Complete Fiscal Accounts: Households' Net Transfers in Israel

Michael Sarel and Eran Yogev

Based on **"Complete Fiscal Accounts: Households' Net Transfers in Israel"**
published in **The Economic Quarterly**,
by Ariel Karlinsky, Tom Sadeh, Eran Yogev and Michael Sarel.

It is recommended to review the full research paper for information
on the distribution of various items of government expenditure,
information on the distribution of various taxes, and for additional details
(including a list of all taxes and expenditures included in this analysis).

Main Points:

As does every country in the world, Israel taxes its residents and provides them with services. The question is: who pays these taxes, and who benefits from those services?

Our analysis is unique, and includes most of the tax revenue received from the general government (all public-sector institutions), as well as most of its expenditure, with attribution at the household level. All in all, the analysis attributes 405 billion shekels in tax payments, as well as 268 billion shekels (435 billion shekels in secondary analysis) of the value in transfers and services to Israeli households, in terms of 2018 data.

Most taxes are paid by relatively high-income households (the top three deciles pay 57% of tax revenue). Similarly, relatively low-income households receive transfers and services at a higher average than do high-income households.

The average, non-Haredi Jewish household pays taxes at a higher rate than the value of the transfers and services it receives, while Arab and Haredi households receive, on average, services and transfers at a higher value than their tax payments.

The distribution of each sector's households by decile shows that Jewish non-Haredi households pay more taxes than Haredi or Arab households from the same income decile (according to the order of deciles). Within the non-Haredi Jewish sector, about 30% of households receive more than they pay in taxes (i.e. are net beneficiaries), compared with 80% of households in the Haredi sector and 60% in the Arab sector.

Households with more children receive, on average, more net transfers than households with a smaller number of children.

When considering the total tax payments per household, as well as the total value of services and transfers, the rate of income inequality between Israeli households is lower than suggested by figures usually published.

Analysis by Income Deciles

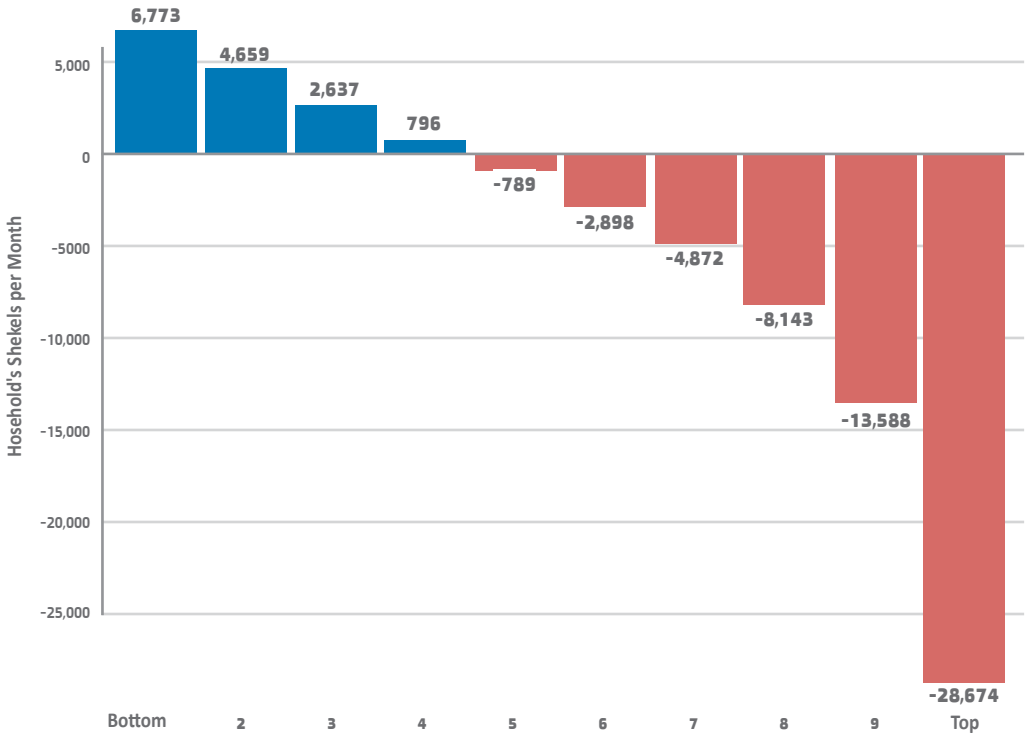
1//

Households in the top six income deciles pay taxes at a rate exceeding the value of services and transfers they receive.

The calculation presented in this diagram includes most taxes and government expenditures (see details in the full article), but does not include the attribution of public goods (such as expenditure on defense) and investment in infrastructure, which households do not consume exclusively. Such analysis shows the value of transfers and services received by all households as less than the value of taxes they pay.

