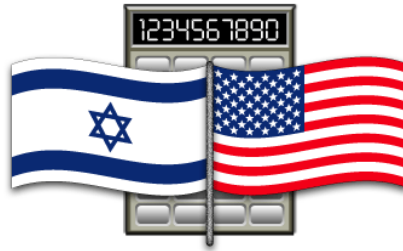


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2018 END OF THE YEAR TAX PLANNING FOR THE ISRAELI TAX RETURN

The 2018 tax year has almost come to an end. I hope that 2018 was a more successful year for you than the previous one and that 2019 will be even better. Last minute tax planning at the end of the year can reap large benefits for the tax payer.

- Step #1** is to **estimate your 2018 net earnings** by adding up your gross income less expenses.
Then make a projection of additional income and expenses which can be incurred or deferred (according to your tax situation) by the end of the tax year. Most taxpayers usually have a good feeling about where they stand as far as a general increase or decrease in business and on this basis alone can start to think about incurring income to this year or deferring it to the next year, or adding on expenses this year, or pushing off expenses to the next year.
- Step #2** is to **summarize your estimated income tax payments** and make an estimate of additional payments to be made by the end of the year. If you have an increase and you know that your 2018 tax burden is larger, you can make payments in the following ways:
 - Payments made by Jan. 31, 2019 are waived from linkage and interest (interest is about 4%)
 - Payments made by Feb. 28, 2019 are charged 50% linkage and interest.
 - Payments made by Mar. 31, 2019 are charged 75% linkage and interest.
 - All payments made after Mar. 31, 2019 are linked to the January cost of living index plus approximately 4% interest.
- Step #3** is to **summarize your payments to kupot gemel or life insurance policies**. First estimate your adjusted gross income and multiply it by 16% to see if you have taken advantage of your maximum tax benefits. The maximum adjusted net income that can be deducted is 208,800 shekels of which 11% is 22,968 shekels.
Included in the above 16% the taxpayer can get an additional tax credit "zikui" for deposits in kupot gemel or approved life insurance plans of up to 5% of adjusted tax income up to 208,800 which is 10,440 shekels, which will give you a 3,654 shekel tax credit. All payments must have been made by Dec. 31, 2018.

4. **Step #4** is to **summarize your payments to keren hishtalmut**. The maximum annual deposit allowed into a keren hishtalmut is 7% of the net income of up to 261,000 shekels (18,270 shekel maximum deposit). The tax law allows a tax deduction for these deposits of 4.5% of the net income (11,745 shekel maximum tax deduction).
5. **Step # 5** is to **summarize your payments to Bituach Leumi**. The estimated payments you were required to pay for 2018 were based on previous years income. If your income increased in 2018, you will have underpaid. In order to avoid interest or penalties, it is possible to go to Bituach Leumi and request an increase before the tax year is over. The additional payments can be made by credit card (12 Payments). Even though you will be paying your Bituach Leumi bill next year, since the credit card company already paid the whole amount this year, you'll be able to get a 50% income tax deduction this year for the amount paid on condition that this was done before Dec. 31, 2018. This goes for the last Bituach Leumi voucher payment due Jan. 15, 2019 as well. If you pay it early, before Dec. 31, 2018, you can get the 50% income tax deduction for this payment on your 2018 return.
6. **MANDATORY PENSION CONTRIBUTIONS FOR THE SELF EMPLOYED – BEGINNING JANUARY 2017 DEPOSITS INTO INDIVIDUAL PENSION PLANS ARE REQUIRED BY INDIVIDUALS BORN BEFORE 31/12/61 OR WHO HAVE NOT REACHED THE AGE OF 60 BEFORE THE 2017 TAX YEAR HAS FINISHED, OR BY A NEW SELF EMPLOYED OPENING A FILE MORE THAN 6 MONTHS BEFORE THE END OF 2018. FINES WILL BE IMPOSED ON PEOPLE WHO DON'T COMPLY. PLEASE CONTACT ME AND I WILL GUIDE YOU IN DEPOSITING THE CORRECT AMOUNT**

ISRAELI TAX REFORM –

The Israeli Tax system underwent a major revision as of Jan 1, 2003

The basis of determining whether an individual is liable to pay taxes in Israel has been changed from territorial to residential. The tax liability has been extended to include an individual's worldwide income as opposed to taxing him only on his income earned in Israel. Credit will be given to the taxpayer on taxes paid abroad. Many sources of income which have previously been waved from income tax in Israel are now taxable. These include capital gains on the American or any other foreign stock market, interest on savings plans, dividends on worldwide investments and rental income received from abroad.

THE FOLLOWING DOCUMENTS MAY BE NEEDED IN PREPARING YOUR 2018 ISRAELI TAX RETURN:

Israeli Government Documents

- a. Form 106, which summarizes income from salaries or pensions in Israel. Foreign pensions also need to be documented.
- b. Forms 857, 837, or 806 which verify tax deducted at the source for services performed by you AND FORM 867 FROM BANKS VERIFYING INTEREST, DIVIDENDS AND CAPITAL GAINS
- c. Documents received from Bituach Leumi summarizing income received for doing reserve duty, unemployment, birth allowance, old age allowance, etc.

- d. Documents from kupot gemels or life insurance companies summarizing payments made by you in 2018.
- d. Documents from Keren Hishtalmut summarizing payments made by you in 2018.
- e. Payments to Bituach Leumi by "Atzmaim" –self employed.
- f. Residents of tax preferential areas – "yishuve sfar" must obtain a certificate from their local council verifying this.

Business-Related Documents

- a. Statements verifying rental income received in Israel or abroad.
- b. A detailed report of trips abroad with expenses incurred.
- c. For business car expenses – a summary of kilometer usage along with a breakdown of expenses.
- d. List of inventory stock must be taken on December 31, 2018.
- e. List of business equipment sold during the tax year in order to evaluate if a capital gains tax is due.

Investments

- a. Transaction made in the stock market – date bought – date sold – sales price and cost of stock.
- b. Documents on interest and dividends received.

Miscellaneous

- c. Original receipts of contributions to recognized non-profit organizations.
- d. Family status changes – including number of children under 19 as of 31/12/18.
- e. Please send us a list of children's names and dates of birth.
- f. Copy of your foreign income tax return.
- g. A statement from the foreign country verifying the taxes you paid.

Sincerely Yours,

Moshe Sadeh