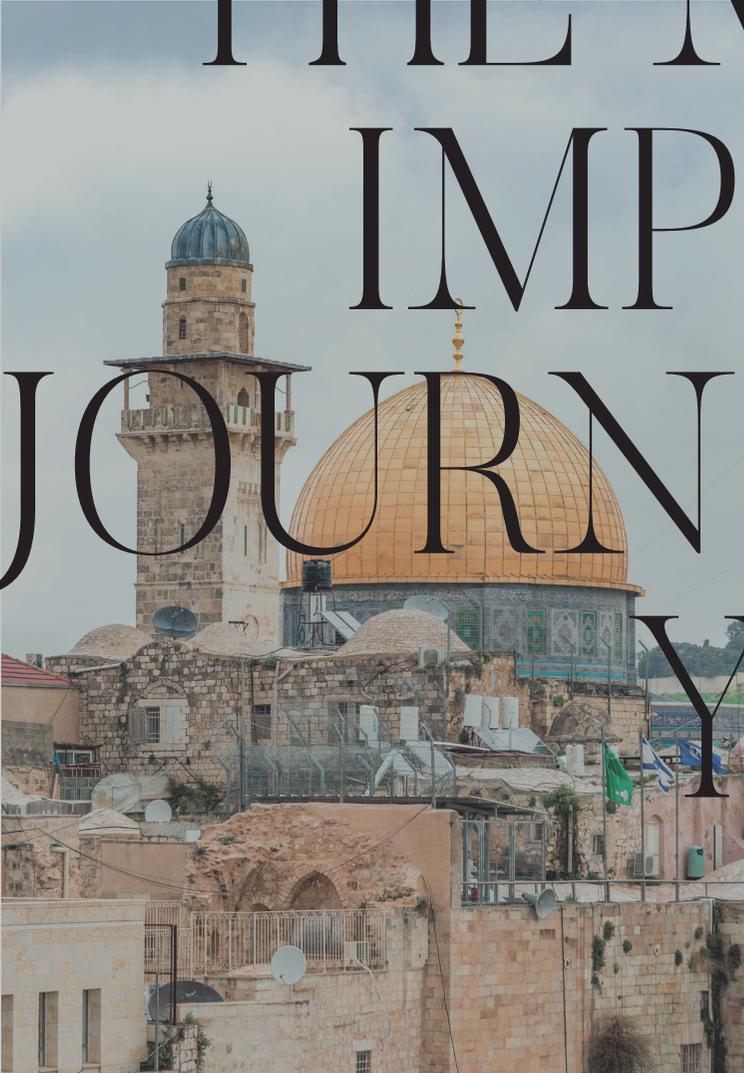


MISTAKES UK OLIM MAKE WITH THEIR FINANCES AND HOW TO AVOID THEM



# THE MOST IMPORTANT JOURNEY OF YOUR LIFE

**PART 1** – FINANCIAL AND TAX PLANNING

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**DISCLAIMER**

Throughout this document, I refer to tax rules. The levels and bases of taxation and reliefs from taxation can change at any time. Tax relief is dependent on individual circumstances.

Please also note that an investment in equities and shares will not provide the security of capital associated with a deposit account with a bank or building society.

# INTRODUCTION

01



THE MOST IMPORTANT  
JOURNEY OF YOUR LIFE  
– MISTAKES UK OLIM  
MAKE WITH THEIR  
FINANCES AND HOW  
TO AVOID THEM.

Making the decision to move to Israel is one of the most significant decisions any of us will make in our lifetime.

Having emigrated to Israel with my family 15 years ago, I can assure you that living in Israel has a lot of great advantages.

And as a professional adviser with over 30 years' experience in financial planning and wealth management, I can also reassure you that this is a journey you can make with confidence knowing that you can enjoy financial peace of mind in your new life in Israel.

The second point can only be achieved if you make astute decisions about how to plan your finances in Israel.

I am known as the only financial adviser who is currently qualified and licensed in both the UK and in Israel, and who is working with market-leading wealth management firms in both jurisdictions. This means that I am uniquely placed to leave my clients feeling financially secure in an uncertain world - in a country which they may know and love, but still feel very uncertain about when it comes to their finances.

In writing this guide I am drawing on my experiences as a Chartered Accountant at Price Waterhouse, as well as from a lengthy financial planning career in the UK and Israel. I hope it will enable you to make the right decisions and avoid the many hugely costly mistakes that too many olim from Britain have made with their finances – or if you are already in Israel, to set you on the path to getting things right for a more secure financial future.

