GUIDE

Company or self-employed after Amendment 277

What changed, who it concerns, and what it means for you. In plain language.

Updated: 11 November 2026

In brief

- Amendment 277 to the Income Tax Ordinance applies from 1 January 2025. It applies to small private companies, which the law calls “closely held companies” (חברות מעטים).
- It makes two main changes. First: more cases in which the company’s profit is treated as if the owner earned it personally, and the owner pays tax on it like a self-employed person. Second: an annual 2% tax on large profits that stay in the company and are not distributed.
- So a company no longer saves tax automatically. Anyone who works alone and earns mainly from their own personal work should check again whether the company still pays off for them.

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

A few terms before we start

Self-employed (osek)

A person who runs a business in their own name, without a company. The business profit is their income, and they pay income tax and National Insurance on it.

Limited company (Ltd.)

A body separate from its owners. The company pays "corporate tax" on its profit. When the owner takes the money for themselves, they pay additional tax.

Closely held company

A company controlled by no more than five people, that is not a "subsidiary" (that is, not controlled by another company), and in which the public has no real interest (for example, it is not traded on the stock exchange). Almost every company of a self-employed person or a family is a closely held company.

Controlling holder, and substantial shareholder

Usually someone who holds 10% or more of the shares or of the control rights in the company (for example, the right to appoint a director).

Dividend

A distribution of the company's profits to its shareholders. Apart from salary, this is the usual way to "take out" profit from the company.

Retained earnings (in the law: "accumulated profits")

Simply put, the profits the company has earned since it was set up, after tax, and has not yet distributed. For the purposes of the law they are calculated in two ways and the lower amount is taken: according to the income tax returns (taxable and exempt income, less the tax paid, the dividends distributed and the losses not offset), and according to the company's financial statements.

Active shareholder

Someone who holds 30% or more of the company's shares, and also someone who holds less, if the company's income, in whole or in part, derives from their personal work.

Marginal tax

The tax rate on the next shekel earned. Income tax rises in brackets, from 10% to 47%.

Surtax

An additional 3% tax on high annual income, above ₪721,560. From 2025 there is another 2% on "capital" income (such as dividends, interest or rent) above the same amount.

National Insurance and health tax

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

Compulsory payments to the National Insurance Institute, calculated on income from work. For the self-employed in 2026: 7.7% on the first part of the income (up to ₪7,703 a month), and 18% on the part above it, up to an income of ₪51,910 a month.

---

1. What changed

Amendment 277 came into force on 1 January 2025. It is aimed at "wallet companies": companies used mainly to defer the owners' tax. In an ordinary company tax is paid in two stages: corporate tax when the company makes a profit, and tax on a dividend when the owner takes the money. As long as the money stays in the company, the second stage is deferred. The amendment narrows this option.

In May 2026 the Supreme Court rejected the petitions against the law, and in September 2026 it also rejected a request for a further hearing. In other words, the law is in force.

First change: company profit treated as the owner's income (section 62A of the Ordinance)

In certain cases the law disregards the company. It treats the profit as if the owner earned it personally, and the profit is taxed at the owner's marginal rate, like the income of a self-employed person (up to 47%, plus surtax). This is instead of 23% corporate tax. There are three main situations:

1. **Management or an office in another company.** The company receives money because the owner serves as a manager or officer of another company, or provides it with management services. The rule does not apply if the owner holds 25% or more of that other company.
2. **Work that looks like an employee's work.** The owner does for a client what an employee does for their employer. The law presumes this is the case if 70% or more of the company's income comes from one client, for at least 22 months out of three years. This presumption does not apply to a company that employs four or more employees.
3. **New: a profitable company earning from activity.** This is the big change. The law calls it "income from personal-effort-intensive activity", meaning activity whose profit derives mainly from the shareholders' work. The definition in the law is broad, and it applies to almost any income from business activity, not only to "professions" such as law or accounting. The income not included is "passive" income: interest, dividends, rent and the sale of assets. The rule applies when all these conditions are met:
    - The company's profit rate from the activity is higher than 25%. That is, the taxable profit from the activity, divided by the income from the activity. Payments the company made to a "related company" (a company of the same owners or of their relatives) are added back to the profit, so that the profit cannot be reduced by moving money to another

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

company. The company's share of the income of a partnership in which it holds 10% or more is also included in the calculation. For 2025 there is a transitional provision that allows the profit rate to be calculated as an average of the years 2023 to 2025.

