

## LEGAL UPDATE – APRIL 2012

### VOLUNTARY DISCLOSURE OF OFFSHORE INCOME AND ASSETS

In order to encourage residents of Israel to declare offshore income and assets, the Israeli Tax Authority ("ITA") had offered an amnesty and incentives to taxpayers who make a voluntary disclosure prior to June 30, 2012. Taxpayers who take advantage of this program may be granted immunity from criminal sanctions and waiver of penalties, interests and linkage differentials.

#### Background

As a rule, until 2003 residents of Israel were taxable only on income derived from sources in Israel (with a few exceptions such as capital gains). Since 2003, residents of Israel (both individuals and companies) are also subject to tax in Israel on income derived from sources outside Israel ("**Amendment 132 of the Income Tax Ordinance**"). Experience showed that there are many Israeli residents who were unaware of the change in the legal situation and became "tax offenders" unknowingly.

In order to encourage residents of Israel to report their offshore income and assets (and thereby increase state tax revenues) the ITA has established a temporary procedure for voluntary disclosure under which taxpayers may be granted immunity from criminal prosecution (for non reporting) and also relief in the tax assessment (in calculating the tax payment).

The deadline for applying for the voluntary disclosure program is June 30, 2012.

#### Cases to which the voluntary disclosure program may apply

The temporary voluntary disclosure program may apply to situations such as these:

- Unreported income from foreign assets inherited or received as a gift from a foreign resident;
- Unreported income from foreign assets that were purchased out of income derived in Israel or abroad where that income was tax exempt in Israel or tax was paid on it in Israel;
- Unreported income from foreign assets taxable since 2003 following Amendment 132 of the Income Tax Ordinance.

The voluntary disclosure program does not apply to assets or income that were derived from the commission of a "felony" (serious) offense. In addition, the procedure will not apply where the disclosure is made simultaneously with, or subsequent to an ongoing ITA investigation or audit.

## Benefits for taxpayers who apply for voluntary disclosure until June 30, 2012

Approved cases of voluntary disclosure will enjoy the following benefits:

- Immunity from criminal prosecution;
- No fines or penalties on the civil assessment;
- No interest on the amount of tax owed;

4. Possible waiver of inflation indexation on the amount of tax owed (at the discretion of the ITA)

**We recommend that use of the voluntary disclosure program be seriously considered before the June 30 deadline.**

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Please direct any queries you may have regarding these matters to:

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