

Israel introduces the Common Reporting Standard regulations for financial institutions regarding foreign accounts

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Executive summary

In accordance with the Organisation for Economic Co-operation and Development (OECD) requirements, in February 2019 the Israeli Ministry of Finance published the Common Reporting Standard (CRS) regulations, which levy a reporting requirement on Israeli financial institutions regarding accounts of foreign residents for exchanging information for tax enforcement purposes between countries (the Regulations). The Regulations have a retroactive effect on existing accounts from 2017, which will have to be reported by 23 June 2019.

The Regulations incorporate certain adjustments and deviations from the OECD uniform version, including the definition of a financial institution subject to reporting requirements. Such definition is broad and applies, under specific terms, to Israeli entities, **including Israeli branches of foreign entities**, which hold and/or manage funds for others, such as banks, insurance companies, investment funds or entities.

Financial institutions (as defined in the Regulations) with branches in Israel should carefully review these Regulations and examine their level of compliance and readiness to comply with their requirements.

Detailed discussion

According to the recent published Regulations, financial information regarding foreign residents should be collected by the financial institutions and transferred to the competent authority (usually the tax authority) in the residence country on an annual basis, based on a list of participating and reporting countries published annually by the Israeli Tax Authority (ITA).

The Regulations set forth the procedures that a financial institution needs to perform with the distinction between individuals and entities, as well as between low- and high-value accounts. Different procedures also apply to the first creation of an account and to the ongoing classification of an existing account.

As of 2020, not later than 8 September of a certain year, financial institutions are required to file their online report regarding their reportable accounts with the ITA (other deadlines might be applicable in certain cases). A financial institution is required to file this report even if it does not have any reportable accounts, in which it needs to declare that no accounts are reportable.

With respect to years 2017 and 2018, the online report should be filed no later than 23 June 2019 and 8 September 2019, respectively.

Implications

As the CRS Regulations are very complex and require Israeli financial institutions, including foreign financial institutions with Israeli branches, to follow, analyze and classify their accounts on an ongoing basis, such financial institutions should carefully review the Regulations and examine their applicability and effect on them.

Those that are subject to the Regulations and did not yet implement procedures ensuring identification of reportable accounts should immediately consider their preparation for the application of the Regulations, including the manner in which the information is collected, the due diligence methodologies used, as well as the automation of the process, in order to be fully compliant with the Regulations requirements.

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