

### **Close Relative Trust Election**

Israeli legislation of 2013 effective January 2014 changed the definitions of the various types of trusts with related changes in their tax consequences. In particular, the Foreign Creator Trust that was exempt from tax by Israel both on its income from foreign sources and when distributed to Israeli resident beneficiaries, is no more. Now, such trust is to be classified as an ***Israeli Resident Beneficiary Trust (“IRB Trust”)***. Such ***IRB Trust*** may then qualify as a ***Close Relative Trust*** with its special tax rules or remain an ***IRB Trust*** but subject to the tax rules of a regular ***Israeli Resident Trust (“Israeli Trust”)***. One important difference between the taxation of an ***Israeli Trust*** and an ***IRB Trust*** that is also a ***Close Relative Trust*** is subtle but may be significant.

A ***Close Relative Trust*** is a type of ***IRB Trust***. It is not only characteristically created by a close relative settler, but must elect to be treated as such and elect to be taxable either at 25% on all its annual income, whether distributed to its beneficiary/ies or not, OR it may elect to pay Israeli tax at 30% on only income that it distributes to its beneficiary/ies in the year that it makes such distributions.

***An IRB Trust that elects to be taxed as a Close Relative Trust at either 25% or at 30% must notify the Israeli tax authorities of such election within 60 days of its formation.***

No such election would be required if the trust is not to be classified as a ***Close Relative Trust***, even if it is an ***IRB Trust***. If the ***IRB Trust*** does not make such election then the law provides that “the provisions applicable to an Israeli Trust will apply.” That is where there arises a very significant point. A ***Close Relative Trust*** is taxable on ALL types of income at either a flat 30% or a flat 25%, while the ***Israeli Trust*** is taxable on its annual income at rates of tax applicable to an individual Israeli resident taxpayer with different rates of tax on different types of income. Those tax rates range between 10% and 50% depending on the type of income being taxed and the taxpayer’s situation.

That point can be very significant in deciding whether to elect to be treated as a ***Close Relative Trust*** or not!

Let us know if we may be of assistance in making a decision whether to elect ***Close Relative Trust Status at 30% or 25%***. ***REMEMBER: The decision whether to elect Close Family Trust status needs to be made timely.***

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