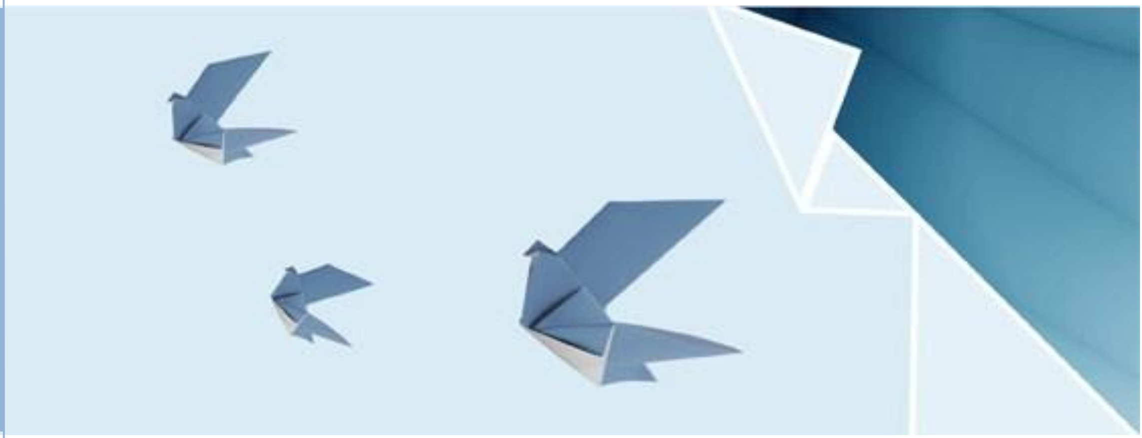
June 13, 2013

Real Estate Tax, Private Clients, Trusts and Estates



A New Governmental Proposal to Significantly Narrow the Tax Benefits for Residential Property in Israel

Dear Clients, Colleagues and Friends,

On June 11, 2013, the Government of Israel published a blueprint of its official legislation proposal for the Economic Arrangements Law 2013 (the "**Proposed Legislation**"). The Proposed Legislation includes a very substantial section on taxes. The proposed changes to Israel's tax laws are extremely far reaching and relate to a wide range of tax matters. In this circular, we wish to further update you on certain important proposed changes in the taxation of Israeli residential property, included in the Proposed Legislation, as follows:

1. ***Termination of Land Appreciation Tax ("Mas-Shevah") Exemptions for Foreign Residents***. Under current legislation, foreign and Israeli residents are entitled to the same exemptions from land appreciation tax on the sale of Israeli residential properties. The Proposed Legislation proposes that foreign residents, as opposed to Israeli residents, will not be entitled, anymore to any exemption on the sale of Israeli residential properties. This change will be effective beginning January 1, 2014.

   The termination of these exemptions will be applied on a linear basis, such that the foreign residents holding residential real property prior to the implementation of the amendment will be taxed in proportion to the period of holding following the effective date of the amendment. This formula shall apply to a maximum of two apartments during the period from January 1, 2014 through

December 31, 2017. There are various other conditions associated with this rule.

2. ***Termination of Acquisition Tax relief for Foreign Residents.*** Israeli law imposes an acquisition tax on the acquisition of real estate in Israel ("**Land Acquisition Tax**"). The applicable tax rate is between 5% and 7% of the purchase consideration. The current legislation offers a relief from Land Acquisition Tax for individuals who are purchasing their sole piece of residential property in Israel. The Proposed Legislation suggests terminating this relief for foreign residents.

   The Proposed Legislation suggests that a foreign resident who purchases real property in Israel and pays the Land Acquisition Tax can have the acquisition tax refunded if he immigrates to Israel within two years of the acquisition.

   This provision will be effective almost immediately, beginning as of August 1, 2013.

3. ***Limitations on the exemption which is provided to Israeli residents.*** Under current legislation, and subject to certain conditions, Israeli (as well as foreign) individuals are entitled to an exemption from land appreciation tax on the sale of residential real property once in every four years. This exemption applies even when the residential property was not the only residential unit in the individual's possession (so called "additional residential property").

   The Proposed Legislation wishes to abolish this relief and to limit the exemption to cases in which the individuals holds only one apartment. This amended exemption can be used once in every eighteen months provided that the property is the sole residential property of the seller in Israel.

   This provision will be effective as of January 1, 2014.

   The termination of the old exemption will include "transitional provisions" such that the exemption will still apply on a linear basis. For example, an individual who purchased a piece of "additional residential property" at the beginning of 2013 and sells that property at the end of 2014 will be taxed on 50% of the appreciation (for the 2014 holding period). As above, this formula shall apply to a maximum of two apartments during the period from January 1, 2014 through December 31, 2017. There are various other conditions associated with this rule

4. ***Taxation of Luxury Apartments.*** The Proposed Legislation suggests special tax treatment for so-called "luxury homes", which are defined as residential property for which the consideration exceeds NIS 5 million.

In terms of Land Appreciation Tax – the Proposed Legislation suggests that the exemption which applies to one residential apartment will only apply up to a maximum consideration of NIS 5 million. The consideration in excess of NIS 5 million will be subject to land appreciation tax.

In terms of Land Acquisition Tax – the Proposed Legislation suggests an addition acquisition tax bracket of 8% to apply to portion of the consideration exceeding NIS 5 million.

The provision relating to land appreciation tax on luxury apartments will be effective as of January 1, 2014, whereas the provision relating to acquisition tax will take effect begining August 1, 2013.

The Proposed Legislation may undergo a number of changes prior to be enacted into law. We will of course update you on such changes.

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Should you require any further information or clarification, regarding the issues discussed in this Circular, please do not hesitate to contact either:

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