



# South Africans Planning Aliya or Already Living in Israel

*webinar with SA and Israeli tax and financial professionals to  
consider financial, tax & wealth planning opportunities*



# Speakers

**Terence Klingman**

*Chief Investment Officer, Heritage  
Family Office*

**Michael Honiball**

*Director, Werksmans Attorneys*

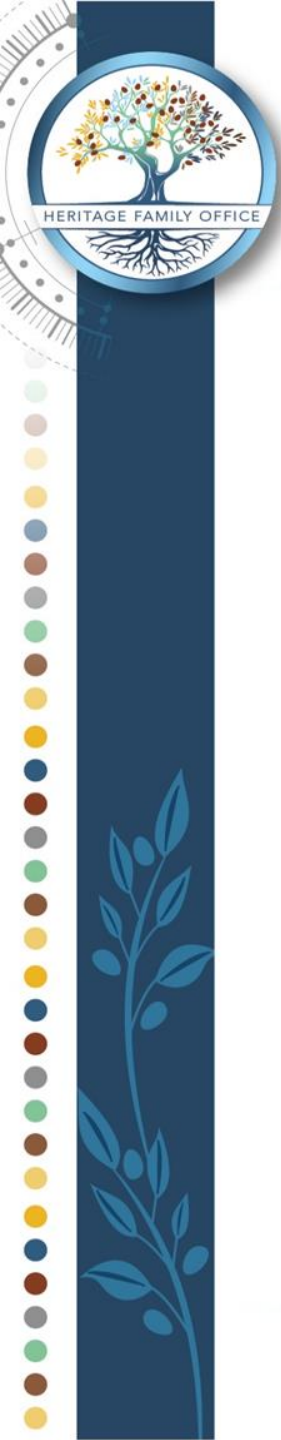
**Gidon Broide**

*Partner, Broide & Co. Accountants*

**Jeff Broide**

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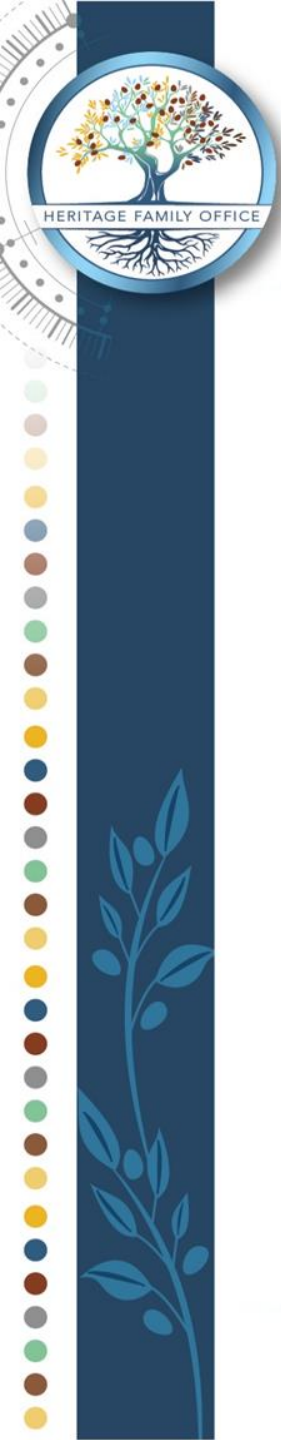




## ***Heritage - Multi Family Office***

- Heritage provides Family Office & Investment Advisory services to international families.
- Families include new immigrants & potential immigrants to Israel.
- Advising & representing foreign resident families with Israel-based investment & philanthropic interests.
- Supporting the requirements of families across their international structures, from long-term planning to routine transactions and administration.
- Advise & assist new immigrant families with regard to structuring, banking, benefits and other matters relating to their immigration.
- Guiding our families with regard to their global investment strategies, wealth management & sourcing investment opportunities.
- Bi-lingual Multi Family Office.





