

Taxation of Trusts - The Long-Awaited Update

The Tax authority has (finally!) published the new - and numerous - tax forms/reports required to be submitted by or for Israeli-resident (or so deemed) trusts and/or settlers/grantors and beneficiaries. Certain new amendments to the trust tax laws have also been approved.

The trust forms and laws are rather complicated, to use "English understatement"; we are, at present, studying the new laws, amendments, forms and reports and attempting to obtain clarifications. We hope to issue a more detailed update within a few weeks.

In the meantime, your attention is drawn to the following:

- Trust forms and reports for the 2006 and 2007 tax years are to be submitted by October 30, 2008.
- An "Israeli" trust is required to submit various and detailed tax reports and forms.
- Foreign-resident trusts may, in certain circumstances, be exempt from these forms and reports.
- The reporting requirements for Israeli-resident beneficiaries vary, depending on the tax status of the trust and the nature of the distributions.
- The settler/grantor or beneficiary may elect to be the "tax representative" of the trustees in Israel.
- The establishment of a new trust must be reported to the tax authorities within 90 days; a foreign-resident trust or foreign-beneficiary trust must report by April 30th in the year following (or later, depending on circumstances).
- There are provisions to "neutralize" trust income "allocated" to foreign-resident beneficiaries, but subject to various limitations.
- Guidelines have been issued for trusts considered "borderline" - i.e. unclear if discretionary or non-discretionary. These provide for a "step-up" in value of foreign assets at December 31, 2005, but subject to a one-time tax, either at 4-10% of the capital or regular Capital Gains Tax. This is based on an internal directive only. Complicated - Very!

This is a very brief summary, is neither comprehensive nor conclusive, and should under no circumstances be acted upon without taking proper professional counsel.

We will be glad to assist.

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