Value of Average Net Transfers (services minus taxes)

according to income decile, 2018 data



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

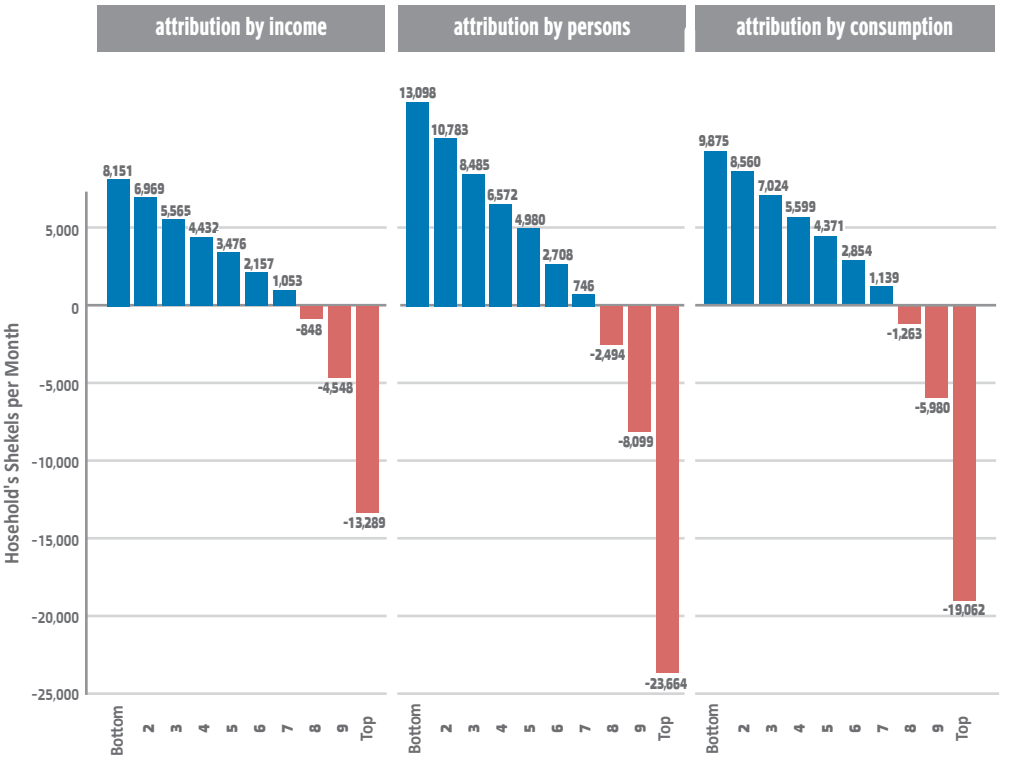
2//

When taking into account public goods and infrastructure investment, only the top three deciles are characterized by a negative net transfer.

- Due to methodological and substantial problems in attributing public goods and infrastructure investment to households, we chose to present three different methods for attributing these expenditures.
- These methods include attribution according to household income; according to household consumption; and according to the number of persons in the household. As can be seen in the diagram, attribution by consumption is more regressive than by persons and more progressive than by income.
- Under this analysis, the value of services and transfers received by all households is greater than the value of taxes they pay.

Value of Average Net Transfers (services minus taxes)

including public goods and investment in infrastructure, according to income decile, 2018 data



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

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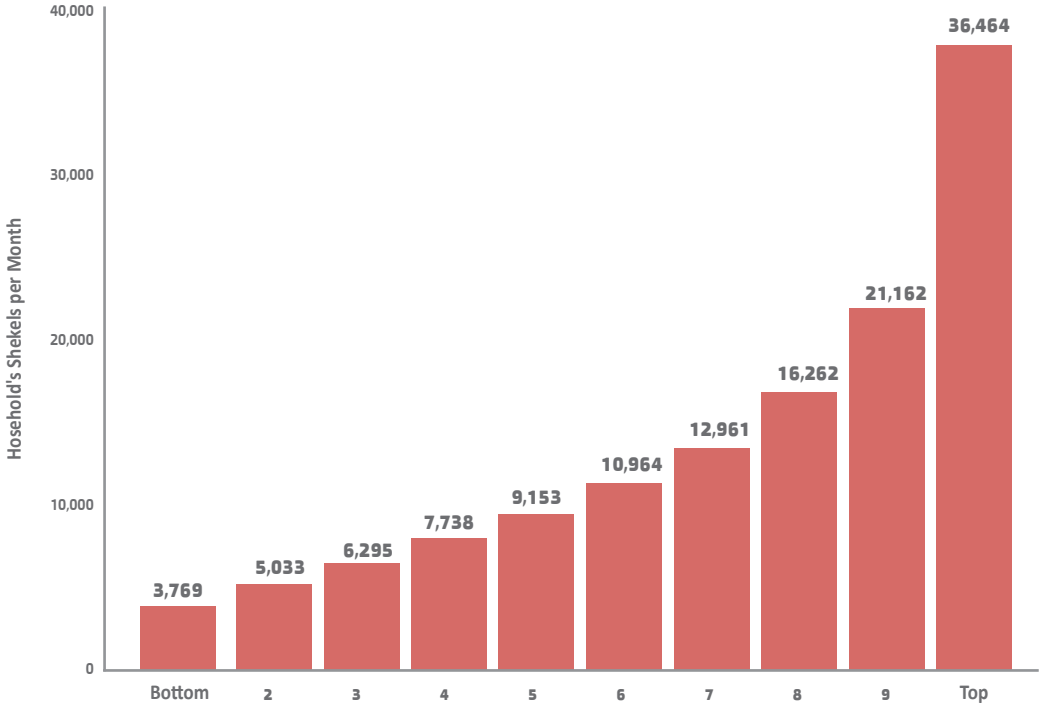
The top three deciles paid 57% of the general government's tax revenues, and the top decile alone paid approximately 28% of tax receipts.

