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ITA Encourages Tax Arrangements for Foreign Trusts

- The ITA yesterday published a directive on “transitional arrangements for foreign Israel-resident beneficiary trusts” – taxable as of January 2014.
- The directive provides for a voluntary “step-up” in values of assets at December 31, 2013, which will determine cost for future Capital Gains Tax, or increased capital component under the 30% distribution tax route. It deals also with the lack of clarity regarding trusts whose income may have been reportable prior to 2014.
- The directive applies to foreign trusts where there are close family relations, as defined, between the settlor/s and beneficiary/ies.
- Trusts reportable under the “old” Law (2006) are excluded from the ambit of this directive.
- The taxes applicable are directly impacted by the extent of beneficiary influence or control of the trust/trustees, but are also determined by factors such as: the settlor being alive, 10-year tax holiday of the beneficiaries/settlors, and the so called ‘rights’ to distributions.
- There may be circumstances where no tax will be payable on the step-up (no beneficiary influence).
- The trustees may elect to be taxed under the following routes:
 - Income route – one third to two thirds (dependent on extent of beneficiary control/influence) of 2006-2013 trust income (including gain on deemed sale of assets) will be taxed at regular passive income rates (generally 25%).
 - Asset route – value of trust assets at 31.12.13 will be taxed at 3-6%, dependent on extent of beneficiary control/influence.
 - Different routes may be applied to different assets.
- Terms may be negotiated with the ITA.

We will be glad to clarify and assist clients and associates, including preparation of data, to evaluate planning and strategies. Applications are due by December 31, 2014.

This news alert is very brief, and does not cover all matters indicated in the directive. Whilst every care has been taken in compilation, no responsibility can be accepted for inaccuracies or errors. Changes in the Law or practice occur periodically; it is recommended that specific professional advice be sought before any action is taken.

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