

Israeli-Palestinian Interim Agreement

Annex V - Protocol on Economic Relations (Supplement to the Protocol on Economic Relations)

1. The clearance of revenues from all import taxes and levies and from excise on fuel products between Israel and the Council, according to this Agreement, will come into full force on the date of completion of the first phase of the redeployment of the Israeli military forces prior to the elections, i.e., 22 days before the day of elections (hereinafter "the said date").

However, in view of the special needs of the Palestinian Authority and in order to assist it in covering current expenses, Israel has agreed to transfer to the Palestinian Authority:

- a. One month after the signing of this Agreement - 50% of the revenues collected during this month from import taxes on goods, the final destination of which is the West Bank, and from excise on petroleum purchased by the Palestinian side for the West Bank.
 - b. Two months after the signing of this Agreement - 50% of the revenues collected during the previous month from import taxes and petroleum excise as aforesaid.
 - c. On the said date - 100% of the revenues collected during the period since the previous payment according to subparagraph b. above, from import taxes and petroleum excise as aforesaid.
2. In addition, on the said date Israel will transfer to the Palestinian Authority 15 million NIS as an advance payment in respect of the remaining surplus of the Civil Administration's budget as mentioned in paragraph 2 of Article 39 (Treasury) of Annex III.
 3. Israel will transfer immediately 12 million NIS to cover the recurrent costs of the eight spheres transferred to the Palestinian Authority starting from September 1, 1995.
 4. For the purposes of the implementation of the Protocol on Economic Relations, Israel will deduct 3% from each transfer to the Palestinian side of import taxes and other indirect taxes, in order to cover Israel's administrative costs in collecting these taxes and in handling matters related to them.
 5. The two sides will continue discussion through the Joint Economic Committee on the procedures for the set-off of financial obligations between the two sides, including legal entities under their control or management.
 6. a. Cigarettes, alcohol, iron and cement will be added to list A2 attached to the Protocol on Economic Relations in accordance with subparagraphs 2.a.(2) and 2.b of Article III of the Protocol, in quantities according to the Palestinian market needs, taking into account the quantities of these goods included in list A1.

However, with regard to these goods, the Israeli rates of customs, purchase tax, levies, excises and other charges, prevailing at the date of signing of the Agreement, as changed from time to time, shall serve as the minimum basis for the Council.

b. The quantities of electrical equipment in lists A1 and A2 will be revised and increased by the JEC to cover all the needs of the Palestinian market.

7. Articles V (Direct Taxation) and VI (Indirect Taxes on Local Production) of the Protocol on Economic Relations shall be replaced by the Articles attached as Appendices 1 and 2 to this Supplement.

Appendix 1 - Replacing Article V of the Protocol on Economic Relations

Article V

Direct Taxation

1. Israel and the Palestinian side will each determine and regulate independently its own tax policy in matters of direct taxation, including income tax on individuals and corporations, property taxes, municipal taxes and fees.

2. Each tax administration will have the right to levy the direct taxes generated by economic activities within the area under its tax responsibility.

3. Each tax administration may impose additional taxes on its residents (individuals and corporations) who conduct economic activities in areas under the tax responsibility of the other side.

4. Israel will transfer to the Palestinian side a sum equal to:

a. 75% of the income taxes collected from Palestinians from the West Bank and the Gaza Strip employed in Israel.

b. The full amount of the income taxes collected from Palestinians from the West Bank and the Gaza Strip employed in the Settlements.

5. When a Palestinian remits payment to an Israeli the following rules regarding deduction at source shall apply:

a. No tax shall be deducted at source on income from the sales of goods from the areas under Israeli tax responsibility, which are not supplied by means of a permanent establishment in the areas under Palestinian tax responsibility. Where income from the sales of goods is attributable to a permanent establishment in the areas under Palestinian tax responsibility, tax may be deducted at source, but only on such income as is attributable to such permanent establishment.

b. No tax shall be deducted at source on income derived by an Israeli from transportation activities, if the point of departure or the point of final destination is in the areas under Israeli tax responsibility.

