Israel

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QUICK FACTS

Legal forms of philanthropic organizations included in the law: Association, Cooperative, Limited Liability Company, Endowment, Public Benefit Foundations

Five main social issues addressed by these organizations: Arts and Culture, Health and Medical Research, Basic Needs, Youth and Family, Religion

Average time established by law to register a philanthropic organization: 0-30 days

The time listed above is the ‘normal’ registration process. If the PO wished to register with non-standard bylaws, or inquiries (mostly for security reasons) are required, registration can take up to several months.

Average cost for registering a philanthropic organization: US $750

Registration fees are low (approximately US $250, except for social enterprises registering as Limited Liability Company (which costs approximately US $750), but registration requires a lawyer’s affidavit, which may cost considerably more. The minimum fee decreed by the National Bar Association is currently ILS 1,859 (approximately US $500).

Government levels primarily regulating the incorporation of philanthropic organizations: Central/Federal Government

Philanthropic Environment Scores:

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<td>2018</td>
<td>3.7</td>
<td>3.8</td>
<td>3.5</td>
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I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

The three questions in this section pertain to the laws and regulations governing philanthropic organizations (POs). The scoring questions for this category cover three aspects of regulations: (A) formation and registration, (B) operations, and (C) dissolution.

Question 1: To what extent can individuals form and incorporate the organizations defined?

Score: 3.5

The Law of Associations (1980), allows registration of POs, except when their goals negate the existence of the State of Israel and its democratic nature, or if there is “founded suspicion” that it will be used as cover for illegal activities (Article 3). Registration is not allowed with a PO name that might offend the public, or the feelings of the public or under a name identical with the name of a body corporate registered in Israel or similar to such a name as to mislead. (Law of Associations, Article 4 a). This was used in the past to prevent the use of the word “Palestinian” in POs’ names.

Legal provisions allow for easy, inexpensive and unobstructed access to registration of POs of all types. Nonetheless, experience has shown that considerations of the Nonprofit Registrar are not completely free of political bias, particularly with respect to Arab and left-wing applicants. Recently attempts were made in the parliament to legislate restrictions on registration for POs who negate the nature of Israel as a Jewish state. Many critique a lack of transparency regarding the Registrar’s decision to allow POs not to publicly disclose donor lists, arguing bias in favor of right-wing and religious POs.

Question 2: To what extent are POs free to operate without excessive government interference?

Score: 2.5

Certain legal forms are available only to POs pursuing certain goals listed as “public goals.” According to the Companies Law (Section 345a) public goals (public purposes) may include quality of the environment, health, religion, protection of animals, human rights, education, science, sports, immigration, charity, and others. This list of goals is decided in the parliament’s finance committee, and is thus political in nature. Similarly, recognition as a PO entitled for inclusion in this list is decided in the parliament’s finance committee, and is thus subject to political influences.

Recent legislation and political pressure has served to constrain POs activity, including legislation penalizing POs receiving funding from foreign governments, and requirements to disclose such funding. The law is currently relevant to 27 POs, 25 of which are left-wing organizations. These POs are required to report their funding on a quarterly basis. Political pressure has been exerted on local governments and other public institutions to restrict activities of certain left-wing POs.
Question 3: To what extent is there government discretion in shutting down POs?

The board or the assembly of the PO is allowed to voluntarily terminate the PO (Law of Association, Chapter 7, Article 1). Involuntary termination is provided for, under appropriate limits, including notice and the opportunity to be heard prior to termination by court order (Chapter Seven, Article 2). Precedents determine that a balance should be kept between reasons for termination and the right for association. POs can appeal in the case of a court ordered termination. Historically, attempts to dissolve POs for political reasons were overturned in the Supreme Court.

II. Domestic Tax and Fiscal Issues

The two questions in this section pertain to laws and regulations governing the fiscal constraints of giving and receiving donations domestically.

Question 4: To what extent is the tax system favorable to making charitable donations?