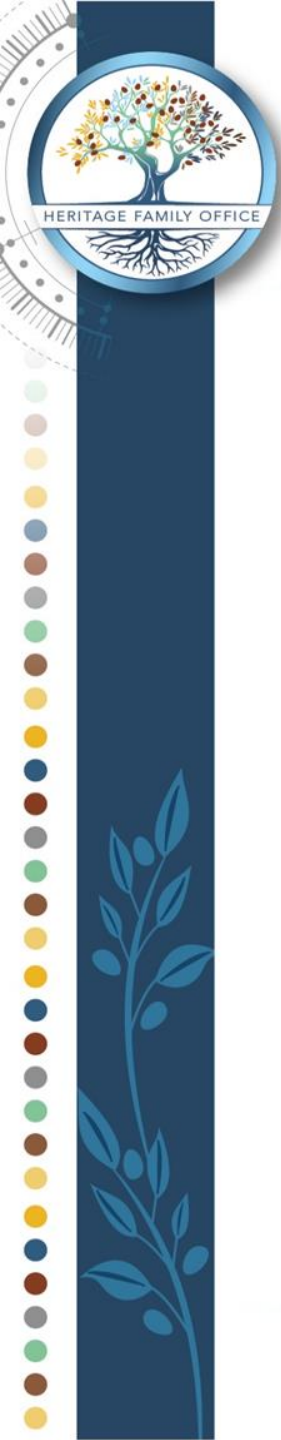
## Establishing a frictionless transactional banking relationship in Israel

- **KYC** - preparing a profile document
- **Choosing a bank/branch** - large bank vs mid size bank, local branch vs branch specializing in foreign residents/new immigrants
- **Negotiating fees** - fee bundles, foreign exchange fees
- **Receiving money from offshore/overseas** - salaries, fees, remittances from structures such as trusts
- **Personal service**



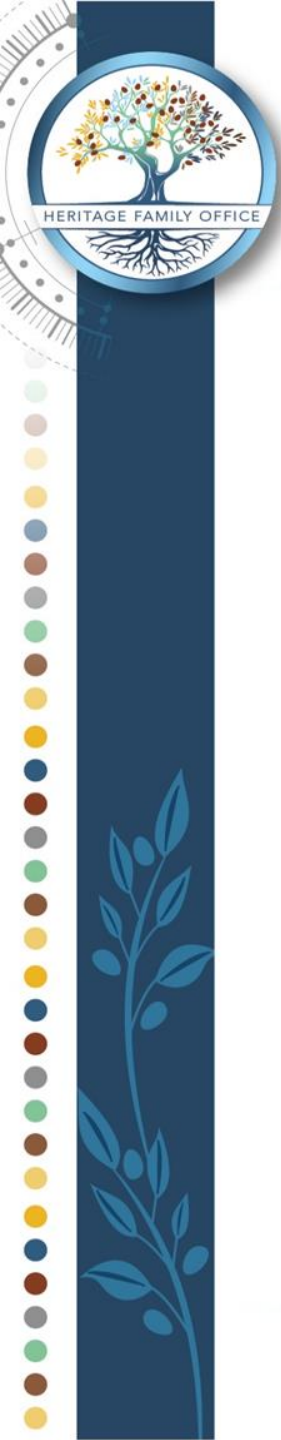
## Wealth Management

- ***Israel as a global financial center*** - a global investment and asset management hub.
- ***Israeli bank platforms*** - purchase and custody both international and local securities (bonds and shares) as well as a wide range of investment funds (mutual funds, hedge funds and private equity funds).
- ***Global banks*** - global private banks (Swiss/US/UK) service the Israeli market via a combination of local rep office or fly-in bankers. Investment advisory regulations can make interaction cumbersome.
- ***Need for shekel assets***
  - The shekel has established itself as a strong global currency/store of value
  - Generating shekel income if you plan to live in Israel is vital
  - Tax free or tax deferred shekel investments
- ***Brokerage accounts*** - banks vs investment houses, trading fees, custody fees, foreign exchange commission etc.



