Welcome Home- Key Issues and Opportunities when returning to Israel

One of the many trends we are seeing in the COVID-19 crisis is an increase in Israeli citizens who were working abroad returning home to Israel. This return is partly enabled by the increased ability to work remotely. However, many are also doing so as a tribute to Israel’s strength and stability throughout the COVID-19 crisis. Alongside the significant planning that this takes with schooling for children and finding suitable housing, one of the crucial issues that frequently comes up is proper tax planning.

In this two-part series, I will focus on U.S. citizens and residents returning to Israel and the key tax issues of which they should be aware. I will also highlight areas where tax saving opportunities are available and show you how you can take advantage of them.

**The 10-Year Holiday:**

Israel is unique in that the people moving to Israel: “*Olim chadashim*” as well as long term returning residents known as “*Toshavim chozrim vatikim*” - citizens that were not residents of Israel for the past 10 years, are entitled to unique benefits. One of these benefits is the 10-year tax holiday that Israel grants these people for their first 10 years upon arrival to Israel. This holiday is from passive income as well as active income earned abroad during these coming 10 years. If you are a U.S. citizen, you are taxed on your worldwide income and will still pay U.S. Federal taxes on these items. However, you will no longer be obligated to pay state tax on many of these income items (if they are not effectively connected to a U.S. business). This creates significant savings for people who were residents of states such as California and New York, as they will not pay state tax on this income anymore. For example, someone who owns appreciated stock, makes *Aliyah* and breaks residency from the U.S. has the opportunity to save state tax on the capital gain if they sell it only after they move to Israel.

**Green Cards:**

One of the most common questions we receive from returning residents is what to do with their green cards. If you have had the green card for 8 of the past 15 years, then you are defined as a long term green card holder, and returning the green card is an act of expatriation. This needs to be carefully coordinated with a CPA or attorney to avoid the exit tax in the U.S. for covered expatriates. If you have had it for less than 8 of the past 15 years, then you need to strongly consider returning the green card. If you do not do so, you will remain obligated to pay U.S. taxes on your worldwide income like any U.S. citizen. Additionally, retaining the green card could lead you to eventually passing the 8 of 15 years and thereby becoming a long term green card holder. Such a status, as discussed above, can lead to difficulties returning the green card as it is an act of expatriation and could trigger an exit tax. For people that held the green card for less than 8 of the past 15 years returning the green card is a technical process. They only need to file form I-407, which does not trigger an exit tax in the U.S. However, once the green card is returned, it creates an excellent opportunity for passive investment income from abroad to grow tax-free while you reside in Israel. This is because in Israel there is a 10-year holiday from tax on passive income and you will no longer be a U.S. person subject to U.S. taxes.

It is important to note that for non-U.S. citizens, there is estate tax exposure on U.S. investments and income tax requirements if the income is connected to the U.S., such as U.S. real estate. There are additional opportunities in this area based on the U.S. – Israel tax treaty that can be explored as well. In any case, the green card issue is a sensitive one and must be carefully coordinated with a U.S. CPA and immigration attorney.

There are many more issues that need to be examined as you get ready for the big move. I look forward to exploring more of them with you in the next part of this series