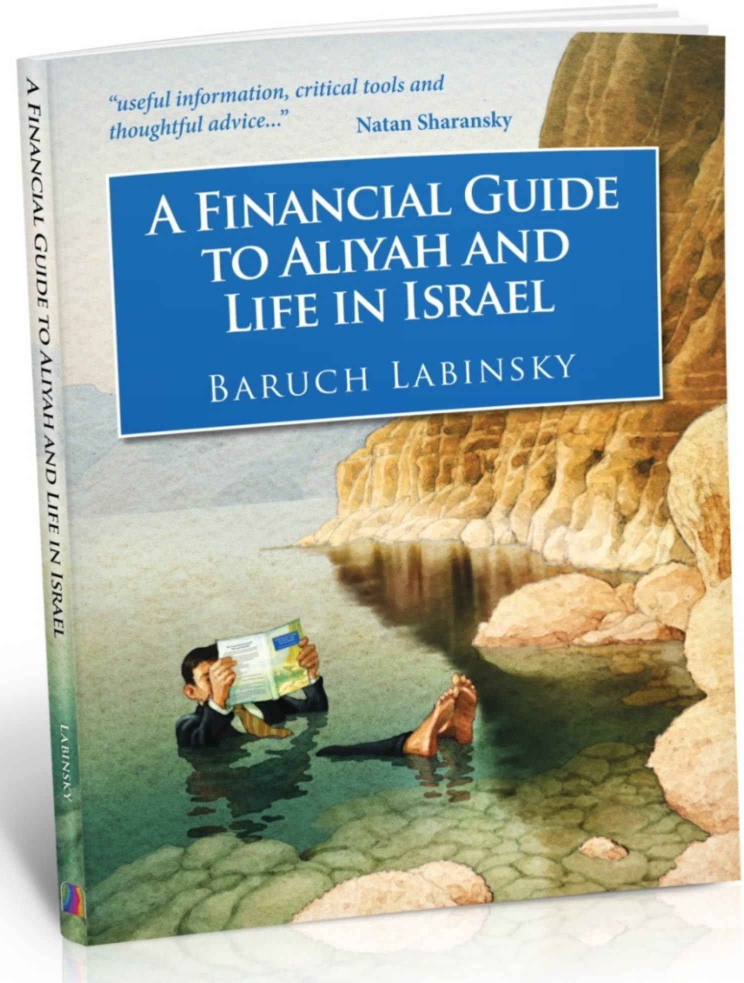
The April 2015 Update for

"A Financial Guide to Aliyah and Life in Israel"

by Baruch Labinsky



The #1 concern about living in Israel…
"Will I make it financially?"

Baruch Labinsky has helped hundreds to navigate Israel's complex financial system. His time-tested and proven approach has empowered his clients with the knowledge and skills they need for financial success.

A Financial Guide to Aliyah and Life in Israel, with its clear, explanatory style, is written for both the layperson and the professional. It spans a range of financial issues, from pre-Aliyah (creating a financial plan, real estate decisions, asset management) to post-Aliyah (employment benefits, banking, living on a budget, tax planning, and more).

With Baruch Labinsky's sage advice you can…

- Understand the financial aspects of a successful Aliyah
- Learn the ins and outs of the Israeli financial system
- Plan for retirement in Israel
- Make wise real estate decisions
- Save tremendous amounts of time and money

"Making Aliyah is a wonderful and challenging experience. ***A Financial Guide to Aliyah and Life in Israel*** with its breadth of useful information, critical tools and thoughtful advice will help make your Aliyah a success."

— **Natan Sharansky**, Chairman of the Jewish Agency for Israel, former Minister and Deputy Prime Minister of the State of Israel

"A crucial tool which will drastically increase the chances of a financially stable — and even profitable — Aliyah and life in Israel."

—**Don Shrensky**, Don Shrensky and Co. CPAs, Jerusalem

"Baruch revolutionized our approach to personal finance in preparation for Aliyah and afterward… A must-read book for financial success in Israel."

—**Joshua Ravitz**, US Securities Attorney, GKH Law Offices, Tel Aviv

Baruch (Brent) Labinsky, MBA, TEP, Licensed Portfolio Manager with the Israel Securities Authority, is the founder of Labinsky Financial. Baruch lectures regularly for Aliyah organizations in Israel and around the world on various financial topics. He made Aliyah in 1993 from Canada and has lived in Ramat Beit Shemesh with his family for the past eleven years.

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A Financial Guide to Aliyah and Life in Israel – updated

"A Financial Guide to Aliyah and Life in Israel" has been incredibly well-received – and for that I am immensely grateful. It has achieved a value, not only to those who bought a copy, but to those who borrowed or were lent one, with the words "you have to read this if you are thinking about *Aliyah*".