- The income from the activity is lower than ₪30 million times the number of controlling holders. For example, in a company with two controlling holders the ceiling is ₪60 million.
- The company has an "active shareholder": someone who holds 30% or more, or someone from whose personal work the company's income derives, in whole or in part. The profit is attributed only to the active shareholders, each according to their share.
- The company has significant retained earnings: at the end of the previous year they exceeded ₪750 thousand. In certain cases the retained earnings of other companies in which the same shareholder holds a significant stake are also taken into account, so the exact conditions are complex.

When the rule applies, not all the profit passes to the owner. The company "keeps" a profit equal to 25% of the income, and is taxed on it as usual. Only the profit above that is treated as the owner's income.

There are also two further special situations, for a company that provides services to a partnership or a company in which it holds a small stake. In these situations 55% of the company's income from that partnership, or of the dividend it received from that company, is treated as the owner's income.

Two ways to report. When the rule applies, the company can choose. One way: it deducts from its profit the part attributed to the owner, and the owner reports it in their personal return. A second way (the "dividend alternative"): the company pays corporate tax on all the profit and distributes a dividend. The owner reports the part attributed to them as income from work, and offsets against their tax the corporate tax paid on that part and the tax withheld from the dividend. Such a dividend does not count as a dividend that exempts from the 2% tax (see below).

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

Example for illustration only

A consultant holds 100% of the shares in her company and works in it. At the end of the previous year the company had retained earnings of ₪900 thousand.

This year the company earned ₪1,000,000 from consulting. After all expenses, including the consultant's salary, a profit of ₪600,000 remained.

- Profit rate: 600,000 ÷ 1,000,000 = 60%. This is more than 25%, so the rule applies.
- Profit that stays in the company: 25% × 1,000,000 = 250,000 ₪. Corporate tax of 23% is paid on it.
- Profit treated as the consultant's income: 600,000 – 250,000 = 350,000 ₪. She pays tax on it at her own bracket rates, as if she had earned it as a self-employed person.

Second change: a 2% tax on undistributed profits (sections 81A to 81F of the Ordinance)

A closely held company that has accumulated large profits and has not distributed them pays an additional 2% tax every year. The tax is calculated only on the "excess profits": the part above an "exempt amount" (the Tax Authority calls it a "shield").

- **The exempt amount** is the highest of three: ₪750 thousand; the company's annual deductible expenses (or the average of the last three years, if higher); and the cost of the assets the company uses in the business, such as equipment and inventory, after depreciation. Cash, deposits, securities and most investment real estate do not count as such assets. Someone who holds several companies splits the 750 thousand among them.
- **The calculation:** take the retained earnings at the end of the previous year. Subtract profits that are tax-exempt under special laws (for example profits of an "approved enterprise" or a "benefited enterprise" under the Law for the Encouragement of Capital Investments), and the exempt amount. The result is the "excess profits". Subtract from them the dividend distributed this year, and pay 2% on what remains.
- **When nothing is paid at all:** there are three cases. First: this year the company distributed a dividend (and tax was paid on it) of 6% or more of the retained earnings at the end of the previous year. In 2025 the threshold was 5%. Second: this year the company distributed a dividend of at least 50% of the excess profits. In the years 2025 to 2030, 20% is enough. Third: this year the company lost more than 10% of the retained earnings it had at the end of the previous year.
- The company reports this tax in its annual return, in a special appendix (Form 1281). If the retained earnings are below ₪750 thousand, the appendix need not be filled in. This tax cannot be deducted as an expense.

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

Example for illustration only

At the end of 2025 the company had retained earnings of ₪2,000,000. Its expenses in 2026 are ₪500,000, it has no large business assets and no exempt profits. So the exempt amount is ₪750,000, because it is the highest of the three.

- If the company distributed no dividend in 2026: the profits above the exempt amount are 2,000,000 – 750,000 = 1,250,000 ₪. The tax is 2% × 1,250,000 = 25,000 ₪.
- If the company distributed a dividend of ₪120,000 in 2026 (6% of 2,000,000) and paid the tax on it: it is exempt from the 2% tax.
- If the company distributed a dividend of only ₪100,000 in 2026: the tax is 2% × (1,250,000 – 100,000) = 23,000 ₪.

