

Personal Finance Strategies

By Philip Braude

The effects of the new aliya tax laws

Two days ago the Israeli Knesset passed a law that will impact on the lives of immigrant families for years to come. In summary, the new law grants new olim & returning residents a 10 year period of exemption on reporting their overseas assets & income, as well as being exempt on taxes on income earned overseas. This law shows Israel's commitment to encourage the repatriation of people and skills, and in making itself the destination of choice for the Jewish people. It allows some interesting financial planning opportunities for those that made Israel their home since the 1st of January 2007, as it is retrospective in its application. Previously such olim would have had to structure their affairs before they arrived in Israel. Now the door is wide open for them to restructure, and I can see many people who fall into in this category making full use of this benefit.

Unfortunately, I can see certain pitfalls inherent in the new tax law, which is imperative that people are aware of, so as not to be adversely affected. The definition of residency is ambiguous, which means that people must be careful how much time they spend in Israel before they inadvertently trigger Israeli residency, and start the 10 year clock ticking. More importantly, is that the definition of pensions has been left inconclusively undefined. This may mean, that personal retirement plans, such as US - IRA's & 401's, UK - SIPP's, Australian - Superannuation funds etc, could miss the 10 year exemption, as they are only drawn down at a later stage in life, and possibly even double taxed after the 10 year exemption period has expired. Another area of concern is that although overseas work income enjoys the 10 year tax exemption, it will not apply if the work was actually performed in Israel. This could impact the "telecommuters" who are performing overseas jobs via the internet. This fact could encourage commuting, which would disrupt the family life of the immigrant families.

From a practical perspective, a person who qualifies to enjoy these benefits must hold his assets out of Israel and in a jurisdiction that does not impose taxes at source in order to actually benefit from these exemptions. This would enable such a person to enjoy tax haven status due to the fact that he has moved to Israel. US nationals would not be so lucky, as they would still have to report their unearned income in America. I would advise US nationals to hold their investments in the US, which is the most user-friendly solution. For those "old-timers" amongst us who do not qualify to enjoy these new tax exemptions, our only option is to structure our affairs to be subject to the lower tax brackets.

On a more idealistic note, I hope that the future olim will continue to come to these beautiful shores for religious, idealistic and quality of life issues rather than solely being tax driven. These tax benefits are the cherry on the top.

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