I wrote the book as a stand-alone prep to get people thinking financially before *Aliyah*, and more than two years after release I'm happy to say that I achieved my objective of writing something that would stay relevant for many years.

However, nothing is static and as the Israeli financial system continues to evolve I wanted to provide my readers with a comprehensive update on some of the relevant developments that have evolved over the last few years.

Real Estate

The chapter on real estate (chapter three – 'Should You Sell Your Home?' and chapter ten 'Buying and Financing a Home in Israel') talks about the vagaries of the real estate market, and the difficulties and variables involved in decisions surrounding real estate. The chapter lists several general advantages and disadvantages to selling your home abroad and/or buying a property in Israel.

After speaking to hundreds of potential *olim* over the past couple of years, I witnessed their extreme disappointment with the state of the Israeli real estate market. With average real estate values having risen more than 80% around the country over the last 6-7 years, many more families are being priced out of the property market. Young couples, *olim* and even veteran Israelis find it increasingly difficult to afford an apartment in their chosen areas of the country (near family, friends and employment). After such consistent growth in prices what can we expect in the future?

My constant claim over the last few years has been that when prices rise consistently to a level higher than that which people can afford (based on average salary levels), something eventually has to give. Either prices end up plateauing and there is little price appreciation for a number of years while inflation erodes the real value of prices, or there is a much larger adjustment in the value of real estate, as we saw in the USA and many other countries worldwide in 2007-9.

Basically, if you can afford to buy at current levels, and you're not considering the purchase primarily as an investment - then fine, buy, if you are comfortable with the reasoning that what happens to the value of your investment is less important than the benefit you will gain from owning your own property. As long as your mortgage is not structured too largely as a variable rate mortgage (that will go higher as interest rates rise – and they will start rising as some point over the next 25 years …), you probably should be fine. (I grant you that this was a gross over-simplification, but it will have to do for the purpose of this brief article.)

However, if you're stretching it financially more than a little, banking on all the stars aligning so that you might be able to afford your mortgage, then that's a completely different story.

Everyone knows that for years the government has been committed (at least in formal declarations) to reducing the value of real estate prices. But for various reasons all proposed steps have either been vetoed or have been ineffective in lowering prices. These failures can be attributed to a variety of causes including strong demand from investors and the natural population growth creating a lack of supply, blocking mechanisms from local authorities - the reasons don't matter at this stage.

The government's most recent attempt (*chok ma'am efes* – the zero VAT exemption law) has now become irrelevant (at this time of writing - March 2015). However, the new government will almost certainly attempt to pass some mechanism to lower housing prices. I have no idea whether it will be successful or not for several reasons – but the primary and most significant one being that whatever idea it may be hasn't yet been made public!

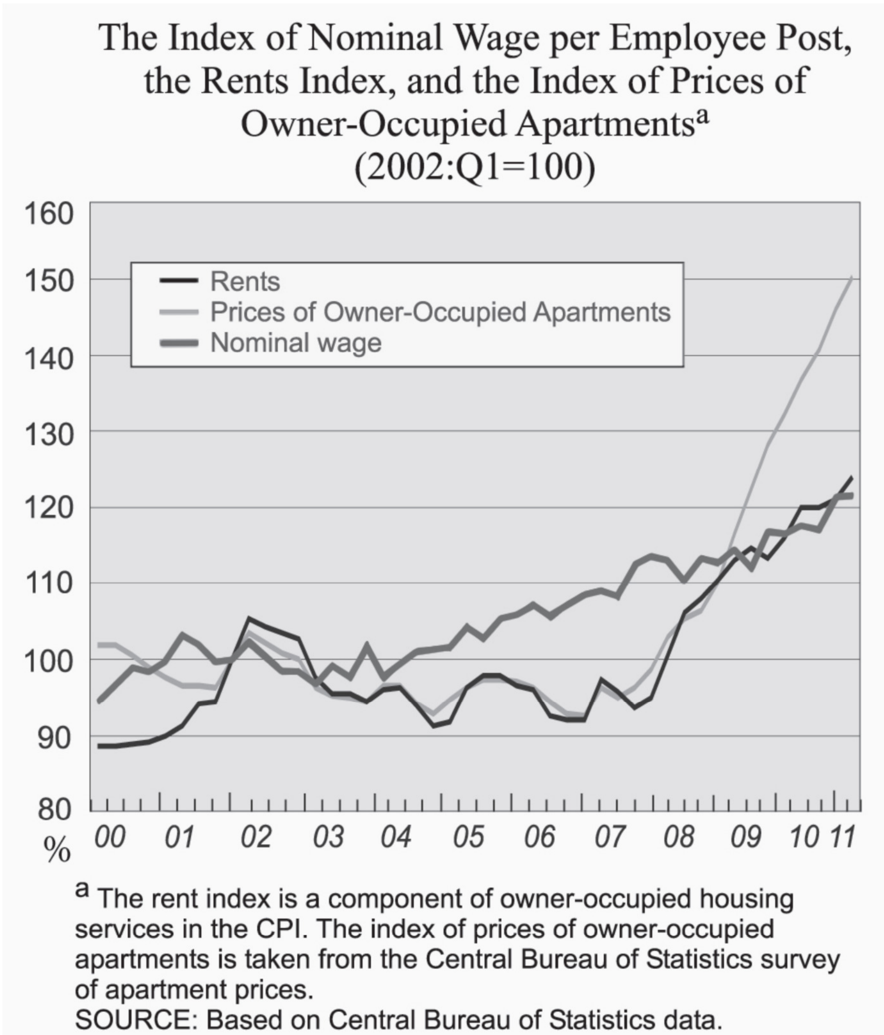
So although at this point it is all theoretical, once a pricing reduction scheme is approved, even if it is only able to help 10% or 20% of the population, it has the ability to do something much more important - to help break the local psyche which says that real estate prices only go up in Israel.