**Andrew Album**

January 2021

# MISTAKES AND HOW TO AVOID THEM



SINCE 2007, NEW IMMIGRANTS  
TO ISRAEL RECEIVE TAX  
EXEMPTIONS FOR THE FIRST  
10 YEARS OF RESIDENCY.

## Tax planning

Mistake / 1 **VOLUNTARILY PAYING INCOME AND CAPITAL GAINS TAX IN THE UK**  
no.

**A PERMANENT MOVE AWAY FROM BRITAIN PRESENTS SOME INCREDIBLE TAX PLANNING OPPORTUNITIES, AS IT IS POSSIBLE TO LEAVE HMRC BEHIND AND BENEFIT FROM THE SIGNIFICANT TAX BREAKS THAT NEW OLIM TO ISRAEL ARE ABLE TO ENJOY.**

Although Israel taxes residents on their worldwide income, new rules introduced with effect from 2007 exempt new immigrants and (certain) returning Israelis from reporting and taxation in Israel during the first 10 years of Israeli residency on income and capital gains on non-Israeli assets.

The income tax exemption applies to interest, rent, royalties and pensions from non-shekel assets and dividends or business income generated by non-Israeli operations.

### **THE OPPORTUNITY**

For olim from the UK this presents a unique opportunity – if you can structure your affairs so that you no longer have a British income or capital gains tax liability on returns generated from these assets then no tax will be paid in either country for the 10-year term.

If you choose the right structures then, for those planning to emigrate in the future, you could also mitigate paying any UK taxes on your investments up until the time when you are making Aliyah.

# MISTAKES AND HOW TO AVOID THEM

## TAX PLANNING

The easy part of this equation is to become an Israeli resident – which is done by making Aliyah and establishing Israel as your main country of residence.

### CAREFUL PLANNING

More careful planning is often required to be in a position where income previously subject to tax in the UK is no longer subject to tax in Britain.

Income tax is not due when you hold assets outside of the UK if you are British non-resident for income tax purposes. How the date of non-residence begins (or ends) depends on the statutory residence test (SRT).

Although complex, the SRT provides some certainty as to the steps individuals are required to take in order to cease being UK taxpayers.

### TAX RESIDENCY STATUS

In summary, the situation is as follows:

1. For an individual who previously lived permanently in the UK and is making Aliyah, they are automatically considered non-resident for a tax year if they are present in the UK for less than 16 days in the tax year in question. To pass this test, you basically need to spend almost no time visiting the UK in the first fiscal year after you have made Aliyah, which is not a feasible or desirable option for many.

2. Conversely, individuals who reside in the UK for at least 183 days in a tax year or who have a residence for 90 days or more and are present in that home for at least 30 days in a tax year will be conclusively regarded as resident in the UK in that tax year.

After making Aliyah, if you spend more than 16 days a year in the UK and do not want to work full time abroad, it is still possible to become tax exempt for income tax purposes by qualifying as a non-UK tax resident under the 'sufficient ties' test.

Time spent in UK in a tax year	Status	Comments
Less than 16 days	Automatically UK non-resident	This is difficult to achieve
More than 183 days visiting  Own residence +90 days & 30 day in home	Automatically resident	You may not qualify for healthcare coverage in Israel if you out of the country for this amount of time
More than 16 days but not working full time	Depends	Sufficient ties test

## SUFFICIENT TIES TEST

The sufficient ties test combines the concept of UK ties with the number of days you are present in the UK. The more ties you have, the less time you may spend in the UK if you wish to be regarded as a non-resident.



**FAMILY**



**AVAILABLE  
ACCOMMODATION**



**WORK**



**NUMBER OF  
DAYS PRESENT**



**WHICH COUNTRY  
MOST TIME IS SPENT  
LIVING IN**

It is always advisable to get professional advice regarding the rules as they can be complex. The fact that careful planning could put you in a position where you pay no tax in the UK or Israel for 10 years is certainly worth considering.

Mistake /  
no. **2** **'I HEREBY BEQUEATH TO HMRC  
A LARGE PART OF MY ESTATE'**

**IN 1789, BENJAMIN FRANKLIN WROTE: "IN THIS WORLD  
NOTHING CAN BE SAID TO BE CERTAIN, EXCEPT DEATH  
AND TAXES."**

As a result of the inevitability of the latter, it is not surprising that revenue-hungry governments around the world have sought to raise taxes when citizens die by levying inheritance tax or estate duty.

