



The Palestinian National Authority  
**Ministry of Finance**  
Income Tax Department

# **A Law by Decree No. (8) of 2011**

# **On Income Tax**

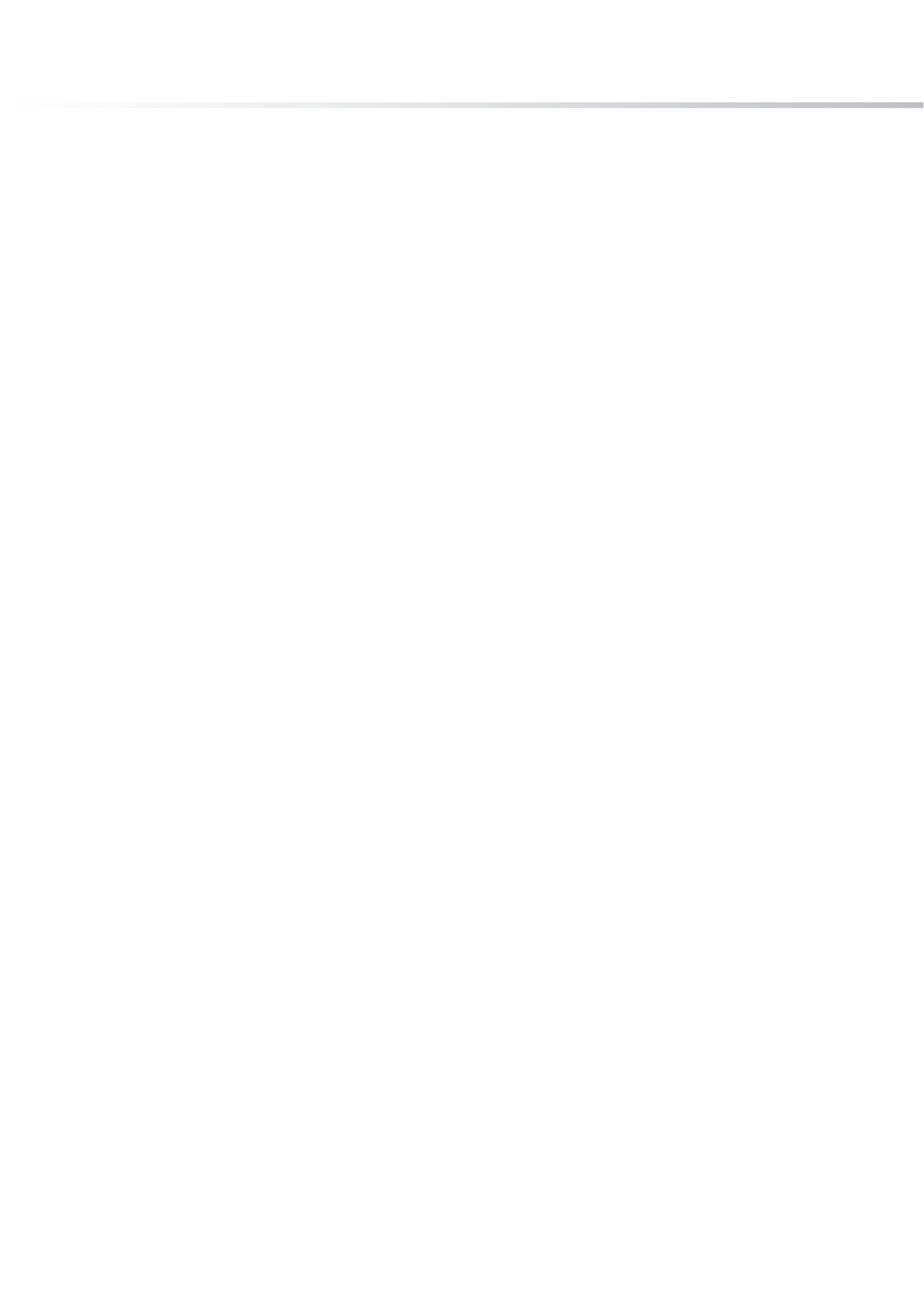




**The Palestinian National Authority  
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**2011**



# **A Law by Decree No. (8) of 2011 On Income Tax**

**The President of the State of Palestine**

**The Chairman of the Executive Committee of the Palestine  
Liberation Organization**

**The President of the Palestinian National Authority**

Upon reviewing the amended Basic Law of 2003 and its amendments particularly the provisions of Article (43),

And upon reviewing the Income Tax Law No. (17) of 2004 and its amendments,

And upon the recommendation of the Council of Ministers on (25/10/2010),

And by virtue of the powers conferred upon us,

And to achieve the public interest,

And in the name of the Palestinian Arab People,

**We promulgated the following Law by Decree:**





Chapter One

# Definitions and General Provisions



## Article (1)

The following terms and expressions provided in this Law by Decree shall have the meanings assigned to them thereto unless the context indicates otherwise:

**The National Authority:** The Palestinian National Authority.

**The Minister:** Minister of Finance.

**Department:** Income Tax Department.

**Director:** Director General of the Department.

**Tax:** The Income Tax imposed in accordance with the provisions of this Law by Decree.

**Assessor:** Any employee or any committee of employees duly authorized in writing by the Director to carry out any tax assessment or audit in accordance with the provisions of this Law by Decree.

**Person:** A natural or legal person.

**Taxpayer:** Each person obliged to pay, withhold, or transfer the tax according to the provisions of this Law by Decree.

**Natural Person:** Individual taxpayer or partner in a joint-liability company or simple limited partnership or any sole proprietorship specified by law

**Legal Person:** each and every administration or corporation which enjoys the legal personality by virtue of law, such as various types of associations, public shareholding companies or limited liability companies, partnerships limited by shares and foreign companies whether resident or non-resident.

**Local Authority:** Any local governance unit within a certain geographical and administrative area established under the provisions of the legislations in force.

**Company:** Includes any public shareholding company, or limited private shareholding company that is duly registered in Palestine



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pursuant to the Company Law in force, or foreign company or its branches operating in Palestine. Co-operative associations shall be treated as public shareholding companies in their for-profit activities.

**Business Activity:** Commercial, industrial, agricultural, professional, service or handicraft activity carried out by a person with the intent to achieve or gain profits.

**Resident:**

1. A Palestinian who continuously or with interruptions resided in Palestine for a period not less than (120) days during the year in which the income is received.
2. A Palestinian who was employed during any period of the year by the Palestinian Authority or a local authority whether inside or outside Palestine.
3. A natural non-Palestinian person who continuously or with interruptions resided in Palestine for a period not less than (183) days during the year in which the income was received.
4. A legal person that is registered in Palestine and has an office or a branch which it controls and manages.

**Final Accounts:** The final accounts of the business enterprise which measures the value of the business outcome and the financial status, including the profit distribution account, and the report of the certified auditor.

**Deductions:** The costs and expenses which are spent or incurred in order to produce income during the tax period.

**Exemptions:** Amounts excluded from net income.

**Gross Income:** The income of the taxpayer received from each income source that is subject to tax pursuant to the provisions of this Law by Decree.

**Net Income:** The remainder of the gross income from all sources that is subject to tax after deducting costs and expenses related to work as defined pursuant to the provisions of this Law by Decree.

**Taxable Income:** Net income after deducting carryover losses, exemptions and donations successively as indicated in this Law by Decree.

**Tax Balance Due:** Tax owed after deducting any credits, discount or advanced payments according to the provision of this Law by Decree.

**Disposition Transactions:** Endowment or donation of assets or entering into contractual arrangement or agreement for the transfer of such assets or for its revenues.

