

NARRATIVE REPORT ON ISRAEL



PART 1: NARRATIVE REPORT

In 2003, influenced by a global trend to combat hidden bank accounts and tax haven entities, Israel shifted its tax system to a new tax base - imposing income tax on a worldwide basis. As part of this shift, Israel also introduced *“Controlled Foreign Corporation (CFC) rules, worldwide Vocational Taxation provisions, extensive reporting requirements and a revolutionary trust law reform, all of which intend to significantly increase tax collection while combating tax evasion”*¹.

Three years later, on January 1, 2006, Israel amended the Income Tax Ordinance [new version], 5721-1961 (hereinafter: *“Income Tax Ordinance”*) to include a list of tax planning actions which must be reported to the tax authority². The list became effective as of January 1, 2007.

However, and contrary to this trend, in September 2008 Israel amended its Income Tax Ordinance (Amendment No.168) and granted tax exemptions for *“New Immigrants”* (persons who have never held an Israeli residency) and for *“Veteran Returning Residents”* (Israeli citizens who have spent abroad at least ten consecutive years as foreign residents). To a certain extent, this amendment has turned Israel into a *‘limited tax haven’* for many Jewish individuals³. Pursuant to the amendment, new immigrants and veteran returning residents are exempt from Israeli income tax and reporting obligations regarding their non-Israeli source income and gains (as well as from filing tax returns and capital declarations) for a ten year period commencing of the year in which they became Israeli New/Veteran residents (sections 134B and 135 of the Income Tax Ordinance). In practice, the amendment *“provides (high) net wealth individuals with a unique opportunity to transfer funds from off-shore jurisdictions and financial centers into Israel, while enjoying the ‘protection’ of a respectable country, which is not classified as a low tax jurisdiction”*⁴. Moreover, in 2009 Israel even broadened the exemption from such filing obligations for an additional ten year period (up to 20 years altogether) to individual new immigrants/veteran returning residents who will make substantial investment in Israel within two years of their arrival in Israel⁵.

These exemptions from reporting have limited the ability of the Israeli Tax Authorities (ITA) to access financial information, as the OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes (hereinafter: *“the Global Forum”*) reported in 2014:

“The Israeli tax administration has broad powers to access relevant information from any person including banks and from public authorities. However, there are some limits on these powers in respect of information relating to

Rank: 40

Chart 1 - How Secretive?

53
Secrecy Score

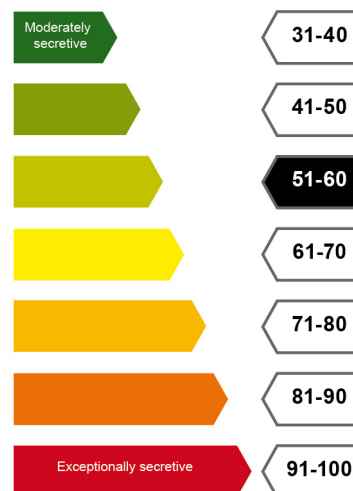
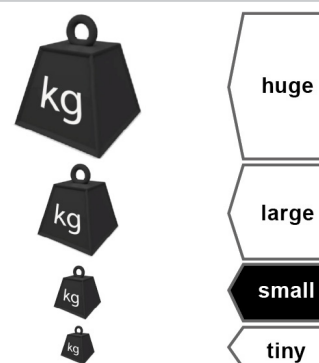


Chart 2 - How Big?



Israel accounts for slightly under 0.2 per cent of the global market for offshore financial services, making it a small player compared with other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

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[→ Full data](#)
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new immigrants or returning veterans during a 10 year tax exempt period and in respect of foreign resident trusts. Further, access to banking information for civil tax purposes involves an element of proportionality which limits effective exchange of information. Currently, the Israeli competent authority does not have powers to give effect to the agreements solely for the purposes of administrative assistance (e.g. TIEAs)”⁶.

The Global Forum further reported on deficiencies in the availability of identity information as a result of these exemptions, especially with regard to settlors, trustees and beneficiaries of foreign resident trusts, and trusts created by new immigrants and veteran returning residents with assets/income from abroad. These deficiencies led the Global Forum to recommend that Israel should amend the law to ensure the availability of such information⁷. Due to pressure from the Global Forum, a bill to repeal the reporting exemption (albeit without changing the tax exemption) was included in the Israeli Economic Arrangements Bill, 2013. However, the bill was not accepted⁸. In 2014, the Global Forum reported that “on 19 May 2013 the Israeli Government has taken a decision to eliminate the exemption from filing tax returns by new immigrants and veteran returning residents. The legislative proposal is pending discussion by Knesset”⁹. Nonetheless, the legislative proposal was not approved in 2014 and a further attempt in 2015 to include the amendment in the Israeli Economic Arrangement Bill, 2015 failed as well¹⁰.

