

Israel

Overall findings

Overall determination on the legal framework: Not In Place

Israel's legal framework implementing the AEOI Standard is not in place in accordance with the requirements of the AEOI Terms of Reference. While Israel's international legal framework to exchange the information with all of Israel's Interested Appropriate Partners (CR2) is consistent with the requirements, the domestic legislative framework requiring Reporting Financial Institutions to conduct the due diligence and reporting procedures (CR1) has significant deficiencies in areas that are fundamental to the proper functioning of the AEOI Standard. More specifically, the deficiencies relate to the scope of Reporting Financial Institutions, the scope of Financial Accounts and the due diligence procedures to identify Reportable Accounts, and to the enforcement framework.

The methodology used for the peer reviews and that therefore underpins this report is outlined in Chapter 2.

Conclusions on the legal framework

General context

Israel committed to commence exchanges under the AEOI Standard in 2018. Due to delays in putting in place the necessary domestic legal framework, Israel commenced exchanges in 2019 and, where possible, also exchanged the information that was due to be exchanged in 2018.

In order to provide for Reporting Financial Institutions to collect and report the information to be exchanged, Israel:

- amended the Tax Ordinance; and
- issued the Income Tax Regulations (Implementation of the Common Standard on Reporting and Due Diligence for Financial Account information) in 2019.

Under this framework Reporting Financial Institutions were required to commence the due diligence procedures in relation to New Accounts from 1 April 2019. With respect to Preexisting Accounts, Reporting Financial Institutions were required to complete the due diligence procedures on High Value Individual Accounts by 31 December 2019 and on Lower Value Individual Accounts and Entity Accounts by 31 December 2020.

With respect to the exchange of information under the AEOI Standard, Israel is a Party to the Convention on Mutual Administrative Assistance in Tax Matters and activated the associated CRS Multilateral Competent Authority Agreement in time for exchanges in 2019.

Detailed findings

The detailed findings for Israel are below, organised per Core Requirement (CR) and sub-requirement (SR), as extracted from the AEOI Terms of Reference (www.oecd.org/tax/transparency/documents/aeoi-terms-of-reference.pdf).

CR1 Domestic legal framework: Jurisdictions should have a domestic legislative framework in place that requires all Reporting Financial Institutions to conduct the due diligence and reporting procedures in the CRS, and that provides for the effective implementation of the CRS as set out therein.

Determination: Not In Place

Israel's domestic legislative framework is not in place as required as it does not contain several key aspects of the CRS and the Commentary. Significant deficiencies have been identified relating to the scope of Financial Accounts and the due diligence procedures to identify Reportable Accounts (SR 1.2) and the framework to enforce the requirements (SR 1.4). Furthermore, Israel provides for several jurisdiction-specific Non-Reporting Financial Institutions (SR 1.1) that do not meet the requirements of the AEOI Standard.

SR 1.1 Jurisdictions should define the scope of Reporting Financial Institutions consistently with the CRS.

Israel has defined the scope of Reporting Financial Institutions in its domestic legislative framework in a manner that is largely consistent with the CRS and its Commentary. However, deficiencies have been identified. More specifically, Israel provides for two jurisdiction-specific Non-Reporting Financial Institutions that are not in accordance with the requirements. The definition of Reporting Financial Institutions, including the provision of Non-Reporting Financial Institutions, is material to the proper functioning of the AEOI Standard.

Recommendations:

Israel should amend its domestic legislative framework to remove two entries from its jurisdiction-specific list of categories of Non-Reporting Financial Institutions as they do not meet the requirements. The entries are: i) provident funds; and ii) small financial institutions.

SR 1.2 Jurisdictions should define the scope of Financial Accounts and Reportable Accounts consistently with the CRS and incorporate the due diligence procedures to identify them.

Israel has not defined the scope of the Financial Accounts that are required to be reported in its domestic legislative framework in a manner that is consistent with the CRS and its Commentary and has not incorporated the due diligence procedures that must be applied to identify them correctly as significant deficiencies have been identified. More specifically, the exclusion of certain equity and debt interests from the definition of Financial Account is not in accordance with the AEOI Standard. Furthermore, Israel provides for several jurisdiction-specific Excluded Accounts that are not in accordance with the requirements. The scope of Financial Accounts and the due diligence procedures to identify them are material to the proper functioning of the AEOI Standard.