**Fiscal Year:** The period of twelve consecutive months at the end of which the person closes his accounts.

**Tax Period:** The period in which tax is calculated according to the provisions of this Law by Decree.

**Tax Declaration:** A tax declaration that is submitted by the taxpayer according to the form adopted by the Department.

**Court:** The Income Tax Appeal Court, or the competent court as may be appropriate.

## Article (2)

### Taxpayer Registration

A person who practices business or investment activity shall be obliged to register with the Department from the date of conducting the activity or operating the business.

## Article (3)

### Tax Base

Unless an exemption is provided for in this Law by Decree, all income received for any person from any source shall be subject to tax.

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## **Article (4)**

### **Tax Annuity**

1. The tax liability of the taxpayer is calculated on the basis of the calendar year.
2. A taxpayer who closes his/ her accounts at different time other than the end of the calendar year may calculate the tax on the basis of the taxpayer's fiscal year subject to prior approval of the Director to do so.

## **Article (5)**

### **Calculating Taxpayer's Income for Tax Purposes**

1. The taxpayer's income shall be calculated on the accrual basis, except interests and commissions related to doubtful debts for banks and specialized lending companies, and mortgage and financial leasing companies, which shall be calculated in the year of their collection in accordance with instructions issued by the Minister upon the recommendation of the Director.
2. The Director shall determine freelance taxpayers or categories of freelance taxpayers whose tax shall be calculated on a cash basis according to instructions issued for this purpose.
3. The tax on leasing contracts shall be calculated in accordance with instructions issued by the Minister upon the recommendation of the Director.
4. The tax shall be calculated in (Shekels) until a national currency is issued, and when accounts are administered in other currencies, the tax shall be calculated according to instructions issued by the Minister upon the recommendation of the Director.

## **Article (6)**

### **Method of Imposing Tax**

The tax shall be imposed uniformly on all total taxable income sources in accordance with the provisions of this Law by Decree.

## **Article (7)**

### **Tax-Exempt Income**

The following sources of income shall be exempt from the tax imposed according to this Law by Decree:

1. The income of local authorities and public institutions received from any work that is not intended for-profit.
2. The income of endowments (AWQAF), and orphans' funds that are established by law.
3. Any amount paid as compensation to injury or death, according to legislation in force.
4. Severance payments that are paid according to the legislation in force and not exceeding one month for each year.
5. Pension payments.
6. Travel mission or representation allowance that is paid to public or private sector employees, provided that it is spent for the purposes of the job.
7. Tax refunds resulting from settling previous years.
8. Income from a job or service earned by blind or disabled persons with at least fifty percent (50%) disability according to the report of the competent medical committee.
9. Tax-exempt incomes pursuant to a special law or a bilateral or multilateral agreement concluded by the National Authority.
10. Additional amounts that are paid as allowances or bonuses for

Palestinians while working abroad in diplomatic or consular corps. This exemption does not include cost of living allowance.

11. Salaries and allowances paid by the United Nations from its budget to its staff and employees.
12. Income earned by funds approved by the Minister, such as retirement, savings, social security, and health insurance funds, provided that the exemption is limited to income from the contributions of both employers and employees.
13. The wages of non-Palestinians staff of the diplomatic or consular corps who represent other countries in Palestine subject to reciprocal treatment.
14. The profits from stocks and dividends distributed by a resident person.
15. A person's income earned abroad unless originating from the taxpayer's funds or deposits in Palestine.
16. A rate of twenty five percent (25%) of the profits from buying and selling stocks and bonds, provided that no expenses are allowed for deduction on this rate of exempted profits.
17. Inheritance, except that revenues generated from inherited properties hereafter shall not be exempt.
18. The income of cooperative associations in relation with their transactions with their members.
19. The incomes of charitable associations, non-profit companies, unions and professional associations, cooperative societies and Zakat committees and authorized charitable funds provided that:
  - a. The income is from nonprofit work.
  - b. The income is not from business or investment activity of a nature that affects the competitiveness of the private sector.
  - c. The organization provides an annual copy of their final accounts certified by public accountant.



Chapter Two

# Deductions



## Article (8)

### Deductions from Income

1. In calculating the taxable income of any person, costs and expenses that were spent or deserved entirely and exclusively for the production of gross income during the tax period shall be deducted, and that includes:
  - a. Sale, transportation, marketing and distribution expenses.
  - b. Administrative, legal fees and rental expenses.
  - c. Fixed finance charge (Murabaha) and loan interest.
  - d. Value added tax on salaries and wages and value-added tax paid on the profits of banks, financial companies and institutions.
  - e. Salaries and paid wages.
  - f. Incorporation expenses, fees of evacuation for old premises, the one-time fee at move-in to new premises and promotional expenses provided they are equally distributed over five years from the date of payment.
  - g. Severance payments paid in accordance with the legislations in force.
  - h. The compensations paid for work injury or death and the expenses of medical treatment of employees and their families and life insurance premiums against work injuries.
  - i. The amounts paid by the employer for any fund that is approved by the Minister such as the saving, social security and health insurance funds.
  - j. The actual training costs for staff and employees that do not exceed two percent (2%) of annual net income.
  - k. The actual expenditures for internal research and development, scientific research, and partnership with scientific institutions for the purpose of development of no more than two percent (2%) of gross income or (500,000 Shekel) per year whichever is lower.
  - l. The actual expenditures to adopt Palestinian specifications



and standards, and the application of best practices in the management of institutions, including the development of electronic accounting systems and the adoption of international accounting standards, not to exceed two percent (2%) of the gross income or (500,000 Shekel) per year whichever is lower.

- m. The actual expenditure for exploring and searching for new export markets to promote Palestinian products that do not exceed two percent (2%) of the gross income or (500,000 Shekel) per year whichever is lower.
- n. Foreign exchange losses.
- o. The specific rate of the cost of assets such as machinery, tools, equipment, furniture, furnishings and buildings that contain functioning machines currently owned by taxpayer or will be owned in the future for its depreciation during the tax period through which the income was achieved pursuant to a regulation issued in accordance with the provisions of this Law by Decree.
- p. Business entertainment expenses with a percentage not exceeding one percent (1%) of the gross income or (150,000 Shekel) per year whichever is lower to the natural and legal person with the exception of public shareholding companies as this expense shall be accepted for these companies with a percentage of no more than one percent (1%) of the gross income or (300,000 Shekel) per year whichever is lower.
- q. The bad debts, in accordance with the instructions issued by the Minister upon the recommendation of the Director and in coordination with the Monetary Authority and relevant authorities.
- r. The loss resulting from the replacement of machinery, tools and equipments or their parts used in the work. This loss shall be calculated on the basis of the cost of the machinery, equipment or tools, or some of their parts, exclusive of the price received by the taxpayer and the sums deducted previously for their depreciation.

- s. The allocations of branches in the expenses of the main headquarters that is located outside Palestine with a percentage not exceeding two percent (2%) per year of the gross taxable income of branches in Palestine.
  - t. Allotment of risks and claims under settlement which are reported to insurance companies in accordance with instructions issued by the Minister upon the recommendation of the Director.
  - u. Allotment of collecting doubtful debts, interests and commissions incurred on such debts for the banks and the specialized lending companies in accordance with instructions issued by the Minister upon the recommendation of the Director.
2. The expenses and expenditures that are related to tax-exempt income shall be excluded in accordance with instructions issued by the Minister upon the recommendation of the Director.