## International Israel: Israel has evolved into a global investment and asset management hub

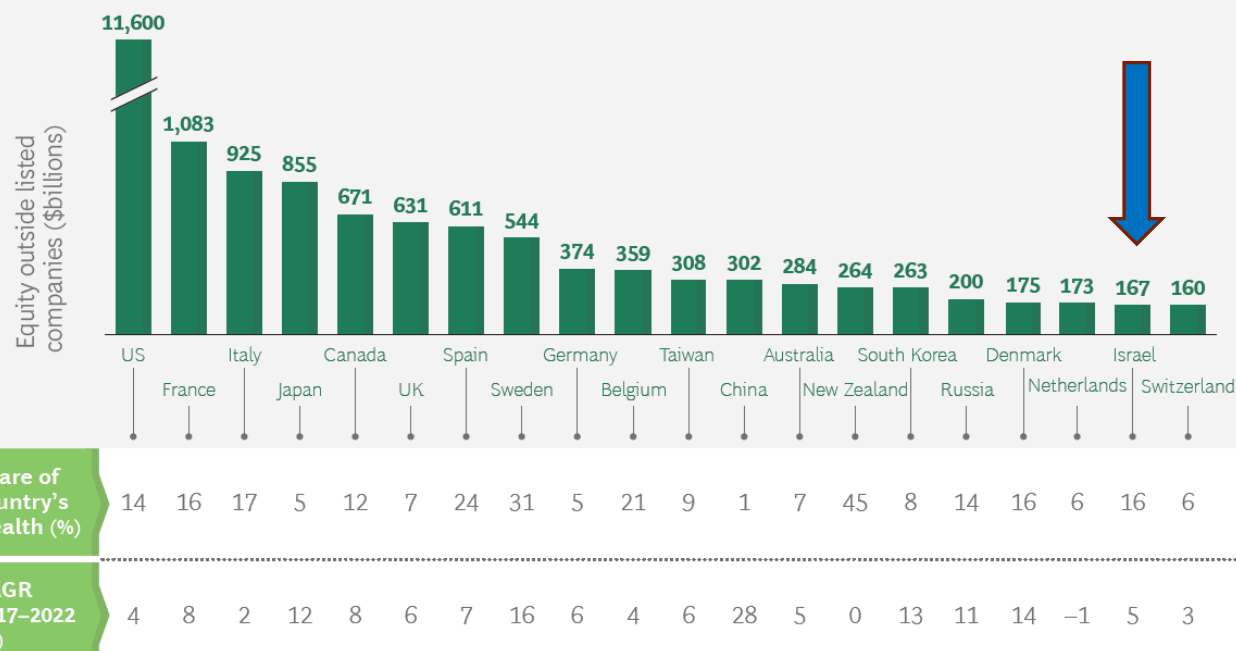
- **Israel is a wealth creator.** Israeli entrepreneurs own USD167bn in unlisted equity, more than Switzerland & similar to Denmark/Holland (a lot of this relates to start ups) which will convert into investable assets. **Boston Consulting Group, Global Wealth 2018**
- **Friendly environment for wealth creation:** no inheritance tax, 10 year tax exemption for new immigrants, reasonable rates of capital gains tax.
- **USD157k of investable financial assets per Israeli adult** (ex-housing) vs Germany (101k), France (124k), Japan (156k), Sweden (190k) and Australia (203k). Israelis also have less debt than most developed countries. **Credit Suisse Global Wealth Databook 2018**
- **Tel Aviv** has the **2<sup>nd</sup> largest number of millionaires** in the Middle East (behind Dubai). Jerusalem is in 8th place. **Knight Frank Wealth Report 2018.**
- **Israel has the 5<sup>th</sup> largest number of billionaires per capita globally (18 in total)** behind Hong Kong, Switzerland, Singapore and Sweden. **Forbes Billionaires list 2018**
- **International asset managers, both traditional and alternative, target Israeli Family Offices & Institutional investors.** We see product & deal flow in diverse sectors including real estate, private credit, PE, VC & hedge funds as well as traditional equity and bonds.



## Israel is a wealth creator. Israeli entrepreneurs have USD 167bn in unlisted equity

BCG, Global Wealth 2018

EXHIBIT 6 | Entrepreneurs Represent a Significant Opportunity for Wealth Managers



Source: Global Wealth Report 2018—BCG Global Wealth Market Sizing Database.  
Note: Equity figures are in \$billions.