In the long run, real estate prices in Israel have indeed appreciated, but that assumption can well be false in the short term (see the 2000-2006 period as an example). Prices go up but they can also go down. However, breaking this current mindset could be the most important element of the proposals as they give people a major incentive to slow down that purchase, reducing demand, which leads to reduced prices. If I were a first time home buyer, there is no way I would buy anything at the moment. There is too great a chance that we'll see a major shift down in local prices that the risk of prices going up just can't outweigh.

I told it to potential *olim* and I'll say it to my veteran *oleh* readership. Unless you have very compelling reasons to purchase right now, think twice about buying at current prices. Real estate is an investment and like all investments, what goes up can definitely come down.

However, while many consider real estate to be an investment, for most people their home is more a place to hang one's hat than a true financial investment. People buy for the comfort of knowing they have a place to live and settle down, make friends, and build a life. But they need to be able to afford the monthly mortgage payments (not to mention the initial down payment). Three statistics have been shown consistently to run in parallel - the average wage in the economy, the price of housing, and the price of rentals (which is a substitute for buying a home). If you look at the chart below, you'll see that these three price levels paralleled each other in the first nine years of this century. However, from the middle of 2009 onwards, one of them has deviated tremendously from the norm: the price of housing which has grown on average by more than 60% over the last five years). In the long term, people need to be able to afford to pay for their homes, and long term prices cannot be expected to continue growing unless wages increase substantially. In other words, the situation seems to demand that in the long term real estate prices should come down.

Unfortunately no-one can predict exactly when this will happen, or how exactly (via a sharp decrease, a steady price level for a long period of time with inflation eroding the value of prices, or just a gradual small decrease) but the long term equilibrium suggests that prices will indeed level off in the future.



Reproduced from the Bank of Israel Research Department, *Recent Economic Developments 131: May–August 2011* (Jerusalem, 2011), 22, fig. 2.1.

Real estate, like all markets, is ultimately governed by the laws of supply and demand. When demand increases, it naturally pushes up prices, while an increase in supply releases upward pressure and can even lead to over-building, and the creation of real estate bubbles (as happened in Spain and Ireland) and large price decreases. Because housing supply is not immediate (you can't build a new home overnight) it takes time for supply to push its way through the marketplace. The average time for building an apartment in Israel is two years, so all the housing started in 2011 will only have entered the market in 2013 and while this increased the local supply substantially, its impact was negligible because of pent up demand. The demand side also has a major impact that influences the price equilibrium in the market. When there are lots of buyers (first time owners, those moving up in the market, new *olim* or investors for instance) prices are pushed up. There seem to be strong indications that not only will there be an increase in supply, but demand is set to taper significantly as more families are priced out of the market, or unable to meet the new taxes introduced by the government. However, one of the main reasons that I feel that we are approaching a high is the fact that **everyone** seems to be talking about the need to buy or invest in real estate. The adage goes that if grandmothers and taxi drivers (no offense intended) are talking about a specific asset class it means that we need to consider carefully whether prices can really continue to climb. To ensure a profitable investment, you ultimately need someone else to buy from you at a higher price and if many non-professionals have already entered the marketplace, the ability to find a buyer at a higher price will be more difficult.

And feeling incredibly like Tevye in 'The Fiddler on the Roof', I have to add yet another 'on the other hand'.

Unfortunately we are currently living through a horrific wave of anti-Semitic attacks that have recently occurred in several places in Europe. Are European Jews feeling insecure in their home countries? Undoubtedly. Will that cause them to come in their thousands to live in Israel? The jury is out on that one. But without committing to numbers there are definitely more European Jews who are seriously considering moving to Israel. And they will all need somewhere to live. So how will that affect property prices? Who knows? – Certainly not I.

