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YEAR-END PLANNING CONSIDERATIONS

Dear Friends,

The following are some year-end planning ideas for your consideration. Several of them may be helpful to you, though some may not apply to your particular situation.

For your convenience, we have indicated after each comment whether it relates to Israeli taxes (**ISR**) or United States taxes (**US**).

Shimon Galitzer

WHAT TO DO BEFORE YEAR-END

1. **Defer receipts of income until next year** - for example, put off billing to January (This does not apply to accrual basis taxpayers). (**ISR & US**) Note: due to changes in both US and Israeli rates of tax and related rules, the opposite may be more beneficial this year. Ask us.
2. **Pay as many expenses as possible prior to yearend.** (This does not apply to accrual basis taxpayers). (See also our note to item 1 above.)
 - Pay **Bituach Leumi** due January 15 before year-end (self-employed person only). (**ISR**) Payments of Bituach Leumi may generate a deduction of 52% of such payments (**ISR**) and payments for **health insurance** (including בריאות מס paid to לאומי ביטוח) may be deducted as itemized deductions, by a self employed person, whether or not itemizing deductions. (**US**)
 - Make a payment to **Keren Pitzuim** before year-end to cover a contingent liability for employee severance pay. (**ISR & US**)
 - Make additional **donations to charities** recognized by Mas Hachnasa for Israeli tax credit (reduction of tax) of 35% for individuals and 26.5% for companies (except companies with losses). This credit is also available to salaried individuals. Salaried individuals can present original receipts for such donations to Mas Hachnasa during the tax year and receive the additional tax credit through their salary calculation. This may also be especially beneficial if having foreign investment income taxable in Israel. (**ISR**)
 - For US purposes make **donations to charities** recognized by the Internal Revenue Service. (Charitable donations of \$250 or more for the year, must be documented with appropriate acknowledgments from the charity in order for you to be allowed the deduction.) (**US**) In some circumstances, contributions to Israeli charities may be deductible on your US tax return, and contributions to US charities may be creditable on your Israeli tax return pursuant to provisions of the US-Israel tax treaty.
 - **foreign currency loans** and other obligations to foreign residents by March 31st. (**ISR**) Cash basis taxpayers and US corporations (even accrual basis) should pay bonuses by yearend. (**US**)
 - Cash basis taxpayers may **prepay expenses** such as rent for a reasonable period in advance. (Note however, that the מס הכנסה position opposes a deduction for both the current year and subsequent year's ארנונה in one tax year.) (**ISR & US**)

3. ***Make additional payments of estimated taxes to avoid penalties.***
 - Make additional payments of **U.S.** income taxes before January 15th. **(US)**
 - Make additional payments of **Israeli** income taxes before January 31st to avoid linkage and interest charges from last July. Payments in February and March of prior year's of Israeli income tax may be subject to interest and linkage charges but at reduced rates. This includes estimated taxes on foreign investment income taxable by Israel. **(ISR)**
 - Pay tax on **Residential Rental Income** at 10% (on excess over the portion that is exempt) before January 31st. **(ISR)**
 - **Catch up on תקדמות** at the rate requested by מס הכנסה by year-end if it appears that there will remain additional tax liability based on תקדמות actually paid during the year, in order to avoid interest, linkage and penalty charges for underpayment of תקדמות.
4. ***Count and list all inventory*** of stock in trade on hand at year-end with special attention to items of current values below cost. **(ISR & US)**. Please coordinate with us for scheduling the inventory count.
5. Accrual basis taxpayers should ***list all creditors' and debtors' balances*** at year-end with special attention to debts gone bad and impossible to recover. **(ISR & US)**
6. ***Record car kilometrage*** odometer reading at year-end if you plan to claim a deduction for car expenses. **(ISR)**
7. ***Reevaluate your retirement plan program***
 - **Establish a retirement plan (KEOGH, SEP or regular IRA)** before year-end and make contributions to the plan by April 15th, for deduction against taxable earned income. Consider a spousal plan contribution too, and contribute as early as possible to maximize tax-free income **(US)**.
 - Contributions to a **Roth IRA** are also limited to the lesser of (a) \$5,500 (\$6,500 if over age 50) each (husband and wife) or (b) earned income (in excess of excluded foreign earned income). Income earned by the Roth IRA is tax exempt and future distributions can also be tax free, but contributions are not deductible. Therefore, contribute to a Roth IRA if appropriate as early as possible. **(U.S.)**
 - Individuals with U.S. retirement plans are required to start receiving distributions by age 70^{1/2}. Such individuals reaching age 70^{1/2} this year who are not yet receiving distributions should elect now to start receiving at least the minimum required amount by April 15th. **(US)**
 - Pay **Kupat Gemel** or **Bituach Menahalim** and **Keren Hishtalmut** premiums for yourself and employees by year-end. Contributions can be made before year-end to cover all of that year. **(ISR)**
 - **Life insurance** premiums (including premiums on policies carried by non-Israeli insurance companies) are deductible within certain limits for the year in which paid. **(ISR)**
8. ***Estate and gift tax***
 - Gifts of up to \$14,000, per calendar year, per donor, per donee are free of gift tax to both the donor and the donee. A married couple both of whom are U.S. citizens may gift up to \$28,000 to any one individual.**(US)**. Gifts by a non-U.S. citizen spouse are not limited even if filing a U.S. tax return.
 - **The estate of an American citizen or resident individual** with a value of less than \$5,000,000 is exempt from US estate taxes.
 - An estate of an individual **other than a US citizen or U.S. resident** is also subject to US estate tax on "US assets" such as real estate in the U.S. and shares of U.S. companies. In such case the exemption from estate tax is only **\$60,000**.