## Article (9)

### Unallowable Deductions

**The following deductions shall not be allowed:**

1. Household, personal or private expenses.
2. The cost of any construction or improvements which increases the capital value.
3. Losses or any expenses recoverable under an insurance policy or a compensation contract.
4. Allotments and reserves of different types, in accordance with subparagraphs (T,U) of paragraph (1) of Article (8) of this Law by Decree.
5. Amounts paid as Income Tax.
6. Capital expenditures.

7. Salaries or wages or any other amount that is subject to tax unless income tax was withheld from it and paid to the Department.
8. Losses from revaluation of assets.
9. Fines.

## **Article (10)**

### **Loss Deduction**

1. If any person suffered a loss during the tax period in one of his taxable income sources according to this Law by Decree, the loss shall be deducted from his net income in the same tax period from other sources.
2. If the loss reached an amount that cannot be fully deducted as prescribed in paragraph (1) of this Article, the loss in excess shall be immediately carried over to the following tax period and again to the following tax period for a maximum limit that does not exceed five tax periods.
3. A loss which would not be taxable had it been a profit, shall not be deducted according to the provisions of this Law by Decree.
4. Notwithstanding the provisions in the preceding paragraphs of this Article, the loss shall not be deducted or carried over unless the taxpayer provides accurate accounts.

## **Article (11)**

### **Donations**

Donations paid to Zakat funds, charitable associations, non-profit organizations that are officially registered in Palestine, and donations to the institutions of the National Authority, and private and public funds pursuant to an official call shall be deducted from taxable income in a manner that does not exceed twenty percent (20%) of taxable income during the same tax period.



Chapter Three

**Exemptions and  
Clearance**



## Article (12)

### Exemptions

1. In order to calculate the amount of taxable income, the natural resident person shall be granted the following exemptions:
  - a. An annual exemption of (30,000 Shekel).
  - b. The actual amount paid for fixed transportation to the servants and employees of the public sector.
  - c. Amount paid for transportation or ten percent (10%) of the total annual salary, whichever is lower, for the servants of the private sector.
  - d. The contributions of employees or civil servants to savings and retirement funds, health insurance, social security or any other funds approved by the Minister.
  - e. A one-time exemption of (30,000 Shekel) for purchasing or building a house , or an exemption from the amount of actual interest paid on a loan from a bank or lending or housing institution that has been spent on buying or building a house, with a maximum of (4,000 Shekel) annually, for a period not to exceed (10) years, provided that the supporting documents should be presented.
  - f. A university exemption of (6000 Shekel) per year per student for paying his/her tuition fees, his/her spouse or his/her children's tuition fees at a university or community college or an institute ranking above the high school level. This exemption shall not apply to students who received a scholarship. The exemption applies to a maximum of two students in each year.
2. The Council of Ministers upon the recommendation of the Minister may wholly or partially amend the exemptions stated in this Article, in accordance with the requirements of the public interest.

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## **Article (13)**

### **Deductions and Credits for Buildings and Lands Tax Paid**

Buildings and Lands Tax paid by any person in any year on rented buildings and lands from which he/she achieved income shall be deducted from gross income as follows:

1. A deduction in the amount of forty percent (40%) of the value of Property Tax paid as expenses.
2. A credit in the amount of sixty percent (60%) of the value of Property Tax paid from the taxpayer's tax liability according to the provisions of law, provided that the credit shall not exceed the amount of tax paid on rents for the tax period.

## **Article (14)**

### **Husband and Wife Income**

1. The husband and wife each shall be considered as an independent taxpayer.
2. Both husband and wife shall enjoy the exemptions stipulated in this Law by Decree, with the exception of the exemption stated in subparagraphs (e, f) of paragraph (1) of Article (12) of this Law by Decree which shall be granted to one of them.
3. The husband and wife may request to combine their incomes and be regarded as one taxpayer.

## **Article (15)**

### **Fraudulent Transactions**

1. If income was received from a sale or disposal transaction which the taxpayer made in favor of a dependent who has not reached

the age of (18) years at the beginning of the tax period in which the income was received, it shall be considered for the purpose of this Law by Decree as income for the person who carried out the transaction.

2. If income was received from a revocable disposal transaction, this income shall remain income for the person who carried out the disposal transaction, and the disposal transaction shall be considered a revocable transaction if it contains a text that enables to transfer or retransfer the income to the person who carried out the disposal transaction or if he /she is given the right of control over the income or the assets from which the income is received directly or indirectly.
3. If the assessor finds that a transaction is fraudulent or a sham, the assessor may disregard this transaction and assess tax on the concerned persons accordingly.
4. If a non-resident person has conducted any work or activity or craft that is subject to tax according to the provisions of this Law by Decree with a resident person, and the assessor finds that the non-resident has control over the work activity to the extent that leaves the resident with no income or profit or with an income less than what could be earned, the tax shall be assessed on the basis of the actual profits to the non-resident person and he/she shall pay the tax. In the event of failure to pay the tax by the non-resident, the resident person shall be obliged to pay the tax on this basis.