There are too many variables here. But my point is that with the continued uncertain direction of the Israeli property market I would recommend buying a property only if you can really afford it.

On page 178 and in the chart on 177 I outlined the purchase taxes due on the purchases of real estate in Israel. The chart below summarizes the old situation for veteran Israelis and new *olim* as well as the new rates as of 2014.

New *olim*

This is for new *olim* within the first 7 years after making *Aliyah*. This partial exemption is only given once.

From 16/1/2015 till 15/1/2016

Up to 1,700,220 NIS	*0.5%*
Above 1,700,220 NIS	*5%*

Non-*olim*

The old purchase tax that appeared in the book was

Up to NIS 1,026,660	*0%*
1,026,660– 1,442,870 nis	*3.5%*
Above NIS 1,442,870	*5%*

This is updated tax for the purchase of a residential apartment or house when the property purchased is the purchaser's only apartment in Israel.

0- 1,568,800 NIS	*0%*
1,568,800 NIS until 1,860,790 NIS	*3.5%*
1,860,790 NIS until 4,800,605 NIS	*5%*
4,800,605 NIS until 16,002,015	*8%*
Portion of the price above 16,002,015 NIS	*10%*

Additional Residential Apartment (for Foreign Resident)

When an Israeli purchases another apartment or house without selling his or her existing one within 24 months of the new purchase or a foreign resident purchases his/her apartment or house.

From 1/1/2015 till 30/6/2015

0- 1,162,120 NIS	*5%*
1,162,120 NIS until 3,486,350 NIS	*6%*
3,486,350 NIS until 4,800,605 NIS	*7%*
4,800,605 NIS until 16,002,015	*8%*
Portion of the price above 16,002,015 NIS	*10%*

From 1/7/2015 till 15/1/2016

0- 1,126,475 NIS	*3.5%*
1,126,475 NIS until 4,800,605 NIS	*5%*
4,800,605 NIS until 16,002,015 NIS	*8%*
Portion of the price above 16,002,015 NIS	*10%*

Employment benefits

Chapter 5 - 'Understanding the Israeli Employment Market and its Benefits' gives a general overview, and also specific rates and percentages as per when the book went to press.

Pension contribution rates have now been fixed at 6% employee, 6% employer, and 6% severance.

Retirement savings plans

There have been changes affecting *bituach menahalim* policies in the last few years. The most significant change is the elimination of a fixed retirement estimate for determining one's pension. In previous policies prior to 2014, there was a fixed estimate of months the retiree was estimated to live in retirement which determined the level of the pension paid by the insurance company. This fixed rate left the insurance companies exposed if longevity continued to grow, as they would need to pay pensions for more years. The fixed estimate in *bituach menahalim* was thus eliminated so that *bituach menahalim* is now more similar to *kranot pensia*.

Manpower or outsourcing organizations

On page 94 (see below) the book outlines the arrangement between outsourcing organizations and employees.

> "In Israel, many manpower and outsourcing organizations operate (legally and openly) by "employing" self-employed individuals under their business framework. In this arrangement, a self-employed worker converts into a simple employee hired by the manpower company. His or her income and expenses are channeled through the company, and the company uses the revenue and expenses to pay the person a salary, contribute to various benefits and savings plans, and cover all employer costs.
> The major advantage in this arrangement is the worker's ability to avoid time-consuming and sometimes frustrating contact with government agencies by simply becoming a standard employee. It also eliminates the need for US citizens to pay social security on their earned income. Under this structure, all the costs of employing the worker (including employer pension contributions) are paid for out of the income generated by the employee."

These manpower organizations have been challenged in recent years to prove that they are legitimate organizations and have undergone restructuring exercises to remain legal. However, *bituach leumi* has challenged their legality and many self-employed workers who worked through manpower companies have switched in recent years and have needed to explore other business structuring options, including opening up corporations and working directly as self-employed.

Asset Management

In chapter 6 – 'Asset Management in Israel' I discussed how to maintain your assets in your home country, and how to begin and/or continue becoming familiar with the differences in the Israeli market. The promising Israeli stock market was discussed, along with guidelines how to operate in Israel while staying true to your investment needs.

Investing in Israel is discussed on page 100. Every *oleh* or foreign resident in Israel needs to be aware that no matter what your banking setup is prior to A*liyah*, prepare for changes after A*liyah*.

Sometimes accounts registered as belonging to expatriates are transferred to new departments, so you risk losing that treasured personal relationship with your local banker. Not that your new banker won't be able to help meet your needs but many people rely on knowing their banker and getting personalized service which is generally unavailable at a branch where you are just an unknown client.

Often you risk losing more than just a personal relationship with your local banker. Over the last few years, more and more banks have become less helpful to non-resident Americans.

