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Israeli Monetary Transfer Commitments to the Palestinian Authority Under Oslo II

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This document is a summary of the main Israeli commitments regarding regular transfers of money to the Palestinian Authority, under the Oslo II interim agreement. A short review of Israeli promises of donations to the PA, as part of the international framework of financial assistance to the PA, is also included.

I. The Paris Agreement

Annex V of the Oslo II agreement is composed of what has come to be termed "the Paris Agreement". The latter, an agreement covering economic relations between the State of Israel and the PA, was negotiated between Israeli Finance Minister Avraham Shohat and Abu Alaa' in Paris in April 1994, and formally signed by the two men on 29 April 1994. The Paris Agreement was included as an integral part of both the Gaza-Jericho Agreement of May 1994, and the Oslo II agreement of September 1995, both of which were signed by Prime Minster Yitzhak Rabin. As such, the Paris Agreement is fully part of the series of Oslo agreements, and the obligations Israel undertook within the Paris Agreement are as binding as any other part of the Oslo agreements.

The Israeli obligations of regular monetary transfer to the PA are mainly comprised of tax and customs duties rebates, in the following categories:

(i) <u>Income Tax:</u>

Israel agreed to rebate to the PA income taxes collected at the source from Palestinians employed by Israelis, according to the following rates:

- 75% of the income taxes collected from Palestinians from the West Bank and Gaza Strip who are employed inside Israel are transferred to the Palestinian Authority
- the full amount of income taxes collected from Palestinians employed in Israeli settlements

(ii) <u>Labour Taxes:</u>

Palestinian employed in Israel are insured in the Israeli social insurance system for employment injuries that occur in Israel, bankruptcy of employers and maternity leave allowance.

The Paris Agreement expected that the PA would establish a social benefit system of its own, to which Palestinian workers would turn to for workers' entitlements other than those listed above. Accordingly, Israel is committed to making monthly transfers to the PA of part of the NII payments collected from Palestinian workers in Israel, in order that the money be used for social benefits supplied by the PA, as soon as the PA establishes a social benefit system. **To date, no social insurance mechanism has been set up by the PA for these workers,** and as a result the rebate of these taxes has been held up. The only social benefit taxes which have been remitted to the PA in practive so far have been health taxes collected from Palestinian workers.

(iii) VAT:

The basic idea behind the VAT clearance is that Palestinian businesses who have purchased items from Israeli businesses can claim an exemption on the 17% VAT that they have paid for those items. For these purposes, special invoices have been prepared for transactions between businesses registered with Israel and those registered with the Palestinian side. Israel is committed to rebating the VAT paid on transactions accompanied by these special invoices, on a monthly basis.

(iv) Customs and Import Duties:

Israeli monetary transfers to the PA on customs and import duty collection is based on the principle that customs fees paid on merchandise passing through Israeli ports whose final destination is within the PA, or a corporation registered by the PA, should go to the PA. In accordance with that principal, Israel agreed to collect customs and import duties on such merchandise, and to transfer the money thus collected to the PA.

(v) Petroleum Excise Taxes:

The PA is entitled to receive a rebate of petroleum excise taxes paid for petroleum purchased in Israel for use in the Palestinian Authority.

To give an indication of the amounts involved, the revenues forwarded by Israel to the PA from 4 May 1994 to mid-April 1996 were as follows (in millions of NIS):

Total	**1,221**
VAT	806
Import Taxes	126
Petroleum Tax	211
Income Tax	23
Health Tax	55

(Source: *Israel Economic Outlook*, Ministry of Finance, May 1996)

It should be noted that *70 percent of total PA budget revenues* last year originated in tax revenue clearances from Israel.

II. Offsets from Revenue Clearances to the PA

Israeli firms continue to provide residents of the PA with various services, including communications, water, electricity and health.

The PA was expected, under the terms of the Oslo agreement, to conclude commercial agreements with the service providers, but it has not done so. On occasion, when the debts owed by the PA to these service providers have not been paid, the companies have received the amounts they were owed from the Israeli government, which offset these sums from the monetary transfers it was obligated to provide the PA.

Although debts owed to government-owned companies by the PA have sometimes been covered by these offsets, this is not the case for private Israeli corporations and individuals who have no recourse to debt collection for debts owed to them by either the PA or citizens of the PA. **This situation could be corrected by the establishment of a governmental board which will review all debts owed to Israelis by the PA and its citizens. The Israeli government could then offset the revenues it pays to the PA by the amount owed to Israelis.**

III. Israeli Monetary Commitments Within the Framework of the Donor Nations to the Palestinian Authority

As part of its participation within the framework of the Donor Nations to the Palestinian Authority (which is separate from Israel's obligations under the Oslo agreements), Israel undertook to transfer to the PA $5 million a year betwen 1994 and 1998, for a total of $25 million in donations. According to the Israel Finance Ministry, Israel has to date forwarded $10.5 million out of the $25 million pledged, to pay for funding the PA current budget.

It should be noted that the entire issue of international financial donations to the PA has not proceeded as smoothly as originally planned, and that as a result many of the donor nations have not been providing the PA with the full amounts of money they pledged to donate in the past.

Israel could also consider, as have other nations, the possibility of withholding donations it has pledged to the PA, until the PA establishes the proper mechanisms ensuring full accountability of it finances, as demanded by the World Bank. (See the series of reports on this subject published by Peace Watch)