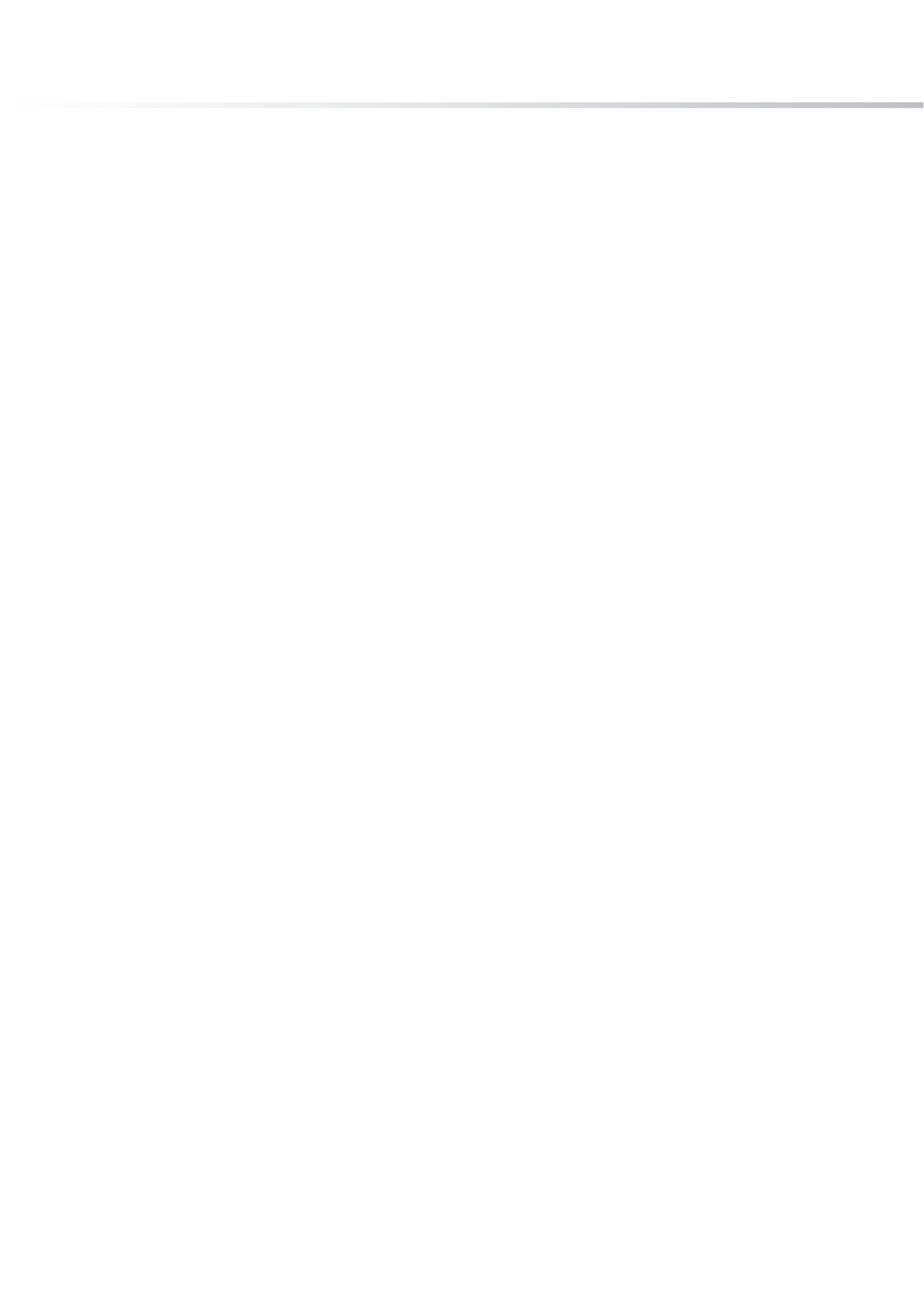






Chapter Four

**Tax Rates and  
Brackets**



## Article (16)

### Tax Brackets and Rates

1. Tax shall be levied on the taxable income of any natural person according to the following brackets and rates:
  - a. From 1 to 40,000 Shekels - 5%.
  - b. From 40,001 to 80,000 Shekels - 10%.
  - c. In excess of 80,000 Shekels - 15%.
2. A rate of fifteen percent (15%) shall be levied on the taxable income of any legal person.
3. A rate of five percent (5%) shall be levied on the life insurance premiums collected by life insurance companies. Incomes realized by the company from activities other than life insurance shall be subject to the provisions of this Law by Decree as stated in paragraph (2) of this Article.
4. Tax paid by a legal person shall be considered as a final tax, and shall not be refunded or cleared for any partner or shareholder.
5. The Council of Ministers may amend brackets and rates referred to in this article wholly or partially upon the recommendation of the Minister, in accordance with the requirements of the public interest.





Chapter Five

**Assessing the  
Income Tax**



## Article (17)

### Assessing the Tax

1. The tax shall be assessed as follows:
  - a. Self-assessment by the taxpayer by submitting the tax declaration and its attachments.
  - b. Administrative assessment by the assessor if the taxpayer did not submit the tax declaration or if it is totally or partially rejected.
  - c. Assessment by agreement between the taxpayer and the Department on the amount of tax liability if the assessor does not accept the self- assessment or the taxpayer objects to the administrative assessment.
  - d. Assessment by the Court.
2. The tax shall be assessed on the taxpayer before the end of the taxpayer's fiscal year in the event of termination or closing down of the taxpayer's business for any reasons, including the taxpayer's intention to leave the country.
3. The reassessing of tax shall be conducted by the Finance Minister or the employee authorized by the Minister in writing.

## Article (18)

### Categories Obligated to Submit the Tax Declaration

1. According to the provisions of this Law by Decree, every taxpayer shall submit a tax declaration supported by documents and the necessary information in accordance with Articles (19) and (20) of this Law by Decree, and the declaration and other information shall be subject to scrutiny by the assessor.
2. The persons whose incomes are tax-exempt according to the effective investment legislations shall submit the tax declaration.
3. The heirs or their representatives shall submit the tax declaration



for their ancestor within (6) months from the date of his/her death and pay the due tax before the distribution of the legacy.

4. The liquidator of a company shall inform the Department in writing of the beginning of liquidation procedures to specify and prove the amount of tax liability of the company, and shall submit a tax declaration on behalf of the company he/she is liquidating and he/she shall be obliged to pay the tax as soon as it is due according to the provisions of this Law by Decree.
5. The Minister, upon the recommendation of the Director, may issue instructions through which certain categories of natural persons are exempted from submitting the declaration stipulated in this article.

## Article (19)

### Date for Submitting the Tax Declaration

1. Every taxpayer is obliged to submit the tax declaration, according to the form approved by the Department and the attachments referred to in Article (20) of this Law by Decree, and to deliver it by hand against a receipt or by a registered mail with acknowledgment of receipt or by any other means approved by the Minister upon the recommendation of the Director. It shall then be sent to the Department within four months following the end of the tax period, specifying the details of the taxpayer's gross income, deductions, net income, exemptions, taxable income and tax liability for the tax period.
2. The taxpayer who submits the tax declaration and its attachments within the specified period shall be granted a promotional discount for the due tax balance that is to be paid as follows:
  - a. A four percent (4%) discount from the tax due balance after deducting the advances paid for which he/she was granted previous discount from the Department, if the return was

submitted in the first month of the following tax period and the tax paid during this month or during the tax periods included in this declaration.

- b. A discount of two percent (2%) of the due tax balance after deducting the advances that are paid for which he/she was granted previous discount from the Department, if the declaration was submitted in the second or third month of the following tax period and the tax paid until the end of the third month of the tax period or during the tax periods included in the declaration.

## Article (20)

### Tax Declaration Attachments

1. The taxpayer shall submit along with the tax declaration the following attachments:
  - a. A copy of the final accounts for the tax year and a certificate by the certified auditor and a copy of amendments report for the purposes of income tax approved by the certified auditor. This applies to public and private shareholding companies, and any legal person that is subject to tax and to persons whose incomes are exempted from tax according to the effective investment legislation and the individual taxpayers in accordance with instructions issued by the Minister upon the recommendation of the Director.
  - b. In accordance with subparagraph (A) of this Article, ordinary companies and persons who are obliged to keep accurate accounts shall attach a copy of the final accounts and amendments report for the tax purposes according to the effective laws and regulations.
2. Taxpayers, other than the taxpayers mentioned in paragraph (1) of this article shall clarify in their tax declaration their net taxable income with a brief statement of their earnings and expenses for the tax period.

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## Article (21)

### Powers of the Assessor

1. The Tax declaration provided by the taxpayer shall be considered accepted in principle when received.
2. After verifying the declaration and its attachments, the assessor may either accept or reject it entirely or partially in the event that he/she has reasons relating to the correctness or lack of correctness of the data therein, and inform the taxpayer with a summoning note for discussion within a year from the date of delivering the tax declaration.
3. If the taxpayer agrees to the modification of the tax declaration, the assessor shall define the tax amount and inform the taxpayer by a written notice, this decision shall be non-challengeable or appealable and the tax shall be due.
4. In the event that the taxpayer doesn't agree to modify the tax declaration, or did not attend the discussion session, the assessor shall assess the taxpayer's income subject to tax and the tax due on him / her, and the decision of the assessor may be challenged within (30) days from the day the taxpayer was informed of the assessment notification.
5. In the event that the taxpayer does not deliver the tax declaration and its attachments on time, the assessor may process the assessment based on prudence and awareness, and inform the taxpayer in a written notice that specifies the taxpayer's income subject to tax, and the tax and penalties due. The decision of the assessor may be challenged within (30) days from the day the taxpayer was informed of the assessment notification.

## Article (22)

### Deadline for requesting tax exemptions

1. Tax exemptions prescribed by law must be claimed by the

taxpayer within (3) months of the end of the tax year, Otherwise the exemptions expire and cannot be claimed for the relevant tax year.

2. If the taxpayer claimed the exemptions referred to in paragraph (1) of this article, the assessor shall revise the deductions and review them within a year of the claim date.