The increasingly complex regulatory environment in the US has led many banks to close their doors to non-residents or to limit the nature of banking activity that is allowed. One very recent example has seen American banks and brokerage houses send letters to non-residents forbidding them from purchasing mutual funds. Sales of mutual funds are regulated by state law and since non-residents are obviously not resident in any state they are being prevented from purchasing them.

In Israel, the most significant recent development in the banking system has been the implementation of US FATCA legislation by Israeli banks and the recent criminal admission of Bank Leumi in helping Americans to avoid tax in the USA. This admission will increase the penalty applicable for Americans with unreported foreign financial accounts at Bank Leumi. See your accountant or tax lawyer immediately if you have unreported foreign accounts.

FATCA legislation has required financial institutions around the world to start reporting American account holders. Israeli banks have asked US citizens and foreign residents with accounts in Israel to sign a W9 form indicating their US tax status. Many banks have required all international clients (both resident and non-resident in Israel) to sign declarations that they are compliant in their home country (meaning that they have reported all their income and assets as required by the tax authority in their country of origin). Non-residents in general are currently not able to open investment accounts with most banks although they still have the option of opening accounts with the brokerage houses.

Another major issue for Americans investing in Israel is how they invest their money. Technically, Americans are allowed to invest in mutual funds in Israel and throughout the world. However, it is often prohibitive from a tax planning perspective as many tax professionals consider them to be PFICs (Passive Foreign Investment Corporations). Therefore, tax professionals tend to highly recommend not investing in foreign mutual funds as taxes on gains can be very high – sometimes as high as 60-80%. However, this doesn't prevent investors from putting together investment portfolios at local financial institutions consisting of stocks, bonds and other securities. Investors can choose to independently construct and manage such a portfolio or choose to work with professionals, including Israeli licensed portfolio managers, to ensure they are investing in the appropriate assets for their individual situation. Some Israeli banks, unfamiliar with US tax reporting, have unintentionally purchased mutual funds for many US clients placing them in an unenviable situation. If you own Israeli mutual funds, seek professional counsel.

Investment currency diversification

How often have you wondered what to with your savings from the old country? Keep your investments abroad or move them to Israel? Should they be converted and invested in shekels or kept in dollars, pounds or euros? How quickly should you convert your money – all at once or over a long period of time?

These questions are among the most common that I am frequently asked. And as with most financial issues that I confront, there is no one answer that fits all. So how do you go about making a complicated decision that can have enormous long term implications?

Here are some points to consider and apply to your personal situation.

- **Exchange rate risk**
  Israel has unique financial constraints and opportunities. Everyone's finances need to be customized to their new country, and for most people that includes increasing your exposure to the local currency. Keeping savings in the local currency helps to reduce exchange rate risk as you save and invest in the currency that you spend the majority of your money. That's why there is a local investment bias (i.e., people place the majority of their funds in local investments – stocks and bonds etc.) in most countries around the world.
- **Selecting your optimum exchange rate**
  With the dollar first depreciating sharply and then appreciating sharply in recent months it's hard not to ponder what to do with one's foreign currency savings. Is this a good time to convert or should you wait? My feeling is that it's generally impossible to time the currency market and thus you can't expect to always receive the top rate for your dollars. Instead look at long term trends and your short and long term needs, and assess what you feel is a reasonable long term rate for converting. Be realistic and avoid the temptation to be greedy. When your currency reaches the level you have chosen, start converting. So if, for example, you view 3.92 NIS to the dollar as generally above the multi-year averages, don't wait. Lock in your gains and don't look back.
- **Tax implications**
  Ensure that you are cognizant of the relevant tax implications of your decision. If you have savings in a retirement savings account, taking them out to convert to shekels might trigger a large tax bill. Selling a business or a home could also lead to large tax exposure, so plan appropriately. If you feel you lack the knowledge to make an educated decision consider consulting with your financial planner or accountant before taking any significant financial step to avoid unplanned tax exposure.
- **Diversification of income streams**
  When deciding how much and when to convert your money to shekels, it's important to see where this money fits into your long term cash flow. If these savings are the only money you're ever likely to earn in a foreign currency, then the money you have abroad should possibly not be converted as you want to diversify beyond the shekels that represent your income and savings. If you are retiring in Israel and your retirement income is completely dollar based, then convert a larger percentage of your savings into shekels now.
- **Global financial restrictions**
  Having money close by has become increasingly important to people over the years. International financial regulatory environments have become more difficult and gone

are the days of an easy transfer and investment around the globe. Depositing and investing money locally can simplify your life and help you avoid situations where you aren't able to access your money abroad for any one of many possible reasons. This ease of access becomes more important as you age and want to simplify your finances.

- **Your specific situation**
  Consider your unique circumstances. Are you expecting any future inheritances coming from abroad? If so, it might be less necessary to keep your money in a foreign currency. There might be specific reasons why you want to keep your money at a distance and not bring it into the country. Money control issues between spouses, family members (close and more distant) might influence your decision. For some, keeping funds further away will prevent easy access to the money while for others the close proximity is beneficial.

