



Amendment No. 272 to the Israel Income Tax Ordinance: Reporting Obligations on Trusts and Individuals

Dear Clients,

We wish to bring to your attention that on April 7th, 2024, the Amendment to the Israeli Income Tax Ordinance (No. 272), 5784-2024 (the “**Amendment**” and “**Ordinance**”, respectively) was published, establishing various reporting obligations to the Israel Tax Authority (the “**ITA**”) concerning trusts, “New Israeli Residents” and “Veteran Returning Residents”. The purpose of the Amendment is to apply the international standards set by the OECD’s Global Forum on Transparency and Exchange of Information for Tax Purposes.

Below is a summary of the key measures set out in the Amendment:

A. Regarding “New Israeli Residents” and “Veteran Returning Residents” (whose residence was outside of Israel for ten consecutive years):

In accordance with the provisions of the Ordinance (prior to the amendment), “Veteran Returning Residents” or those who immigrated to Israel and qualify as “New Israeli Residents” - are entitled to various tax benefits, including a tax exemption on all their income from around the world (active and passive income) for a period of ten years; Moreover, “Veteran Returning Residents” and “New Israeli Residents” are also entitled to a full exemption from reporting their income and assets gained outside of Israel.

This legislation, also known as the “Milchan Law”, allowed individuals who used to be foreign residents and moved to Israel, to conduct business activities outside Israel and generate income abroad – without these revenues being disclosed and subject to supervision and audit by the ITA. For a long time, various voices were heard calling for the cancellation of the article that enables exemption from reporting obligations; Among other things, in a report published by the Global Forum on Transparency and Exchange Information for Tax Purposes, which operates under the OECD organization, it was clarified that this policy does not align with OECD standards regarding information transparency, and may

contribute to Israel being considered a "tax haven" country.

Indeed, as a result of the Amendment, which was published in the Official records a few days ago, the exemption from reporting requirements for "Veteran Returning Residents" and "New Israeli Residents" has been revoked (by deleting Section 134B of the Ordinance). This means that individuals defined as one of above will continue to be exempted from tax on their income generated outside Israel; However, as mentioned, these individuals will be required to submit annual tax returns to the ITA, including their entire worldwide income (as exempted income). It is worth noting that imposing a full reporting obligation on such individuals may increase disputes and litigation between them and the ITA (for example, regarding whether the income is indeed produced in Israel or outside Israel, the source of the funds, etc.).

An important point to note regarding this amendment, and the revocation of the exemption from reporting income earned outside Israel is that this provision applies only to individuals who settle to reside in Israel and become "New Israeli Residents" or "Veteran Returning Residents" starting from January 1, 2026. In other words, for any individual who was a foreign resident for more than 10 years and settles to reside in Israel and becomes an "Israeli resident" for tax purposes before this date, the previous law (including the exemption from tax and reporting income earned outside Israel) will continue to apply. Therefore, in relevant cases, it may be advisable to consider returning to Israel earlier than January 1, 2026.

B. Regarding trusts:

- Notice on the creation of a trust - Trustees shall be required to file a notice to the ITA upon the creation of a trust within 90 days of its establishment, and provide notice upon any change regarding the ultimate beneficial owners of the trust. A trustee in a trust established prior to April 7th, 2024, shall be required to file such notice within 120 days of January 1st, 2026.
- Ultimate beneficial owners' reporting standards for reporting trusts - A trustee of trust required to submit an annual report under Section 131 to the Ordinance, shall include information and details regarding any individuals who are the ultimate beneficial owners of such trusts in the trust's annual report. This requirement shall take into effect on annual reports covering the 2025 tax year onward.

C. Corporates: The Amendment sets out that reporting corporations must include information and details of the ultimate owners of the reporting corporations, including tax residency.

Furthermore, regarding companies claiming not to be residents of Israel because the "control and management" of their business is exercised in Israel by an individual who is a "Veteran Returning Residents" or "New Israeli Resident," a special provision has been added allowing the tax commissioner to require such entities to submit annual tax reports.

- D. Information sharing for the implementation of international agreements: The ITA is permitted to request from financial institutions to provide information held under the Prohibition of Money Laundering Law, 5760-2000, including the information of ultimate beneficial owners of accounts, for information sharing in accordance with international agreements, upon request from a foreign country (but not for the purpose of the enforcement of Israeli tax laws).

For further information or questions, we are at your disposal.

Sincerely,

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