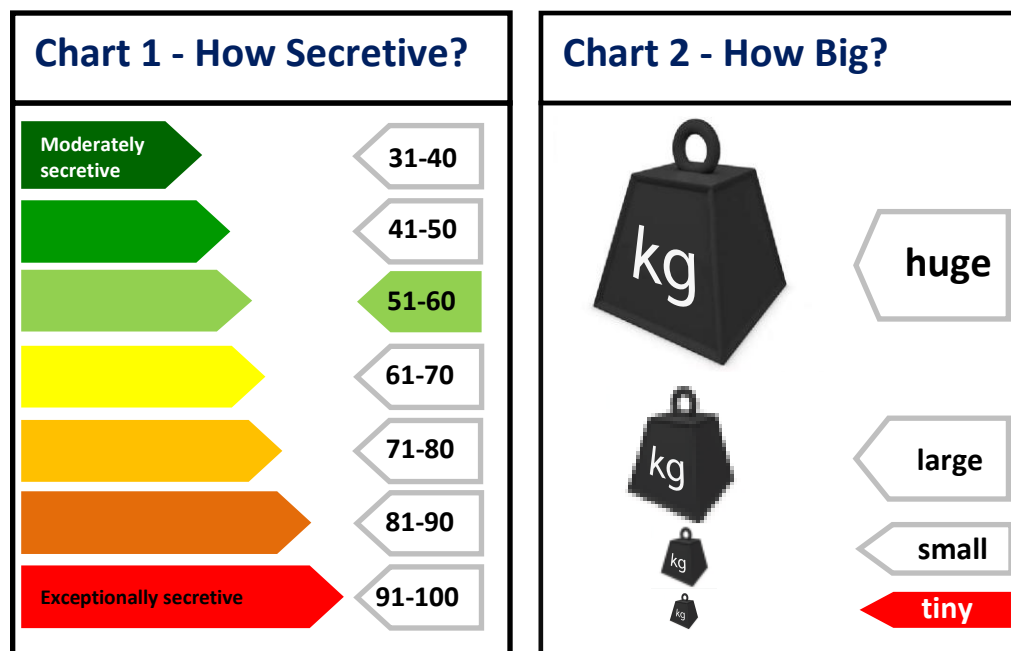


Report on Israel

Israel is ranked at 38th position on the 2011 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

Israel has been assessed with 58 secrecy points out of a potential 100, which places it in the lower mid range of the secrecy scale (see chart 1 below).

Israel accounts for under 1 per cent of the global market for offshore financial services, making it a tiny player compared with other secrecy jurisdictions (see chart 2 below).



Part 1: Telling the story

In 2003, influenced by a global trend to combat hidden bank accounts and tax haven entities, Israel shifted its tax system to a new tax base - imposing income tax on a worldwide basis. As part of this shift, Israel introduced Controlled Foreign Corporation (CFC) rules, worldwide Vocational Taxation provisions, extensive reporting requirements and a revolutionary trust law reform, all of which intend to significantly increase tax collection while combating tax evasion¹.

In addition, on January 1, 2006, the Income Tax Ordinance [new version], 5721-1961 (hereinafter: "the Tax Ordinance") was amended so as to include a list of tax planning actions which must be reported to the tax authority². The regulations list became effective as of January 1, 2007.

However, and contrary to this trend, Israel in September 2008 enacted a new Tax Amendment 168³ under which a 10-year full tax exemption with no reporting requirement applies to New Israeli Immigrants and Returning residents, under certain conditions. Under another recent law amendment (the Economic Efficiency Law, 2009), the Israeli Finance Minister was provided with an authority to double the said 10-year period to 20 years - though to qualify a "significant investment" must be performed in Israel by a New Israeli Immigrant or a returning resident.

Amendment 168 appears to have established Israel as a limited "tax haven" - under Israel's domestic law as in practice, the amendment provides net wealth individuals a unique opportunity to transfer funds from offshore jurisdictions and financial centres into Israel without any obligation to report on such transfer to the Israeli authorities. It is unclear, however, how such amendment is in line with the bilateral tax treaties provisions that Israel has concluded with more than 40 other countries (up to date), and which impose certain obligations to exchange information.

Nonetheless, in June 2010, apparently as part of its new membership in the OECD as of May 2010, Israel enacted a new order that applies to all Israeli citizens, including returning citizens who came to live in Israel after less than 7 years of living abroad. According to this new order⁴, the Israeli banks are obliged to report, once in 3 months, on every Israeli citizen who owns in Israel or abroad assets worth more than 20 million dollars⁵.

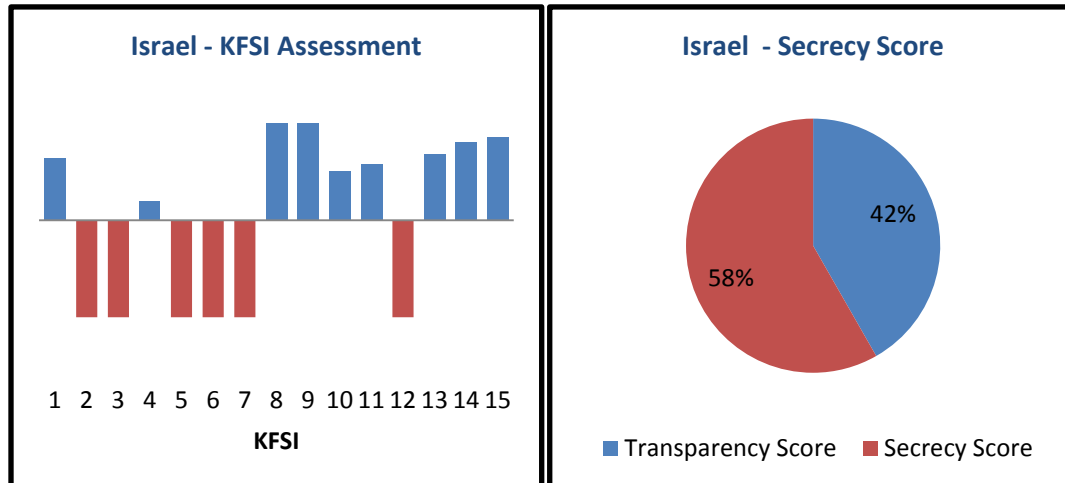
Source: Moran Harari, The Academic Center for Law and Business, Israel.