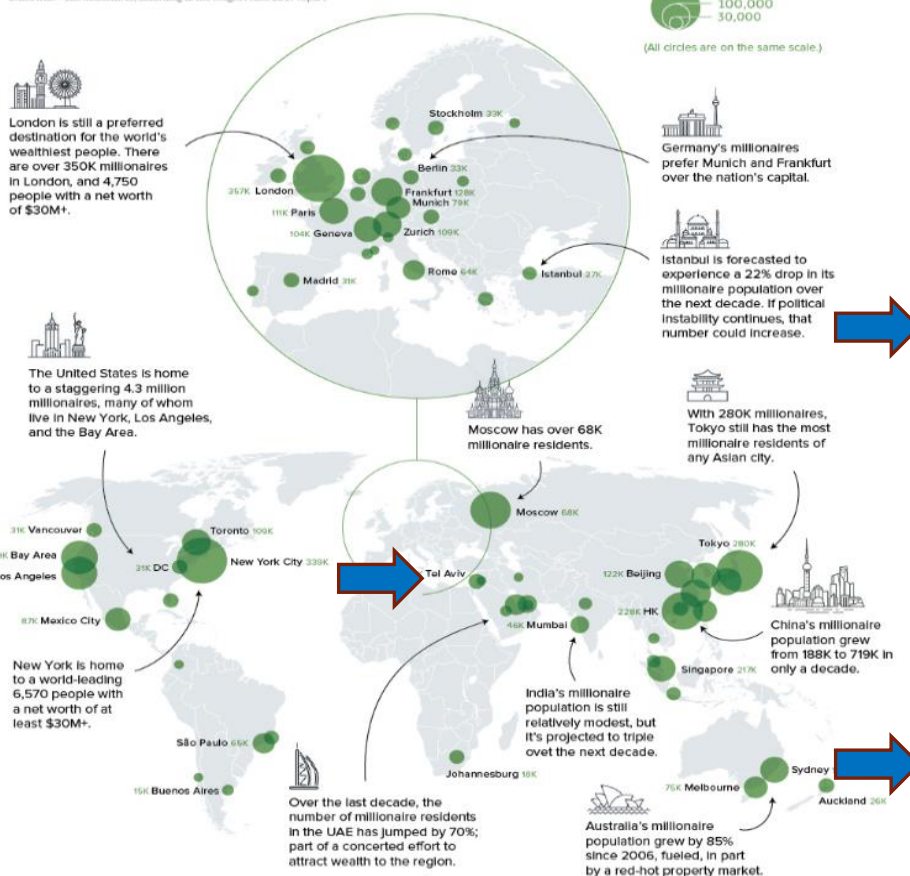


# Tel Aviv has the 2nd largest number of millionaires in the ME (after Dubai). Jerusalem is in 8th place

*Knight Frank Wealth Report 2018*

## MILLIONAIRE POPULATION, BY CITY

Cities with > 10k millionaires, according to the Knight Frank 2017 report



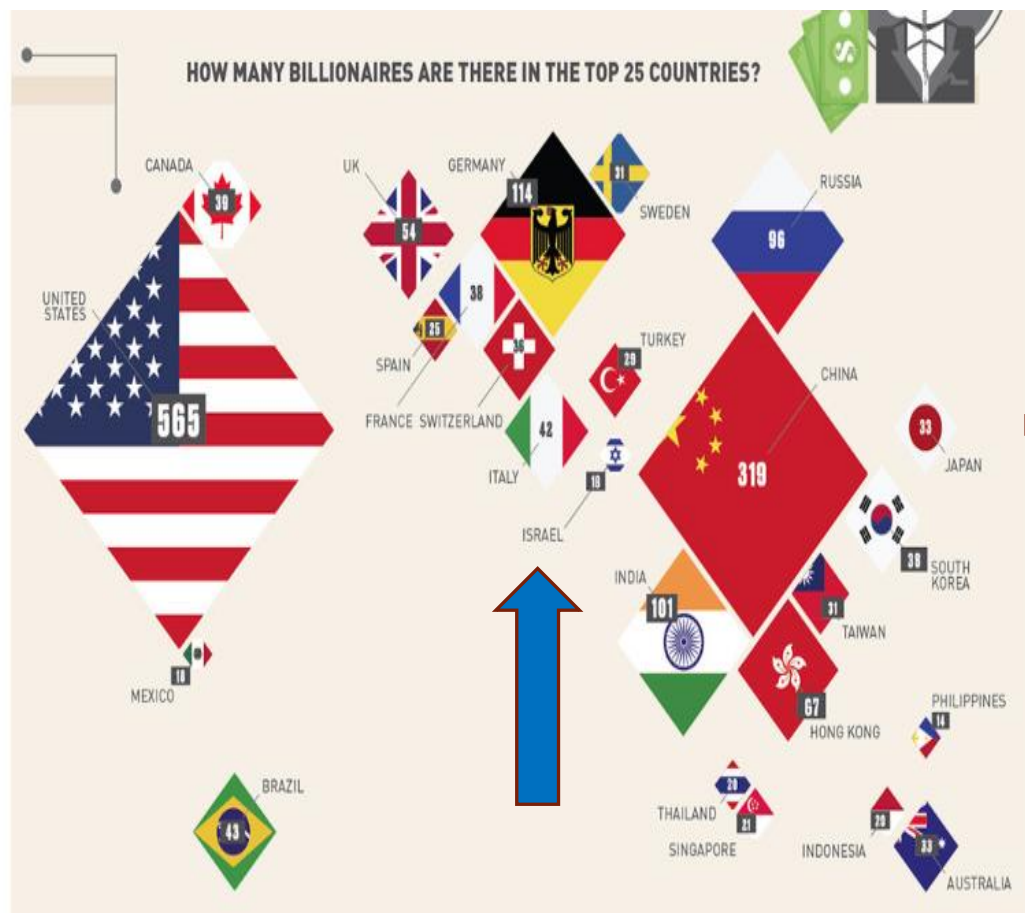
## TOP CITIES IN THE MIDDLE EAST

Rank (Middle East)	City	Country	# of Millionaires
#1	Dubai	UAE	50,400
#2	Tel Aviv	Israel	35,200
#3	Istanbul	Turkey	27,300
#4	Doha	Qatar	25,800
#5	Abu Dhabi	UAE	17,100
#6	Riyadh	Saudi Arabia	16,200
#7	Tehran	Iran	14,000
#8	Jerusalem	Israel	13,100



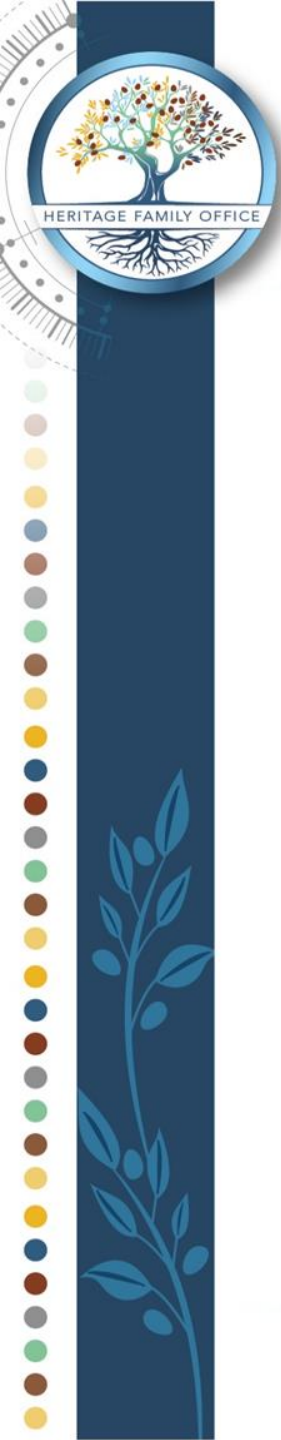
# Israel has the 5th largest number of billionaires per capita globally (18 in total)

*Forbes Billionaires list 2018*



Rank	Country	People per billionaire
#1	Hong Kong	109,657
#2	Switzerland	232,556
#3	Singapore	267,000
#4	Sweden	319,452
#5	Israel	474,833
#6	United States	571,858
#7	Germany	725,175
#8	Australia	731,212
#9	Taiwan	759,677
#10	Canada	930,513

Showing 1 to 10 of 25 entries



## Credit/Financing

- **Mortgage finance**  
*Conservative LTV's, long dated fixed rate, inflation linked as well of floating rate and foreign currency mortgages*
- **Consumer credit**
  - Motor Vehicle
  - Credit cards
  - Overdraft/other consumer credit



## **MICHAEL HONIBALL**

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Director Michael Honiball is the firm's Head of International Tax. He was previously a Partner at Webber Wentzel, where he was Head of International Tax for the South Africa firm. Prior to this, Michael was a Director of KMPG South Africa where he headed up first the International Tax Department, then the Transfer Pricing Department. Michael is an attorney and conveyancer of the High Court of South Africa and also a Professor of Taxation at the University of Johannesburg, where he lectures in international tax law and transfer pricing. He is also a practising solicitor of the Senior Courts of England and Wales. A SAIT Master Tax Practitioner (2005 to present), he is regularly recognised for excellence in his field and has co-authored a number of key publications.