If, after considering the above points you recognize a need to convert your foreign currency, you must have realistic expectations regarding the conversion rate. There are huge risks involved when dealing with currency rates, and whereas getting a good rate may not be as enticing as getting a great rate – it's infinitely better than getting a worse rate!

Retirement planning

For Americans who are eligible for social security payments, there is a provision (the Windfall Elimination Provision or WEP) that reduces one's social security payment, if one has contributed to a foreign pension. So for Americans living in Israel and contributing to a *keren pensia* or a *bituach menahalim* policy, future pension payouts in Israel would reduce your social security payment. Until recently the social security administration was also using one's Bituach Leumi pension payments to reduce social security payments but that is no longer the case due to a recent court decision. The social security website has online calculators that can be used to estimate future payments and the effects of the WEP.

There is no "one answer fits all" to retirement planning. It is a process of calculating odds, while considering the many variables and unknowns, and then acting on those calculations, without being paralyzed by the lack of certainty. The many variables that need to be considered include the following projected information: desired standard of living in retirement, retirement date, health care costs, longevity, rates of return on investments, inflation, tax rates, private pension estimates, and government pension benefits.

A few years ago I wrote an article that detailed the Tale of Two Retirement Cases (fictional accounts of very real situations). I believe that internalizing the message behind the scenarios can help people successfully retire in Israel.

Avraham and Sara Cohen, in their mid 40s, made Aliyah over 15 years ago and settled in a small city where apartment prices were still somewhat affordable. Avraham works in chinuch (where he worked for a decade prior to making Aliyah) and earns a nice salary of NIS 10,000 a month bruto (gross) or approximatelyNIS 8,000 after tax. Sara is an occupational therapist earning NIS 5,000 after tax, giving them a family income about 20% above the national average. While the Cohens live comfortably in their 5 room apartment, their budget is tight, not leaving them much room for extras. Not owning a car, they hire one occasionally and keep non-essential extras like cell phones, vacations, and cleaning help to an absolute minimum. They manage to save NIS 1,000 a month that they invest through a horaat keva (direct deposit) right into their investment account, into a conservative mutual fund investing in bonds, and a more aggressive fund for long-term growth. These savings are intended to cover bar and bat mitzvah expenses, weddings and their emergency fund reserve. While things are tight on a monthly basis, they have no overdraft facility at the bank to prevent themselves from being tempted to spend amounts they can't afford. Travelling abroad is rare if at all, and while their four kids complain from time to time about their inability to buy all the new clothes and gadgets that some of their friends have, they are generally happy with their lot.

Yitzhak and Rivka Levi also in their mid 40s came to Israel about 15 years ago and settled on the other side of town in medium-sized town house with a large yard and 5 bedrooms. Yitzhak works long hours in finance and earns close to NIS 18,000 after tax. Yitzhak's company car supplements the minivan that Rivka uses most of the day to take the kids to and from school and chugim. Rivka works as an administrator in high tech and earns NIS 9,000 a month, together giving them income that is two and half times the average family income in Israel. Nonetheless the Levis are always in debt trying to figure out how to get through the month without dipping into their limited savings, accumulated during their eight years working abroad. Every six months or so, they are forced to visit their bank manager who approves another personal loan that covers their overdraft and pays for their vacations abroad. Each year their debt grows until they withdraw money from their keren hishtalmut to cover what they owe. Their five kids attend at least one chug each and have their own cell phones. When a large purchase (like an appliance or vehicle) is needed, the Levis dip into savings and finance it as necessary with an additional bank loan. While the kids also complain from time to time about their inability to vacation abroad every year like their friends, they are generally happy with their lot.

Fast forward 30 years

After retiring at mandatory retirement ages of 67 for Avraham and 62 for Sara, the Cohens have a higher standard of living than during their working years. They purchased a car a number of years ago after most of the kids left home, when their income level peaked and expenses went down. Their retirement income consists of $1,000 a month from social security in the US, as they both worked more than the minimum 40 quarters necessary to qualify prior to Aliyah. Their Israeli pension income includes NIS 3,500 from bituach leumi and private pensions that amount to an additional NIS 8,000 a month. A small inheritance over the years was smartly invested in a property that they now rent, that adds an additional NIS 3,000 a month to their living standard, 20% above their average income level during their working years. Avraham and Sara spend time doing the things they never did when younger, including helping the kids and grandkids, without the pressure of generating income. Their pensions are indexed to the inflation rate and the long-term care insurance that they've paid into for decades gives them the peace of mind they need for the long-term challenges that could await them. Weddings and smachot were paid for from their monthly savings and they managed to avoid using their keren hishtalmut or severance payments throughout their working years. If they ever need to go into an assisted living facility or nursing home, their two fully paid real estate properties can be sold to give them the necessary capital.