2. Who this concerns

- Anyone who has a private company and works in it themselves, especially service providers: consultants, programmers, doctors, lawyers, engineers and the like.
- Anyone whose company works mainly with one client.
- Anyone with retained earnings of more than ₪750 thousand in the company.
- Anyone now deciding whether to open a company or stay self-employed.

3. What it means for me: how much tax is paid on each route

The table shows how much tax is paid on each additional shekel of profit, at high income levels, in 2026.

Route	Tax on an additional shekel of profit
Self-employed, or profit treated as the owner's income under section 62A	Income tax up to 47%. Above ₪721,560 a year a 3% surtax is added, 50% in total. In addition, National Insurance and health tax of up to 18%, on income of up to ₪51,910 a month. Part of the National Insurance contributions is deductible from income tax, so the actual cost is slightly lower.

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

Route	Tax on an additional shekel of profit
A company that distributes the profit as a dividend	23% corporate tax. On what remains, 30% dividend tax for a substantial shareholder. 46.1% in total. When the owner's annual income is above ₪721,560, the dividend tax rises to 35%, and the total to about 50%.
A company that keeps the profit	23% now. The dividend tax is deferred until the profit is distributed. If the retained earnings are higher than the exempt amount, a 2% tax a year is added.

The main advantage of a company is National Insurance. No National Insurance contributions or health tax are paid on an ordinary dividend (except in special cases, such as a "family company"). When section 62A applies, the profit is treated as the owner's income from work, and this advantage usually disappears.

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

Example for illustration only: how much is left in your pocket each year

Annual profit before tax	Self-employed	Company: salary ₪228,000 and the rest as dividend	Company: all dividend, no salary
₪300,000	₪212,100	₪210,600	₪161,700
₪600,000	₪363,000	₪372,300	₪323,400
₪1,200,000	₪659,300	₪683,500	₪636,700

What this shows:

- At a profit of ₪300 thousand, a self-employed person keeps slightly more than a company, even before the costs of maintaining a company.
- On the assumptions of the example, a company starts to leave more only from a profit of about ₪360 thousand a year. Even then the advantage is small, and the company's costs can wipe it out.
- A company that distributes everything as a dividend, with no salary, leaves less than self-employment at every level in the table.

Assumptions: 2026 income tax and National Insurance rates; a male Israeli resident with 2.25 credit points; no pension or study fund contributions; section 62A does not apply; the company distributes all the profit every year, so there is no 2% tax. The salary of ₪228,000 is the top of the 20% tax bracket. National Insurance contributions on the salary were calculated at the rates for a controlling holder, including the employer's share, which is a company expense. For the self-employed, the 52% deduction of National Insurance contributions was taken into account, both in income tax and in calculating the contributions. The costs of maintaining the company (bookkeeping, audit, annual fee) were not included. Amounts are rounded to hundreds.

4. Who a company still suits

As a rule, a company suits a business that is more than one person's work. Self-employment usually suits someone whose business is essentially their personal service.

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

A company may suit when:

- There are employees, equipment or inventory, and the business earns money even without the owner's personal work.
- Annual profit is high, and salary (up to the top of the lower brackets) can be combined with a dividend.
- Profits are reinvested in the business, for example in equipment, inventory or growth. That way they do not count as "excess profits".
- There are partners, investors or legal risk, so it is worth having the business as a separate body.

Self-employment may suit better when:

- The income comes from your personal work, especially from one main client.
- Annual profit is relatively low. According to the example, up to about ₪360 thousand a year self-employment pays off more, and the company's costs only widen the gap.
- You need most of the profit to live on, and you have no intention of leaving money in the business.

Anyone who already has a company that meets one of the situations in section 62A should check their reporting from 2025 onwards. Closing a company or moving to self-employment are steps with tax consequences of their own, so they need to be planned in advance.

---

5. Six questions to ask yourself

1. How much of the income depends on your personal work?
2. Does one client bring in 70% or more of the income? How many employees does the company have?
3. What is the business's profit rate: how much is left of each shekel of income after expenses?
4. How much retained earnings does the company have today? How much will you draw each year, and how much will stay in it?
5. How much does it cost you to maintain a company (bookkeeping, audit, annual fee)?
6. Is there a reason for the company that is not related to tax, such as partners, investors or protection against claims?

