



BROIDE & CO.
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INCOME TAX GUIDELINES
FOR NEW IMMIGRANTS/NEW RESIDENTS/RETURNING RESIDENTS
By Jeff Broide

Introduction

1. Residence determines taxability; hence the Law refers to "New Residents (including olim)" and "Returning Residents".
2. Definition of residence is both qualitative ("focus of life") and quantitative (time spent in Israel during the year) – refer to 'residence' on our website – www.broide.com. The Tax Authority has issued guidelines regarding the quantitative aspects of residence.
3. 'Veteran' Returning Resident - Residence outside Israel for at least ten years and, in 2007-2009, a period of tax residence outside Israel of five years, will suffice.
4. Tax residence may be postponed by a year from immigration or return by special request (within 90 days of arrival) but will constitute part of the ten-year period.
5. Various Income Tax benefits are granted to new immigrants and residents, certain benefits to returning residents, and some to veteran residents/immigrants. (The latter prior to 2007 - not detailed here) See our website.
6. The tax exemptions detailed below do not apply generally to assets held in Israel, other than the provision dealing with foreign currency deposits.

New Immigrants/New Residents/Returning Residents

1. Exemption from Income Tax on income - from investments/assets held outside Israel - for a period of ten years:
 - Interest
 - dividends
 - royalties
 - property rental
 - pension
 - capital gains
2. Exemption from Income Tax on interest earned on foreign currency deposits - held with banks in Israel - for a period of twenty years from first becoming resident. Various conditions apply here:
 - Deposit period of at least three months
 - Monies deposited owned prior to becoming resident.
 - Interest income is not of 'business' nature.
 - The deposit was not used as a loan, or security for a loan, by the bank to a related party.
 - Monies deposited within 90 days of receipt of funds in Israel.
 - Appropriate declaration made to bank within 14 days of opening the account.

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New Immigrants/New Residents/Returning Residents (cont'd)

3. Income - from a business, profession/trade, or salary earned outside Israel - will be exempt from Income Tax for ten years from the date of immigration or return.
4. Foreign corporations or similar-type entities - managed and/or controlled by new immigrants/residents - will not be considered tax-resident in Israel only as a result of their "transfer" and, therefore, will generally not be taxable for a period of ten years. (Here too, the exemption applies to foreign-sourced income only.)

Returning Residents

The exemption from Tax on passive income and capital gains, as above, will apply to 'veteran' returning residents on assets purchased/accumulated during the period of 'non-residence'. The twenty-year exemption on deposits will not apply. Different provisions apply to returning residents who were non-resident for at least six years, but less than ten.

Pensions (after initial ten-year exemption period)

The Income Tax Ordinance provides for taxation of foreign pensions earned by immigrants (new or veteran) from foreign work or employment; the tax payable will not exceed that payable by the taxpayer had he or she remained resident in the country from which the pension originates, and the pension was the sole income. There is no time limit on this tax benefit. Taxes paid abroad may be set off against the taxes due in Israel.

It should be noted that to enjoy the reduced tax, the pension must comply with certain conditions. The Income Tax authorities have not issued a clear statement on the proper definition of pension under this Clause.

Under some of the Double Tax Treaties, Social Security/National Insurance allowances may be exempt from tax (both in country of origin and residence).

Trusts

Generally, the trust will assume the tax status of the grantor or settler and, thus, may also enjoy new resident benefits, as above. (See website on taxation of trusts.) Foreign grantor/settler trusts are generally not taxable in Israel.

Tax Credits for New Immigrants and Returning Residents

New olim and returning residents are entitled to Income Tax credits - on income earned in Israel - during their first 42 months in Israel; this period is activated from date of aliyah or return, irrespective of when the income is earned.

Submitting Income Tax Reports

There is no legal requirement to submit Income Tax reports (nor report thereon) on the above exempt income and assets for a period of ten years (not applicable to Israel-sourced income and assets).

Appropriate planning before aliya or return, is recommended.