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## Israel

### **Israel, U.S. Dual Citizens Urged to Comply With Dual Reporting Requirements**

BY JENNY DAVID

**T**ax experts addressing an international seminar in Tel Aviv Nov. 19 uniformly urged dual citizens to comply with new reporting regulations of both the Israeli and U.S. tax authorities — and to do so quickly.

The only alternative to full and accurate reporting is to renounce U.S. citizenship after careful tax planning, said Michael Ben-Jacob of New York law firm Kaye Scholer LLP. Although former U.S. citizens remain liable for outstanding taxes, “the current regime is so broad you could drive a truck through it,” he said, noting that “there are many ways to circumvent the system and not bear the brunt of tax rules.”

The steps are “totally legal,” he added, saying that even though the trend to renounce U.S. citizenship “is growing by thousands of percent per year, the total is still only a small percentage of the 200 million U.S. taxpayers.” Waiting times are particularly long for an appointment at the U.S. Embassy in Tel Aviv, he said, where processing can now take up to a year.

**‘Compliance is King.’** Still, “compliance is king,” said Philip Stein, founder and chairman of Stein and Associates CPA, the largest U.S. accounting firm in Israel and co-convener of the conference.

“FATCA overhauled the international banking system overnight and practitioners need to get their hands around it,” agreed William M. Sharp of U.S.-based Sharp Partners, PA, calling the new system “worldwide reporting on steroids.”

“The era of bank secrecy is over,” agreed Robert Katzberg of Kaplan and Katzberg in New York, advising dual citizens “to get ahead of the problem” through “full and complete disclosure.”

After reviewing the increasing stringency of voluntary disclosure programs offered by the Israel Tax Authority (ITA) since 2007, conference co-convener Yair Benjamini of the ERM Law Office in Tel Aviv said voluntary disclosures in both Israel and the U.S. now poses “infinite complexities.”

Many families are divided between the two countries, and have joint accounts in both, he explained, “so that a report by one family member in one country can affect their relatives in both countries.” The many ramifications have thus far prevented widespread reporting by bi-national families, he said, expressing doubt that the current program would change that, “even though the next disclosure program will probably be worse.”

**Triangle of Clients, Bankers and Banks.** New U.S. tax regulations have made U.S. clients “a danger to their bankers and to their banks — and vice-versa — creating a triangle with each group aimed at the other,” Katzberg continued. “That means more information is being provided to the system all the time, and that makes time the enemy. Tax compliance is not a fine wine that improves with age,” he said.

“Reverse FATCA agreements” — under which U.S. authorities agree to supply reciprocal information on accounts held by foreign nationals in the U.S. — are also increasing the amount of information reaching the tax authorities, Sharp said. Information supply will be animated, rather than in response to specific requests, increasing transparency, he added.

On the other hand, he said, “the IRS is finally listening to practitioners in the field and streamlining the reporting process.” New procedures are making it easier to report non-willful evasion, he said. “You’ll still need an accountant, but not a lawyer,” he said.

“Almost all requests for non-willful certificates were rejected” when the IRS launched the current offshore voluntary disclosure program in June, noted Stuart Schabes of Ober|Kaler in Washington, DC. However, now that tax officers are more familiar with the concept, “requests are being considered,” he said, agreeing that

not filing is no longer an option. “The world is becoming a much smaller place. Proactive conduct is essential,” he said.

Locally, the experts warned that Israel is likely to be targeted by the IRS soon. “When I asked about this, an IRS official responded that U.S. citizens are a higher percentage of the Israeli population than in any other country,” said Stein. “I take that as a yes.”

In fact, dual U.S. citizens are already being targeted by the ITA, according to Guy Katz of Herzog Fox & Neeman in Tel Aviv.

Automatic information exchange has not yet been approved by the Israeli parliament, “but it is coming,” he said, noting that the ITA has also refused a transition period when the new regulations take effect and that its current voluntary disclosure program is not only loaded with preconditions, but also includes no tax amnesty, a heavy burden of proof on the origin of principal and no statute of limitations. A special arrangement will likely

be made for the diamond sector, he said, since it is one of Israel’s largest export industries.

Currently, he noted, 90 percent of the Israeli population pays taxes through employer withholding. However, he said, companion legislation to the proposed 2015 Israeli budget will begin closing the gap, by requiring full tax filing by:

- anyone who sends more than 500,000 shekels (\$130,000 ) abroad in a single year;
- anyone who spends more than 6 months a year or 425 days in a three-year period in Israel, and is not covered by withholding tax regulations;
- securities traders with an annual turnover exceeding 800,000 shekels (\$200,000) per year; and
- trust beneficiaries will also be required to report all trust assets under the new provisions.

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