

Israeli Tax Authority extended the reporting date for trusts

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Dear Clients, Colleagues and Friends,

Following our circular of January 6, 2014, we wish to inform you that the Israel Tax Authority (the "ITA") has extended some of the relevant dates for reporting trusts. In addition, as part of the extension, the ITA updated the recently published forms for reporting trusts under the new legislation. Many of the central elements of the new legislation were described in our earlier circular of July 31, 2013.

Reporting Dates for Family Trusts

With respect to so-called "family trusts" (i.e., trusts that were settled by foreign settlors who are still alive for the benefit of their Israeli relatives), the ITA has extended the dates for the reporting of existing trusts to **June 30, 2014** (Instead of January 28, 2014). This reporting includes –

- a. Notification of the existence of a family trust; and
- b. The election to be taxed on a current basis at a rate of 25% on the portion of the trust's income allocated to Israeli beneficiaries (if applicable). The election to be taxed on current income is an alternative to the default of being taxed on distributions at a rate of 30%. The wording of the law itself is not entirely clear and it may also be interpreted to allow more time to make such an election – namely, until the date for submission of the 2014 tax return (in 2015). However, since the ITA has indicated an earlier deadline it is advisable to prepare for June 30, 2014 as the relevant deadline.

Reporting Dates for Underlying Companies

The ITA has also clarified the reporting deadline for underlying companies (so called "Trust Holding Companies"). Under the new legislation, in order to be entitled for the status of an underlying company, a notification of the company's status must be submitted to the ITA. The relevant dates for existing companies according to the ITA's notification are -

1. *Existing Israeli underlying companies* – must submit notification by **June 30, 2014**.
2. *Existing Foreign underlying companies* – must submit notification until the earlier of –
 - (i) date for the submission of the 2014 tax return of the trust (in 2015); or
 - (ii) upon the date a settlement arrangement is achieved with the ITA.
3. *Underlying companies belonging to foreign trusts (usually this will apply to trusts with assets in Israel)* – must submit notification upon the date for the submission of the annual tax return or within 90 days of investing in an Israeli asset or generating Israeli sourced income, as applicable.

In this case as well, the wording of the law itself is not entirely clear and it may be interpreted to allow more time to make such an election – namely, until the date for submission of the 2014 tax return (in 2015). However, since the ITA has indicated the above dates (which in certain cases may be earlier) as the relevant dates it is advisable to prepare for these dates as the relevant deadlines.