## Article (23)

### Tax Verification and Revising the Taxpayers' files

1. The taxpayer shall retain in the place of his/her business the financial records and documents organized according to the provisions of the laws and regulations in force for five years, subsequent to the tax period in which the tax has gained the status of peremptory.
2. The Director or any employee authorized by him in writing may enter any place where work is being managed, and examine the stored goods, cash, machinery, accounting records and documents, and he/she shall retain them for a period not exceeding a month if convinced that retention of them is necessary for the purposes of implementing the provisions of this Law by Decree.
3. The Director and the staff of the Department authorized in writing, while performing their duties, shall be considered as judicial officers within the limits of their competence and in the cases that require so.
4. The Director or any employee authorized by him in writing may request the necessary information and exchange the tax information needed to implement the provisions of this law with the financial and tax departments, or any department or other body in accordance with the provisions of law.

## Article (24)

### Notification and Summons

1. Any notification or correspondence issued under the provisions of this Law by Decree, shall be notified in one of the following means:
  - a. The taxpayer or his/her legally authorized representative shall be notified in person. Such notification will be deemed to have occurred from the next day after actual delivery. In the event that taxpayer or representative declines to receive the notice or refuses to sign the notice receipt, the informer shall note such refusal on the original copy of the notice or the receipt, and in this case, the notification is considered as valid.
  - b. By registered mail with the delivery acknowledgement to the taxpayer's last known residential address or place of business. The taxpayer will be considered as notified after a period not exceeding (10) days from the day after the date of mailing it, and every notification sent under this paragraph shall be considered as duly delivered to the addressee of the notice, in the event that this individual refuses to receive it.
2. If the taxpayer cannot be notified in accordance with the provisions of paragraph (1 / a) of this Article, the Director shall notify him through publication in two local daily newspapers, and the publication shall be considered as a legal notification with its effects.
3. If the taxpayer has changed his/her address for receiving the notification or correspondence, and without informing the Department, then the notification to the fixed address at the Department will be considered correct.

## Article (25)

### Accountability on income from long-term contracts

1. For the purposes of the provisions of this Law by Decree, the long-term contracts mean: contracts of construction, bidding, installation, and providing related services, which have not been implemented during the tax period within which he/she started the implementation of the contract.
2. Income and expense, for this purpose, shall be calculated in accordance with instructions issued by the Minister upon the recommendation of the Director.

## Article (26)

### Re-assessment of Tax by the Minister or his authorized person

1. The Minister or any employee he so authorizes in writing may, within four years from the date of submitting the tax declaration in accordance with the provisions of this Law by Decree, or within four years of the tax period that follows the year in which the assessment was made on the taxpayer, review the tax declaration or any of the actions taken by the assessor, provided that the taxpayer shall be given the opportunity for a hearing session and to introduce his defenses. The Minister or his authorized employee shall not issue a decision to adjust the tax, except in the following cases:
  - a. Correcting accounting errors.
  - b. Amending the exemptions prescribed in this Law by Decree and any clearing or discount as prescribed herein.
2. The Minister or any employee authorized by him in writing may reconsider the assessment taken to account for the taxpayer income from any source if it was not part of the facts decided by

the Court on the subject matter in an appeal submitted against the assessment.

3. The decision issued in accordance with the provisions of this article may be challenged before the Court within (30) days from the date the taxpayer received the assessment notification.

## Article (27)

### Representing the Taxpayers

1. Any person may assign another person to represent him before the Department in any of the income assessment procedures prescribed in this law. The conditions of representation shall be determined in accordance with instructions issued for this purpose.
2. The certified auditors and representatives of the taxpayers shall provide the Department with annual declaration of the names and addresses of their clients within a maximum period of three months from the beginning of the next fiscal year.

## Article (28)

### Challenging the Assessment

1. A taxpayer whose tax liability was assessed in accordance with the provisions of Article (21) of this Law by Decree and who is not satisfied with the adjustments or the assessment may object to this assessment in writing within (30) days from the date of receipt of the assessment notification. The taxpayer shall indicate in his objection the grounds for his objection and the amount of adjusted tax liability that the taxpayer accepts.
2. If the objection was submitted after the period specified in the preceding paragraph and the assessor was convinced that the objector was unable to submit his /her objection within the period mentioned as a result of not being present in Palestine or

illness or any other reasonable cause that the assessor accepts, the assessor may extend that term for an additional period he/she deems appropriate.

3. When submitting a challenge to an assessment, the taxpayer shall pay the undisputed tax amount of tax liability for the relevant tax period(s) less any amounts already paid for that period.
4. The assessor shall invite the taxpayer to a session to review his/her challenge. The taxpayer may not introduce any new grounds during this session, and is limited to presenting evidence supporting the reasons previously stated in the written objection previously submitted. , The tax assessor shall have the right to request documents relating to the declared income of the taxpayer. The assessor may interrogate any person believed to have information related to the challenged assessment, provided that the assessor may not interrogate the taxpayer's employees without the approval of the taxpayer.
5. If the assessor accepts the taxpayer's arguments, or if both parties agree on the income assessment, the assessor shall amend the assessment accordingly, and the assessment shall be final and binding on both parties.
6. If the taxpayer did not attend the session for reviewing the objection or the assessor did not approve the assessment in accordance with the preceding paragraph, the assessor may endorse the objected assessment, reduce it, increase it or abolish it by a justified decision, and the decision issued under this paragraph is considered as appealable before the court during (30) days from the date of informing the taxpayer of the assessment notification.
7. In any case, the assessor shall inform the taxpayer in a written notice the result of his/her objection.



## Article (29)

### Appeal and Cassation

1. A special court called (The Income Tax Appeal Court) is constituted within the cadre of the Judiciary Authority. The Court shall hold its session under the chairmanship of a judge whose rank is not less than a High Court judge and two judges whose rank is not less than a judge of court of appeal under the provisions of the Judicial Authority Act and the regulations issued pursuant thereto. The Court shall hold its sessions in the city of Jerusalem or in any other place it deems appropriate.
2. The provisions of the Civil and Commercial Procedure Law shall be applicable where this Law by Decree and the regulations issued thereunder are silent.
3. The Court shall consider any appeal brought to challenge the assessment decisions or reconsider the assessment which may be appealed under the provisions of this law and the claims for any amounts to be deducted, paid or withheld as final tax or paid in lieu of tax.
4. Income Tax cases shall be given urgency and the trial held publicly unless the Court decides otherwise, and the person in whose favor the assessment decision or the re-assessment decision is issued shall be considered as respondent.
5. Any of the Jurists staff of the Ministry shall represent the Department, by a written authorization by the Minister upon the recommendation of the Director to follow up the lawsuits in which the Department is a party, before the competent courts and he/she shall present the briefs, claims and defending those cases to the final litigation stages and recommending the Director to conduct settlement negotiations.
6. The Court may approve the appealed decision of assessment, to reduce, increase or eliminate the tax and may return the case to the respondent for re-assessment according to the instructions

the Court contemplates. If the Court decides to dismiss the appeal or a part of it, it may levy a penalty of ten percent (10%) of the portion that the appellant has not accepted of the assessment for each year during which the review of the lawsuit is continued before the Court, and for this purpose, any period exceeding six months shall be considered as a year.

7. The appellant is required to take the following actions:
  - a. Pay a fee when filing the appeal for each appealed tax period at a rate equal to one percent (1%) of the difference between the amount of the assessed tax and the amount which is recognized by the taxpayer, but not less than (300 Shekel) and not more than (600 Shekel) for each tax period separately. Half of the fee is paid when renewing the appeal.
  - b. Indicate in his/her appeal brief the amount of the assessed tax he/she accepts and he/she shall submit to the Court a receipt for paying this sum which shall be annexed to the appeal brief. The appeal shall be denied in the event that did not pay the accepted amount in this regard.
  - c. Present evidence that the assessment is excessive. The appellant may not introduce any new evidence not already presented before the Court hearing.
8. If any decision is issued under the provisions of Article (26) of this Law by Decree, and the taxpayer has filed an appeal against the decision of the assessor concerning the same tax period or periods, the Court shall:
  - a. Revoke the appeal filed against the decision of the assessor.
  - b. Consider the appeal filed under the provisions of Article (26) of this Law by Decree, and the appellant shall pay the difference between the fee resulted from the appeal of the decision of the authorized employee and the appeal filed against the decision of the assessor.
9. The assessor shall notify the taxpayer in writing of the tax due according to the Court's decision.