The law allows for a 35 percent income tax credit for individuals and 26.5 percent corporate tax credit for corporations (reduced to 24 percent in 2017). Returns are given up from a floor of ILS 180 (approximately US $50) up to a ceiling of ILS 9.2 million (approximately US $2.5 million) or up to 30 percent of the person’s or corporations’ tax liability for the year. There is criticism that the ceiling is low for corporations and may discourage large corporations from donating more. Tax refunds are available only for donations given to POs pursuing certain goals listed as “public goals.” This list of goals is decided in the parliament’s finance committee, and is thus political in nature. The process to receive tax refunds is reasonable, yet for individuals it requires filing an annual personal income tax report, which is seldom done by waged employees in Israel. As a result, only a small share of waged employees in Israel request tax credits. Notwithstanding, recent developments allow individuals to obtain refunds automatically through their place of work’s salary system, which slightly increases the likelihood of filing for tax returns. Yet, research conducted by the Institute for Law and Philanthropy (Drezner et al., 2016) shows that tax benefit was considered the lowest motivation for giving among Israelis, and in 2016 only 9.3 percent reported their donations to the tax authorities either personally or through their workplace.

Question 5: To what extent is the tax system favorable to POs in receiving charitable donations?

POs can receive “public institution” status that grants them certain income and property tax benefits. Tax exemptions are available only to donations given to POs pursuing certain goals listed as “public goals.” The recognition as a PO entitled for inclusion in this list of goals is also decided in the parliament’s finance committee, and is thus subject to political influences. The number of POs with “public institution” status is approximately 5,200. Criticism of the sector includes, a lack of transparency, unequal treatment and political bias in decisions to grant “public institution” status. A
government committee for determining public institution status was established. The committee recommended harmonizing the “public goals” for different types of POs, limiting eligibility only to registered POs, improving transparency, equity and procedures for granting “public institution” status, and requiring more accountability and governance measures from eligible POs.

III. Cross-Border Philanthropic Flows

The two questions in this section concern laws and regulations governing the fiscal constraints of giving and receiving cross-border donations. The scoring for these questions pertains to the donor and receiving entities.

Question 6: To what extent is the legal regulatory environment favorable to sending cross-border donations?

Score: 4.0

Cross-border charitable donations can be sent without additional cost, however, cross-border donations are not eligible for the same tax incentives as domestic donations. Tax credits are only given to donations to Israeli POs with “public institution” status.

Question 7: To what extent is the legal regulatory environment favorable to receiving cross-border donations?

Score: 3.0

POs’ receipt of donations from abroad is not limited. However, recent legislation and political pressure has been put in place to constrain POs activity, including legislation penalizing POs receiving funding from foreign governments, and requiring them to disclose such funding. The law is currently relevant to 27 POs, 25 of which are left-wing organizations. These POs are required to report their funding on a quarterly basis. For example, the Israeli Parliament approved the Transparency law in 2016 requiring POs “receiving over 50 percent of their funding from international sources to indicate this on every document, website, sign or publication that they issue and in all communication with officials” (CIVICUS, 2017).

IV. Political and Governance Environment

The three indicator questions in the next two sections concern the political and governance context, socio-cultural characteristics, and economic conditions that influence the environment for philanthropy.

Question 8: To what extent is the political and governance environment favorable for philanthropy?

Score: 3.5

Collaboration between government and nonprofits exists, but its nature varies greatly between policy fields. There is extensive collaboration in the provision of social services, as a result of privatization
and welfare state retrenchment. The role of POs in this relationship is mostly in policy implementation rather than policy development. In certain fields, such as disability rights, POs take active part in the entire policy process, and are legitimate participants. In other areas, such as the environment, and especially the Israeli-Palestinian conflict, POs experience overt state animosity. Recent years have seen a rise in tri-sectoral coordination and communication, through roundtables around various issues pertinent to POs, such as emergency response and volunteering. The constant state of emergency due to the Israeli-Palestinian conflict, and the political manipulation, lead to political persecution of left-wing POs.

