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Tax Authority gives Olim time to report foreign gains

New program could help countless new immigrants and returning citizens who were unaware Israeli law requires they declare income on financial assets overseas and come clean.

By Raphael Ahren

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The Israel Tax Authority late last month launched a new voluntary disclosure procedure for citizens who have failed to declare income on foreign assets.

The new program, which tax experts praise as "revolutionary," could help countless new immigrants and returning citizens who were unaware that Israeli law obligates them to declare income on financial assets overseas come clean.

Eligible participants in the new program will be able to avoid criminal prosecution if they report themselves before an audit of their tax records is planned. They will merely have to pay back the principal sum of the money they owe - without interest or fines.

Previously, under the tax authority's regular voluntary disclosure program, delinquent taxpayers who reported themselves had to pay the principal amount owed - linked to the Israeli Consumer Price Index to take into account inflation - plus interest and in some cases fines.

The Israel Tax Authority announced that it would in some cases even waive the obligation to link the back payment to inflation.

The new program is "geared toward people who made aliyah or are returning residents and have assets abroad, or Israelis who received gifts overseas or people who might have income in Israel and pay taxes and then invested it overseas but never reported that particular income," said Dave Wolf, a Jerusalem-based partner in the Hacohen Wolf law offices.

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According to Meir Linzen, one of Israel's leading tax experts, the new disclosure program applies only to less severe cases of tax evasion.

Legal money

"This program is ... mainly intended for people who received legal money - money that wasn't subject to taxation in Israel, like gifts or inheritances from abroad, or money that was declared in Israel as income but was sent abroad. Their offense was that they didn't declare the financial income they gained from these assets."

Several Israeli tax attorneys say the new program could benefit all immigrants and returning residents who have received a large gift or inheritance from abroad after arriving in Israel. "That's income for them, and unless they have an exemption, they need to report that income to the Israeli tax authorities," Wolf said. "Most likely they will never do it. They're probably not even aware that they have to."

"If you made aliyah, you have several tax exemptions for a certain time depending on the income derived overseas," Wolf continued. "But most people who live here for much longer have inherited assets in their lifetime or had things that after the exemption period is over they had to report and never did. I think most people who made aliyah fall under this category. I don't know how many people actually report their foreign assets or foreign income to the Israeli government, only because they think the authorities will never find out, or because they are not even aware that they are obligated to."

In light of recent changes in the international banking system, Wolf recommends people with undeclared assets take the opportunity to come clean. "More and more countries are concluding exchange of information agreements, even tax havens such as Panama and Gibraltar," he said, adding, "Everybody is reporting things left and right. ... These days you are exposing yourself by just transferring money between two countries. It's not anymore what it used to be 10 years ago."

'Not-so-serious criminals'

The new disclosure program is based on a recommendation by the Trajtenberg committee, which was established in response to the cost-of-living protests this summer, said Linzen, managing partner and head of the tax department at the Herzog, Fox and Neeman law office. "I am very much in favor of it because olim and returning citizens are not tax criminals who evaded the principal in Israel," he said. "They made an offense, but a not-so-serious one. I welcome the program. I think it should be for a longer period of time. It should be, in a way, more generous."

Linzen said he does not believe inflation should be added to the back payment, and added that participants should be allowed to pay in foreign currency because of the strong shekel.

Linzen, who chairs the Israel Bar Association's tax committee, also said tax authorities should consider the fact that the financial crisis caused many people significant losses. People won't pay if they don't have the resources to do so, he said.

American tax authorities recently launched two rounds of a voluntary disclosure program, which offered reduced penalties to American citizens who had previously failed to report offshore accounts. Participants avoided criminal prosecution.

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