

Paying Taxes in Israel: A Focus on the Voluntary Disclosure Program

As a public service to our readers, we bring you this informational article, courtesy of CPA firm Broide & Co. (Isr.), which deals with the recently announced Voluntary Disclosure Program. The program encourages residents to report on taxable income that they have not previously declared. This subject is particularly relevant to our readership, as it may have an impact on income earned abroad.

not complied with tax reporting requirements, including new or veteran residents, and even nonresidents in certain circumstances. New immigrants/residents and veteran returning residents enjoy a 10-year "tax holiday" on foreign assets and income, and thus may not be liable to certain of the reporting requirements. The relevance should be carefully considered by all.

From our experience, much of the *chareidi* community is unaware of the option to disclose unreported income (or they are under the impression that taxes will be much higher under voluntary disclosure). Many of these people are surprised that once reported, the tax hit isn't that bad. Also, many wealthy people are at the stage where they would like to help their children and grandchildren purchase or build homes, and they can't use the funds previously undisclosed. Voluntary disclosure will allow them to do so. The ITA has sent out over 150,000 letters over the past few years to people who don't have tax files and are believed to have assets and income that are reportable. We've been approached by a large number of individuals who have received such letters.

Examples of who/when relevant:

- An Israeli earning a salary in another country, investments overseas, or rental income overseas, or a foreign business.
- People who inherited a foreign bank account that wasn't disclosed in the past by their parents. Depending on the case, there were instances in which the client was able to file

voluntary disclosure on four years only (rather than 10, as is usually the case), as the taxpayer was deceased.

- Foreigners who had rental income in Israel that was never reported were able to report on the rental income and pay low taxes for the previous years, applying a 10 percent tax route. In general, rental income in Israel of up to NIS 5,010 per month is not subject to tax reporting. If rental income is higher, there are alternate routes for reporting this income. Other passive income such as interest, dividends, and capital gains are usually taxable at 25 percent. The ITA believes that there are large numbers of people who have unreported income.

A well-known Rabbi/public figure reported his income in the U.S., but failed to report in Israel. He was concerned that he would be exposed due to the CRS (sharing of information between countries), and that it would cause a *chillul Hashem*. He submitted his application and was pleasantly surprised to find out that the taxes paid in the U.S. were used to reduce Israeli tax due.

What is the procedure?

An application must be made, with full details of assets and income relating to the relevant period, but not exceeding 10 years. Full documentation and reports from financial institutions, banks, and others are required. The taxes due, plus interest and linkage, are calculated and payable (possibly certain penalties, as well). It should be noted that, in addition to the liability for tax on the undisclosed income, a

surcharge of 10 percent or more is levied on unexplained and undocumented sources of capital accumulated prior to the commencement of the 10 years (inheritance and gift documents are significant here).

What routes are available?

These include the anonymous route, the short one – for relatively small amounts – and the regular, full disclosure route. Residential property income in Israel may enjoy a special abridged and low tax route.

What is the time frame?

The Voluntary Disclosure Program expires on Dec. 31, 2019, but the anonymous route ends a year earlier (Dec. 31, 2018). As preparatory work for these applications is lengthy, this time factor should be kept in mind.

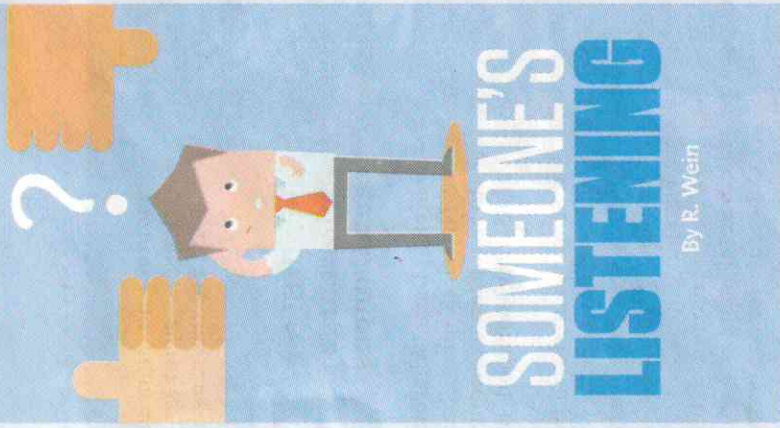
And so...?

This really is a rare opportunity, and given the world we live in, where information is so readily available, it pays to climb aboard before the train leaves the station.

If you have any further queries on this subject you can contact the author via this column.

Jeff and Gidon Broide are partners in the well-known firm Broide & Co. CPA (Isr.), specializing in Israeli taxes, including tax planning and reporting, trusts, and voluntary disclosure applications, and providing services extensively to the Anglo-Saxon community in Israel.

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What is the Voluntary Disclosure Program?

The current Voluntary Disclosure Program, which was announced in December 2017, relates to reporting on previously undeclared income that should have been reported and subject to tax in Israel. Non-reporting to the Israel Tax Authority (ITA) is a criminal offense, and may result in criminal proceedings. The Voluntary Disclosure Program provides immunity from such proceedings.

In recent years tax authorities and financial institutions in many countries have signed agreements for exchange of information; this, together with modern technology, has created a new environment where tax compliance is a must.

For whom is this relevant?

Essentially for anyone who has