that benefits from funding by foreign state entities must report that funding in its annual report.

The NPO must also mention in its annual report that the names of the foreign state entities from which it has received the donations are listed on the Registrar's website. In addition, NPO's must indicate this funding in:

- Publications aimed at and available to the public in billboards, television, press or the internet and which were intended for the promotion of their goals.
- Their applications by mail and e-mail to public workers and elected public officials.

- The reports they draft and distribute to the public.

The Disclosure Law also determines that if an NPO operates a website it must publish on that website the fact that its main funding derives from foreign state entities.

An NPO that does not comply with any reporting duty is subject to a financial penalty. A CC that does not comply with reporting duties may face additional financial sanctions.

Lastly, a representative of an NPO mainly funded by a foreign state entity, which actively participates in a meeting of a parliament committee, must disclose its funding source to the committee's chairman.

Tax

9. How are charities taxed, and what (if any) principal exemptions and/or reliefs from taxation apply to them?

Tax on income

Non-profit organisations' (NPOs') income is tax exempt if the NPO meets the definition of a "public institution" and unless the income is categorised as business income (*section 9(2), Income Tax Ordinance [New Version] 1961* (Income Tax Ordinance)). For an NPO to be recognised as a public institution, it must have two characteristics:

- It must have at least seven shareholders or members, of whom a majority are not related to one another.
- It must act for a public purpose. A purpose concerning religion, culture, education, science, health, welfare or sport, and any other purpose approved by the Minister of Finance, is a public purpose (*Income Tax Ordinance*).

The exemption is not absolute and depends on the classification of the public institution's income. The following income does not qualify for this exemption:

- Income obtained from a business.
- Income obtained from a dividend or interest.
- Income obtained from a body of persons controlled by the public institution, which engages in a business.

The NPO claims the exemption in its tax returns and no pre-clearance is necessary from the government.

Tax on capital gains

A NPO which is a recognised public institution is tax exempt, including on its capital gains when selling its assets (other than real estate). An exemption in respect of capital gains from land appreciation requires an approval (*section 61(b), Land Appreciation Tax Law 5723-196*). In addition, various conditions apply. For example, the subject property must have been owned by the NPO for at least five years before the sale.

Tax on property used by the organisation

NPOs can obtain an exemption on local authority taxes, known as Arnona. However, this exemption is not automatic and requires an application by the NPO to the local municipality.

Value added tax (VAT)

NPOs are exempt from VAT. However, NPOs are generally not eligible to obtain any refund on VAT output tax. Where an NPO purchases goods or services, it cannot receive any refund on VAT paid.

If the NPO has any business-related income, such as due to services it provides, that business income is subject to VAT.

Other

NPOs are subject to a special "wage tax" on the total gross amount paid to its employees, currently at a rate of 7.5%.

10. What, if any, are the taxation benefits for donors to charities?

A person who makes a donation to an NPO is eligible to receive a tax credit under section 46 of the Income Tax Ordinance, provided that the following conditions are complied with:

- The NPO is qualified as a "public institution", the purposes of which include the "public purposes" defined in section 9(2) of the Income Tax Ordinance.
- The Minister of Finance has approved the NPO as a public institution.
- The Finance Committee of The Knesset has confirmed the Minister of Finance's approval.

The tax credit is equal to 35% of the donation (with a minimum donation amount of NIS180). However, in any tax year the credit granted must not exceed the lower of 30% of the assessee's chargeable income in that particular year or NIS9,350,000.

A corporation donating funds to an NPO with an approval under section 46 is eligible for a tax credit equal to the corporate tax rate (23% for 2020).

Disadvantages

11. What are the main disadvantages of charitable status?

Non-profit organisations (NPOs) are strictly regulated under Israeli law, including in relation to filing, reporting and other obligations. In a number of cases, these obligations exceed the statutory obligations imposed on private companies. For example, where a charitable company (CC) or Amuta intends to change its purpose or bye-laws, the approval of the regulatory body (that is, the Registrar of Endowments or Registrar of Amutot) and in certain circumstances the court is required. Further, with regard to transactions that require special approval, CCs are subject to the same somewhat onerous provisions that apply to public companies.