10. Each rule or decision issued by the Court shall be subject to appeal by cassation means within (30) days from the date of serving it or being notified in accordance with the regulation of the appeal and cassation of the Income Tax cases issued under the provisions of this Law by Decree.
11. The Director or any employee he/she authorizes in writing may agree with the appellant or challenger to settle any disputed case by reconciliation before issuing the final verdict. The agreement to settle the dispute shall be ratified by the Court.



Chapter Six

**Procedures and  
Methods of  
Collecting Income  
Tax**



## Article (30)

### Paying Taxes

1. The Tax may be paid through an advance payment on the account of tax or deduction at source or payment attached with the tax declaration and immediate payment when settling the account and payment in installments.
2. The taxpayer shall pay an amount in advance on the account of the due tax for every tax period. The dates of payment and incentives shall be determined according to the instructions issued by the Minister upon the recommendation of the Director.
3. In the event that the amount of tax due is determined by the Department or by the Court, the tax shall be paid within (30) days from the date of notifying the taxpayer of the assessment notification or the Court's decision if any of them is being final.
4. Each liquidator of any company or a custodian of a legacy or a bankruptcy agent or any person responsible for any liquidation or settlement of any kind shall inform the Director in writing with the commencement of the liquidation or bankruptcy procedures, or any other action as appropriate for the purposes of calculating and determining the amounts payable to the Department. In the event of failure to comply with this requirement, each party shall be held directly and personally responsible for paying the tax due in accordance with the provisions of this Law by Decree .
5. Subject to the provisions of Article (31) of this Law by Decree, the person who is responsible to withhold the tax at source shall transfer it to the Department account within (30) days from the date of deduction.

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## Article (31)

### Tax Withholding at Source

1. The resident who is legally or commercially an agent, a branch, a partner of a non-resident or has a business relationship with him / her shall be responsible for taking all the necessary actions and procedures on behalf of his representative as set forth in this Law by Decree, including withholding of tax and transferring it to the account of the Department.
2. A resident person who pays any amount to a non-resident person who is subject to tax under the provisions of this Law by Decree, shall withhold tax at a rate of ten percent (10%) of the payment amount as a final tax, and transfer it to the account of the Department, with the exception of reinsurance premiums paid to insurance companies abroad. If the resident fails to withhold the required tax, it shall be collected from him / her as he/she is responsible for paying it.
3. The employer or any person who is responsible for paying a salary, a wage, an allowance or a reward and the similar payments, shall withhold tax and transfer it to the Department pursuant to a detailed report within fifteen days of the date of payment.
4. The assessor may consider the amounts withheld in accordance with the provisions of paragraph (3) of this Article as presumptive taxes in the event that the taxpayer fails to submit a declaration and in the absence of other sources of income for this taxpayer. The assessor may re-consider within two years following the date of payment, if the assessor has evidence and statements contradicting what was presented in the tax statement, and withholding shall be according to tax rates, tax brackets and exemptions under the provisions of this Law by Decree.
5. Every employer shall keep a special record containing the names of his/her employees, their salaries, wages, any other allowances, the exemptions due to them and the amendments thereto. The

assessor may review the records to ensure compliance with the provisions of this Law by Decree.

6. The assessor may request the employer to reduce or increase the tax to be withheld from the salaries and wages and other similar payments for the correction of any tax deduction. And the employer shall respond to his request on liability basis.
7. Anyone who pays an amount to a person as a prize or lottery benefits, in kind or cash, shall withhold tax at the rate of ten percent (10%) of the value of these amounts. The withheld amounts shall be considered as final and presumptive tax, with the exception of companies, who will include the winnings in their income.
8. The income generated from depository interests, commissions and profits of investment of banks and financial companies that do not deal with interests and which are paid to any person by the banks and financial companies in the National Authority shall be subject to withholding tax at the rate of five percent (5%), provided that these withheld amounts shall be considered as presumptive tax for the non-resident legal person and the natural person. The interest and profits from the deposits and commissions payable to the banks by other banks in the National Authority shall be exempted from the provisions of this paragraph.
9. Any person when paying any amounts as a liability or annuity, fees or wages, or other similar payments made to resident doctors, lawyers, engineers, auditors, experts and advisers, or representative of taxpayers and other self-employed, including the amounts paid for the sale, lease or granting the right to exploit any trade mark, design or patent, copyright, printing, or any other compensation shall withhold tax at a rate of five percent (5%), and prepare a statement indicating the amount of income and the amount withheld, and provide the Department with a copy of it and pay the amount withheld to the Department.
10. Each person who withheld amounts for the account of the



Department or transferred them to it pursuant to the provisions of this Law by Decree shall give a certificate of such amounts to the taxpayer from whom these amounts were withheld or deducted. The certificate shall be exempted from all duties, and he/she shall explain in this certificate the amounts he/she withheld, the date of withholding, and the date of transferring them to the account of the Department. The certificates issued by the withholding agent to the taxpayers account shall be considered as proof of payment of the tax, provided that its validity is limited to the actual amount paid and transferred to the account of the tax administration.

11. Any amount withheld from the source of the tax imposed on the income for the tax period in which the deduction took place or for any subsequent tax period shall be cleared.
12. If the employer or any responsible person fails to withhold or pay the tax as required under the provisions of this Law by Decree, it shall be collected from him / her on the basis as if it is a tax due on him / her.
13. The Minister, upon the recommendation of the Director, shall issue the necessary instructions to implement the provisions of this article.

## Article (32)

### Tax Installment

The Director or anyone he/she authorizes in writing, at the request of the taxpayer, may agree to accept the payment of the tax due in installment in accordance with the instructions issued by the Minister with the recommendation of the Director.

## **Article (33)**

### **Collecting Tax**

1. If the tax and the penalties are not paid in accordance with the provisions of this Law by Decree within the specified period, the Department shall notify the taxpayer by a written notification for payment within the period of (30) days.
2. If the payment was not made within the period referred to in paragraph (1) of this Article, the Director or his authorized representative in writing may proceed with the application of the provisions of Collecting Public Funds Law in force, in this case he/she may exercise the full powers of the Governor and seize the taxpayer's funds wherever found based on a decision of the competent court.
3. The notification of warning served to the taxpayer in accordance with the provisions of paragraph (1) of this Article shall be considered as sufficient for the purposes of the Director or his authorized representative in writing to pursue the seizure procedures and the execution in accordance with the provisions of Collecting the Public Funds Law in force.
4. The Director may request the competent court to ban any taxpayer from leaving the country before settling his/her debts, or to provide a warranty or a guarantor for the payment of tax and penalties owed by him / her. The guarantor shall be held fully and jointly liable with the taxpayer to pay the tax and penalties .

## **Article (34)**

### **Director Authority to Impose Lump Sum Taxes**

1. The Director or his representative authorized in writing may decide to impose a Lump Sum Tax on any person, except for the public shareholding companies in the event that the tax liability for any year of the last five years does not exceed (10000

Shekel) for a period of not more than (5) years provided that the taxpayer shall be notified.

