



## ISRAEL – February 2019

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### TEL AVIV INCREASES TAXES, BUT GIVES SHARED WORKSPACE COMPANY HUGE PROPERTY-TAX BREAKS ..... 1

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#### Tel Aviv Increases Taxes, but Gives Shared Workspace Company Huge Property-tax Breaks

*WeWork, considered by the municipality a software company, has saved nearly \$200,000 a year in municipal taxes*

U.S.-based shared workspace company WeWork has enjoyed in recent years discounts given by the Tel Aviv-Jaffa Municipality on municipal property taxes, worth hundreds of thousands of shekels a year.

The municipality announced Monday that it is raising municipal property taxes this year. An increase of about 1% is expected in the taxes, known as arnona, including those levied on sublet properties (such as those of Airbnb), but it seems that the city has a different policy when it comes to WeWork.

Municipal sources show that WeWork pays arnona – which is based on the size and location of a given property – at a rate that is 38% to 57% lower than what other office spaces pay. WeWork pays less because the city agreed to consider it a software company, which is eligible for a reduced tax rate. As a result, WeWork has to date saved millions of shekels that should be pouring into public coffers.

WeWork rents out shared workspaces to casual customers, but also has a steady stream of corporate clients in the city. For example, Bank Hapoalim, one of Israel's two largest banks, recently moved its management to a WeWork tower next to the trendy Sarona quarter in central Tel Aviv. According to the municipality, that move will save Hapoalim some 1.3 million shekels (\$353,500) in arnona as a result.

Businesses in Tel Aviv are charged property taxes based on their location in one of three municipal areas. In most parts of the city, as of 2018, businesses were paying arnona to the tune of 380 shekels per meter per month; in the less-upscale southern and eastern sections, the rate has been 317 shekels or 260 shekels, respectively. Banks paid 720 shekels per meter.

WeWork rents thousands of meters of office space in the city. One building the company sublets, on the border with Jaffa, for instance, should be subject to property taxes of at least 1.5 million shekels a year – but due to WeWork's special arrangement with the city, the company paid only about 1.2 million shekels.

WeWork also has office space in the London Ministore tower on Ibn Gabirol Street in central Tel Aviv. For this 3,200-square-meter property, the company should be charged about 1.2 million shekels in taxes every year, but pays only about 900,000 shekels.

All told, the company, according to sources in City Hall, has saved approximately 700,000 shekels per year.

Founded in 2010, New York-based WeWork is an international company that first put down stakes in Israel in 2014. It leases properties that it then rents out as shared office space on a daily or monthly basis. Professional clients include graphic designers, marketing companies, advertising firms and so on. The company recently started subleasing larger spaces to big companies on a longer term basis.

#### International Property Tax Institute

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Asked for comment, the Tel Aviv Municipality stated that it encourages the activity of start-ups in a number of ways, including by means of initiatives involving shared and free workspaces. WeWork pays reduced arnona rates on some of its assets when the use justifies it, the city said, adding that the company is charged for most of its office space at the regular commercial rate.

Bank Hapoalim did not provide a response.

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