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How Does Israel Collect and Transfer Palestinian Tax Revenue?

The 1994 Paris Protocol requires import-tax revenue cleared within six working days. The 3% deduction is in the 1995 Supplement, not the Protocol.

TREATIES AND FOREIGN RELATIONS Paris Protocol Oslo Accords Tax Clearance Treaties

The Protocol on Economic Relations, signed in Paris on 29 April 1994 by the Government of the State of Israel and the

P.L.O., requires that revenue from import taxes be cleared to the Palestinian Authority "within six working days from the day of collection". That is Article III, paragraph 15, and it is the clause the whole arrangement runs on. The Protocol contains no power to withhold a transfer and no suspension clause of any kind.

Figure	What it counts	Who published it	Period
6 working days	The interval within which import-tax revenue is to be cleared, from the day of collection	Israel and the P.L.O., Article III paragraph 15	Signed 29 April 1994
11	Articles in the Protocol	Israel and the P.L.O.	Signed 29 April 1994
3%	Deduction Israel makes from each transfer for its administrative costs. This is in the 1995 Supplement, not the Protocol	Israel and the P.L.O., 1995 Supplement paragraph 4	Signed 28 September 1995
75%	Share of income taxes collected from Palestinians employed in Israel that Israel transfers	Israel and the P.L.O., Article V	Signed 29 April 1994, replaced 1995
100%	Share of income taxes collected from Palestinians employed in the settlements that Israel transfers	Israel and the P.L.O., Article V	Signed 29 April 1994, replaced 1995
48 hours	Maximum period a disputed shipment may be held pending a joint sub-committee decision	Israel and the P.L.O., Article III paragraph 14	Signed 29 April 1994

Article III requires clearance within 6 working days

Israel and the P.L.O. agreed the rule at Article III, paragraph 15, which states in full: “The clearance of revenues from all import taxes and levies, between Israel and the Palestinian Authority, will be based on the principle of the place of final destination. In addition, these tax revenues will be allocated to the Palestinian Authority even if the importation was carried out by Israeli importers when the final destination explicitly stated in the import documentation is a corporation registered by the Palestinian Authority and conducting business activity in the Areas. This revenue clearance will be effected within six working days from the day of collection of the said taxes and levies.”

Two rules are in that paragraph: revenue follows the place of final destination, and it moves within six working days.

The 3% deduction is in the 1995 Supplement, not the Protocol

It is the single most common misdating on this subject. This is the single most common misdating on this subject: the figure appears nowhere in the 1994 text.

Annex V to the Israeli-Palestinian Interim Agreement, signed 28 September 1995, states at paragraph 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.”

The instrument has two layers, and a clause attributed to the wrong one is misdated by seventeen months and misattributed to the wrong agreement.

The 1995 Supplement replaced 2 articles outright

It changed three things in all.

Provision	1994 Protocol	1995 Supplement
Administrative deduction	Not present	3% from each transfer of import and other indirect taxes
Palestinian VAT rate	"The present Israeli VAT rate is 17%. The Palestinian VAT rate will be 15% to 16%."	"Shall not be lower than 2% below the Israeli VAT rate"
Income tax on wages earned in Israel	75% transferred, and the full amount for those employed in the settlements, for Palestinians from Gaza and Jericho	Same rates, widened to Palestinians from the West Bank and the Gaza Strip

Source: Protocol on Economic Relations, 29 April 1994, Articles V and VI; and Annex V to the Interim Agreement, 28 September 1995, paragraphs 4 and 7, which states that Articles V and VI "shall be replaced by the Articles attached as Appendices 1 and 2 to this Supplement".

The Palestinian Authority collects, with Israeli officials present

The Protocol divides the arrangement between both sides. Article III, paragraph 14 gives the Palestinian Authority "full responsibility and powers in the Palestinian customs points (freight-area)... including the inspection and the collection of taxes and other charges, when due", at the Jordan River and Gaza Strip entry points.

The same paragraph provides that Israeli customs officials "will be present" and are "entitled to ask for inspection in their presence of both goods and tax collection", and that a disputed shipment is held for a maximum of 48 hours pending a decision by a joint sub-committee.