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

6. What to do

- Check the company's profit rate in 2025 and 2026, and how much retained earnings it has.
- Check whether one of the situations in section 62A applies to you. The Tax Authority has a free, anonymous simulator that helps check the conditions and calculate how much income is attributed to the owner. It is worth using it during the year, before filing the return.
- If there are retained earnings above the exempt amount, calculate what is better: distribute a dividend of at least 6% of the retained earnings (or at least 20% of the excess profits, in the years 2025 to 2030), invest in the business, or pay the 2% tax.
- Check that the annual returns report correctly. Anyone who should have reported under section 62A or for the 2% tax and did not, and asks to correct the return later, may be treated as having made a "material correction" to the return.
- Before setting up a company, closing a company or moving from one structure to another, run a calculation on your own numbers.

> If you wish, we would be glad to check with you which structure suits you. CPA Alon Schreiber previously served as Chief Inspector, Companies, at the Israel Tax Authority. We will go over your numbers together, check section 62A and the tax on undistributed profits, and see what is right for you.
> Schreiber & Schreiber & Co., CPA · office@accounter.co.il · 03-560-9462

Sources

- Economic Efficiency Law (Legislative Amendments for Achieving Budget Targets for the 2025 Budget Year) (Taxation of Undistributed Profits), 2024 (Amendment No. 277 to the Income Tax Ordinance), Sefer HaHukim 3343, 31.12.2024 — Knesset website, PDF, Hebrew (https://fs.knesset.gov.il/25/law/25_lsr_5396731.pdf)
- Economic Efficiency Law (Legislative Amendments for Achieving Budget Targets for the 2025 Budget Year) (Freezing of Tax Updates and Surtax), 2024 (Amendment No. 276), Sefer HaHukim 3342, 26.12.2024 — Knesset website, PDF, Hebrew (https://fs.knesset.gov.il/25/law/25_lsr_5396578.pdf)
- Income Tax Ordinance [New Version], ss.62A, 76, 81A to 81F, 121, 121B, 125B, 126 — consolidated text, National Insurance website (PDF), Hebrew (https://www.btl.gov.il/Laws1/00_0103_000000.pdf)
- Israel Tax Authority: undistributed profits — reporting in practice (Hebrew) (https://www.gov.il/he/pages/undistributed-profits-131026)

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.

- Israel Tax Authority: 2026 salary income tax calculation booklet (PDF, Hebrew) (https://www.gov.il/BlobFolder/generalpage/income-tax-monthly-deductions-booklet/he/generalInformation_income-tax-monthly-deductions-booklet_monthly-deductions-booklet-2026.pdf)
- National Insurance Institute: contribution rates for the self-employed (from 1.1.2026, Hebrew) (https://www.btl.gov.il/Insurance/National%20Insurance/type_list/Self_Employed/Pages/rates.aspx)
- National Insurance Institute: contribution rates for employees and controlling holders of closely held companies (Hebrew) (https://www.btl.gov.il/Insurance/Rates/Pages/%d7%9c%d7%a2%d7%95%d7%91%d7%93%d7%99%d7%9d%20%d7%a9%d7%9b%d7%99%d7%a8%d7%99%d7%9d.aspx)
- National Insurance Law [Consolidated Version], Chapter 15: contributions (ss.345 and 350) — PDF, Hebrew (https://www.btl.gov.il/Laws1/00_0001_000015.pdf)
- Israel Tax Authority, Income Tax Execution Instruction No. 9/2026, “Undistributed profits – reporting in practice”, 15.9.2026, including Appendix B (Form 1281). Published on the Tax Authority website.
- Supreme Court: HCJ 35810-08-25 and HCJ 6251-11-25, judgment of 3.5.2026 (the petitions against the undistributed profits law were dismissed); further hearing 51150-05-26, decision of 30.9.2026 (the request for a further hearing was dismissed).

Legal disclaimer: The information on this website is general and intended for orientation only. It does not constitute tax advice, legal advice or a professional opinion, and must not be relied upon for making decisions or taking any action. Data may change, and the binding date or figure is the one published by the competent authority. Before taking any action, seek individual professional advice. Schreiber & Schreiber & Co., CPA accepts no liability for any damage resulting from reliance on this information.