

Response to National Insurance Chapter in Economic Efficiency Draft Law-2024 (Amendments to Attain Budget Goals for Fiscal Year 2025)

Open for Public Comments Until 12 November 2024

This document presents Zulat's comments on the chapter in the aforementioned draft law dealing with the increase of the national insurance tax to be paid by a large segment of the Israeli public, in parallel with a sharp decrease in the allocation out of this tax collection to the National Insurance Institute (NII).

Background

The NII is one of the most important foundations of the Israeli welfare state and its independence is its soul. The NII Law was designed to divorce the basic social rights of Israelis from changeable policies, political interests, and budgetary hardships by creating a fund separate from the state treasury to ensure those social services.

However, since the 1980s, the NII's independence has been curtailed repeatedly. This began with the freezing of employer tax contributions, followed by the state holding NII funds in government bonds, and the appointment of a custodian accountant on behalf of the Finance Ministry. Under the political decision that abolished the employer tax in 1987, the NII was to receive from the state the amount that had heretofore come from the employers.

The NII operates simultaneously as an insurance entity paying contribution-based allowances and as a state agency disbursing social security benefits that are not backed by revenues and are funded directly from the state budget. This blending of functions has enabled the Finance Ministry to impose its authority over the NII, requiring the latter to comply with its directives in order to secure the budgets it needs for its proper functioning.

The proposal outlined in the aforementioned draft law amounts to an increase in regressive taxation that would particularly harm low-income earners and would primarily reduce the allocation of collected taxes to the NII, thereby critically undermining its stability. These steps would accelerate the NII's path toward insolvency, effectively dismantling the social security system of Israelis.

Zulat's Comments on Articles of Draft Law

1. Articles 1(1)(a) and 1(3) - "reduced collection": Slashing the adjustment of salary brackets to lower the tax collected from low-income earners is a regressive taxation measure. There is absolutely no justification for increasing taxation on low-income earners.
2. Article 32(a) 1(2) - reducing the sum transferred to the NII: This measure spells the destruction of the NII. Instead of gradually increasing the allocation to the NII as stipulated by law, reaching 61% by 2028 and beyond, it is proposed to drastically reduce it. For example, instead of transferring 59.4% in 2025 as planned, only 49.1% would be allocated, with further reductions in subsequent years. Starting in 2028, it is proposed to fix the rate at 46.38%, instead of 61.38% as originally intended. Given that the NII is already in an actuarial deficit, the proposed amendment would lead it to insolvency within a few years and to the total collapse of the social security system, thereby dealing a lethal blow to the social rights of Israel's entire population.
3. Articles 1(4) and 1(5) - increasing NII tax payments of wage-earners and self-employed: Income tax rises mainly harm low- and medium-income earners, as it is collected only up to a salary/income of NIS 49,000, which means that anyone with a higher salary/income will not pay the additional tax. If the idea is to increase collection from the public, this should be done by updating income tax brackets, so that high-income earners pay more and most of the burden does not fall on low- and medium-income earners facing economic hardships, including as a result of the ongoing war.

Zulat's Comments on Draft Law's Shortcomings

In addition to the above, we wish to emphasize that the aforementioned steps would exacerbate the structural inequality already built into the current NII tax payment system. While the majority of Israelis would be required to make significantly higher contributions to the NII, the amount to be collected from so-called "students" would remain unchanged. This group of individuals who study and do not work at all, made up mostly of ultra-Orthodox men, would still be required to pay a nominal NIS 29 per month. Therefore, these steps would deepen the discrimination against Israel's working population and increase the economic burden solely on this segment of society.

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