6. When an Israeli remits payment to a Palestinian which is income accruing in or deriving in the West Bank and the Gaza Strip, the following rules regarding deduction at source shall apply:

- a. No tax shall be deducted at source on income from the sales of goods from the areas under Palestinian tax responsibility which are not supplied by means of a permanent establishment in the areas under Israeli tax responsibility. Where income from the sales of goods is attributable to a permanent establishment in the areas under Israeli tax responsibility, tax may be deducted at source, but only on such income as is attributable to such permanent establishment.
- b. No tax shall be deducted at source on income derived by a Palestinian from transportation activities, if the point of departure or the point of final destination is in the areas under Palestinian tax responsibility.

7. Non-deduction at source in accordance with the provisions of paragraphs 5 and 6 above shall be carried out through the use of certificates in the form set out in Schedule 1. Such certificates shall be issued on special paper in order to assure that the certificates are authentic. The certificates will be worded in both Hebrew and Arabic and will be filled out in the language of the other side or in English, and the figures will be written in “Arabic” (not Hindi) numerals.

8. a. In any case, where the appropriate certificate referred to in paragraph 7 has not been presented to the payer prior to the payment of income referred to in paragraphs 5 and 6 above, tax will be deducted at source by the payer according to the applicable law.

b. With regard to income not referred to in paragraphs 5 and 6 above, tax may be imposed by the tax administration responsible for the areas in which the income was accrued or derived.

9. Each side will grant its residents a tax relief for income tax paid by them on income accrued in or derived in the areas under the tax responsibility of the other side.

10. Both sides agree that a special subcommittee will be established to finalize the arrangements and procedures regarding taxation issues (including issues concerning double taxation).

Appendix 2 - Replacing Article VI of the Protocol on Economic Relations

Article VI

Indirect Taxes on Local Production

1. The Israel and the Palestinian tax administrations will levy and collect VAT and purchase taxes on local production, as well as any other indirect taxes, in their respective areas.

2. The purchase tax rates within the jurisdiction of each tax administration will be identical as regards locally produced and imported goods.
3. While the prevailing concepts and principles of VAT will continue to be applied by both sides in a compatible way, the Palestinian VAT rate shall not be lower than 2% below the Israeli VAT rate (the present Israeli VAT rate is 17%).
4. The Palestinian side will decide on the maximum annual turnover for businesses under its jurisdiction to be exempt from VAT, within an upper limit of 12,000 US \$.
5.
 - a. Ongoing permanent businesses will register for VAT purposes with the VAT administration of the side exercising responsibility in the place in which they are situated.
 - b. When subparagraph a. does not apply, dealers will register for VAT purposes with the VAT administration of the side of their residence, notwithstanding the place of their activity. A corporation will register for VAT purposes according to the residency of the individual holding the majority of its shares which grant rights to distribution of profits.
 - c. Special cases of dealers having ongoing operations in the other side without having a permanent place of business there, will be dealt with by the joint committee established according to paragraph 11 below, upon a request of either side.
 - d. Each side will provide the other side, upon request, information concerning sales of specific dealers from one side to specific dealers from the other side. Israel will provide the Palestinian tax administration assistance in collecting information concerning the activities in Israel of Palestinian dealers registered for VAT purposes with the Palestinian VAT administration having ongoing operations in Israel, and will enable Palestinian inspectors to follow their activities in Israel, as necessary for tax enforcement purposes and allowed by law.
6. The VAT on purchases by dealers registered for VAT purposes will accrue to the VAT administration with which the dealer is registered.
7. The principles set out in paragraphs 1-6 of this Article shall also apply to wage-and-profit tax on financial institutions.
8. There will be clearance of VAT revenues between the Israeli side and the Palestinian side according to the following conditions:
 - a. The VAT clearance will apply to VAT on transactions between dealers registered with different VAT administrations.
 - b. The following procedures will apply to clearance of VAT revenues accruing from transactions by dealers registered for VAT purposes:
 - (1) For transactions between dealers registered with the different VAT administrations special invoices, clearly marked for this purpose must be used, and they will be accepted for clearance purposes.