Taxes include individual income taxes, VAT, National Insurance contributions and health tax, fuel tax, various consumption taxes (alcohol, tobacco, vehicle purchases), corporate tax, real estate taxes, financial VAT and non-profit VAT, property tax (residential and other, mainly business), customs duties and fees.In total, households are attributed approximately 92% of the total tax receipts in Israel .

Total Taxes paid on Average by Income Deciles, 2018 data



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

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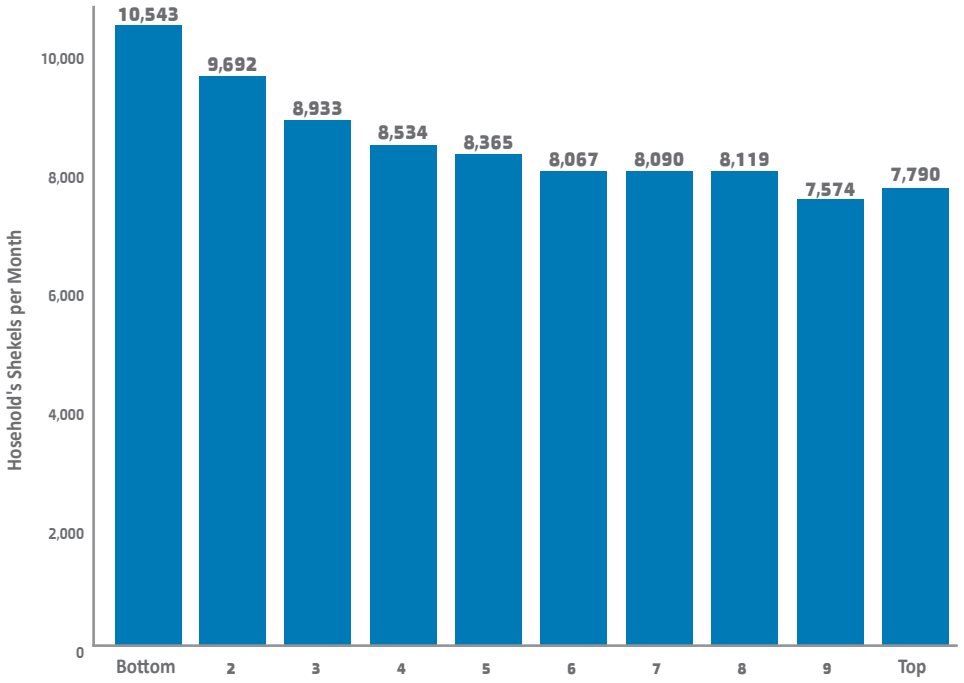
Households from the upper deciles receive services and transfers of slightly lower value than those provided to households from the lower deciles.

- The services and transfers include education services, health care, social allowances and other direct transfers, welfare services, public transportation subsidies, public housing, cultural and religious services.
- In total, approximately 50% of the total expenditures of the general government in Israel are attributed in this manner to households.
- Households from the three lowest deciles receive, on average, services and transfers with a value 1.2 times greater than the average value of services and transfers received by households in the three highest deciles.

Average Value of Net Services and Transfers

according to incomes deciles, 2018 data



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

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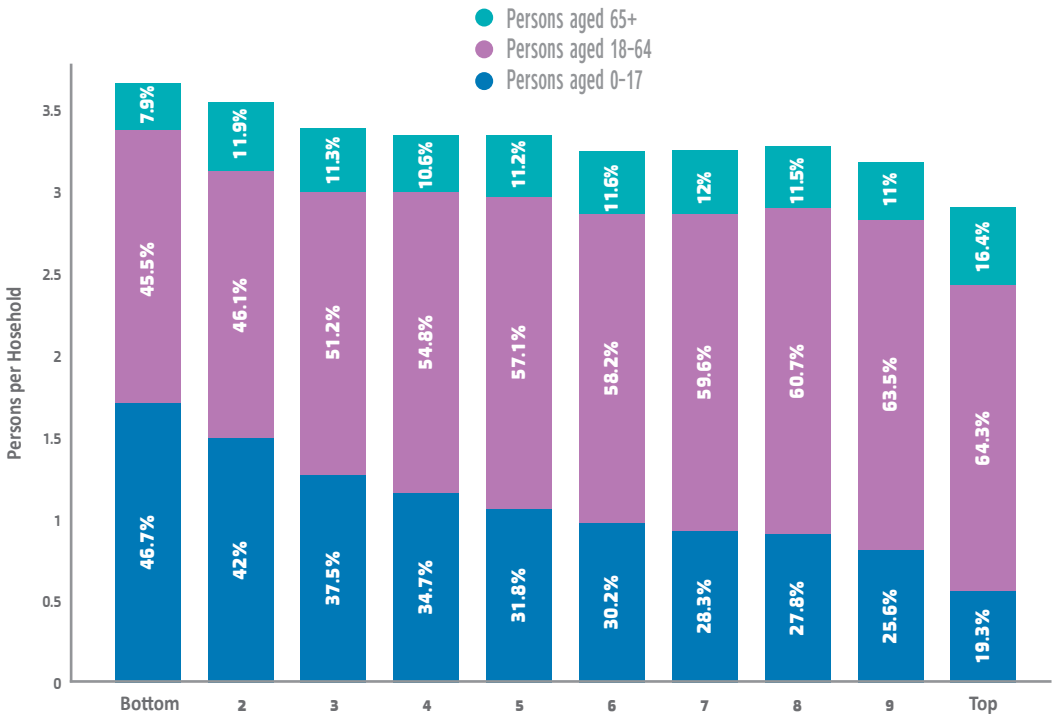
The distribution of the value of services and transfers is affected by the variation across deciles in the number of persons and age distribution.

