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Israel

Israel Expands Tax Break on Transfers to Spur Foreign Investing

By Matthew Kalman

Israel's tax authority has eliminated withholding tax on transfers abroad through the submission of a simple online form, its latest step to eliminate unnecessary regulatory requirements.

Tax exempt payments are now allowed along with a declaration form, "to make it easier for Israeli residents who invest in overseas assets and loans," the authority announced April 17. The tax authority expanded the list of countries to which the payment can be made and added new payments, according to the statement.

Snapshot

- Tax exemption available with declaration form
- Aimed at encouraging investments abroad

Under the extended "Green Channel," payments for overseas investments in a partnership and to grant a loan abroad can also be exempt if accompanied by a declaration form. Payments for the exercise of options or the repayment of a loan are exempt if accompanied by a declaration signed by an accountant, the tax authority said.

The Green Channel exemption applies to countries with which Israel has a double tax treaty. The bank to which the funds are sent and the fund recipient's residence must also be in a treaty country.

Making it Easier

The tax authority announced the mechanism in September to exempt from withholding tax transfers for investments in shares, real estate and tangible assets, and loans granted to foreign residents.

Under Israeli law, such payments were previously subject to withholding tax of up to 25 percent unless the recipient held an exemption certificate issued by the tax authority. But because foreign taxpayers can't hold such a certificate, a specific certificate had to be obtained from the tax authority for each payment.

The new system will make life easier both for the banks, the taxpayers and the tax authority," and will encourage individuals to invest outside of Israel, said Daniel Paserman, partner and head of tax at Gornitzky and Co. law firm in Tel Aviv.

The previous system "caused a lot of problems for individuals and small businesses that want to invest or want to lend money or purchase assets outside Israel and have to go through all this process. It also put a lot of work on the tax authority because they have all these applications. It was a mess," Paserman said April 26.

But under the new system, the tax authority can request an audit at any time, and taxpayers must retain records of all payments and related documentation for seven years, he said.

Withholding Tax Doomed?

The new policy is "useful, not dramatic," said Leon Harris, a CPA at Harris Consulting & Tax Ltd. in Ramat Gan.

Under Israeli law, banks are required to demand an exemption certificate before waiving the withholding tax. As more Israeli taxpayers make payments abroad online with credit cards or Paypal accounts, rather than through banks, withholding tax seems doomed to disappear just like exchange controls, he said.

"More generally, we seem to be witnessing the gradual crumbling of the withholding tax system for most outbound payments," Harris said in an April 22 email.

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