**Question 9: To what extent are public policies and practices favorable for philanthropy?**

Score: 4.0

Government has been involved in recent years in the active debate and promotion of POs, giving and volunteering. It has led a series of roundtables on issues pertinent to POs such as volunteering and emergency response, in which POs took active part, and were aimed at promoting policies in favor of philanthropy. A national volunteering initiative was established by the Government of Israel to change the face of volunteerism in Israel and intensify the impact of volunteer activities throughout the country, and the state operates a publicly accessible database of POs. Data on government policies towards POs, e.g. funding and tax benefit criteria, have been made more accessible and transparent. Coordination between government ministries in their work with POs remains limited. The political climate, security concerns and political manipulation lead to attempts to block left-wing POs access to public and philanthropic resources.

**V. Socio-Cultural Environment**

**Question 10: To what extent are socio-cultural values and practices favorable for philanthropy?**

Score: 4.5

Philanthropic practices are based on long cultural and religious (Jewish, Muslim and Christian) traditions of giving, mutual help and organizing. Philanthropy has been pivotal in the establishment of the state, and volunteering is a core value of the Zionist movement. Giving from Jewish diaspora is still a prominent feature of POs’ activity today. There are overall positive views of philanthropy and POs, although suspicions of misusing public funds are pervasive. As well, political campaigns against left-wing POs took root and has negatively affected the public attitude towards them. Some barriers exist that limit the social participation of Arab minorities as a result of security concerns and the political manipulation of such concerns. An emergent modern philanthropic culture is developing, but there is a long road ahead.
VI. Future of Philanthropy

These questions are used to provide a general picture of the future of philanthropy in this country as well as recommendations to improve the philanthropic environment.

Current state of the philanthropic sector

Philanthropy in Israel is a large and active sector, working closely with government mostly in the provision of social services, and to a growing extent in forming and implementing public policies. It has growing interaction with the business sector as well, through both Corporate Social Responsibility and social enterprise. Generally political and economic conditions are favorable; however, there is growing animosity from the state towards a subset of left-wing social change organizations that is affecting public opinion. The organizational capacity of the philanthropic sector remains low, and the impact of umbrella organizations and networks is limited. Professionalization of the sector is slowly increasing. Financial challenges, specifically since the 2008 global financial crisis, keep limiting the philanthropic sector’s capacity, and negatively affecting the development of business practices.

Three major recent events affecting the philanthropic landscape between January 2014 and December 2016

- Legislation related to the funding of POs by foreign governments. The “transparency bill” passed in 2016 by the Israel’s parliament. The law will force human rights groups that receive more than half their funding from abroad – including countries of the European Union – to disclose it in official reports. The law is formally titled the “Transparency Requirements for Parties Supported by Foreign State Entities Bill 5766-2016;

- Roundtables and collaborative debates on state-philanthropy relations, e.g. state-civil society interface, national volunteering initiative; and

- Government adoption of committee report promoting formalization and mainstreaming of PO provision of social services on behalf of the state.

Future development trends in the philanthropic landscape

Growing pressures towards adoption of business principles and practices originated by donors and other stakeholders, will result in increased boundary blurring with the business sector. Emerging inter-sectoral collaborations such as social impact bonds and roundtables will take hold. Giving from Jewish communities abroad will continue to dwindle, and a lacking philanthropic financial market will create challenges to the sustainability of many POs. Demographic trends will increase the salience of religious and basic needs POs in the sector. Continued political, cultural, class and religious divisions in society will continue to create distinct and separate systems of POs, and deepen alienation between groups.
Three key recommendations to improve the environment for philanthropy

- The parliament should complete the legislation of the new nonprofit act, which will distinguish between different types of philanthropic organizations and establish a new legal form for foundations;

- The government should assist in the development of a philanthropic capital market and provide guarantees and other financial instruments to assist POs in obtaining tax credit; and

- A collaborative effort should be made to promote philanthropic culture, charitable giving, volunteering and social engagement.