2. The Director or his representative authorized in writing may issue a decision to impose a Lump Sum Tax on a category or categories of persons, except for public shareholding companies.
3. The Director shall be entitled to revoke any of the decisions issued under the provisions of the paragraphs (1,2) of this Article, and such decision shall apply to tax periods subsequent to its issuance without prejudice to the provisions of Article (26) of this Law by Decree .
4. Every person on whom the Lump Sum Tax was imposed under the provisions of this Article shall pay the amount of the Lump Sum Tax within (30) days from the end of each of the years that are subject to the tax.
5. Any person on whom the Lump Sum Tax was imposed under the provisions of this Article shall be entitled to submit a written objection to this assessment to the Department within (30) days from the date of notification, and the issued decision shall be, after considering the objection, subject to appeal before the Court.

## Article (35)

### Refunds

1. The taxpayer shall be entitled to recover the amounts paid in excess of his/her tax liability by a written request submitted to the Department.
2. In the event that the request of the taxpayer to recover the increase is verified, the assessor shall send a letter stating the amount to be recovered within two months from the date of the claim. A copy of the letter shall be sent to the Minister of Finance, who shall decide to recover the mentioned amount within a period not exceeding two months from the date of receiving the letter.



Chapter Seven

# Fines And Penalties



## Article (36)

### Fines

#### According to the provisions of this law:

1. If the tax or the amounts of tax to be paid were not paid on the dates specified for payment under the provisions of this law, a rate equivalent to two percent (2%) of the of tax amounts or the amounts mentioned for each month of delay from the date specified by law shall be added to the balance of the tax or those amounts. These amounts shall be collected in accordance with the provisions of this law and the regulations and instructions issued pursuant thereto.
2. The amount added to tax under the provisions of this article shall not be considered as a part of it.
3. A delay fine equivalent to three percent (3%) of the tax due for each month of delay up to a maximum amount not exceeding twenty percent (20%) of the tax due shall be imposed on each taxpayer who failed to submit a required tax declaration within the specified time under the provisions of this law, and in all cases the fine of delay shall not be less than (300 Shekel) for the natural person and (3000 Shekel) of the legal person.
4. A delay fine at the rate of two percent (2%) of the amount of tax to be withheld for each month of delay shall be imposed on every taxpayer who failed to withhold tax under the provisions of this law within the specified time.

The Director or anyone authorized by him/her in writing may exempt any taxpayer from paying the fine or a part of it if he/she is convinced that the taxpayer delayed in paying or presenting the tax declaration for reasons beyond his control.

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## Article (37)

### Penalties

1. Without prejudice to any more severe penalty in another law, any person who evaded, attempted, abetted, agreed or helped others to commit any of the acts below shall be punished by imprisonment for not less than one month and not exceeding one year or a fine of not less than (1000 Shekel) and not more than (10000 Shekel), or both penalties together:
  - a. Submitting the annual tax declaration based on fabricated books, records, accounts or documents, or including data contrary to what is proved in such documents.
  - b. Submitting an incorrect tax declaration by omission, decreasing or deleting any income or any part of it.
  - c. Submitting an annual tax declaration on the basis of the lack of books, records, accounts or documents with the inclusion of data contrary to what is proved in such books, records, accounts or documents which he/she concealed from the tax officer.
  - d. Destroying or hiding the books, records or documents before the expiry of the necessary period to maintain them in accordance with the laws and regulations in force.
  - e. Inclusion of any false statement or fraudulent register or a statement submitted under the provisions of this Law by Decree.
  - f. Distributing profits to a fictitious partner or partners in order to reduce his/her share of profits.
  - g. Inventing or altering the purchase or sale invoices or other documents in order to reduce profits or increase losses.
  - h. Concealing one or more activities which are subject to tax.
  - i. Refraining from providing the information requested from him/her or submitting or providing false information or data that would affect his/her responsibility or the responsibility

- of any other person for paying the tax or assessing its amount.
- j. Providing a false response to any question or request directed to him/her for information or data required by this Law by Decree.
  - k. Failure to register his/her activity with the Department in accordance with the provisions of this Law by Decree.
  - l. Failure to withhold tax or withholding it and not transferring it to the account of the Department.
  - m. Forging any form, voucher or document issued by the Department.
2. The Director or his representative authorized in writing may request the necessary information to implement the provisions of this Law by Decree from any person subject to the application of the penalties stated in paragraph (1) of this Article on each person who refrains from giving such information.
  3. In all cases, the perpetrator of any of the acts mentioned in paragraph (1) shall be obliged to pay a penalty in an amount equal to twice the amount of the tax evaded.
  4. The auditor and certified auditor shall bear the responsibility for issuing the financial statements or the ratification of the financial statements that do not materially match the reality or violate the provisions of this law or the international accounting standards and the laws and regulations in force, whether that resulted from an intentional fault or any criminal act or gross negligence, and in this case the auditor and certified auditor shall be considered to have committed an offense punishable by the penalty stated in paragraph (1) of this Article.
  5. The Director may reconcile any act committed contrary to the provisions of this Article and he/she may suspend any taken action pre-judgment, and reconcile it according to the amounts specified by him / her.
  6. Imposing the penalties referred to in this Article shall not exempt the penalized person from the responsibility for paying the tax.



## Article (38)

### Exemption from Taxes and Fines

The Council of Ministers upon the recommendation of the Minister, may exempt any taxpayer from all or part of the taxes due and from all or part of the fines stated in this law, in any of the following cases:

1. If the taxpayer is deceased with no legacy or leaving a legacy that was heavily indebted.
2. If he/she is declared bankrupt or it was proved that he/she is unable to pay his/her debts or no funds that can be executed against.
3. If the taxpayer suspended his/her activity and had money that could be executed against and covers all or part of the due taxes, an amount of money equivalent to the personal and family exemptions stipulated in accordance with the provisions of this Law by Decree annually shall be left to the taxpayer or his/her heirs after the execution.

