



## Tax Pitfalls or *Oy Vay!*

### 10-Year “Tax Haven” for New Immigrants and New and Returning Residents – *not always!*

The 10-year income tax exemption legislation is by now well known to many of us. We detail hereunder some pitfalls (*Oy Vay*) and thereafter certain of the features of the “tax-haven”.

#### The pitfalls (or *Oy Vay!*) - plan to avoid clashes with tax authorities and banks

- In the new financial world we live in, tax authorities, banks and financial institutions - in the wake of CRS and FATCA – require full details (they call it “due diligence”) of beneficial owners, source of funds/assets (historically too!), tax residence and reporting. And there are those who make life under the 10-year rule rather complex.
- Business or employment income from abroad may become partially or entirely taxable where the income is actually earned (= produced) in Israel. Planning and structuring are paramount.
- Double tax treaties with certain countries provide for tax exemption on income only where taxes are actually paid (not payable!) in Israel.
- The ITA may take a closer look after the expiry of the 10 years.

#### 10-year tax holiday highlights:

- Exemption from Income Tax on passive income – i.e. interest, dividends, pensions, royalties, rental and capital gains from foreign sources – for a period of ten years from the date of immigration or return (including income from sources/assets not held at time of immigration or return).
- Exemption from Income Tax on income from a business, profession/trade or salary earned outside Israel, for a period of ten years from the date of immigration or return.

- These provisions apply to "New Immigrants/Residents" and "Returning Residents" who resided outside the country for at least 10 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.
  - "Tax Residence" may be postponed by a year from immigration by special request (within 90 days) but will constitute part of 10-year period.
  - 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. (Here too, the exemption applies to foreign-sourced income only.)
  - There is generally no legal requirement to submit tax reports on the above exempt income and assets (not applicable to Israel-sourced income and assets).
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These are merely highlights of certain aspects of the Tax Laws pertaining to new immigrants and residents in Israel, and are intended for reference purposes only. For more information, see our website <https://www.broide.com/Immigrants.html>

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