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# When the 10 Year Tax Holiday Ends

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*An Association of  
Independent Accounting Firms*





# 10-Year Tax Holiday - Basics

- ▶ 10-year tax holiday is available to new Israeli residents (mostly “Olim chadashim”) and to returning residents who lived at least 10 years outside of Israel.
- ▶ Any income from foreign assets, Including assets acquired/replaced after becoming resident, is tax exempt and is not reportable.
  - Passive Income - interest, dividends, capital gains, rental income and royalties generated by assets held overseas.
  - Business income, profession/trade or salary earned abroad, for a period of ten years from the date of immigration.
  - SA pensions: generally SARS accepts a certificate of fiscal residence (an Israeli tax file is required), no tax liability.

# 10-Year Tax Holiday - Residency

- ▶ 10-year tax holiday starts from the day an individual becomes an Israeli resident. Tax residence is defined as the place of the center of vital interests and is based mainly but not only on the number of days spent each year in Israel.
- ▶ Tax Residence may be postponed by a year from immigration by special request (filed within 90 days) but will constitute part of 10-year period. This allows to preserve the 10-year exemption for a later date in case the oleh/resident decides to defer aliya.
- ▶ Foreign corporations or similar-type legal entities - managed and/or controlled by new immigrants or returning residents - will not be considered tax-residents in Israel only as a result of their “transfer” and, therefore, will generally not be taxable for a period of ten years.
- ▶ Generally trusts will assume the tax status of the grantor or settlor and may thus enjoy these tax benefits. Status of the beneficiaries is of much significance.



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# 10 Year “Tax Holiday” Overview



10 year “tax holiday” is available to new immigrants and to returning residents who lived at least 10 years outside of Israel.



Any income from assets held prior to immigrating to Israel is tax exempt and not reportable.



Remember: there are planning opportunities during the 10-year period:

- Freedom to create, change, cancel
- Serious planning before the end of the 10-year period



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# Plan In Advance - Israeli Tax Considerations

## Foreign Business/Companies Income - Possible 10Y tax exemption

- Should not require actual work in Israel other than general/management
- Actual/significant business activity abroad with full-scale infrastructure.
- Consider separate agreements/entities when working in both SA & Israel

## Foreign payroll - Full/partial exemption during 10Y “tax holiday”

- When actual work is performed outside of Israel
- Consider separate agreements/entities when working in both SA & Israel

# What happens when the 10Y Tax holiday ends?

- ▶ All world-wide income is reportable and taxable in Israel.
- ▶ Some income will be reported in both countries.
- ▶ Israel allows a full tax credit for income taxes paid in a foreign country (assuming they have the right to tax first).
- ▶ Trusts who enjoyed the 10Y tax holiday due to settlor/beneficiary's residence, will be subject to registration and filing tax returns.



# What can be done to reduce future taxes?

- ▶ Make sure you know when your tax holiday ends.
- ▶ Review your investments and structure well in advance.
- ▶ Investments that have significantly appreciated in value - consider sale prior to end of 10Y tax holiday.
- ▶ Capital gains after the 10Y tax holiday will enjoy the linear tax calculation.
- ▶ Any changes must make business and financial sense and be in line with your investment strategy.
- ▶ SA pensions: reduced Israeli taxes per section 9(c) of tax code.



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## Israeli Tax Rates (2019)

Income	Tax %	Taxes including 3% wealth tax (Income above NIS649,560)
Ordinary Income	47% (top marginal rate)	50%
Dividends	25% [30%*]	28% [33%*]
Interest	25% [30%*] 15% **	28% [33%*] 18%**
Capital Gains	25% [30%*]	28% [33%*]
		* Controlling Shareholder ** Unlinked instruments