For most Britons, inheritance tax (IHT) is levied upon death and is payable at the rate of 40% on the value of the estate to the extent that it exceeds the nil rate band, which is currently £325,000.

The rules affecting your liability to IHT after moving to Israel are completely different from the ones that affect your tax residency. It is certainly possible to become non-resident for income tax purposes post-Aliyah whilst still being liable to IHT on your worldwide assets.

The basis on which a liability to IHT exists is dependent on two factors:

1. Where the assets are held – investments held in Britain are almost always subject to inheritance tax.
2. If you are domiciled in the UK – irrespective of where you live – then you will be liable to IHT on your worldwide assets.

“  
IN 2020, HMRC  
EARNED £5.1BN  
IN IHT RECEIPTS.”

Source: [www.gov.uk](http://www.gov.uk)

## YOUR DOMICILE

To reduce or eliminate your potential exposure to IHT you must move as many of your assets as possible to outside of the UK and establish a new domicile of choice in Israel.

Many investments and assets can be moved outside of the UK by, for instance, changing the bank at which accounts are kept or by choosing a custodian for investments held outside of Britain. Property, however, is an immovable asset and is addressed in greater detail later in this guide.

(It is important to note that the leading Israeli banks can hold certain investments for you and if they are not shekel assets then they will still be subject to the new *oleh* tax exemption.)

The process of changing your domicile can be a complicated issue, but it is something that many olim have managed to achieve. This is essentially achieved by shedding your domicile of origin and replacing it with your domicile of choice.

## CHANGING YOUR DOMICILE

Your domicile of origin is set when you are born. Losing your British domicile of origin and acquiring a domicile of choice (such as in Israel) involves satisfying two tests.

- You must physically reside in the new jurisdiction, which can be proved easily if you make *Aliyah*; and -
- You must form the intention to live permanently or indefinitely in the new jurisdiction, not intending to live anywhere else. This can be much harder to prove.



+1.7%

The population in Israel increased by 1.7% in 2020, of which 16% was from international migration.

Source: [www.jewishvirtuallibrary.org](http://www.jewishvirtuallibrary.org)

9m

Israeli population at the end of 2020 was approximately 9 million.

MISTAKES  
AND HOW  
TO AVOID THEM  
TAX PLANNING



To acquire an Israeli domicile of your choice, after making Aliyah you have to demonstrate that Israel is your new permanent home, that you intend to stay indefinitely. This can be accomplished by cutting as many ties with the UK as possible. Steps which can be taken to evidence this may include moving your assets outside of the UK, ending memberships of British organisations, taking yourself off the electoral roll, relinquishing a burial plot and selling the family home.

This change in status will take time to become effective from an IHT perspective, as it takes at least six full tax years for the domicile of origin to cease to be valid.

Again, obtaining expert advice is recommended as acquiring a domicile of choice is a complicated issue.

Mistake / **3** MAKE SURE YOU DON'T END UP WITH  
no. **A US ESTATE TAX LIABILITY INSTEAD**

For Americans, estate tax is largely a problem for the rich with the indexed exemption standing well above \$10 million. Whilst you were living in the UK, this would not have been a key issue to consider either as the USA has entered into an estate tax treaty with Britain. Whilst there is also a US-Israel treaty, you will still be liable to full US estate tax on US assets above the threshold as Israel does not have an inheritance tax.

An individual who is not a US citizen (referred to as an Alien Non-Resident) is only entitled to an exemption of \$60,000 against the value of assets included in the taxable estate of an individual. Non-US domiciled individuals are taxed on the value of their US "situs" assets. US situs assets generally include real and tangible personal property located in the US, business assets located in the US, and shares of US companies. In addition some US bonds are potentially exposed.

For most British olim, the \$60,000 limit is the entire tax-free allowance that is available against US estate tax on their American assets. It means that holding a portfolio of shares of leading US companies (such as Apple, Google or Microsoft), property or US mutual funds and exchange traded funds (ETFs) could well mean that you bequeath a US estate tax liability to your family, even if you have successfully established a domicile of choice in Israel and are no longer liable to UK inheritance tax.

#### HOW NOT TO FALL INTO THIS TRAP

In many instances, this problem could easily have been avoided. For example, it is possible to gain exposure to the US stock market without creating an estate tax liability through careful investment selection. Similarly, investors can structure the way they hold their US property investments in a way that doesn't create an estate tax liability.