These exemptions have serious implications also with regard to money laundering, as the International Narcotics Control Strategy Report (INCSR) has emphasised for several years:

“Israel’s ‘right of return’ citizenship laws mean that criminal figures find it easy to obtain an Israeli passport without meeting long residence requirements. It is not uncommon for criminal figures suspected of money laundering to hold passports in a home country, a third

country for business, and Israel”¹¹.

With respect of other aspects of money laundering, the INCSR further reported in 2015:

“Israel is not regarded as a regional financial center. [...] Criminal groups in Israel, either home-grown or with ties to the former Soviet Union, United States, and European Union, often utilize a maze of offshore shell companies and bearer shares to obscure beneficial owners. Israel’s illicit drug trade is regionally focused, with Israel more of a transit country than a market destination.”¹²

Israel has a large shadow economy. In 2010, the World Bank estimated the black economy as equal to almost 23 percent of Israel’s GDP in 2007¹³. This estimate was confirmed in 2012 by the Taub Center for Social Policy Studies in Israel¹⁴. In addition, according to research carried out by Visa Europe in 2013, the black economy is equal to NIS 185 billion (approximately US\$ 51.2 billion) a year¹⁵. The ITA estimate that tax evasion is the underlying motive for about 80 percent of this black economy¹⁶. Perhaps one of the reasons is the fact that in practice, due to several exemptions provided in the Income Tax Ordinance for filing tax returns, and the fact that neither gifts nor inheritances are taxed, most Israeli residents are not required to file income tax returns¹⁷.

In light of these estimates, in February 2012, the ITA declared a ‘war on tax evasion’ and submitted to the Minister of Finance “recommendations for the struggle against black capital and tighter enforcement, with the goal of tripling the ministry’s promise of higher tax collection”¹⁸. The recommendations include “making tax evasion the original crime, which among other things will consolidate information held by the Tax Authority and the Prohibition of Money Laundering Authority. [...] Other recommendations include halving cash transactions from NIS 20,000 to NIS 10,000, and levying a 15% fine on exceeding the limit; legislation to allow sending information to

the Tax Authority from the Currency Services Registrar and for the Tax Authority to become the regulator of foreign exchange traders; amending family firm regulations to close tax loopholes; delaying foreign travel by people with tax arrears; permit offsets by taxpayers to prevent hiding assets between spouses; impose guarantees on court-ordered payments; foreclosures on taxes of local authorities and religious councils; and levy taxes on guarantors.”¹⁹

As a result of these recommendations, on 31st July 2013 Israel enacted a law requiring money changers and currency service providers to report any transactions involving sums in excess of NIS 50,000 to the tax authority. The law further stipulates the establishment of a database comprised of this information, which the tax authority can use to locate tax evaders through market exchange service providers.²⁰ Additional amendments were made in 2014, including subjecting lawyers and accountants to customer due diligence (CDD) requirements as of 17th November 2014, as well as obliging money service businesses to implement CDD requirements as of March 20, 2015²¹. In addition, the *“Prohibition of Money Laundering Order has been amended to include the obligation to maintain transactional information in respect of all transactions carried out by banks irrespective of any threshold. The amendment was passed by the Knesset in February 2014 and came into force on 2 August 2014”*²². However, the recommendation to make tax evasion a predicate offence was removed from the Israeli Economic Arrangements Bill, 2013²³ although it was submitted again as a separate bill on 31st August 2015²⁴.

There have also been several developments in respect of exchange of information. On 30th June 2014 Israel signed an inter-governmental agreement with the United States to implement FATCA provisions (according to Model I IGA which provides for reciprocity between the two partners²⁵).

In addition, on 27 October 2014 Israel declared its intention to join the OECD’s Common Reporting Standard (CRS) by end of 2018 and

to make the necessary legislation amendments for it. Once the CRS is implemented, financial institutions will have to identify and file information concerning non-Israeli resident account holders, which includes balances, deposits and income received on bank accounts²⁶. Israel has not yet signed the Multilateral Competent Authority Agreement that will activate automatic exchange of information, among others, because it first needs to amend its Income Tax Ordinance in order to be able to first sign the Convention on Mutual Administrative Assistance in Tax Matters (1988). The relevant bill was submitted by the government on 29 January 2014²⁷. However, as of August 2015, the amendment had not yet been approved.

