BROIDE & CO.
Certified Public Accountants (Isr.)

REPORTING ON AGGRESSIVE TAX PLANNING
(Updated Version)

The new requirement to report on aggressive tax planning (according to the list approved) has received the 'go-ahead' from the Finance Committee of the Knesset.

We detail hereunder **some** of the tax-planning devices which now require disclosure; these new reporting requirements apply to tax reports submitted for the 2007 fiscal year onwards.

1. **Payment of Management or Consulting Fees Between Related Parties**
   - **a.** NIS 2,000,000 or more.
   - **b.** The related party is subject to lower taxes, or is exempt from tax, or has tax losses available for set-off.

2. **Sale of Asset to Related Party**
   - **a.** Created tax loss of NIS 2,000,000 or more.
   - **b.** Losss set off in year of sale or within two years thereafter.

3. **Sale of Asset**
   - **a.** Asset acquired from related party where sale was exempt from tax.
   - **b.** Sold within three years of acquisition.
   - **c.** Resulted in loss of NIS 2,000,000 or more **or** the profit on the sale was set off against existing losses of NIS 2,000,000 or more.

4. **Surrender (Cancellation) of Debt to Related Parties by Legal Body of Persons**
   - **a.** Amount of at least NIS 1,000,000.
   - **b.** Resulted in reduction of taxes due.

5. **Repayment of Debit Balance by Shareholder in Last Quarter of Tax Year**
   - **a.** Debt of at least NIS 1,000,000.
   - **b.** In the following quarter, the debt of such shareholder increased by at least 25% of the amount repaid.

6. **Purchase of Control of Company with Transfer of Credit (Loan) Rights**
   - **a.** Purchaser received rights of another to company and paid the debt to the third party, or debt was paid by the seller.
   - **b.** A credit balance was created for the buyer, as a result, exceeding the amount paid in (a) above.

7. **Acquisition of Company with Tax Losses**
   - **a.** Acquisition of 50% of control.
   - **b.** Tax loss of NIS 3,000,000 or more.

8. Holding of Equity in Foreign Companies (or Other Legal Body of Persons)

- **a.** Acquisition of at least 25% of equity.
- **b.** Tax rate in such country is less than 20%.

9. Holding Equity in Treaty-Country Companies

- **a.** At least 25% of control.
- **b.** More than 50% of the value of the assets, company or other legal body of persons is in Israel.

10. Payment by "Family" Company to Taxpayer

- **a.** Claimed as expenses during tax year.
- **b.** Created loss of at least NIS 500,000 for representative taxpayer or major shareholder.

11. Receipt of Money Amounting to NIS 1,000,000 or More from Foreign Company/Legal Body of Persons

Money received by taxpayer - as per paragraphs 8 and 9 above - are reportable if amounts to NIS 1,000,000 or more and taxpayer holds at least 10% of the control in such entity.

In many instances, some of these may be legitimate tax planning, and the need to report does not alter that. The conditions indicated under each sub-heading must apply to require disclosure.

Proper professinal guidance should be taken on these very material and sensitive matters.

This update should not be relied on for tax planning and application; the actual law is the relevant source of information.

Broide & Co.
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