- Households in the upper deciles are characterized by a smaller number of persons. Additionally, the upper deciles stand out as having a higher percentage of persons in the main working age (18-64) and older age (65 and over) groups.
- In contrast, households in the lower deciles are characterized by a high number of persons, particularly by a high number of children.

Average Number of Persons per Household by Age
according to income deciles



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

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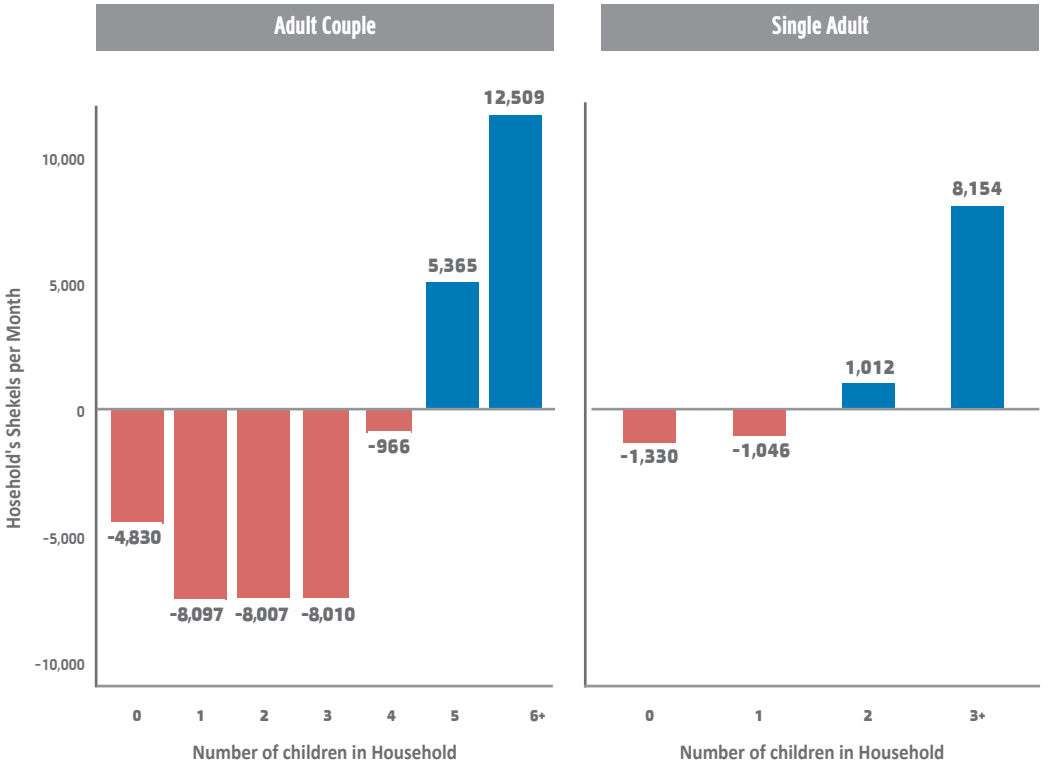
Households with more children receive services and transfers of higher value than those with less children.

- The number of children affects both the amount of taxes that the household pays and the value of services it receives.
- Parents are entitled to tax credits on income tax and additional financial benefits, and children are the primary consumers of public education.

Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

Average Value of Net Transfers (services minus taxes)

without public goods and investment in infrastructure, by number of children, 2018 data



