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Israel

Israel Signs OECD Automatic Tax Information Exchange Agreement

Israel signed the Organization for Economic Cooperation and Development's Multilateral Competent Authority Agreement (MCAA) to facilitate the automatic exchange of financial information, boosting the number of signatories to 91 and enhancing the global efforts against tax evasion, the OECD announced.

The Nov. 24 signing follows recent approval by the Israeli parliament of a bill granting the tax authority power to transmit information to foreign authorities and allowing the state to sign tax information exchange agreements with other countries (231 ITM, 11/23/15).

Israel's Chief Economist and Director of State Revenues Yoel Naveh said in a Nov. 22 statement that the bill would "strengthen Israel's enforcement ability against tax evaders who operate outside the Israeli borders, and will allow Israel to keep international standards to which it committed itself."

Cross-Border Cooperation. In the first international treaty signed since the legislation was passed, Israeli Ambassador to the OECD Carmel Shama-Hacohen and OECD Secretary-General Angel Gurría signed the agreement, which provides for all forms of administrative assistance in tax matters, including the exchange of information on request, spontaneous exchange, automatic exchange, tax examinations abroad, simultaneous tax examinations and assistance in tax collection.

Gurría said Nov. 24 that "Israel has recognized the importance of improving tax transparency and has implemented the necessary reforms in recent years to ensure that its legal and regulatory framework is up to the task." He added that Israel's signing confirms its dedication to fight against offshore tax avoidance and evasion and crack down on illicit financial flows, allowing "Israel to rapidly expand its network of information exchange partners—giving it the tools to obtain tax in-

formation from countries stretching from Norway to Australia, from Colombia to China. It also provides a legal basis for other forms of cross-border tax cooperation, including assistance in the collection of taxes, or the undertaking of joint tax examinations with partner administrations."

Conditions of Exchange. Israel has committed to undertake its first automatic exchanges in 2018 under the MCAA, once it has ratified the agreement. However, Israel will only apply the MCAA to direct taxes (excluding social security), the Israeli finance ministry said in a Nov. 25 statement. Further, it has chosen not to "enforce the convention's provisions on assistance in tax examinations abroad, tax collection and service of documents," the statement said.

In line with the provisions of its recently approved bill, information shared under any tax exchange agreement by Israel with a partner country can only be used for tax enforcement purposes and can't be transferred to another country, the finance ministry highlighted earlier on Nov. 22.

Data Confidentiality. In addition, the data can only be transferred if tax authorities in other countries commit to the data's confidentiality and safekeeping. The tax authority will also inform the Israeli resident on whom tax information is sought at least 14 days prior to transferring the requested data, unless the requesting country asked for secrecy.

A spokesperson for the OECD told Bloomberg BNA Nov. 25 via e-mail that Article 30 of the convention allows parties to make such reservations. "Israel is not the first country to do so," he said. Countries including Argentina, Australia, Canada, China and the U.S. have all set conditions on information exchange.

Harel Perlmutter of law firm Barnea and Co. in Tel Aviv told Bloomberg BNA via e-mail Nov. 25 that the legislation "does not offer any special way" for individuals to object against the information transfer, but under Israeli laws other channels do exist, such as by submitting an objection to the Israeli tax authority or a

petition to court. Perlmutter added that the Israeli legislature “will provide additional special regulations in order for the individual to appropriately defend himself from such a move of transferring information to another country.”

Furthermore, in cases of national security or public safety, Israel won’t transfer the required data to the requesting country, the finance ministry said. It will also withhold information if the requesting country doesn’t meet international standards, it said.

According to Perlmutter, “Israel reserves for itself the right to withhold information based on security reasons (for Israel or its citizens) or if the other country had refused in the past to share information with Israel without any reasonable explanations.” In addition, he said that existing security challenges—both for Israel and foreign countries—means the withholding of data

will be understandable by other countries and those countries will also act in the same way.

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The news release is at <http://www.oecd.org/tax/israel-joins-international-efforts-to-boost-transparency-and-end-tax-evasion.htm>.

The Israel Ministry of Finance Nov. 25 statement is at <http://www.financeisrael.mof.gov.il/FinanceIsrael/pages/En/PressReleases/NewRelease.aspx?pr=20151125>.

The Israel Ministry of Finance Nov. 22 statement is at <http://www.financeisrael.mof.gov.il/FinanceIsrael/pages/En/PressReleases/NewRelease.aspx?pr=20151122>.