

## **Recent Changes in the field of Israeli Tax Law**

A summary of recent changes in Israeli tax law, such as reduced Vat-and corporate tax rate, recent news in the field of tax reporting requirements, exchange of information, voluntary disclosure and money laundering law:

### **Reduced VAT rate in Israel**

On October 1, 2015 the value added tax for a transaction in Israel or for the import of goods to Israel has been reduced from 18 % to 17 %. In contrast to VAT the payroll tax rate for non-profit organizations has not been changed and remains at 7.5 %.

### **Reduction of Corporate Tax rate from 26.5 % to 25 %**

The Israeli Parliament has within the Economic Arrangement Law also approved the reduction of the corporate tax rate from 26.5 % to 25 % beginning from 1.1.2016.

### **The Economic Arrangement Law 2015-2016**

Furthermore, the Israeli Parliament has approved the draft of the “Economic Arrangements Law”, after some sections from the original proposal have been removed and put in separate legal acts.

One important section, which has been removed from the original proposal, is the requirement that any taxpayer will have to report in the future to the tax authorities if he has used, or relied on, a written opinion regarding tax matters. This section will now be dealt in a separate legislative act.

Good news to taxpayers who want to make Aliya to Israel or are planning to return to Israel as veteran returning residents. The section in the original proposal about the expansion of reporting requirements for new residents and veterans returning residents has not been passed. Therefore new residents (“Oleh Chadash”) and veteran returning residents will remain being exempt from reporting on foreign source income for 10 years.

However, the extension of statute of limitations period from three years to four years has been approved. In addition the tax officer will have in the future an extended power to issue a partial tax assessment for any tax return from 2013 on, not yet filed.

### **Exchange of Information**

In a separate legislative act, the Israeli Parliament has approved the amendment of the Income Tax Ordinance with respect to the exchange of information. For years the OECD, EU, the G-20 and the Global Forum are working on more transparency in tax matters and on the exchange of information between different tax jurisdictions in order to fight tax evasion and the phenomenon of “Black Capital”. Now, with the amendment, the Israeli Parliament has created the necessary legal foundation for Israel to sign separate international agreements for the exchange of information in tax matters with foreign jurisdictions. In addition, the amendment provides the Israeli tax authority with the necessary express power to transmit information relevant for the enforcement of the foreign tax law to a foreign tax jurisdiction. This applies regardless whether the information is requested by the foreign country or not. If information about a special taxpayer is requested by the foreign tax jurisdiction, the taxpayer will be generally informed before information will be transmitted.

### **Extension of Voluntary Disclosure Program**

On September 6, the Israeli tax authorities have announced an extension of the current special Temporary Voluntary Disclosure Procedure. The expiration date is now scheduled to be **June 30, 2016**. As a result of this extension, the taxpayer, who has not yet disclosed foreign income and assets, can still submit applications for a voluntary disclosure under the anonymous route as well as the fast track route introduced on September 7, 2014.

Under **the anonymous route** the application for the voluntary disclosure can be submitted anonymously, without disclosing the details of the taxpayer to the tax authorities. Only after conclusion of the negotiations regarding the tax liability, the name and the details of the taxpayer are revealed. (See # 5 Newsletter / December 2014 – AHK Israel (English Version)).

Under **the fast track route**, voluntary disclosure is possible by submitting amended tax returns for the relevant tax years. This route is only available, if the capital included in the voluntary disclosure does not exceed the sum of NIS 2,000,000 and the taxable income derived from such income does not exceed NIS 500,000 in any relevant tax years. (See # 5 Newsletter / December 2014 – AHK Israel (English Version)).

In addition the Israeli Tax authorities have announced that the voluntary disclosure procedure is also open to taxpayers who have declared an insignificant amount of income. Up until this announcement the application for Voluntary Disclosure, which resulted in an insignificant amount of taxes, would not lead to immunity from criminal proceeding for the taxpayer.

Voluntary Disclosure still remains an attractive option, especially in view of the upcoming global automatic exchange of information in tax matters (See # 2 Newsletter / May - AHK Israel (English Version)).

## **Know your customer (KYC) under the money laundering law for Israeli lawyers and accountants**

From September 2015 Israeli Lawyers and accountants, before providing certain business services, have to identify and keep certain information about their clients.

### **When is KYC needed?**

Lawyers and accountants who are asked to perform for their clients business operations of a financial nature are obliged to perform this new “Know Your Customer” rule. These so called business services include buying, selling and leasing of real estate; purchase or sale of a business; managing of client assets, including money, securities, real estate; managing an account at a bank; receipt, holding or transfer of money to form or manage a company; formation or management of an entity, business or trust for another party.

### **What kind of KYC - procedure is needed?**

At first lawyers and accountants must identify their customers by using identification documents and conduct the “know your customer procedure” on a prescribed, special form which will enable the service provider to examine and assess the risk of money laundering or terror financing on the form and to keep a record of the identity details verified.

The client must also sign a declaration stating whether he is acting for himself or in the name of another beneficial owner or controlling shareholder in the case of a corporation.

Returning Clients need not to repeat the KYC procedure.

### **Risk Assessment**

The lawyers and accounts are asked to assess the risk of money laundering and terrorist financing inherent in the business service to be provided for the client. This risk assessment should be based among other things on the characteristics of the client, the type of business service requested and on the source of funds to be used to perform the business service.

If the lawyer or the account come to the conclusion that the risk of money laundering or terrorist financing is high, they have to refrain from any action. If they do not refrain from executing highly suspicious transactions they violate the rules of ethics, which might lead to disciplinary actions. So far there is no reporting requirement for lawyers and accountants for “suspicious transactions” to any governmental authorities.

The amendment to the Money Laundering Law is a response to preventing the misuse of lawyers and accountants for prohibited activities. However, it will be extremely difficult for the professionals to assess the risk of their customers and the business services to be provided. In addition this new imposed obligation might put lawyers into an inherent conflict of interest while providing services to their clients.