

אלון קפלן, משרד עורכי-דין
ALON KAPLAN NEW LAW FIRM

1, King David Ave., Tel Aviv 64953, Israel
Tel. +972 3 695 4463 Fax +972 3 695 5575
E-Mail: dalia@kaplex.com

Alon Kaplan, LL.M.*
Alan Aronson, B.A., LL.B.
Orna Ronkin-Noor, B.A., LL.B.
Lyat Eyal, LL.B.*
Yigal Harkavi, B.A. (Cantab)

*אלון קפלן
אלן ארונסון
אורנה רונקין-נוור
*ליאת אייל
יגאל הרקבי

September 9, 2008

NEWS FLASH!

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To: New Immigrants and returning residents - New Legislation

In a nut shell, the New Law exempts the foreign sourced income of new immigrants and certain returning residents who arrived in Israel as of 2007, for a 10 year period. In addition, the New Law also exempts such new immigrants and returning residents from reporting obligations for a 10 year period.

The New Law enables new immigrants and returning residents to make a special election according to which they will be considered as foreign residents during the first year of their stay in Israel. Such an election should be made within 90 days from their arrival in Israel. New immigrants who arrived in Israel prior to the publication of the New Law should issue this notice within 90 days from its publication. Accordingly, new immigrants who arrived in Israel during 2007-2008 should urgently examine whether such an election is beneficial for them.

In addition, the New Law also includes an important determination as to the date on which an individual ceases to be an Israeli resident. Accordingly, it was determined that if an individual: (i) remains out of Israel for 183 days or more during two consecutive tax years; and (ii) his center of life is outside of Israel for additional two years (i.e. a total of 4 years) then he will be considered as a foreign resident from the day he left Israel.

The Benefits under the New Law

The main benefits that are provided are as follows:

New Tax Status

Israeli law provides several tax benefits to new immigrants ("**New Immigrants**") and returning residents ("**Returning Residents**") to Israel. Currently, a Returning Resident is a former resident of Israel who has resided abroad for at least 3 years after he ceased to be an Israeli resident.

The New Law adds a new tax status of "Long-Absent Returning Resident". A Long-Absent Returning Resident is an individual who was a foreign resident for a period of at least 10 years. Under the New Law, an individual ceases to be an Israeli resident only if he (i) stays out of Israel for 183 days or more during 2 consecutive tax years; and (ii) his center of life is outside of Israel for an additional 2 year period (a total period of four years).

The tax benefits for Long-Absent Returning Residents will be identical to those of New Immigrants.

In addition, in order to encourage former Israeli residents to return to Israel during the next couple of years, the New Law contains a temporary provision, according to which former Israeli residents who return to Israel from 2007 to 2009, after a period of 5 years during which they were foreign residents, will also be entitled to the enhanced benefits.

Tax Holidays under the New Law

The main benefits that are provided by the New Law are as follows:

Full Exemption on Foreign Sourced Income

The New Law extends and improves the current tax exemption for New Immigrants and grants New Immigrants and Long-Absent Returning Residents full exemption from tax for a period of 10 years on their foreign sourced income, including, passive income, earned income and capital gains, unless they have requested otherwise. As opposed to current legislation, it is not required that the income will be derived from assets that the New Immigrant held prior to his immigration to Israel. In addition, the New Law exempts New Immigrants and Long Absent Returning Residents on their foreign sourced earned income, such as employment and business income. It should be noted, however, that the 10 year tax exemption for New Immigrants and Long-Absent Returning Residents will not apply with respect to income from assets which the New Immigrants or Long-Absent Returning Resident received as a tax free gift from an Israeli resident.

Relief from Reporting Obligations

New Immigrants and Long-Absent Returning Residents will not be required to file reports with the Israeli Tax Authorities in respect of their foreign income or assets for a period of 10 years from the time they became Israeli residents. This exemption refers both to annual tax returns and capital declarations. In addition, during a period of 10 years, New Immigrants or Long-Absent Returning Residents, who are foreign settlors of a trust, as well as the trustee of such a trust, will not be required to submit a notice to the Israeli Tax Authorities in respect of changes in the status of a trust, as a result of the settlor becoming an Israeli resident.

Acclimatization Period

A New Immigrant and a Long-Absent Returning Resident will be able to elect not to be considered as Israeli residents for a period of one year as from their arrival in Israel (the "**Acclimatization Period**"). In case the New Immigrant or the Long-Absent Returning Resident will decide to become an Israeli resident, the period for the abovementioned tax benefits will include the Acclimatization Period.

Returning Resident

A Returning Resident (i.e., a person who returned to Israel after being a foreign resident for 3 years and is not considered as a Long Absent Returning Resident) will continue to enjoy tax exemption for a period of 5 years on passive income (i.e. income from interest, dividends, allowances, royalties and rent that are not derived from a trade or business) which is derived from assets that are located outside of Israel and which the Returning Resident purchased whilst he was not an Israeli resident. In addition, a Returning Resident will continue to enjoy an exemption for a period of 10 years on capital gains on a sale of foreign assets purchased by him whilst he was not an Israeli resident.

A Returning Resident, who ceases to be an Israeli resident in 2009 and subsequently, will be entitled to the above tax benefits only if he has returned to Israel after being a foreign resident for a consecutive period of 6 years (instead of 3 years under current legislation).

Effective date

The New Law will apply only to individuals who became Israeli residents after January 1, 2007. New immigrants who arrived in Israel prior to this date will be entitled to the benefits which existed prior to that date.

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Should you require any further information or clarification regarding the issues discussed in this Circular, please do not hesitate to contact either:

	E-mail	Phone Number
Alon Kaplan	Alon@kaplex.com	972- 3- 6954463
Meir Linzen	linzen@hfn.co.il	972 – 3 – 6922035
Guy Katz	katzg@hfn.co.il	972 – 3 – 6922035