No clause in the Protocol permits withholding a transfer

The Protocol authorises neither side to hold cleared revenue. Nothing in Article III authorises either side to withhold cleared revenue, and the only interval the text names is the six working days in paragraph 15.

Withholding is therefore conduct measured against the instrument, never a provision of it. A page describing a withheld transfer cites paragraph 15 for the standard, and a separate dated source for what happened.

Article I names the interim period and never defines its length

It does not say how long the arrangement was meant to last. Article I, paragraph 1 states that it "will cover the West Bank and the Gaza Strip during the interim period", and it defines neither the length of that period nor its end. The five-year term commonly quoted is in the Declaration of Principles of 13 September 1993, a different instrument, and it is cited to that instrument rather than to this one.

Where these figures come from

Every figure and every quotation on this page comes from the text of the Protocol and its 1995 Supplement. The Israeli Ministry of Foreign Affairs published both texts, and it is one of the two signatories. The agreement is bilateral between Israel and the P.L.O., so the citation runs to both parties, and the text is published here by one of the two signatories.

The instrument has two layers and a clause carries the date of the layer it is in: the 3% deduction and the replaced Articles V and VI are 1995, and everything else quoted here is 1994. Lists A1, A2 and B are referenced throughout Article III and are reproduced nowhere in the published text, so no quantity, rate or line item from any list is stated on this page. That the interim period ran on past its intended end is a fact about events, established by other records, and is not a reading of this text.

Questions

What is the Paris Protocol?

The Protocol on Economic Relations between the Government of the State of Israel and the P.L.O., signed in Paris on 29 April 1994 and incorporated as Annex IV to the Gaza-Jericho Agreement of 4 May 1994.

How many articles does it have?

Eleven, covering the Joint Economic Committee, import taxes and import policy, monetary and financial issues, direct taxation, indirect taxes on local production, labour, agriculture, industry, tourism and insurance.

How quickly is revenue supposed to be transferred?

Within six working days from the day of collection, under Article III paragraph 15.

On what basis is revenue allocated?

The principle of the place of final destination, and the clause extends that to imports carried out by Israeli importers where the documentation names a Palestinian-registered corporation as the final destination.

Is the 3% deduction in the Paris Protocol?

No. It is paragraph 4 of the 1995 Supplement, signed 28 September 1995. The figure appears nowhere in the 1994 text.

What is the 3% for?

The Supplement states it is "to cover Israel's administrative costs in collecting these taxes and in handling matters related to them".

Does the Protocol let Israel suspend transfers?

The text contains no withholding power and no suspension clause. It names one interval, six working days.

What does it say about VAT?

The 1994 text set the Israeli rate at 17% and the Palestinian rate at 15% to 16%. The 1995 Supplement replaced that with a rule that the Palestinian rate shall not be lower than 2% below the Israeli rate.

What about income tax on Palestinians working in Israel?

Israel transfers 75% of the income taxes collected from them, and the full amount of those collected from Palestinians employed in the settlements.

Who signed it?

Finance Minister Avraham Shohat for the Government of Israel and Abu Ala for the P.L.O., at Paris on 29 April 1994.

Who inspects goods at the crossings?

The Palestinian Authority has full responsibility and powers at the Palestinian customs points, with Israeli customs officials present and entitled to ask for inspection in their presence.

How long can a disputed shipment be held?

A maximum of 48 hours, pending a decision by a joint sub-committee.

How long was the arrangement meant to run?

For “the interim period”, which this instrument names but does not define. The five-year term is in the Declaration of Principles of 13 September 1993.

Where can the text be read?

The Israeli Ministry of Foreign Affairs publishes both the Protocol and the 1995 Supplement at gov.il.

Sources

- Government of the State of Israel and the P.L.O., 1994. Protocol on economic relations (the Paris Protocol), Paris, 29 April 1994; Annex IV to the Agreement on the Gaza Strip and the Jericho Area of 4 May 1994. Published by the Israeli Ministry of Foreign Affairs, gov.il. Official record (treaty text).
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