

Taxation of Trusts in Israel - A One-Pager

A. General

1. The new Laws governing taxation of trusts in Israel are effective as of January 2006.
2. The donor/transferor of assets to the trust is also considered a/the Settlor; there may be more than one Settlor.
3. Where the Settlor/Grantor is a resident of Israel, then the trust will generally be taxable here; if non-resident (includes deceased Settlor/Grantor), then the trust will not be taxed in Israel, even if the beneficiaries are resident here.
4. A-3 above may not apply where a local beneficiary has effective control of the trust.
5. Where the trust is fully irrevocable/discretionary - as defined - then where all the beneficiaries are foreign, the income of the trust will not be taxable in Israel, subject to various conditions. There is a provision for taxing only that part of the trust income that relates to Israeli-resident beneficiaries.
6. Under the Law, irrevocability is essentially defined in terms of control. (See website)

B. Existing Legal Situation

1. Worldwide income is taxable in Israel as of January 2003, under the Income Tax Reform of 2002.
2. The Income Tax authorities consider revocable trusts (refer A-6 above) subject to tax under the "old" Law - prior to 2006 - as they are deemed "transparent". There are no Court, nor pre-rulings, on this and the issue is not clearly defined.
3. The Income Tax authorities have indicated that they will examine "revocability/irrevocability" of the trust to determine taxability prior to 2006.
4. There was a requirement for the period 2003-2005 to report on distributions from a trust in excess of NIS 100,000.

C. Taxing Trusts from 2006

1. Rates of tax on passive income will generally be 20%.
2. the residence of the trustees will not impact on the taxability of the trust.
3. Underlying companies, owning or owned by the trust, will generally be treated as part of the trust structure and taxed accordingly.
4. Dissolution of existing trusts may also have tax consequences.
5. Trust reports for the years 2006-2008 were required to be submitted by December 31, 2009.

This is a brief synopsis of the Tax Laws pertaining to taxation of trusts in Israel, and is intended for reference only. The original Law in Hebrew is the final and authoritative basis for making any decisions. For more information, we refer you to the article titled "Taxation of Trusts in Israel - Preliminary Thoughts" on our website.

Whilst every care has been taken in compilation, no responsibility can be accepted for inaccuracies or errors. Clients are also advised that changes in the Law or practice occur periodically; it is recommended that specific professional advice be sought before any action is taken.