Attempt to End Israel's Offshore Reporting Exemption for Recent Arrivals Rebuffed

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An Israeli Cabinet minister has blocked an amendment that would have done away with an exemption for the reporting of offshore assets and income of immigrants and returning residents, but practitioners say the legislation will likely be brought up again as the government keeps trying to comply with its commitments to the OECD.

The exemption, which dates back to 2007, excludes immigrants and returning Israeli citizens who have not been residents of the country for at least 10 years from a requirement to report their offshore assets and income to the Israel Tax Authority. (Prior coverage.) The amendment ending the 10-year exemption was to be put to a Cabinet vote on August 10 but was blocked by Immigrant Absorption Minister Sofa Ladver. According to a report in *Haaretz*, a newspaper based in Tel Aviv, Ladver said ending the exemption would deter entrepreneurs and wealthy individuals who are living outside the country from taking up residence in Israel. The proposed amendment left untouched a separate incentive exempting returnees and immigrants from paying tax on income from offshore sources for 10 years.

Yaron Sever of Goldfarb Seligman said the 10-year tax holiday for income from offshore sources is a big lure in attracting residents from most countries, other than the U.S., which requires payment of tax on a worldwide basis. "There are very few countries that tax citizens rather than residents on their offshore income," he said. "If you're coming from anywhere else and you severed your residence ties with your country of origin, you won't be paying tax either there or in Israel."

Daniel Paserman, who heads the tax department at Gornitzy & Co., said the Israel Tax Authority doesn't have information about the people who qualify for the exemption. "It doesn't want them to pay taxes, but it does want them to report so it will be aware of their assets and income and be able to comply with OECD standards," Paserman said. "Another issue is that the Israel Tax Authority has no clue whether these people are complying with the requirements for the exemption."

Information Sharing

In November 2016, Israel signed the OECD's Multilateral Convention on Mutual Administrative Assistance, which allows for the exchange of information either on request, or on a spontaneous or automatic basis. (Prior coverage
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Paserman said he doubts that the exemption will cause other countries to put Israel on a blacklist for failing to fully share information about the financial assets of their residents. "I don't think it's a threat," he said. "The exchange of information will be done anyway, via the banks. The information will start moving around because of the common reporting standard. It's just a matter of time before the information will be there."

Even though the failure to end the reporting exemption marked the third time the Israel Tax Authority and the Ministry of Finance have been rebuffed in their efforts to abolish it, Paserman said he expects them to keep trying. "I think the senior officials in the Israel Tax Authority will continue to push through the amendment to the law," he said.

While there are no statistics on how many people have immigrated or returned to Israel because of the exemption, Paserman said he knows from professional experience that it has influenced numerous high-net-worth individuals to take up residence in the country, either for the first time or after a prolonged absence.

Sever compared Israel's tax exemption to the U.K.'s non-dom tax regime, which allows individuals who are resident, but not domiciled, in the U.K. to avoid paying tax on income earned abroad that isn't brought into the country. Qualifying residents who elect non-dom status pay a fixed annual fee on their unremitted earnings, with the amount payable determined by the length of their residency. (Prior coverage.)

Because the 10-year exemption for reporting and paying tax on offshore income went into effect in 2007, anyone who took advantage of the provision in its first year will soon be faced with the possibility of paying taxes on future income derived from those assets.

"If you can sell before the [tax] holiday is over and buy it back, why would you hold it?" Sever said. "But there are some general antiavoidance provisions. If you sell and one minute later you bought back the same assets, the tax authorities could claim avoidance and disregard the transaction. But since there is no reporting requirement prior to the end of the holiday, I don't think the authorities will know about it. There will be a lot of planning before the end of the holiday."

DOCUMENT ATTRIBUTES

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