

YEAR-END TAX STRATEGIES

TIME FOR ACTION!

TO BE READ WITH CARE!

Dear Client,

With three-quarters of 2010 behind us, this is an opportune time to do tax reviews and planning based on the results of the first nine months, and forecasts for the last quarter of 2010, and we strongly recommend you do so.

This really is the time to stay on top of things!

At this time, ensure that:

1. Mikdamot (Tax and Bituach Leumi advances) are being properly reported and paid, or have been cancelled.
2. Dividend strategy is being reviewed, where relevant.
3. There is appropriate planning for reducing/limiting Bituach Leumi payments.
4. Taxes are withheld at source from office/business rental, unless landlord has provided exemption or reduced tax certificate (and other payments, where relevant).
5. Your 2009 tax return has been submitted or is ready for submission; accounting material/ishurim/documents are now very due for 2009 Income Tax, and preparation of tax reports/balance sheets, etc. (We've run out of time!)
6. Due care is exercised in ensuring that the 10% tax (where relevant) on 2009 residential rental income is reported and paid by January 30, 2011 (or consider other options for reporting on residential rental).
7. Businesses/practices whose turnover in 2010 exceeds NIS 4M, or who are required to keep books of account on the 'double entry' system (e.g. companies) and their turnover exceeds NIS 100,000, will now be required to do electronic Vat reporting (including full details of tax invoices issued and received, with effect from 1.1.11. Check status with your bookkeeper.

8. **Year-end Tips:**

- a. **Capital Losses on Securities** arising in 2010 may be offset against income from dividends and interest on bonds in 2010. (This includes dividends from private companies.)
- b. **Charitable Contributions** - In order to enjoy the Income Tax credit, charitable contributions must be made before December 31st. Do ensure that receipts are originals and have Section 46 approval. The tax credit is 35% of the amount contributed for individuals, and for companies, 25% (in 2010).
- c. **Interest and Linkage on Taxes Due** - Income Tax debts for a particular tax year bear linkage and interest for the tax year reported, as of January 1st in the year following. If you wish to avoid or reduce such interest, then interim payments may be made to the Income Tax offices during the year. Where tax debts for the previous tax year are paid by the end of January - in the year following - no interest or linkage will be charged; if settled by the end of February, only 50% will be paid; and where paid by the end of March, 75% will be payable.
- d. **Timing for Businesses and Services** - There is a substantial difference between taxpayers who report on a cash basis, and those who report on a regular commercial (accrual) basis. The former account for monies actually received during the tax year and expenses actually paid; the latter report on income earned - irrespective of whether received - and expenses actually incurred. This distinction is of much significance, as it relates to the tax device of timing income and expenses within the fiscal year.
- e. **Optimise (don't increase!) expenses/deductions** - These include:
 - * Local and foreign travel
 - * Gifts
 - * Entertainment
 - * Advertising
 - * Depreciation (on assets)
 - * Finance Charges
 - * Professional Fees
 - * Management Charges (investments)
 - * Various others (incl. inventory valuation in these times) - all within the legal parameters.
- f. **Review entity structure** re tax (and cost) efficiency (corporate, individual, partnership, trust, foreign).
- f. **New and returning residents** - (including the "not-so-new") should monitor closely their legal status (tax) so as to utilize any tax benefits available under the Income Tax Ordinance, including - but not limited to - the tax reforms (relating to new and returning residents) of 2002 and 2008.

We would like to meet with you and discuss these and related matters.

Warm greetings!
The Broide Team

Tishrei 5771
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This Tax Alert has been prepared for information purposes only. Whilst every care has been taken in compilation, no responsibility can be accepted for inaccuracies or errors. Changes in the Law or practice occur periodically; it is recommended that specific professional advice be sought before any action is taken.