



Taxation of Trusts with Israeli Beneficiaries



Guidelines for Trusts with Israeli beneficiaries - for families and trust professionals.

Does your trust have any Israeli beneficiaries?

Since January 1, 2014, foreign settlor/grantor trusts with an Israeli tax resident beneficiary are subject to Israeli taxation and reporting. The Israeli Beneficiary Trust (IBT) is subject to the reporting and taxation “portion” to be attributed to the Israeli beneficiaries; Trusts are required to report their underlying companies (as defined in the law), which are taxable at trust tax rates.

There are two types of IBTs:

1. Family/relatives Trust – where the settlor or his spouse is alive, and in which settlor/grantor and beneficiaries are close family relatives, may elect to be taxed annually at 25% of taxable income or on distributions at a 30% rate (reportable and taxable by beneficiaries).
2. Regular trusts – where the settlor/grantor and beneficiaries are not relatives, will be taxed annually at regular individual rates.

Trustees of IBTs are now required to:

1. Open a tax file for each IBT and disclose its assets
2. Elect the preferred tax route (annual/upon distribution)
3. Report and pay taxes annually

Important notes for trustees:

1. Trustees should obtain documentation on the value of the trust’s assets at registration.
2. Where possible, trustees should prepare a schedule with a breakdown of the original trust capital and the profits.
3. Obtain a schedule (and documentation) of taxes paid on trust income (by trust, beneficiaries, and underlying companies).
4. Distributions to Israeli beneficiaries are reportable by both trust and recipients (on personal return).





Under certain conditions, the settlor/grantor may report to the Tax Authority (and thus be the taxable entity) and not the trustees



Where the beneficiaries of a foreign-settled charitable trust are public institutions – as defined – then they will retain their foreign status



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The ITA sends most trusts a request to submit a Declaration of Assets – a snapshot of the trust's assets as of December 31st of a given year.



There is not always complete clarity and certainty in the approach of the ITA to taxation and reporting of trusts in Israel. This should be kept in mind.

Income Tax Factors

Tax rates on passive income of the trust will generally be 25%-30%.

Trustees of family trusts may elect to be taxed at 25%-30% of the trust's taxable income or 30%-35% on distributions (with allowance for neutralizing the capital contributed). This election is irreversible.

Foreign taxes paid on trust income by the trust\grantor\beneficiary can be used as a foreign tax credit in Israel. In many cases, US trusts reporting in Israel have no additional taxes to pay.

The trustees' residence will not impact the trust's taxability. If the trustee is Israeli, a form specifying the trust information is required.

Underlying companies (holding trust assets and owned by the trust) will generally be treated as part of the trust structure and taxed accordingly (subject to certain conditions).

Dissolution of existing trusts may have tax consequences.

Beneficiaries are required to report on distributions received in kind or cash, irrespective of whether taxable. Most beneficiaries are required to submit annual tax returns.

Asset Declaration

The ITA sends many trust requests/demands for submission of a declaration of the worldwide assets and liabilities of the Trust at a specific date (31 December) – an asset/wealth declaration.

This declaration has much significance in the eyes of the ITA and tax professionals and must be treated with the utmost care in its preparation.

10-Year Tax Holiday - TRUSTS

- New immigrants and returning residents to Israel are entitled to a 10-year exemption from filing and paying taxes on their foreign passive income.
- Generally, trusts will assume the tax status of the beneficiary and may thus enjoy these tax benefits. The status of the grantor/settlor is of much significance.
- Beneficiaries eligible for the 10-year tax holiday will be exempt from their "share" of the trust income or distributions.
- No annual tax reporting is required.
- The ITA's position is that the trust must register but not report.
- In some cases, trust registration during the ten years is recommended, mainly when banks encounter problems. There are planning opportunities during the 10-year period.
- Close relatives trusts should be registered prior to Aliyah.





Tax Issues Impacting

Trusts/Trustees/Settlors/Grantors/Beneficiaries

The ITA adopts a very aggressive approach to trusts, particularly in the reviewing and auditing of trust tax reporting.

The interpretations and demands of trusts from ITA inspectors are often not per our reading of the law.

Thus, we encounter the following:

- They treat trusts as fully taxable in Israel, where most (or even some) of the beneficiaries are not tax residents in Israel.
- Attempts by the ITA to tax the revenue portion of distributions earned before such revenue is liable to taxes in Israel. (e.g., income earned during the 10-year “tax holiday”.)
- Holding foreign trusts as taxable before the 2013 changes in the tax law and effective as of 2014.
- Treating sources of trust assets and trust location as “suspect” without legal or factual basis.
- Creating bureaucratic obstacles to the registration of trusts with the ITA.

Trust professionals must be aware of these and other tax problems encountered.



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About Broide & Co.

Broide and Co. is a Jerusalem-based CPA firm providing advisory, auditing, taxation, and business consulting services. Our team provides high-quality services to clients in Jerusalem, the Greater Tel-Aviv area, and abroad. The firm is characterized by its unique combination of professionalism with close and personal involvement in clients' business and financial matters. Our competent staff have substantial international experience and work closely with clients' lawyers, bankers, financial and other advisors. We develop and maintain close personal relations with our clients, working as part of their team. We call ourselves the "Broide Team".

We are geared for servicing the "Anglos" in Israel and abroad. We focus on our clients' (and their families') needs, providing professional and efficient guidance in growing their businesses and minimizing taxes. Our experience in assisting foreign companies and their professional advisors in their Israeli activities, including our renowned "hand-holding," is valued by our clients. Our "team" is proficient in English and Hebrew and emphasizes service. We're always available and glad to have a personal chat.

Gidon Broide Managing Partner CPA (Israel, US), TEP



With 25 years of experience in audit, tax, and consulting, Gidon advises families, trusts, individuals, privately held companies, and local and foreign professional advisors and trustees. Gidon believes in knowing our clients well and understanding their concerns. He is considered an expert on the taxation of trusts in Israel. He is a qualified CPA in Israel and the US and a member of STEP (Society of Trust and Estate Professionals).

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