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Major Income Tax Changes (Mini Reform)

Another round of material tax changes have been approved by the Knesset. It is intended that these will come into effect as of January 2006. Do note that advance planning is strongly advised.

A. Passive Income (from investments)

	<u>2005</u>	<u>2006</u>
	<u>%</u>	<u>%</u>
1. Interest		
- on bank deposits/savings plans - unlinked	10	15
- as above - linked	15	20
- foreign bank deposits/savings plans	15	20
- traded bonds - linked	15	20
- unlinked	10	15
2. Dividends*		
- quoted shares	25	20
- unquoted shares	25	20
3. Capital Gains:		
quoted shares and bonds (Israeli shares and unlinked bonds - 15%)	15	20
unquoted shares and bonds*	25	20
real estate (through 2009; thereafter 20%)	25	25

* unchanged for 'material shareholder' - viz. 10% or more of equity.

We refer you to the tax table on our website; the rates have varied over recent years and, in calculating the taxes due, particularly on capital gains (where the calculation is a linear one) the period during which the asset is held will determine the taxes payable.

B. New Tax Rates

1. Individual - Maximum marginal rates to be reduced 1% per annum, starting at 49% in 2006, reducing to 46% in 2009, and 44% as of 2010.
2. Corporate - Currently 34%, reducing to 31% in 2006, and thereafter by 1%-2% annually, to 25% in 2009.



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C. **Trusts**

It will be recalled that the report of the Commission on Taxation of Trusts was submitted in July 2003; nothing further happened. Now, with this new round of changes in the laws,(news update on our website), these include legislating the Commission's original proposals (see info on our website) but with the following material adjustments:

- The residence of the grantor/settlor will determine the taxability of the trust, and not the residence of the beneficiary.
- The assets and income of the trust will be treated as those of the grantor/settlor.
- The Income Tax rates applicable are the maximum rates relevant to individuals; certain personal tax benefits/credits will not be granted.
- Death of the grantor/settlor will not alter the status of the trust. However, if the grantor/settlor immigrates to Israel, then the status of the trust will be fixed accordingly, viz. new immigrant and, thereafter, regular resident.
- It appears that full details of the trust will be reported in the Income Tax report for 2006 (submitted in 2007).

D. **Sundry**

Accelerated depreciation (rate of 100%) will be deductible on machinery and equipment purchased during the period July 2005 - June 2006, in industry, building, tourism and agriculture (partially deferred depreciation).

This is an annotated version of only some of the laws, and should be treated accordingly. It is opportune, however, to give thought to serious tax planning.

Broide & Co.(CPA, Isr)
43 Emek Refaim St.
P.O.B. 8240
Jerusalem 91081
Tel: 972-2-5611323
Fax: 972-2-5669955
[**jeff@broide.com**](mailto:jeff@broide.com)