## Article (39)

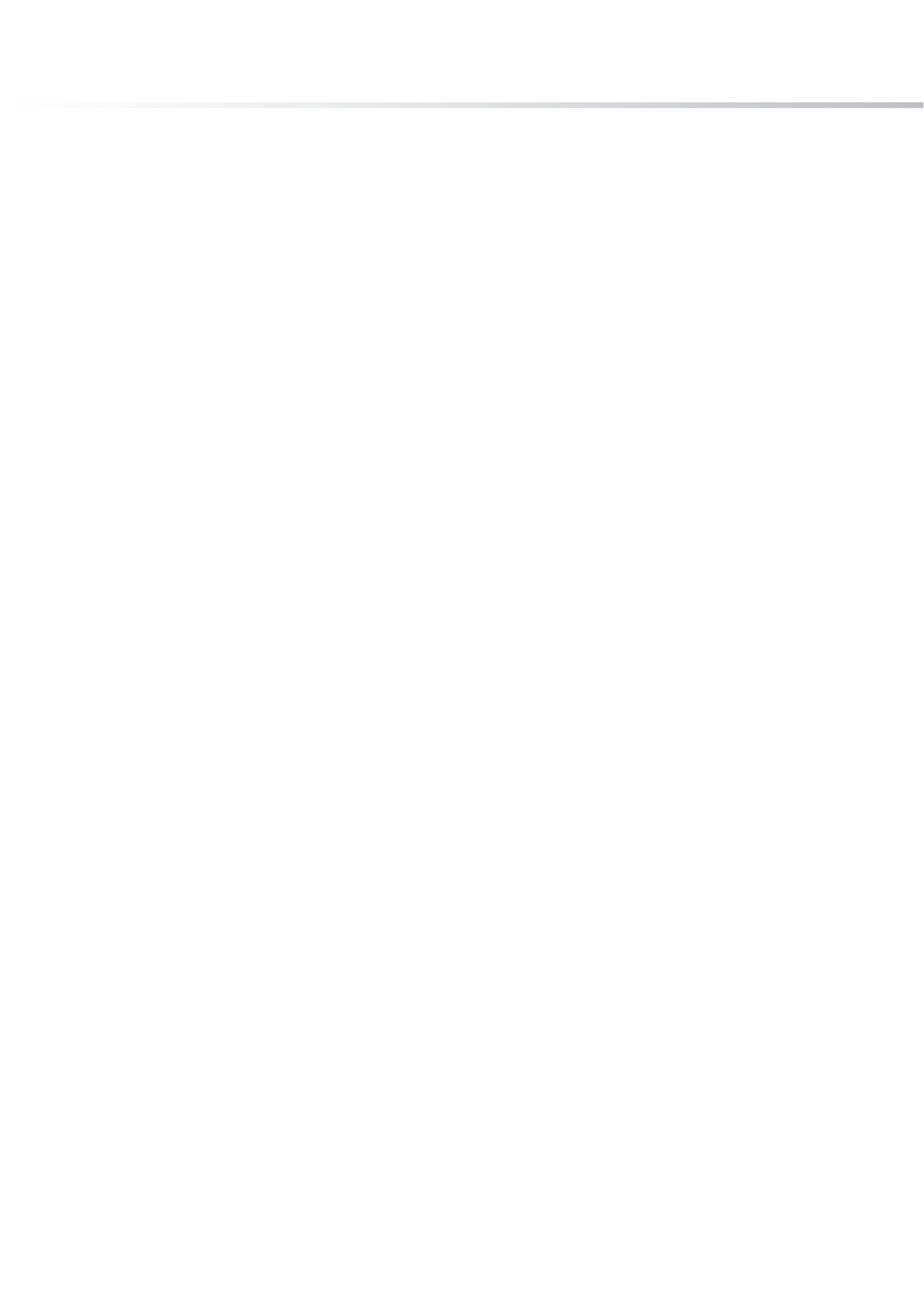
### Prevention of Contacting the Department

1. The Minister upon the recommendation of the Director may prevent any auditor or a representative of the taxpayer from referring to the Department in any case or work other than his/her personal case if it is proved that during his /her visits and dealings with the Department he/she committed any action in violation of this Law by Decree, regulations and instructions issued pursuant thereto.
2. The Director may decide not to accept the accounts prepared or audited by a certified auditor who committed an act contrary to the provisions of this Law by Decree for the period he/she deems appropriate.



Chapter Eight

**Final provisions**



## Article (40)

### The Status of Tax Debt

All taxes due under the provisions of this Law by Decree shall be considered as preferential debts over the funds of the debtors or their heirs, who shall be committed to transfer them to the Department in accordance with the provisions of this Law by Decree.

## Article (41)

### Preferential Tax Treatment

1. Persons who enjoy preferential tax treatment under the provisions of any legislation in force before the provisions of this law enter into force shall continue to enjoy such treatment until the end of the period specified under the provisions of that legislation.
2. Notwithstanding the provisions of any other legislation, no exemption from income tax may be granted retroactively to any person after the provisions of this Law by Decree enter into force.

## Article (42)

### The Department

1. The Department shall be committed to implement the provisions of this Law by Decree. The Department shall report directly to the Minister and shall be headed by a Director General.
2. **The Director shall exercise the following powers:**
  - a. **Director may form one or more committees to review and consider the tax files of taxpayers and issues decisions accordingly at any phase of the assessment, and the decision issued by the committee shall be considered as a decision issued by the assessor under the provisions of this law.**

- b. The decisions of assessment and the decision of re-assessment shall be subject to auditing directly by him/her or by a member of the Department authorized by the Director in writing. The assessment decisions that are subject to auditing shall not be legal or binding before authorizing them in this manner and any notification related to such decisions shall be void.
- c. Decides on any matter or issue arising from the auditing procedures.
- d. Prepares forms, statements, notices and any other forms he/she deems necessary for the implementation of the provisions of this Law by Decree and any regulation issued pursuant thereto, and modifying or revoking it.
- e. Prepares the instructions which shall be issued by the Minister in accordance with the provisions of this Law by Decree.

## Article (43)

### The Employees' Duties

In addition to the provisions of Civil Service Law, the Department employees shall be committed to provide a written declaration to the Department listing their movable and immovable properties, or any changes occurred on their financial status and their spouses and their children who are under their custody, and this shall be provided upon appointment and periodically at the beginning of each year subject to the penalties stated by the Civil Service Law.

## Article (44)

### Confidentiality of Information

1. Anyone who reviewed the documents, information, statements and the assessment decisions which are prepared in accordance with the provisions of this Law by Decree shall maintain their confidentiality and refrain from disclosing them to any other party.

2. The appointed person under this Law by Decree or who implements its provisions shall not be ordered to present any document, statement, assessment decision or copies of any of them before any court other than the Court of Appeal of the Income Tax Cases, or to disclose before any court any information or data which he/she had reviewed during the course of carrying out his/her duties under this Law by Decree except what is necessary for the implementation of its provisions or to pursue any offense concerning Income Tax.
3. Any employee found to possess documents, information or statements or assessment reports concerning the income or items of income of any of the taxpayers and has revealed or attempted to reveal this information or contents other to the taxpayer or for his/her benefit contrary to the provisions of this law shall be subject to imprisonment for a term not exceeding one year or a fine not less than (40,000 Shekel) and combine both penalties together.
4. The employee who terminated his/her service in the Department shall not refer to the Department for a period of one year from the date of his/her service termination in any business or issue other than for his/her own.
5. The designated employee shall submit and sign a declaration to preserve official secrets in accordance with the formula established by the Director.

## **Article (45)**

### **Issuance of Regulations**

1. The Council of Ministries shall issue the necessary regulations for the implementation of the provisions of this Law by Decree, including the promotion regulation of the Department's employees, the regulation of the procedures followed before courts in the legal cases filed under the provisions of this Law by Decree, including the provisions concerning the payment of

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fees, dates of appeal and its levels, procedures, the contents of the plea, the person entitled to file a lawsuit and all the provisions and procedures necessary to proceed.

2. Without derogation to the provisions of this Law by Decree, the regulations and instructions in force under the provisions of Law No. (17) of 2004 and its amendments shall remain in force, until the issuance of instructions and regulations set forth under the provisions of this Law by Decree.

## **Article (46)**

### **The Effectiveness of this Law**

The Income Tax shall be imposed and collected on income received in the year 2011 and onward in accordance with the provisions of this Law by Decree.

## **Article (47)**

### **Abolition**

1. The Income Tax Law No. (17) Of 2004, and its amendments shall be abolished after the provisions of this Law by Decree become effective.
2. All provisions contradicts with the provisions of this Law by Decree shall be void.

## **Article (48)**

### **Presentation to the Legislative Council**

This Law by Decree shall be presented to the Legislative Council in the first session it holds for adoption.

## **Article (49)**

### **Entry Into Force**

All the competent authorities shall implement this Law by Decree each in his/her own respective and it shall be applied from the date of its publication in the Official Gazette.

Issued in the city of Ramallah on 26/09/2011 AD

Corresponding to 27 / Shawwal / 1432 AH

**Mahmoud Abbas**

**The President of the State of Palestine**

**The Chairman of the Executive  
Committee of the PLO**

**The President of the Palestinian  
National Authority**





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**The Arabic version of this Law by Decree is the official version.**