Analysis by Population Sector

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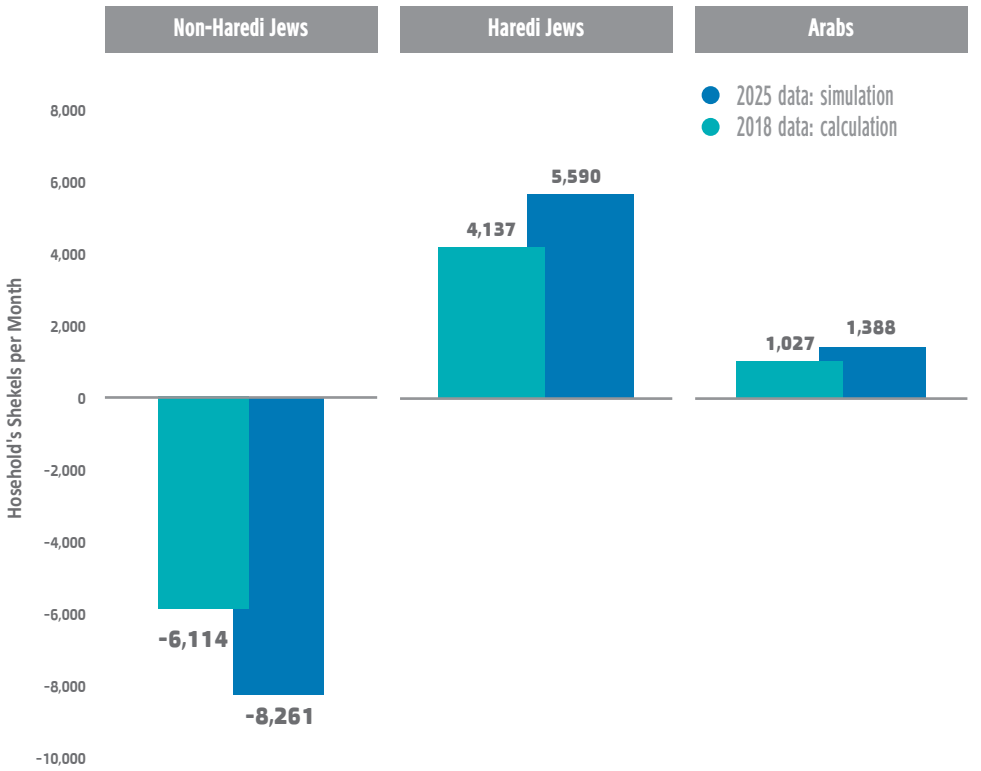
The non-Haredi Jewish sector alone finances public goods (such as defense and governance) and infrastructure investment, as well as positive net transfers to the other two sectors.

A non-Haredi Jewish household, on average, pays taxes in an amount exceeding the value of services and transfers it receives from the state, while Haredi and Arab households receive services and transfers of greater value than the taxes they pay.

The simulation for 2025 was performed by multiplying the 2018 data by the change in Israel's GDP per capita between the years 2018 and 2025, according to data and forecasts from the International Monetary Fund - World Economic Outlook - April 2024.

Average Net Transfers to Households - by Population Sector

without attribution of public goods and investment in infrastructure



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

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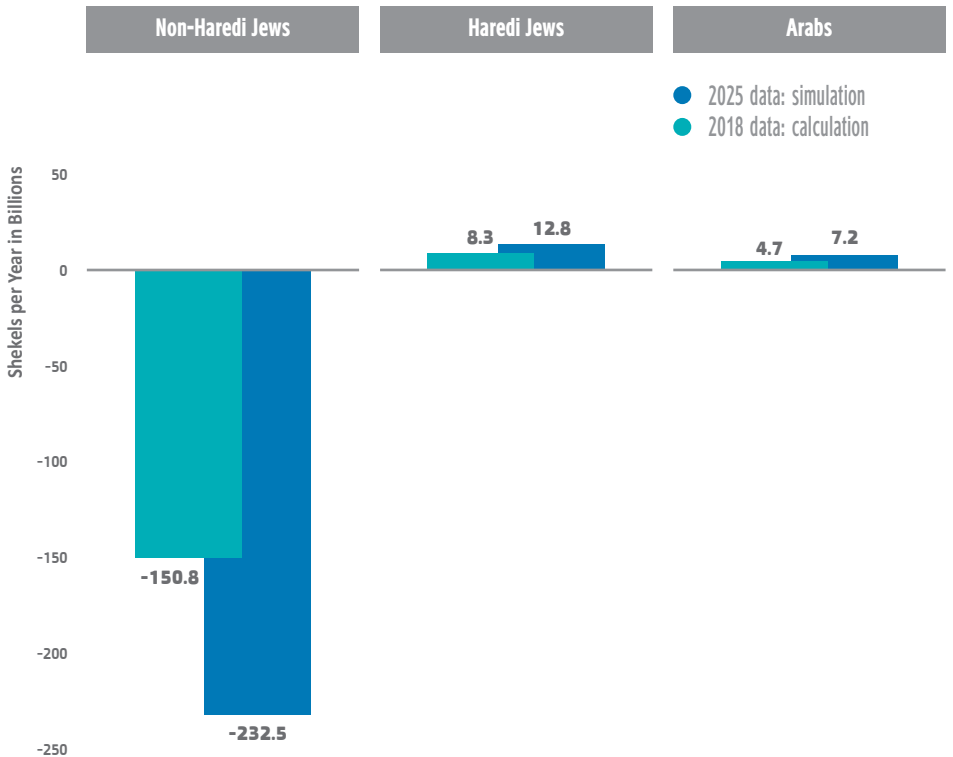
In 2025, non-Haredi Jewish households are expected to pay 232.5 billion shekels more in taxes than the value of services and transfers they will receive from the state, while Haredi or Arab households are expected to receive services and transfers of greater value than the taxes they pay.

The simulation for 2025 was performed by multiplying the 2018 data by the change in Israel's GDP between the years 2018 and 2025, according to data and forecasts from the International Monetary Fund - World Economic Outlook - April 2024.