(2) These invoices will be worded in both Hebrew and Arabic and will be filled out in any of these two languages or in English, provided that the figures are written in "Arabic" (not Hindi) numerals and that the amounts filled out in the invoice are stated also in NIS. The amount of VAT will be specified both numerically and in words.

(3) For the purposes of tax rebates, such invoices will be valid for six months from their date of issue.

(4) Representatives of the two sides will meet once a month, on the twenty-fifth day of the month, to present each other with a list of invoices submitted to them for tax rebate, for VAT clearance. This list will include the following details regarding each invoice:

- (a) the number of the registered dealer issuing it;
- (b) the name of the registered dealer issuing it;
- (c) the number of the invoice;
- (d) the date of issue;
- (e) the amount of the invoice - with a separate reference to the amount of VAT; and
- (f) the name and the registration number of the recipient of the invoice.

(5) The clearance claims will be settled within six days from the meeting, through a payment by the side with the net balance of claims against it, to the other side.

(6) Each side will provide the other side, upon request, with invoices for verification purposes. Each tax administration will be responsible for providing invoices for verification purposes for two years after receiving them.

(7) Each side will take the necessary measures to verify the authenticity of the invoices presented to it for clearance by the other side.

(8) Claims for VAT clearance which will not be found valid will be deducted from the next clearance payment.

(9) Once an interconnected computer system for tax rebates to dealers and for VAT clearance between the two sides is operational, it will replace the clearance procedures specified in subparagraph (4) above.

(10) The two tax administrations will exchange lists of the dealers registered with them and will provide each other with the necessary documentation if requested, for the verification of transactions.

(11) The joint subcommittee established under paragraph 11 will deal with the implementation of the provisions of this paragraph.

9. VAT paid on transactions made with dealers registered with the Israeli side by not-for-profit Palestinian organizations and institutions, or by financial institutions, which are registered with the Palestinian side, or by the Palestinian local authorities, or by the Palestinian side itself, will be remitted to the Palestinian side in accordance with the clearance system set out in paragraph 8 above.

10. VAT paid on transactions made with dealers registered with the Palestinian side by not-for-profit Israeli organizations and institutions, or by financial institutions, which are registered with the Israeli side, or by the Israeli local authorities, or by the Israeli side itself, will be remitted to the Israeli side in accordance with the clearance system set out in paragraph 8 above.

11. The two sides will establish a joint committee composed of representatives of both VAT administrations. This committee will deal with all issues requiring coordination and cooperation with regard to this Article.

Schedule 1

Pursuant to Article V (Direct Taxation):

Serial No._____

Certificate of Non-Deduction of Income Tax at Source by the Palestinian Tax Administration

To: _____
(name of payer)

1. We hereby certify that:

(name of recipient)

I.D. Number and/or
dealer number

home address

business address

is entitled to receive the full amount of NIS _____
for the sale of goods/ transportation activities without
deduction of tax at source.

2. This certification shall apply only to income accruing in or deriving in the West Bank or Gaza Strip, and shall be valid from _____ (date) until _____ (date) and/or for invoice(s) No. _____.

3. This certification is valid only on presentation of the original certificate.

This certificate was issued by

Date of issue

Serial No. _____

Certificate of Non-Deduction of Income Tax at Source by the Israeli Tax Administration

To: _____

(name of payer)

1. We hereby certify that:

(name of recipient)

I.D. Number and/or
dealer number

home address

business address

is entitled to receive the full amount of NIS _____ for the sale of goods/transportation activities without deduction of tax at source.

2. This certification shall apply only to income accruing in or deriving in Israel, the Settlements and military locations, and shall be valid from _____ (date) until _____ (date) and/or for invoice(s) No. _____.

3. This certification is valid only on presentation of the original certificate.

This certificate was issued by

Date of issue