## FOR NON-US CITIZENS THE TAX FREE ALLOWANCE IS \$60,000.

Source: The IRS



# 68.2m

**The UK population is projected to be 68.2million by the end of 2021.**

Source: The Economist, December 2020.

# 9.4m

**The population of Israel is expected to be 9.4million.**

Source: [www.jewishvirtuallibrary.org](http://www.jewishvirtuallibrary.org)

## Currency risks

Mistake /  
no. **4 FAR TOO MANY ASSETS  
AND INCOME IN STERLING**

**CURRENCY IS ARGUABLY THE MOST IMPORTANT ASPECT OF FINANCIAL PLANNING, WHICH REQUIRES A COMPLETELY NEW MINDSET.**

During your years in Britain, exchange rates were probably an issue that only came up when you went overseas on holiday or for business and needed to know how much an item in another currency would cost in pounds. Occasionally a change in rates made certain items more expensive than on a previous trip, in other cases they were cheaper. In any event, the changes in rates did not impact your standard of living or quality of life at home.

This is because when you lived in the UK, you probably earned your income in sterling, purchased your assets and items with sterling, and paid your living expenses in sterling.

If you knew that £1 could always purchase the same amount of shekel after your move to Israel, then the issue of currency would not be a problem. But exchange rates are not fixed - they can change and they often do.

### **WILL YOU STILL HAVE ASSETS AND INCOME IN POUNDS?**

After Aliyah, the shekel/sterling exchange rate will become a crucially important aspect of your financial planning, since your expenses will now be incurred in Israeli shekel. If your income is still in British pounds, then this will cause a considerable mismatch.

Back in 2007, £1 bought you 8.7 shekels. At the beginning of 2021 the exchange rate was about half of this (see chart below). So, someone whose income and capital were entirely in sterling would have found that their standard of living had fallen by half. This is a significant decline which has had a considerable impact on the standard of living of many British olim who have fallen into this trap.

This mismatch can lead to significant risks to your lifestyle and to your financial peace of mind.



Throughout the same period, one shekel has always been worth one shekel. So, if you can generate an income in shekel and own shekel assets, then you can enjoy the peace of mind that comes from not having to worry about exchange rate volatility, just as you did when you were living in the UK.



## **OPTIONS TO MANAGE CURRENCY RISK**

For olim, there are two ways to find a solution to the mismatch between their income or assets in sterling and their expenditure in the shekel:

### **1. MOVE SOME OF THEIR ASSETS TO ISRAEL TO INVEST LOCALLY IN SHARES, BONDS OR PROPERTY, THEREBY GENERATING A SHEKEL INCOME FREE FROM EXCHANGE RATE RISK.**

This approach has significant advantages and it is possible to build a diverse portfolio of investments in shekel. However, it is a considerable challenge if you have no experience of investing in shekel assets.

It is also a problem for many who seek guidance from an adviser in Britain before Aliyah. This is because advisers only licensed in the UK are almost always unable to provide such solutions. This can create a significant weakness within your financial plans and leave your financial security at risk.

If your adviser is not able to recommend shekel investments then perhaps you should question why you are taking guidance from a firm that cannot offer you currency solutions in the currency you intend to live in for the rest of your life. This issue will be addressed in greater detail later in this guide.

This first approach does represent a trade-off that requires careful consideration for new olim, since in Israel, investment returns on these assets would be taxed, even during the 10-year period of tax-free returns.

However, for many clients, the old idiom about 'not letting the tax tail wag the investment dog' certainly applies, so that paying some tax while benefiting from the financial stability that a shekel income provides might be a cost well worth incurring.

# MISTAKES AND HOW TO AVOID THEM

## CURRENCY RISKS

# 47%

**Out of the 14.7million Jewish people in the world, nearly half (47%) reside in Israel.**

Source: [www.jewishvirtuallibrary.org](http://www.jewishvirtuallibrary.org)



## 2. TO HAVE A PORTFOLIO OF ASSETS DENOMINATED IN CURRENCIES OTHER THAN STERLING, SUCH AS THE US DOLLAR.

From the perspective of the Israeli economy and its economic policies, the US dollar is by far the most important currency for the authorities to consider. The US dollar is the world's reserve currency, more of Israel's imports and exports are in dollars than any other currency and its exchange rate to the shekel is therefore of crucial importance.

The Bank of Israel has intervened on many occasions in the foreign currency markets, spending tens of billions of dollars to try and slow the strengthening of the shekel. Senior Bank of Israel officials have commented publicly on a number of occasions making the case that the shekel must not become too strong.

