

# **Personal Finance Strategies**

**By Philip Braude**

## **Advice to parents of children in Israel**

Pesach is traditionally the time when overseas parents and grandparents come visiting their children and grandchildren living in Israel. Once arrived, they have the opportunity to see their families up close, and having time on their hands, the issues of wealth succession planning come to the forefront. I want to use this column to address the issues arising of wealth succession planning, with an Israeli perspective.

In countries such as the USA & UK, where there are Estate Duties or Inheritance Taxes imposed on a deceased person's estate, there are often possibilities to avoid the tax imposition by gifting amounts during a person's lifetime. Each country would have their own rules and regulations, and one's personal accountant would be able to advise the gifting limits. However, from a personal perspective, this approach requires that the recipient children are able to manage the wealth being given to them. I have often advised clients in terms of the need to educate their children in the different aspects of wealth management before the time comes that they receive large inheritances which they are not equipped to deal with. One of my approaches is to give a sum of money that the child has to manage, and report back on an annual basis. As needed, he can request input and assistance from his parents, and slowly build up confidence and knowledge in the field of wealth management. When he eventually receives the large inheritance, he hopefully will be better equipped to deal with the issues that arise.

Not to be overlooked are the Israeli tax ramifications of such investments held by Israeli residents, as Israel taxes its residents on their world-wide affairs. With correct strategies, this should not present too much of an issue. The Israeli tax rates passive income are not much higher than faced by international investors, and by means of the relevant double tax agreements, there should not be a need to pay excessive taxes. However, this tax structuring needs to be implemented before the investments are made to be successful. A particularly attractive arrangement might be using an offshore trust settled by the overseas parent / grandparent as an investment vehicle. If correctly structured, this trust should be tax free in Israel. However, the settlor must ensure that appropriate tax advice is taken in home country, and be aware that if he ever immigrates to Israel, he will bring this trust with him to Israel. (This strategy is particularly beneficial for parents residing in the UK, where a certain kind of trust strategy can eliminate UK Inheritance Taxes, provide life time income to the parent (tax free for many years), and be tax free in Israel once received by the family member resident in Israel.) At this point, I need to point out that the ownership of overseas properties or property holding companies by Israeli resident are particularly tax onerous (potentially resulting in overall tax rates at over 60%), and I often advise restructuring into other vehicle ownership forms, which might reduce the overall tax rate to about 20%.

Another area of concern to be addressed is that of one's will. The Israeli tax law has a strange quirk, where it could tax the historic gains of assets inherited by Israeli beneficiaries. This is unfair, as these gains could have been accumulated over many years, when no family member was even resident in Israel. I have known cases where representation was made to the Israeli Tax Authorities to step up the value of the asset to the value at date of inheritance, and only to tax the realized gains over that amount. However, this process is not automatic, nor is the outcome clearly determinable in advance. A better approach is to ensure that wills are correctly structured in the first place to deal with this situation.

The barriers to effective wealth transfer to an Israeli resident family member can be numerous and daunting, but with forethought, and the use of professionals who understand the issues and laws can make the process easier, and the end result materially beneficial for all parties involved.

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