Total Net Transfers to all Households - by Sector

without attribution of public goods and investment in infrastructure



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

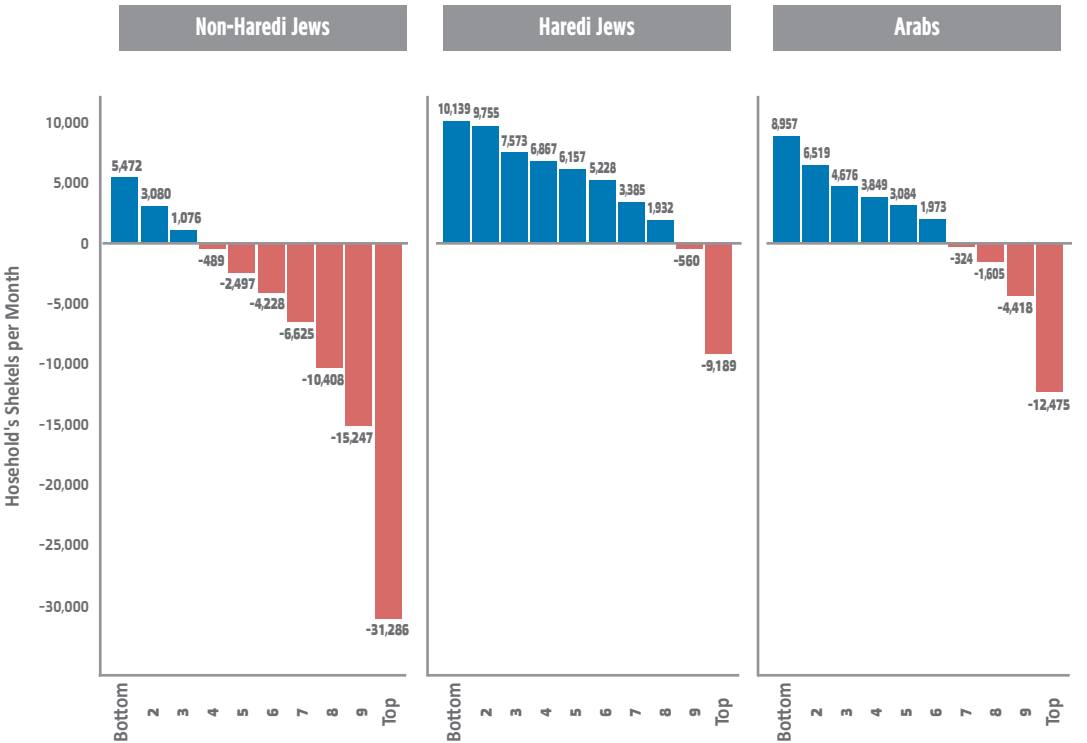
9//

The value of net transfers to non-Haredi Jewish households is lower than to Haredi or Arab households in parallel income deciles within each sector.

On average, and without attributing public goods and infrastructure investment, Arab households, on average, receive net transfers worth 1,027 NIS a month; Haredi Jewish households receive net transfers worth 4,137 NIS a month, and non-Haredi Jewish households receive net transfers worth -6,114 NIS a month (meaning that, on average, non-Haredi Jewish households pay taxes at a rate exceeding the value of the services and transfers they receive).

Average Value of Net Transfers (services minus taxes)

without public goods and investment in infrastructure, by sector and by average income deciles within each sector, 2018 data