These actions have made the US dollar/Israeli shekel exchange rate far less volatile and the shekel has gained far less over the past thirteen years than it has against the British pound.

Unlike with the US dollar, the exchange rate between the shekel and sterling is almost of no importance from the perspective of the Israeli economy. This means that there is no action taken to counter the weakness in the pound and therefore no assurance is ever provided to olim from the UK that they will not have to endure further declines in the value of sterling.

For investors, a second solution for a possible fall in the value of sterling is therefore to increase exposure to US dollar assets and generate returns in that currency or a mix of major currencies, such as the euro, Swiss franc and Japanese yen. You will not be taxed on these assets in Israel during the ten-year exemption period (unlike shekel assets), however, you will be exposed to the possibility of price fluctuations, albeit far less than has been the case up until now with sterling assets.

THE US DOLLAR IS THE WORLD'S  
RESERVE CURRENCY, MORE  
OF ISRAEL'S IMPORTS AND  
EXPORTS ARE IN DOLLARS THAN  
ANY OTHER CURRENCY  
AND ITS EXCHANGE RATE TO  
THE SHEKEL IS THEREFORE OF  
CRUCIAL IMPORTANCE.

**SOMETIMES A COMBINATION OF APPROACHES IS BEST**

Both of these options are not without their own advantages and disadvantages, so many new olim rely on a combination of both approaches – investing a portion of their assets in shekel to remove exchange rate risk (whilst paying tax on the returns), coupled with tax free returns from a global investment primarily in US dollars (but with some exchange rate risk).

After the 10-year tax exemption ends, all returns on investments are taxed at the same rate. The run-up to this anniversary often causes investors to re-consider the currency allocation of their portfolios and increase their shekel exposure.

It should be noted that many olim from the UK will continue to receive income in sterling which cannot be changed, such as state and company pension payments. Because of this, diversifying your assets and other sources of income away from sterling is even more crucial to consider. Most of your investments will probably not have to remain irrevocably tied to the fortunes of the pound and it is through the careful deployment of this money that financial security can be achieved and the risk of the impact of a further strengthening of the shekel on your quality of life be mitigated.

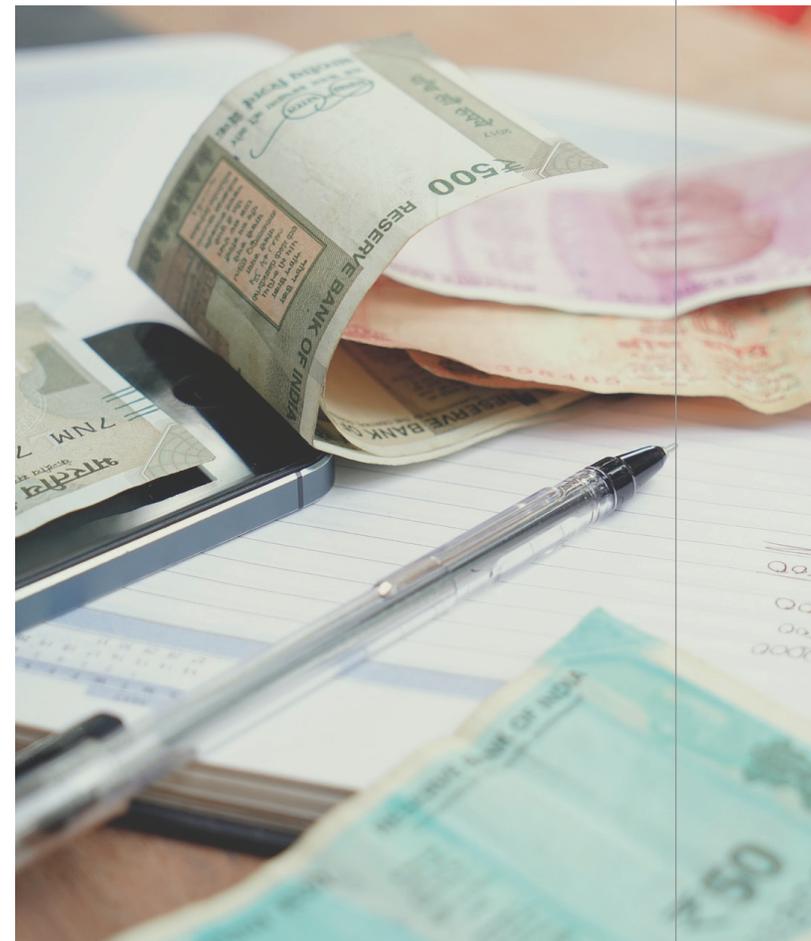
## Getting the best possible advice

Mistake no. **5** **PAYING FOR AN ADVISER WHO CANNOT BE WITH YOU EVERY STEP OF THE JOURNEY**

**MAKING SOUND FINANCIAL DECISIONS IN LIFE ISN'T A ONE-TIME EXERCISE. IT'S A CONTINUAL PROCESS AS YOU FORMULATE PLANS, REVIEW THEM, AND RESPOND TO CHANGES IN LIFE, LEGISLATION, AND THE WORLD AROUND YOU.**