For many years Israel provided tax incentives for the encouragement of foreign investments. Prior to 2011, the Investment Law for Encouragement of Capital Investment, 5719-1959 (“the Investment Law”) gave preferential treatment to foreign investments in Israel. In addition, companies that invested a substantial amount of money in Israel, as determined by law, were granted zero corporate tax rates for ten years. However, Amendment 68 to the Investment Law, in force as of 2011, abolished this preferential treatment and eliminated the exemption from corporate income tax granted to corporations²⁸.

In addition, in July 2014 the government submitted to the parliament amendments to increase the Tax Benefits for Individuals Investing in R&D Companies Law (“Angels’ Law”). As explained by the IBFD, “Amendments to the 2010 “Angels’ Law” will modify tax incentives provided for new investments in Israeli start-ups in order to make the law more effective in terms of raising capital. Specifically, investors will be able to deduct, for income tax purposes, 100% of their investment during the first year (currently, a deduction over 3 years is possible provided the company maintains a start-up status)²⁹.” As of June 2015, the amendments had not been approved³⁰.

Source: Moran Harari, Tax Justice Network, Israel.

Read more

- [Full data for Israel](#)
- [Israel on TJN Blog](#)
- [Full Methodology](#)

¹ <http://www.barzily-law.co.il/en/content/publications/Extensive-Tax-Benefits-For-New-Immigrants-In-Israel>; 15.10.2015

² Subsection (a)(5d) to section 131, Income Tax Ordinance. See in: [http://www.financeisrael.mof.gov.il/FinanceIsrael/Docs/En/Legislation/FiscallIssues/5721-1961_Income_Tax_Ordinance_\[New_Version\].pdf](http://www.financeisrael.mof.gov.il/FinanceIsrael/Docs/En/Legislation/FiscallIssues/5721-1961_Income_Tax_Ordinance_[New_Version].pdf); 15.10.2015; See the Israeli Tax Authority's report (in Hebrew), in: <https://taxes.gov.il/incometax/documents/hozrim/hoz2-2008.pdf>

³ <https://www.globalpolicy.org/empire/49949-the-state-of-israel-a-tax-haven.html>; 15.10.2015; <http://www.haaretz.com/business/.premium-1.557655>; 15.10.2015

⁴ <http://www.barzily-law.co.il/en/content/publications/Extensive-Tax-Benefits-For-New-Immigrants-In-Israel>; 15.10.2015

⁵ Section 165(4) of the Israeli Economic Arrangements Law, 2009

⁶ Global Forum on Transparency and Exchange of Information for Tax Purposes 2014: Peer Review Report – Phase 2: Implementation of The Standard in Practice – Israel, Paris, in: <http://www.eoi-tax.org/jurisdictions/IL#latest>; 15.10.2015 (hereinafter: GF 2014); p.8

⁷ GF 2014: 54

⁸ <http://www.prisha.co.il/UserFiles/File/pdf/hoz/tax20132014.pdf>; (in Hebrew); 15.10.2015.

⁹ GF 2014: 19-20

¹⁰ <http://www.calcalist.co.il/local/articles/0,7340,L-3667413,00.html>; (in Hebrew); 15.10.2015

¹¹ United States Department of State 2015: International Narcotics Control Strategy Report. Volume II Money Laundering and Financial Crimes, Country Database, Washington, DC (hereinafter: "INCSR CD 2015"), in: <http://www.state.gov/documents/organization/239329.pdf>; 15.10.2015; p.226

¹² See note above, p.224.

¹³ See pages 24-25 in: http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2010/10/14/000158349_20101014160704/Rendered/; 15.10.2015

¹⁴ <http://www.themarker.com/news/1.1733942>; (in Hebrew) 15.10.2015

¹⁵ <http://www.globes.co.il/en/article-1000819120>; 15.10.2015

¹⁶ <http://www.themarker.com/news/macro/1.1845006>; (in Hebrew) 15.10.2015

¹⁷ Income Tax Regulations (Exemption From Filing Income Tax Returns), 1988

¹⁸ <http://www.globes.co.il/serveen/globes/docview.asp?did=1000819120&fid=1725>; 15.10.2015

¹⁹ See note above.

²⁰ <http://www.globes.co.il/news/article.aspx?did=1000870146>; (in Hebrew) 15.10.2015

²¹ INCSR CD 2015: 225-226

²² GF 2014: 40

²³ <http://knesset.gov.il/Laws/Data/BillGovernment/768/768.pdf>; (in Hebrew) 15.10.2015.

²⁴ <http://knesset.gov.il/Laws/Data/BillGovernment/953/953.pdf>; (in Hebrew) 15.10.2015

²⁵ GF 2014: 20

²⁶ IBFD 2015: IBFD Tax News Service, in: <http://www.ibfd.org/IBFD-Tax-Portal/Tax-News-Service>; 19.10.2015.

