



INCOME TAX GUIDELINES
FOR NEW IMMIGRANTS/NEW RESIDENTS/RETURNING
RESIDENTS/VETERAN RESIDENTS/OLIM

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
3. Returning Resident - Residence outside Israel for at least three years and defined/considered "non-resident" as in 2 above.
4. Various Income Tax benefits are granted to new immigrants and residents, certain to returning residents, and some to veteran residents/immigrants.
5. 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

1. Exemption from Income Tax on income - from investments/assets owned outside Israel at time of first becoming resident - for a period of five years:

- ♣ **interest**
- ♣ **dividends**
- ♣ **royalties**
- ♣ **property rental**
- ♣ **pension**

The 'passive' income detailed above will not enjoy the exemption where such income is of a business nature.

2. Exemption from Capital Gains Tax - on the sale of investments and assets held outside Israel, prior to becoming resident for the first time - for a period of ten years.
3. 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:
 - } 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.
4. Income - from a business owned overseas for at least five years before becoming resident - will be exempt from Income Tax for four years, irrespective of whether the taxpayer continues to work in the business or not. This exemption will only apply where the business activity remains 'foreign' and is not transferred to Israel.

Returning Residents

The exemption from Tax on passive income and capital gains, as above, will apply to returning residents on assets purchased/accumulated during their period of 'non-residence'. The twenty-year exemption will not apply.

Pensions (after the initial five-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. (Calculation includes personal deductions.) 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 settlor and, thus, may also enjoy new resident benefits as above. (See website on taxation of trusts.) Foreign grantor/settlor trusts are generally not taxable in Israel.

Tax Credits for New Immigrants

New olim are entitled to Income Tax credits during their first 42 months in Israel; this period is activated from date of aliyah, irrespective of income.

Submitting Income Tax Reports

The Law stipulates which taxpayers are liable for submission of annual tax returns. In many instances, new immigrants/residents may be exempt from these provisions during their first five years in Israel. Amongst others, this exemption from reporting will not apply to business income.

National Insurance

Whilst certain income may be exempt from tax, this does not necessarily imply an exemption from National Insurance (Bituach Leumi). Thus, income from a business (foreign or local) or of a business nature, or from property rental, is subject to National Insurance. (Generally, passive income will not be liable.)

Appropriate planning, even before aliya, where practical, is recommended.

Do note that this brief summary is intended merely to provide guidelines; proper professional counsel should be sought before taking any action or planning.

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