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

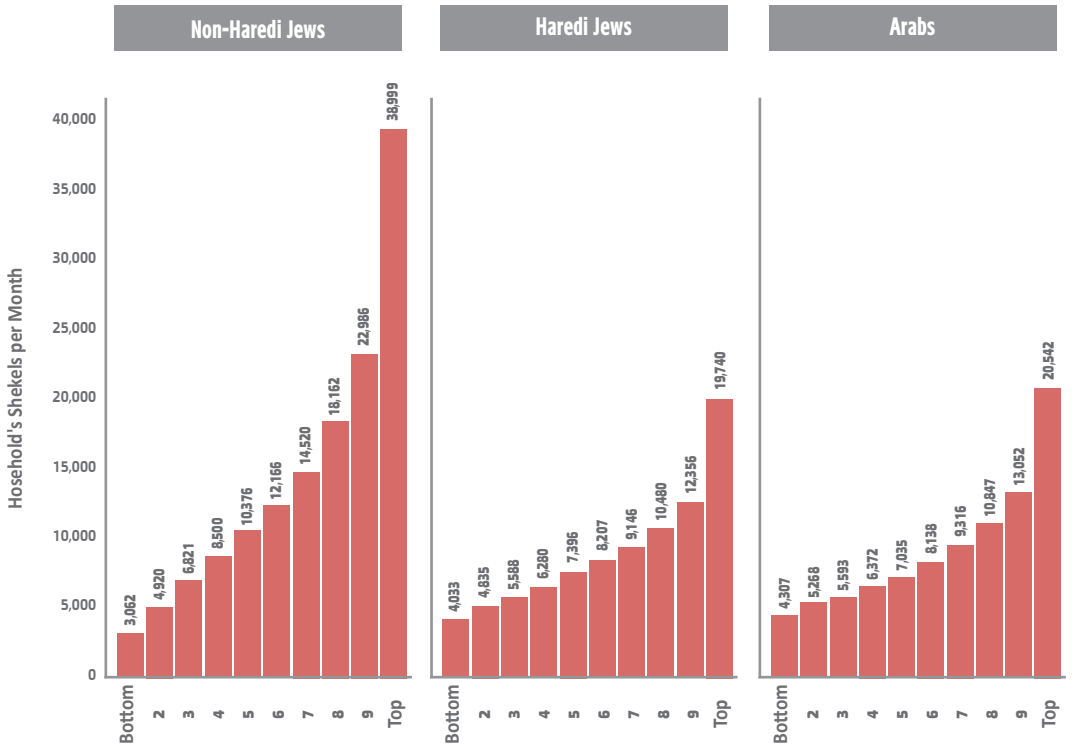
10//

Non-Haredi Jewish households pay, on average, more taxes than Haredi or Arab households in parallel income deciles within each sector.

There is a claim that even though Haredi households pay less income tax on average, they 'compensate' for this by paying more VAT (Value Added Tax), so that the total tax they pay is similar to that paid by non-Haredi households. This figure shows that this claim is untrue.

Payment Distribution of Total Tax Payments

by sector and in-sector income deciles, 2018 data



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

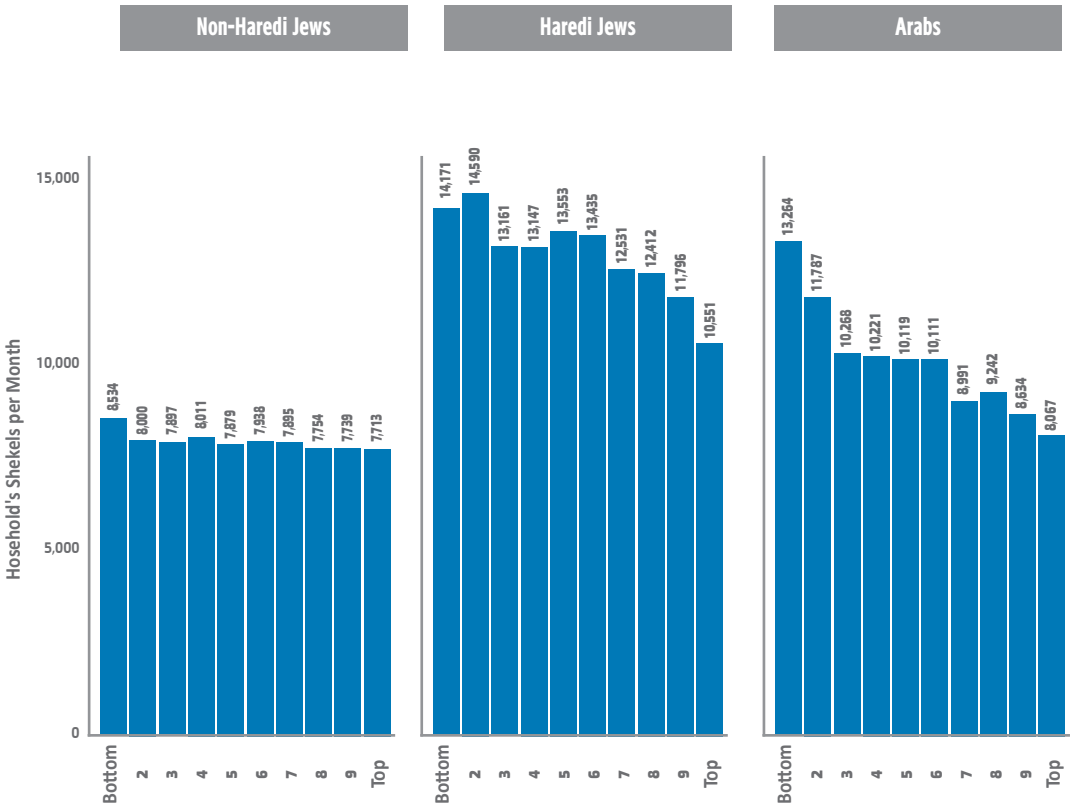
11//

In all income deciles, Haredi households receive, on average, services and transfers of higher value than Arab households, while non-Haredi Jewish households receive less than both.

Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

Average Value of all Services and Transfers

by sector and intra-sector income deciles, 2018 data



12//

When including public goods and infrastructure investment, most households receive positive net transfers (financed mainly through government's non-tax revenues), but the gaps between sectors remain.