²⁷ GF 2014: 19

²⁸ <http://taxes.gov.il/IncomeTax/Documents/Hozrim/hoz03-2012.pdf>; (in Hebrew) 15.10.2015.

²⁹ IBFD 2015: IBFD Tax News Service, in: <http://www.ibfd.org/IBFD-Tax-Portal/Tax-News-Service>; 19.10.2015.

³⁰ http://www.pc.co.il/it-news/187795/?redirected_from_ad=true; (in Hebrew) 15.10.2015

PART 2: ISRAEL'S SECRECY SCORE

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Israel

- 1 ▶ **Banking Secrecy:** Does the jurisdiction have banking secrecy?
Israel partly curtails banking secrecy
- 2 ▶ **Trust and Foundations Register:** Is there a public register of trusts/foundations, or are trusts/foundations prevented?
Israel partly discloses or prevents trusts and private foundations
- 3 ▶ **Recorded Company Ownership:** Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?
Israel does not maintain company ownership details in official records

KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Israel

- 4 ▶ **Public Company Ownership:** Does the relevant authority make details of ownership of companies available on public record online for free, or for less than US\$10/€10?
Israel does not require that company ownership details are publicly available online
- 5 ▶ **Public Company Accounts:** Does the relevant authority require that company accounts are made available for inspection by anyone for free, or for less than US\$10/€10?
Israel does not require that company accounts be available on public record
- 6 ▶ **Country-by-Country Reporting:** Are all companies required to publish country-by-country financial reports?
Israel does not require public country-by-country financial reporting by companies

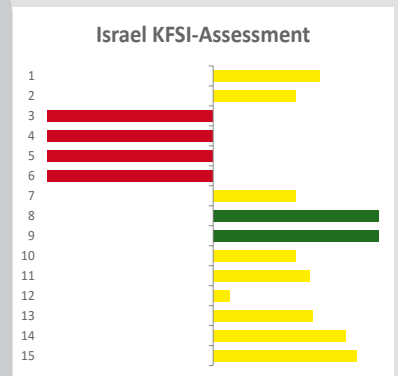
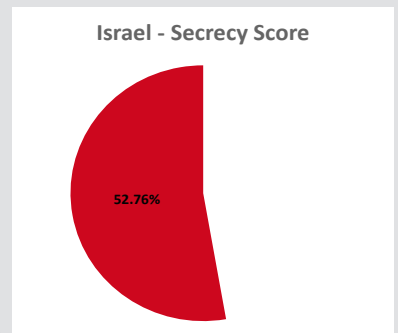
EFFICIENCY OF TAX AND FINANCIAL REGULATION – Israel

- 7 ▶ **Fit for Information Exchange:** Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?
Israel partly requires resident paying agents to tell the domestic tax authorities about payments to non-residents
- 8 ▶ **Efficiency of Tax Administration:** Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit?
Israel uses appropriate tools for efficiently analysing tax related information
- 9 ▶ **Avoids Promoting Tax Evasion:** Does the jurisdiction grant unilateral tax credits for foreign tax payments?
Israel avoids promoting tax evasion via a tax credit system
- 10 ▶ **Harmful Legal Vehicles:** Does the jurisdiction allow cell companies and trusts with flee clauses?
Israel partly allows harmful legal vehicles

INTERNATIONAL STANDARDS AND COOPERATION – Israel

- 11 ▶ **Anti-Money Laundering:** Does the jurisdiction comply with the FATF recommendations?
Israel partly complies with international anti-money laundering standards
- 12 ▶ **Automatic Information Exchange:** Does the jurisdiction participate fully in multilateral Automatic Information Exchange via the Common Reporting Standard?
Israel partly participates in Automatic Information Exchange
- 13 ▶ **Bilateral Treaties:** Does the jurisdiction have at least 53 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention?
As of 31 May, 2015, Israel had less than 53 tax information sharing agreements complying with basic OECD requirements
- 14 ▶ **International Transparency Commitments:** Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?
Israel has ratified less than five of the most relevant international treaties relating to financial transparency
- 15 ▶ **International Judicial Cooperation:** Does the jurisdiction cooperate with other states on money laundering and other criminal issues?
Israel partly cooperates with other states on money laundering and other criminal issues

Secrecy Score



Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 53 per cent for Israel has been computed by assessing its performance on 15 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail, [here](#).

Green indicates full compliance on the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); and yellow indicates partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 31.12.2014 (with the exception of KFSI 13 for which the cut-off date is 31.05.2015).

Full data on Israel is available here: <http://www.financialsecrecyindex.com/database/menu.xml>

All background data for all countries can be found on the Financial Secrecy Index website: <http://www.financialsecrecyindex.com>