



Tax Bulletin - April 2016

The Israeli Voluntary Disclosure Program - Update

- On September 7, 2014, the Israel Tax Authority ("ITA") launched a voluntary disclosure program (the "VDP") to grant non-compliant taxpayers the opportunity to voluntarily disclose their previously unreported tax affairs in exchange for the ITA (in collaboration with the State Attorney) undertaking not to initiate criminal proceedings. The VDP applies to undisclosed income and assets, whether in Israel or abroad, passive or active.
- Until 30 June, 2016, voluntary disclosure applications under the VDP may be made under one of the following two paths: (i) an anonymous application; and (ii) a short application, as follows:
 - Under the anonymous application path, the disclosure is submitted on a no-name basis and the identity of the taxpayer is disclosed only after a tax agreement has been reached with the ITA to settle the outstanding tax liability.
 - Under the short application path, the disclosure is handled under an expedited settlement process, and allows taxpayers to submit revised tax returns. The short application path is available only to taxpayers whose undisclosed capital does not exceed NIS 2 million and whose aggregate undisclosed taxable income does not exceed NIS 0.5 million.
- Following 30 June, 2016 and until 31 December, 2016, all voluntary disclosure applications are to be made on a fully named basis, without expedited treatment.
- The ITA may extend the anonymous path and the short path until 31 December, 2016.

Tax Liability for the Purposes of the VDP

- Based on our experience, the tax liability to be imposed under a voluntary disclosure application will generally be composed of the following elements:
 - Taxation at the prevailing rates on financial income (i.e. income from interest, dividends and capital gains) gained in the last ten years.
 - Taxation at the prevailing tax rates for new deposits of funds not supported by sufficient documentation. Without providing a satisfactory explanation regarding the source of the funds, it is presumed that the funds constitute business income and taxable at the full applicable tax rates.



- In general, the ITA will impose a further tax on the value or balance of the capital at the beginning of the reporting period of the voluntary disclosure application, at a tax rate in the range of 10%-15% of the capital amount, which is in addition to the taxation of the gains and profits made during the ten year reporting period of the voluntary disclosure application. In the event that a taxpayer can provide satisfactory documentation to demonstrate that the source of the capital at the beginning of the reporting period of the voluntary disclosure application is exempt from tax (e.g. inheritance or gift), the taxation on such capital is likely to be reduced. In cases where such capital is derived from business activity, the applicable tax rate may be higher.

VDP Now Available to the Diamond Industry

- Until recently, the ITA did not handle voluntary disclosure applications by diamond dealers due to the complex nature of the taxation framework of the diamond industry.
- However, following efforts made by both the Israel Diamond Exchange and the Israel Diamond Manufacturers Association (represented by our firm), participants of the diamond industry may now submit voluntary disclosure applications under the VDP.
- We note that the diamond industry is still currently negotiating with the ITA to establish industry-wide principles regarding the treatment of the unreported tax affairs for the participants in the diamond industry.



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For more information please [click here](#) to see our memorandum from September 2014.

This tax bulletin provides general information and does not constitute or substitute any legal advice. As these issues are complex and of a circumstantial nature, which involve different tax and legal aspects, each case should be examined according to its individual circumstances.