The Levis unfortunately postponed their retirement after the last real estate crash in Israel when their house value plummeted by 40%. They had been counting on living off their home equity in retirement. While their savings increased after the kids left home, they only managed to pay off part of their debt and unfortunately used up most of their foreign savings accumulated prior to Aliyah. Inheritances received over the years were used to pay off debts, buy a new car and other assorted consumer goods. While their pensions by Israeli standards are good, giving them NIS 12,000 in income which is supplemented by NIS 3,500 from bituach leumi, their inability to save is now haunting them. Their pension earnings are only 60% of what they currently earn and they feel the need to continue working to ensure that they can afford to retire. While certain expenses have dropped since the kids left home, others have risen, including helping the kids and health-related expenses.

The above two scenarios may be fictional but they depict very different and very common realities. The earlier you plan your finances, the better your future will look. So don't delay - now's the time to start moving in the direction of **your** optimized retirement plan!

Update on tax issues

Foreign Settlor Trust / Israeli Beneficiary Trust

In August 2013 Israeli tax law as it relates to Foreign Settlor Trusts underwent a major reform. The reality now is that if even only one of the trust's beneficiaries is an Israeli tax resident the Foreign Settlor Trust is now taxable in Israel. Prior to this reform the Foreign Settlor Trust was exempt from tax in Israel, as it was considered a non-Israeli source income.

The Foreign Settlor Trust has been renamed the Israeli Beneficiary Trust, and any Israeli beneficiary is now subject to tax payments relating to any distribution of income he/she received from the trust.
If you established an existing trust, or are a beneficiary, you will need to consult with a trust and estate practitioner before making *Aliyah* in order to ensure you are fully aware of the ramifications of this reform.

The deadline for certain reporting requirements for Foreign Settlor Trusts in Israel has been extended to June 30, 2015. The Israel Tax Authority extended the deadline which had previously been set for December 31, 2014.

Taxation of trusts established by *olim*

Olim who made *Aliyah* after August 1, 2013 and established trusts, are now only entitled to the new immigrants and senior returning residents' benefits if all of the trust's beneficiaries are foreign residents or new immigrants, and only on condition that the settlor is alive.

Settlors who came to live in Israel before August 1, 2013 have their trust tax-exempt as long as the settlor is alive, and up to the 10 year tax exemption plan for which the settlor is eligible.

Banking in Israel

Chapter 8 – 'Understanding the Israeli Banking System' details how to successfully navigate the banking system, but recent developments have changed the reality slightly.

Bank fees – an easy way to cut your costs

One seemingly small, but completely painless saving is being offered via the banking system. The Bank of Israel has forced the banks in recent months to offer a variety of tracks for banking fees that the customer pays per month as a global fee, rather than continuing to pay per transaction which generally results in much higher monthly fees. Everyone needs to contact their bank and sign up to benefit from these monthly savings. Just one phone call and you will receive the same service for less money on a monthly basis. There is no excuse for not picking up the phone … and don't think they are going to call you.

Those who have been using the services offered by money changers in order to cash their checks have found themselves paying substantially more over the past few years. The regulatory environment and the mechanism that money changers use, have changed over this period of time making the entire service much less dependable.

Banking restrictions have been more severe regarding the transfer of large sums of money as a result of the crackdown into funds from money laundering activities and to avoid harboring tax evaders. Transactions now require proof of the origins of the funds and in many cases a confirmation by lawyers before they will release the money.

Israeli banks must now comply with the Bank of Israel's draft procedure and ensure that their foreign clients sign a declaration that the funds in their Israeli bank accounts were declared and taxed in their country of residence. The client also has to sign that he agrees that the information can be shared with any other banking jurisdiction.

September 2014 saw the publication of a New Voluntary Disclosure Program. Via this program the Israeli Tax Authorities are attempting to coax non-compliant tax payers to disclose their unreported income and settle the outstanding tax, irrespective of whether this income was accrued in Israel or abroad.

The results of these measures are being felt in foreign banks too. The Swiss have increased their requirements for account holders to ensure full reporting of their assets to the Israeli authorities.

The bottom line is that if you are about to receive funds you must ensure that you have documented proof as to the origins of the money to avoid being penalized as a result of the new tougher restrictions.