Next steps for Israel

Israel's 58 per cent secrecy score shows that it must still make major progress in offering satisfactory financial transparency⁶. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards. See part 2 below for details of Israel's shortcomings on transparency. See this link <http://www.secrecyjurisdictions.com/kfsi> for an overview of how each of these shortcomings can be fixed.

Part 2: Secrecy Scores

The secrecy score of 58 per cent for Israel has been computed by assessing the jurisdiction's performance on the 15 Key Financial Secrecy Indicators, listed below.



The numbers on the horizontal axis of the bar chart on the left refer to the Key Financial Secrecy Indicators (KFSI). The presence of a **blue** bar indicates a positive answer, as does **blue** text in the KFSI list below. The presence of a **red** bar indicates a negative answer as does **red** text in the KFSI list. Where the jurisdiction's performance partly, but not fully complies with a Key Financial Secrecy Indicator, the text is coloured **violet** in the list below (combination of red and blue).

This paper draws on key data collected on Israel. Our data sources include regulatory reports, legislation, regulation and news available at 31.12.2010⁷. The full data set is available [here](#)⁸. Our assessment is based on the 15 Key Financial Secrecy Indicators (KFSIs, below), reflecting the legal and financial arrangements of Israel. Details of these indicators are noted in the following table and all background data can be found on the [Mapping Financial Secrecy web site](#)⁹. This data is the basis on which the [Financial Secrecy Index](#)¹⁰ is compiled.

The Key Financial Secrecy Indicators and the performance of Israel are:

TRANSPARENCY OF BENEFICIAL OWNERSHIP – Israel	
1.	Banking secrecy: Does the jurisdiction have banking secrecy? Israel does not adequately curtail banking secrecy
2.	Trust and Foundations Register: Is there a public register of Trusts and Foundations? Israel does not put details of trusts on public record
3.	Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?

	Israel does not maintain company ownership details in official records
KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Israel	
4.	Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for less than US\$10? Israel partly requires that ownership of companies is put on public record
5.	Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for a fee of less than US\$10? Israel does not require that company accounts be available on public record
6.	Country-by-Country Reporting: Are companies listed on a national stock exchange required to comply with country-by-country financial reporting? Israel does not require country-by-country financial reporting by companies
EFFICIENCY OF TAX AND FINANCIAL REGULATION – Israel	
7.	Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents? Israel does not require resident paying agents to tell the domestic tax authorities about payments to non-residents
8.	Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information effectively, and is there a large taxpayer unit? Israel uses appropriate tools for effectively analysing tax related information
9.	Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments? Israel avoids promoting tax evasion via a tax credit system
10.	Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses? Israel partly allows harmful legal vehicles
INTERNATIONAL STANDARDS AND COOPERATION – Israel	
11.	Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations? Israel partly complies with international anti-money laundering standards

12.	Automatic Information Exchange: Does the jurisdiction participate fully in Automatic Information Exchange such as the European Savings Tax Directive? Israel does not participate fully in Automatic Information Exchange
13.	Bilateral Treaties: Does the jurisdiction have at least 60 bilateral treaties providing for broad information exchange, covering all tax matters, or is it part of the European Council/OECD convention? Israel has few tax information agreements complying with basic OECD requirements
14.	International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency? Israel has partly ratified relevant international treaties relating to financial transparency
15.	International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues? Israel partly cooperates with other states on money laundering and other criminal issues

¹ <http://www.gkhlaw.com/eng/D4Content/MenuID/870/ID/154/>

² [http://www.financeisrael.mof.gov.il/Financelisrael/Docs/En/legislation/FiscallIssues/5721-1961_Income_Tax_Ordinance_\[New_Version\].pdf](http://www.financeisrael.mof.gov.il/Financelisrael/Docs/En/legislation/FiscallIssues/5721-1961_Income_Tax_Ordinance_[New_Version].pdf) (subsection (g) to section 131, Tax Ordinance).

³ The Israeli Income Tax Ordinance [new version], 5721-1961, section 14.

⁴ The Bank of Israel Order (information regarding developments in the foreign currency of Israel), 2010.

⁵ In general, according to sections 15, 15A and 15A1 to the Israeli Banking Ordinance, 1941, The Supervisor of Banks is allowed to forward information provided the information is required for the discharge of the recipient entity's functions. As for foreign countries- the law in Israel enables the Supervisor of Banks in Israel to forward information to an authority in a foreign country only if the information is required for the function of supervising a branch of a banking corporation and provided the authority has undertaken not to forward the information to any other party.

⁶ Our definition of financial transparency can be found here:

<http://www.secrecyjurisdictions.com/PDF/FinancialTransparency.pdf>.

⁷ With the exception of KFSI 13 for which the cut-off date is 30.6.2010. For more details, look at the endnote number 2 in the corresponding KFSI-paper here:

<http://www.secrecyjurisdictions.com/PDF/13-Bilateral-Treaties.pdf>.

⁸ That data is available here: http://www.secrecyjurisdictions.com/sj_database/menu.xml.

⁹ <http://www.secrecyjurisdictions.com>.

¹⁰ <http://www.financialsecrecyindex.com/>.