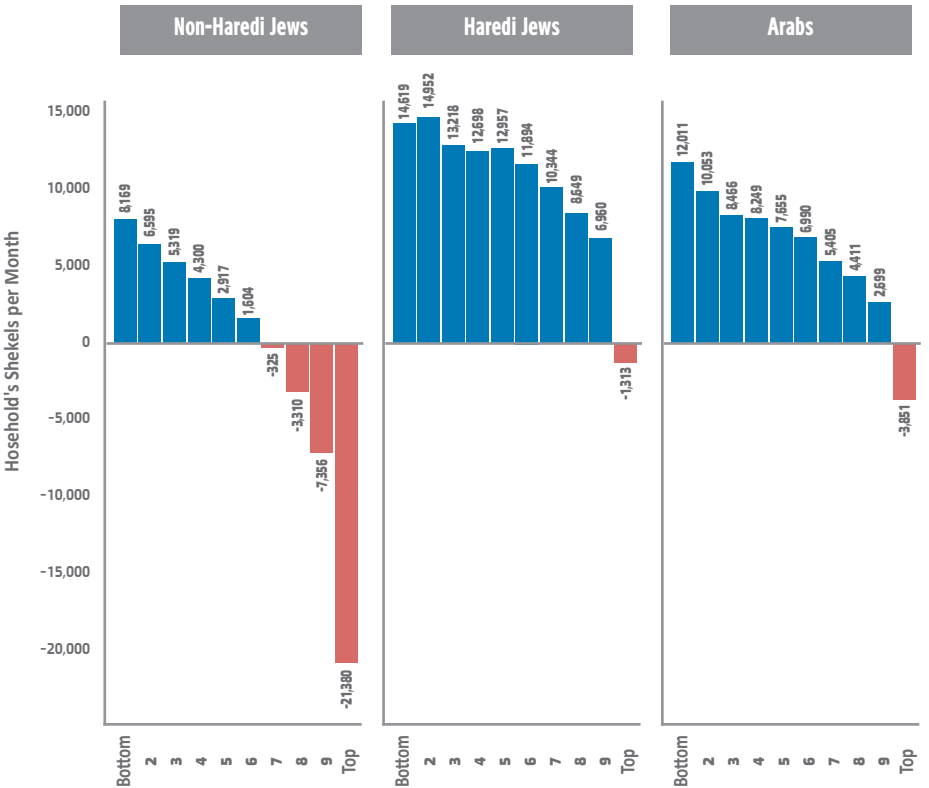
When attributing public goods and infrastructure investment according to consumption, the lower 6 income deciles of non-Haredi Jewish households and the lower 9 income deciles of Haredi and Arab households receive positive net transfers.

Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.

Attribution by household consumption was chosen from among the three different attribution options, since this distribution falls between the most progressive option (attribution according to number of persons) and the most regressive one (attribution according to income).

Average Value of Net Transfers (services minus taxes)

by sector and by income deciles within each sector, attributing also public goods and investment in infrastructure according to consumption, 2018 data

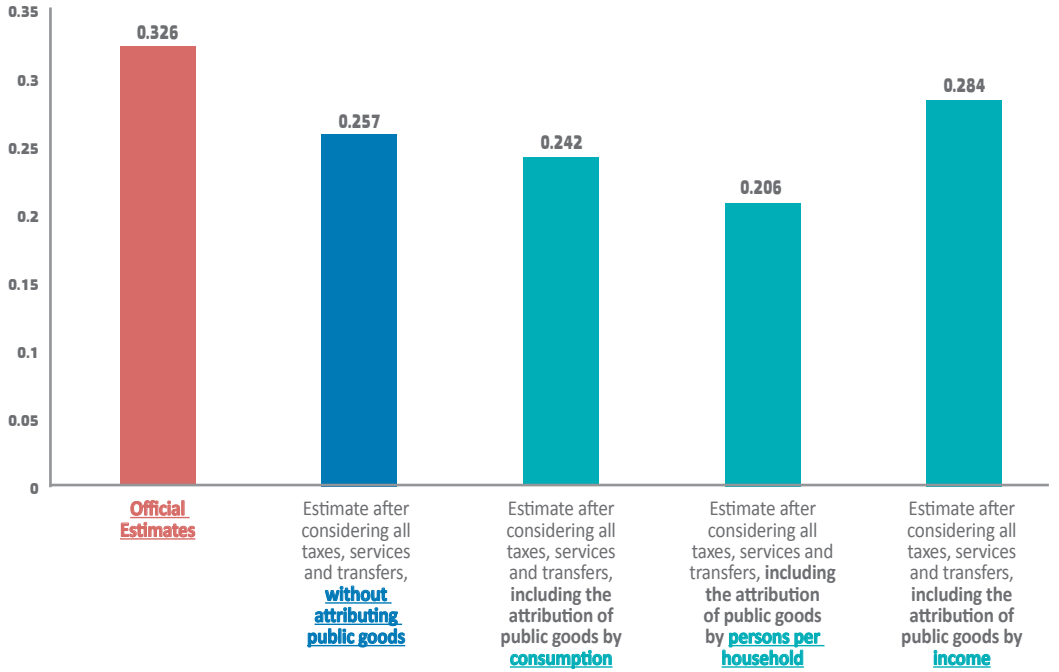


Inequality

13// When all taxes, transfers, and services are attributed to households, the estimate of net income inequality decreases.

- The Gini coefficient for income inequality ranges from 0 (complete equality) to 1 (all income is concentrated in a single household).
- Official publications on inequality in Israel, which constitute an important element in social and economic policy decisions, take into account only a small portion of the taxes paid by households, as well as only a small portion of the general government expenditures that households receive. Such calculation of only a small portion of taxes and the value of services and transfers leads to an estimated inequality higher than it actually is after attributing all taxes, services, and transfers at the household level.

Gini Coefficient Value According to Various Estimates of Net Income per Standardized Person, 2018



Source: Karlinsky, Sadeh, Yogev and Sarel (2025); see link to essay on page 2 of this presentation.