

U.S.-Israeli Estate Tax Planning for Dual Citizens

Reconciling U.S. and Israeli Law on Trust Taxation,
Inheritance Laws, Situs Wills, and Wealth Transfers

TUESDAY, SEPTEMBER 12, 2017

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

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Example 1: Reporting US 1040 Income in Israel - Highlighting Certain Important Items

US Taxes		Israeli Taxes		Israeli Taxes during 10-year "tax holiday" exemption**
US Reporting 1040		Israeli Reporting		1st Bite
	\$	\$		\$
Income				
Israeli Wages (self employed)	65,000	65,000	Israel	65,000
Interest US	2,375	2,375	US	- 10-Y Exemption
Tax Exemp Interest US	1,470	- Exempt in US, Taxable in Israel	US	- 10-Y Exemption
Ordinary Dividends US	4,566	4,566	US	- 10-Y Exemption
Qualified Dividends US \$1,890		- All dividends are taxed at 25%, no lower rates for qualified dividends	US	-
Taxable Refunds (IRS)	849	- Not taxable income, may require reduction of foreign tax credit	US	-
US earned Business Income	3,400	3,400	US*	- 10-Y Exemption
US Capital Gains - Short Term	4,888	4,888	Israel	- 10-Y Exemption
Israeli Capital Gains - Long Term	3,663	3,663 All Capital Gains Taxed at 25%, no lower rates available for short term	Israel	- 10-Y Exemption
US Pensions (Taxable portion \$1,500)	5,580	5,580 Taxed according to Section 9 (c) [Israeli taxes will not be higher than US]	Israel	- 10-Y Exemption
Rental Real Estate (Apartment in Israel)	3,755	3,755 Taxable at one of three options: 1. 10% of revenue (no deductions allowed) 2. Marginal tax rates (lower rates for taxpayers over age of 60) 3. Exemption route - NIS5,040 exempt (phases out as income increases)	Israel	3,755 Taxable. Same three tax routes available
Rental Real Estate (Apartment in US)	6,015	6,015	US	- 10-Y Exemption
US Social Security Benefits (all taxable)	2,844	- Not taxable - reportable as exempt income	US	-
Total Income	<u>104,405</u>			
Taxable Income	98,855	99,242		68,755
Adjusted Gross Income (AGI)		No adjustments available in Israel		

* Assuming actual income isn't earned in Israel

** Assuming all income generating assets were held prior to immigration

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Example 1: Reporting US 1040 Deductions in Israel - Highlighting Certain Important Items	
US Taxes	Israeli Taxes
US Reporting 1040	Israeli Tax Return
<u>AGI Deductions:</u>	
Alimony Received	No Deduction - small tax credit available
Tuition and fees	No Deduction - small tax credit available for academic degrees
Most other AGI items	No Deduction
<u>Standard Deduction</u>	Not Available
<u>Exemptions</u>	Not Available [Israeli residents get some tax credits for taxpayers and their children]
<u>Itemized Deductions (Schedule A):</u>	
Medical & Dental	No Deduction
State & Local Income Taxes	No Deduction - May be used as a <u>FOREIGN TAX CREDIT</u>
Taxes Paid - other	No Deduction
Interest Paid	Limited deductions available - mainly investment interest. Home mortgage interest - no deduction
Gifts to Charity	No Deduction - <u>Tax credit available = 35% of Charity given</u> (up to 25% of US taxable income)
Most other AGI items	No Deduction
Job expenses	Certain deductions allowed unavailable to Israeli salaried employees. Overseas travel, local travel, home office expenses when relevant. Basically any expenses required for generating income (excluding certain expenses that have personal benefit).
Tax preparation fees	Both US and Israel fees are fully deductible
Investment Expenses	Fully deductible.
<u>Total Deductions</u>	The US allows more tax deductions compared to Israel, but caps/reduces them Israel has no cap on deductions, but many deductions available in the US are disallowed.

Example 2

US Taxes US Reporting 1040	Israeli Taxes Israeli Reporting		1st Bite	Israeli Taxes during 10-year "tax holiday" exemption**
\$	\$			\$
Income				
US Salary	162,500	162,500	ITA will allow overseas travel deduction, if work is performed in the US, Israel will have only secondary right to tax. [careful tax planning is required as the ITA will seek to tax a portion of this income]. Israel	- If work is performed in the US
Dividends from fully owned Israeli company	4,566	4,566	30% tax Israel	4,566 30%
US earned Business Income	3,400	3,400	US*	- 10-Y Exemption
US ST Capital Gains - Short Term Loss	-5,250	-5,250	Israel will allow offsetting current year capital losses from taxable income from securities. The remaining capital loss may be carried forward and offset against any capital gain in future years. Israel	- 10-Y Exemption
LT Capital Loss from sale of real-estate in Mexico	-115,600	-115,600	Mexico gets first bite according to Tax Treaty with Israel, Israel gets secondary right and will allow a tax credit for taxes pai in Mexico. 1. Mexico 2. Israel	- 10-Y Exemption
Rental Real Estate (Apartment in US)	4,250	4,250	US	- 10-Y Exemption
Total Income	53,866			
Taxable Income	171,716	53,866		4,566
ST & LT Capital Loss Carryforward	-117,850	-		-
Adjusted Gross Income (AGI)			No adjustments available in Israel	



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