



SHEKEL

The Broide & Co. Newsletter

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Quote of The Day

"The only way to earn someone's business is to earn their trust, and the best way to earn their trust is to simply be attentive to them." (Ed Robinson - The Million \$ Rainmaker)

New Requirements for Submission of Reports - Amutot and Public Benefit Companies

Submission of financial and executive reports by non-profits - generally (under the new laws promulgated in June 2007) due by June 30th each year - has been postponed for the 2007 financial year to September 28, 2008.

Together with these reports, there is a requirement to submit minutes of the AGM and Audit Committee. New forms - in lieu of the new executive or board report - have been published, and include details of activities, organization, structure, "related" parties, services supplied to the organization, use of donations, costs of raising funds, irregular activities, material events and post-report changes until submission of reports.

This extension applies to Amutot and Public Benefit Companies which require "Proper Management" (Nihul Takin) confirmation for 2009. Where this is not required, the reports may be submitted by 31.12.08. Do note that these postponements relate only to the requirements of Registrars of Amutot and Endowment Funds; different dates may be applicable for the Income Tax reports.

These are matters that require serious review and preparation.

Sheqel Now Convertible Currency

The Sheqel is now a convertible currency on capital and money markets worldwide, after Israel was made an official member of the international currency clearing system operated by CLS Bank International. Israeli currency is legal tender internationally, can be used in trading on markets overseas, overseas banks may convert Sheqels into other currencies, and local companies and firms may settle payments in Sheqels by cheque or bank transfer.

New (Proposed)*** Income Tax Benefits for New Immigrants (Olim) and Returning Residents**

Benefit

1. Income *
 - a. from foreign assets and investments, including interest, dividends, property, rental, royalties, pensions and such like. Exempt for 10 years from first becoming resident or returning resident, and includes income from assets acquired during the 10-year period.
 - b. Capital Gains Exempt as above.
 - c. Business Exempt as above. May be relevant to foreign salaries and such like.
2. Corporate Entities
Residence of foreign company redefined - where management and control "make aliya", including setup of admin/management office (facilitates aliyah of shareholders and directors of foreign entities). Income of company exempt for 10 years.
3. Tax Reports
Regular Income Tax returns and Asset Declarations 10-year exemption on income/assets indicated above (not applicable to Israeli income).
4. Postponement of Tax 'Residence'
For 1 year; thereafter will form part of 10-year period
 - * Income produced outside Israel
 - ** After 10 years' stay outside Israel, 8 years of which were non-resident (as defined). Special concession for 2008-9: returning residents, after 5 years outside Israel, 3 years of which were non-resident for tax purposes.
 - *** Not yet approved by Knesset

Keys to Leadership

1. Maintain Absolute Integrity. "You cannot maintain your integrity 90% and be a leader. It's got to be 100%." (Leonard Roberts, CEO Tandy Corp.)
2. Know your stuff.
3. Declare Your Vision. In fewer than 25 words, can you recite to yourself how your organization makes money and where you plan to be in five years?
4. Show uncommon commitment.
5. Expect positive results. Start by turning disadvantages into advantages.
6. Take care of your people.
7. Put duty before self.
8. Stand in front.

(from Newsletter of Gerber and Co., CPA's in California)
Executive Leadership. Adapted from *The Stuff of Heroes: The Eight Universal Laws of Leadership*, William A. Cohen, Longstreet.

Inflationary Tax Law Cancelled - Consequences

With the cancellation of the Inflationary Tax Law, effective as of the 2008 fiscal year, attention is drawn to the following:

- i. Loans to employees and others - taxable benefit based on CPI plus 4% per annum.
- ii. Capital notes (Shtar Hon) are 'history', excluding certain cases where issued for at least five years. (Generally, through 2007, capital notes were renewable annually, and provided inflationary tax benefits.) This change will affect existing capital notes, which will be treated as loans, with the resulting tax consequences.
- iii. Notional interest (on interest-free or below market interest on loans) is now taxable similarly to dividends (20-25% tax).

Auditor Independence - Take Note!

New legislation governing the "independence" requirement of auditors, effective as of 2009, provides - amongst others - for the following:

1. The role of auditor is impaired by conflict of interests or where the auditor's independence is in doubt.
2. Factors that impact on independence include related parties or business/economic relations. (These include employees or relatives of the audit firm.)
3. Certain services, if provided by the auditor to the client, are considered a breach of independence; these include, amongst others, certain financial and investment services, internal auditing, and bookkeeping services to public companies or non-profits whose turnover exceeds NIS 5,000,000.
4. Provision of bookkeeping services to a private company or non-profit is also considered as impacting on the independence of the audit firm, unless different employees in the firm are engaged in these services.
5. Where information about "conflicting" services is not given in the financial statements, the new legal provisions require this to be included in the audit report (to the financial statements).

This is a very brief resume' of the new legal provisions, and is intended to enable clients to appreciate the seriousness which the Law attaches to the audit function and the consequences of impairment of the auditor's independence, which includes conflict of interest relationships.

Tax Losses Revisited

A recent ruling by the Supreme Court has established certain criteria for utilization of tax losses following the acquisition of a company with tax losses.

- Where the losses were incurred by the company during the period of shareholding by the previous shareholders, there must be a proper and sound economic/business reason, other than the reduction of taxes.

- Existing shareholders may enjoy tax losses by set-off against other business income/profits from activities within the same company.

This has a material bearing on planning for utilization of tax losses. The new laws (as of 2008) governing the reporting on tax planning include specifically purchase of tax losses exceeding NIS 2,000,000.

Taxation of Trusts - The Long-Awaited Update

The Tax authority has (finally!) published the new - and numerous - tax forms/reports required to be submitted by or for Israeli-resident (or so deemed) trusts and/or settlors/grantors and beneficiaries. Certain new amendments to the trust tax laws have also been approved.

The trust forms and laws are rather complicated, to use "English understatement"; we are, at present, studying the new laws, amendments, forms and reports, and attempting to obtain clarifications. We hope to issue a more detailed update within a few weeks. In the meantime, your attention is drawn to the following:

- Trust forms and reports for the 2006 and 2007 tax years are to be submitted by 30 Oct. 2008.
- An "Israeli" trust is required to submit various and detailed tax reports and forms.
- Foreign-resident trusts may, in certain circumstances, be exempt from these forms and reports.
- The reporting requirements for Israeli-resident beneficiaries vary, depending on the tax status of the trust and the nature of the distributions.
- The settlor/grantor or beneficiary may elect to be the "tax representative" of the trustees in Israel.
- The establishment of a new trust must be reported to the tax authorities within 90 days; a foreign-resident trust or foreign-beneficiary trust must report by April 30th in the year following (or later, depending on circumstances).
- There are provisions to "neutralise" trust income "allocated" to foreign-resident beneficiaries, but subject to various limitations.
- Guidelines have been issued for trusts considered "borderline" - i.e. unclear if discretionary or non-discretionary. These provide for a "step-up" in value of foreign assets at December 31, 2005, but subject to a one-time tax, either at 4-10% of the capital or regular Capital Gains Tax. This is based on an internal directive only.

This is a very brief summary, is neither comprehensive nor conclusive, and should, under no circumstances, be acted upon without taking proper professional counsel.

This newsletter is prepared for the information of clients and associates. Whilst every care has been taken in compilation, no responsibility can be accepted for inaccuracies or errors. Clients are also advised that changes in the Law or practice occur periodically; it is recommended that specific professional advice be sought before any action is taken.