Recommendations:

Israel should amend its domestic legislative framework to include all of the required categories of Equity or debt interest in the definition of Financial Account in accordance with the AEOI Standard.

Israel should amend its domestic legislative framework to define the term Active NFE in accordance with the AEOI Standard.

Israel should amend its domestic legislative framework to remove five entries from its jurisdiction-specific list of categories of Excluded Accounts as they do not meet the requirements. The entries are: i) undefined group of beneficiary accounts; ii) study fund accounts for employees; iii) study fund accounts for the self-employed; iv) escrow accounts maintained by lawyers, rabbinical pleaders or accountants; and v) dormant accounts.

SR 1.3 Jurisdictions should incorporate the reporting requirements contained in Section I of the CRS into their domestic legislative framework.

Israel has incorporated the reporting requirements in its domestic legislative framework in accordance with the CRS and its Commentary.

Recommendations:

No recommendations made.

SR 1.4 Jurisdictions should have a legislative framework in place that allows for the enforcement of the requirements of the CRS in practice.

Israel does not have a legislative framework in place to enforce the requirements in a manner that is consistent with the CRS and its Commentary as significant deficiencies have been identified. More specifically, Israel's legislative framework:

- does not contain rules to prevent Financial Institutions, persons or intermediaries from adopting practices intended to circumvent the reporting and due diligence procedures as required;
- does not contain provisions imposing sanctions on Account Holders and Controlling Persons for the provision of a false self-certification; and
- does not include rules requiring Reporting Financial Institutions to keep records in accordance with the requirements.

These are key elements of the required enforcement framework and are therefore material to the proper functioning of the AEOI Standard.

Recommendations:

Israel should amend its domestic legislative framework to include rules to prevent Financial Institutions, persons and intermediaries from adopting practices intended to circumvent the due diligence and reporting procedures.

Israel should amend its domestic legislative framework to include sanctions on Account Holders and Controlling Persons for the provision of a false self-certification.

Israel should amend its domestic legislative framework to require all Reporting Financial Institutions to keep all of the records required to be maintained, rather than relying only on the requirements contained in the AML framework.

Israel should amend its domestic legislative framework to require Reporting Financial Institutions to maintain records for at least five years from the deadline to report the information, in accordance with the AEOI Standard.

CR2 International legal framework: Jurisdictions should have exchange relationships in effect with all Interested Appropriate Partners as committed to and that provide for the exchange of information in accordance with the Model CAA.

Determination: In Place

Israel's international legal framework to exchange the information is in place, is consistent with the Model CAA and its Commentary and provides for exchange with all of Israel's Interested Appropriate Partners (i.e. all jurisdictions that are interested in receiving information from Israel and that meet the required standard in relation to confidentiality and data safeguards). (SRs 2.1 – 2.3)

SR 2.1 Jurisdictions should have exchange agreements in effect with all Interested Appropriate Partners that permit the automatic exchange of CRS information.

Israel has exchange agreements that permit the automatic exchange of CRS information in effect with all its Interested Appropriate Partners.

Recommendations:

No recommendations made.

SR 2.2 Such an exchange agreement should be put in place without undue delay, following the receipt of an expression of interest from an Interested Appropriate Partner.

Israel put in place its exchange agreements without undue delay.

Recommendations:

No recommendations made.

SR 2.3 Jurisdictions should ensure that the exchange agreements in effect provide for the exchange of information in accordance with the requirements of the Model CAA.

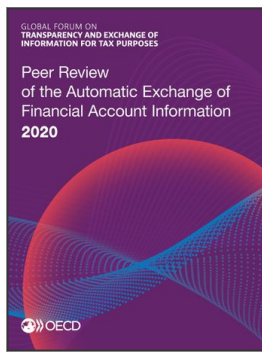
Israel's exchange agreements provide for the exchange of information in accordance with the requirements of the Model CAA.

Recommendations:

No recommendations made.

Comments by the assessed jurisdiction

No comments made.



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