Tax Planning

The Israel Tax Authority has recently published the following which is a summary of tax breaks available for new immigrants and returning residents. It can be found at this link - http://ozar.mof.gov.il/ita2013/eng/mainpage.htm

Tax break package for new immigrants and returning residents

The main benefits for new immigrants and returning residents who became citizens since January 1st 2007 and onwards are as follows:

- *10 year exemption from tax paying on foreign-source income (i.e., income derived outside of Israel).*
- *10 year exemption from declaring on foreign-source income which are exempted.*
- *10 year exclusion from definition as an Israeli company resident - for a company established abroad and owned by an oleh or a "Senior Returning Resident".*
- *Option to be considered a foreign resident for taxation purposes, for one year from arrival.*
- *3.5 years of entitlement to tax credit, with options for extension.*

Who is entitled to the tax benefits?

- *"**Oleh**" - New immigrant.*
- *"**Senior Returning Resident**" - Individuals who returned to Israel after they lived continuously outside of Israel, and returned to Israel not sooner than 10 years after having ceased to be a resident of Israel. Those individuals will be considered an "Oleh".*
- ***One-time measure** - Individuals who returned to Israel during the years 2007–2009 are considered as "Senior Returning Resident" even if lived continuously outside of Israel for at least 5 years (instead of 10 years).*

Income entitled to tax benefits:

- *__Passive income__ - 10 year exemption on dividends, interest, rent, royalties and pensions generated by assets held overseas*
- *__Capital gain__ - 10 year exemption on capital gain from the alienation of assets located abroad. Extended to assets located abroad acquired after becoming Israeli resident.*
- *__Business income__ - 10 year exemption on business income generated by assets held overseas.*
- *__Vocational and labor income__ - 10 year exemption on salaries and income from activities of independent nature, generated abroad. Applies to business and occupation acquired or started before or after becoming an Israeli resident.*

Optional track for adapting:

A one year period of adjustment from the date of arrival in Israel is granted upon request, which enables the individual to choose not to be considered as an Israeli resident for tax purposes during this one year period. The request for the adjustment year must be submitted within 90 days from the date of arrival in Israel.

Foreign companies held and owned by "Olim" and Senior Returning Residents:

A company established abroad and owned by an "Oleh" or a "Senior Returning Resident", will not be considered as an Israeli company for taxation purposes for a period of 10 years, and thus will be exempt from taxes in Israel during this period on foreign-source income (i.e., income derived outside of Israel).

Tax credits:

All Israeli residents are entitled to 2 credit points (reduction of NIS 436 per month from the tax liability), as well as 0.25 additional points for a working man and 0.75 points for a working woman, ***which are not taxed.***

Working olim are entitled to ***additional points*** *on top of that, for a period of t**hree and a half years*** *following their Aliyah. This benefit may be extended whilst carrying out compulsory army service and whilst studying at university or college. Apply for this benefit by filling out the relevant sections of form 101 (filled out upon start of employment and at the beginning of every year through your employer):*

- *For the first 18 months – 4.5 (on website it says 4.5 – I believe this is a typo and it should be 3) additional credit points (reduction of NIS 654 per month or NIS 11,772 for the first 18 months)*
- *For the following 12 months – 2 additional credit points (reduction of NIS 436 per month or 5232 annually)*

- *For the following 12 months – 1 additional credit point (reduction of NIS 218 per month or NIS 2616 annually)*

Additional reductions are available for parents of young children, working mothers, discharged soldiers, among many other reasons.

Income tax bands from work income (updated 1/1/2015)

MONTHLY INCOME	*YEARLY INCOME*	*MARGINAL TAX RATE*
NIS 0 – 5,270	*NIS 0 – 63,240*	*10%*
NIS 5,281 – 9,000	*NIS 63,241 – 108,000*	*14%*
NIS 9,001 – 13,990	*NIS 108,001 – 167,880*	*21%*
NIS 13,991 – 19,980	*NIS 167,881 – 239,760*	*31%*
NIS 19,981 – 41,790	*NIS 239,761 – 501,480*	*34 %*
Each additional shekel	*Each additional shekel*	*48%*

As mentioned earlier, FATCA legislation has impacted on reporting requirements for financial institutions around the world that have American clients. Americans also are required to file a Foreign Bank Account Report (FBAR) if the aggregate of their accounts abroad had more than $10,000 at any time over the calendar year or if the individual has a financial interest in a foreign account with that amount of money. An additional disclosure form (form 8938) may be necessary if you have higher asset levels in your foreign accounts.

Non-resident Americans abroad need to continue to file US tax returns under most circumstances and non-tax-compliant Americans abroad may need to consider entering the Offshore Voluntary Disclosure Program (OVDI). If this situation applies to you, see your accountant or tax lawyer immediately.

The Israel Tax Authority (ITA) has also released a new Voluntary Disclosure Program for Israelis who have unreported income abroad since 2003 when Israel switched to a worldwide income reporting system. There are anonymous and fast track options which are available temporarily to ease the disclosure guidelines.

Indirect taxes (page 160)

Over the last few years the Value Added Tax or *ma'am* has been raised to 18%. Eilat continues to enjoy being a vat-free zone to encourage tourism.