Overseas charities

12. Is it possible to operate an overseas charity in your jurisdiction? What are the registration formalities? How (if at all) are overseas charities treated differently in your jurisdiction from charities set up under domestic law?

An overseas charitable entity can establish a non-profit making activity in Israel in one of two ways:

- Registering the overseas charitable entity as a foreign non-profit organisation in Israel. This enables the entity to operate directly in Israel.
- Incorporating a non-profit organisation in Israel as a related party, such that the overseas charitable entity is a shareholder (holding less than 50%), or member or board member of the Israeli entity (that is, as an Amuta or as a charitable company (CC)).

A foreign company operating in Israel, that complies with the provisions of section 345GG(a) of the Companies Law (public purposes and prohibition on distribution of dividends to the shareholders) must register as a CC (*section 345, Companies Law*).

The Minister of Justice can exempt foreign companies from the application of the relevant provisions of the Companies Law. In this regard, the Ministry of Justice has discretion and will consider, among other things, the:

- Specific circumstances of each case.
- Laws of the company's place of incorporation or the provisions of the foreign law that apply to its activity in Israel as a foreign CC.

- Application of other laws in Israel.
- Source of the company's assets.

Therefore, if a foreign charitable entity intends to operate directly in Israel, the entity must be registered in Israel as a CC. In this regard, the entity will be exempt from income tax in Israel solely on its Israel-sourced income, provided that the conditions set out in section 9(2) of the Income Tax Ordinance are complied with:

- The CC must have at least seven shareholders of whom a majority must not be related to one another.
- The entity must act for a public purpose according to the definition in the Income Tax Ordinance (*see Question 9*).

The United States-Israel Tax Treaty provides that contributions by a US citizen or resident to an Israeli public charity or private foundation are deductible under US law, if both the:

- Israeli charity would qualify as a public charity under US law.
- Contributions otherwise would be deductible under US law.

The treaty limits the deductions to:

- 25% of an individual US donor's Israel-source gross income.
- 25% of a corporate US donor's Israel-source taxable income.

A reciprocal rule applies to Israeli donors who contribute to US public charities or private foundations. However, the treaty does not provide that a charitable organisation that is tax exempt in one country is tax exempt in the other country.

13. Is it possible to register a domestic charity abroad, and has your jurisdiction entered into any international agreements or treaties in this area?

Israel has not entered into any specific international agreements or treaties in this area. However, Israeli law does not prevent an Israeli charity from registering abroad if it operates abroad.

Reform

14. Are there any proposals for reform in the area of charity law?

During 2014 the Ministry of Justice published a document detailing the principles for enactment of a new Amutot Law (Memorandum of Law). The new Amutot Law will address certain gaps in the current Amutot Law, such as the principal-agent problem, classification of an Amutot according to their sources of financing, and the nature of an amutot's activities. However, as the Israeli legislator has recently comprehensively amended both the Amutot Law and the Companies Law (with respect to CC's), it is unclear if and when the Israeli legislator will publish an official bill further to the Memorandum of Law.

The proposal for a new Amutot Law has been amended several times since 2014 but not enacted. Amendment 14 to the Amutot Law (enacted February 2015) (that, among other things, authorised the Registrar of Amutot to publish guidance for NPO) added several powers for the Registrar of Amutot, such as:

- The authority to change the name of an Amuta unilaterally.
- Investigation and supervision powers that include the authority to demand information from officers of an Amuta and entry to various places where an Amuta allegedly operates from.

During 2019, the Registrar of Amutot made several reforms in reporting and filing requirements of non-profits, including:

- Amending the annual narrative report attached to the financial statement to include much more information.
- Enabling non-profit entities to file their annual reports and filings on-line rather than in hard copies.

Issuing certificates of proper management for a two-year period to non-profit which meet certain criteria (*see Question 8*).

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Publications

- *Charity Law, Jurisdictional Comparisons, First edition 2012, Second edition 2016, chapter on Israel.*
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