# Rental Income Tax Rates (2019)

Tax rates - rental income	Taxes including 3% wealth tax (Income above NIS649,560)
<p>Regular income:</p> <p><b><u>30%-47%</u></b> - Full deductions &amp; foreign tax credit allowed (Subject also to National Insurance (BTL)).</p> <p>0%-47% for taxpayers aged 60 or older.</p>	<p><b>33%-50%</b></p>
<p>15% Route: Applicable only to <u>foreign</u> property.</p> <p><b><u>15%</u></b> of <u>Gross Rental revenue</u> , only depreciation is deductible, no tax credit allowed.</p>	<p><b>18%</b></p>
<p>10% Route: Applicable only to <u>Israeli residential</u> property.</p> <p><b><u>10%</u></b> of <u>Gross Rental revenue</u> , no deductions allowed.</p>	<p><b>13%</b></p>
<p>Tax Exempt Route: Applicable only to <u>Israeli residential</u> property, up to NIS5,090 per month/NIS61,080 per year (other limitations apply).</p>	



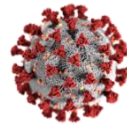
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# Israeli Tax Planning Considerations

- Make sure you're looking at the full picture, considering overall foreign and Israeli taxes as well as National Insurance.
- Carefully examine beginning of tax residence (it's not always the date of your Aliya) and end of the 10Y tax holiday.
- Review your investments: Trust assets, unrealized capital gains, at least one year prior to the expiration of your tax holiday.
- **Make sure your investment advisors, Israeli CPA and your foreign tax professional are aware of the specific issues related to your specific situation.**

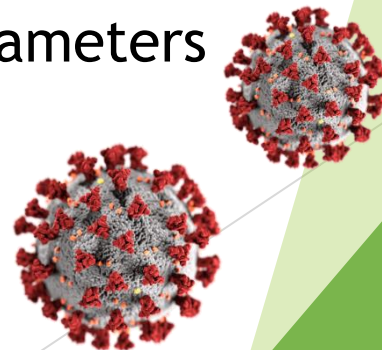


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# COVID 19

- Interesting residency issues in Covid-19 times.
- Increase in tax rates are unlikely, but pressure to increase tax collections is expected.
- The Israeli Treasury & the ITA are examining:
  - Reinstating of the voluntary disclosure plan
  - Reducing the 10Y tax holiday benefits
  - Redefining residency - stricter parameters
  - Enforcing the Israeli exit tax







# TAXATION OF TRUSTS

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# Income Tax Factors

1. Rates of tax on passive income of the trust will generally be 25%.
2. Trustees of family trusts may elect to be taxed at 25% of the taxable income of the trust or 30% on distributions (with allowance for neutralizing the capital contributed). This election is irreversible. A tax surcharge of 3% is levied on taxable income exceeding the ceiling as defined.
3. Foreign taxes paid on trust income by the trust\grantor\beneficiary can be used as foreign tax credit in Israel. In many cases US trusts reporting in Israel have no additional taxes to pay.
4. The residence of the trustees will not impact on the taxability of the trust.
5. Underlying companies, (holding trust assets and fully owned by the trust), will generally be treated as part of the trust structure and taxed accordingly (subject to certain conditions).
6. Dissolution of existing trusts may have tax consequences.
7. Beneficiaries are required to report on distributions received in kind or cash, and irrespective of whether taxable. Most beneficiaries are required to submit annual tax returns.

# 10-Year Tax Holiday - Trusts

- Generally trusts will assume the tax status of the grantor or settlor and may thus enjoy these tax benefits. Status of the beneficiaries is of much significance.
- The 10Y tax holiday is relevant to Israeli Beneficiary Trusts. Beneficiaries immigrating to Israel, who are eligible for the 10Y tax holiday, will render their “share” of the trust income or distributions exempt.
- No annual tax reporting required.
- The ITA’s position is that the trust is required to register but not report. Currently, there are no sanctions in the law nor penalties for registration.
- In some cases registration of the trust during the 10-year period is recommended, particularly when problems are encountered with the banks.
- There are planning opportunities during the 10-year period.

# General Points



An arrangement, whereby a trustee holds assets for a beneficiary, may be defined as a trust, even where not formally established under Trust Law, locally or abroad.



Under certain conditions, the settlor/grantor may report to the Tax Authority (and thus be the taxable entity) and not the trustees.



Where the beneficiaries of a foreign settled charitable trust are public institutions - as defined - then they will retain their foreign status.



There is not always full clarity nor certainty in the approach of the ITA to taxation and reporting of trusts in Israel. This should be born in mind.

# Thank you for joining.



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