

FATCA Goes International

Israel has signed an agreement of understanding pursuant to the US Foreign Account Tax Compliance Act (FATCA) for the bi-lateral and RECIPROCAL exchange of financial information. 63 other countries have already entered into such agreements with the USA.

According to the agreement with Israel and local recent legislation enacted in order to facilitate the disclosure of confidential banking and related information, Israeli financial institutions (*) will be required to provide the Israeli Tax Authorities ("ITA") with information about the accounts of foreign owned companies and accounts of individuals with US or European citizenship, even if also Israeli citizens and no matter where resident.

The ITA will transfer that financial information about US citizens to the Internal Revenue Service starting this year, and information about other nationals to their home land tax authorities in the next year or two. The ITA plans to exchange such financial information about other dual citizens or foreign residents to European governments in the OECD alliance pursuant to the OECD Multilateral Convention on Mutual Administrative Assistance in Tax Matters.

Under the RECIPROCAL elements of the agreement with the US, the IRS will also be required to forward US banking information about Israeli residents to the ITA. At this time it is unclear whether the IRS will identify whose information to give to the ITA based on US tax returns of non-Americans or based on tax return addresses of US citizens too, or based on information provided by US financial institutions. What is clear is that the western world is quickly increasing in tax/financial transparency.

Full implementation of these agreements promises to quickly provide all compliant governments with the tools to identify unreported foreign income and unreported foreign financial accounts. Such tools will facilitate the IRS enforcement of its requirement that all US citizens report world-wide income including Israeli income and file FBARs reporting Israeli and other foreign bank accounts and other financial interests. (Check our website for more about FBAR and Form 8938 reporting at www.GalitzerCPA.com.) Similarly, such tools will facilitate the ITA enforcement of its requirement that Israeli residents report world-wide income including US source income.

Let us know if you would like us to clarify these matters further for you.

(*) Financial institutions are defined to include institutions holding deposits, or making investments for their clients, insurance companies that agree to make payments to their insured (e.g. issuers of annuity contracts), and those in the business of holding financial instruments for clients.

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