This is even more important when it comes to Aliyah. There are issues to be carefully considered before moving and there will be changes you need to make while establishing a life abroad. Furthermore, the end of the 10-year tax holiday means that a comprehensive review is required at this stage. This is in addition to the host of reasons that investors review their financial plans over time.

Finding the right adviser who provides comprehensive, integrated solutions at both ends of your journey can be paramount.



### **BRITISH ONLY IS NOT ENOUGH...**

It is important to remember that a UK-based adviser is literally that – a professional who can advise you on the British aspects of your financial plans before you make Aliyah. They, of course, will not have the qualifications, experience and license to give advice on shekel investments, Israeli investment plans, working with local banks and a whole host of other concerns, including effective planning at the end of the 10-year exemption.

Notably, they will not be able to visit you in Israel and give you advice, as the Israeli Securities Authority rules do not allow this. It is possible that if they do, the professional indemnity policy they carry to protect clients in the UK will also not apply.

Given that financial planning is, at its core, based on a face-to-face personal relationship, this is a significant drawback. Many investors initially fail to recognise this issue, especially in an era when meetings over Zoom or Skype help keep the relationship going.

The problem is that as they move later into retirement, many come to regret this mistake – some are less able to travel back to the UK which remains a key part of maintaining a personal relationship, or after many years, they find that their previous adviser has retired and they cannot find someone suitable to replace them. Most crucially of all, at some point they realise they have a need for local solutions and support which simply cannot be provided by someone who is literally thousands of miles away.

Using a British-only adviser also means you cannot utilise the tax deferred mechanisms which are available and are used by Israelis. Pension advice is a separate licence in Israel and working with a firm that can give advice on both pension and non-pension matters is essential.

### **ISRAEL ONLY MAY NOT BE ENOUGH EITHER...**

An Israeli-based adviser may be able to make recommendations on your local planning needs after your move. However, they will not be able to advise you on pre-Aliyah planning, nor regarding any existing British investment and pension arrangements that you may have. They will be unaware of UK tax laws and tax structures, and may lack language skills for you to feel comfortable with the person that you are dealing with. For these reasons, British olim find that finding a local adviser after Aliyah is not the best solution.

### **SMALL MAY WELL NOT BE BEAUTIFUL**

A further crucial aspect to consider when choosing the right source of advice is the nature of the firm you are working with. Financial planning and investment management has many, many facets and you need to be guided by an organisation that has the resources, experience and capability to deliver on all the many aspects of the job to the highest level. A small firm may simply not be able to deliver all the expertise that is required.

# MISTAKES AND HOW TO AVOID THEM

GETTING THE BEST POSSIBLE ADVICE

In addition, the peace of mind of knowing that your advisers will be there for you and your family for decades to come is only assured by working with a firm that has the size and financial strength to continue to operate for decades. The firm you work with also needs to demonstrate a proven process for the seamless transition to a new adviser should your existing contact fall ill, retire or worse. Small firms simply cannot provide this level of reassurance when it comes to inter-generational family planning.

## **AND BEWARE OF THOSE WITH NO LICENCE AT ALL**

Most UK investors are familiar with the concept that the professionals providing them with financial advice must be properly trained and regulated by national regulatory bodies.

That is also the case in Israel, with licensed practitioners being supervised by the Israeli Securities Authority. But there is a glaring loophole that does not exist in the UK that many are unaware of.

Under Israeli law, an individual who falls under the Qualified Client rules can be sold investments without receiving advice regarding their suitability. This is fine if you are a sophisticated investor with considerable experience, a deep understanding of complex products and a willingness to assume higher risks and the corresponding losses if investments fail. Under this approach, you will lose the significant rights and consumer protection that Israel Securities Authority regulated professionals provide.

This may not seem like much of a concern, but if the investment proves to be completely unsuitable then the investor has no protection. Even a good lawyer may not be able to help you if the product proves to be inappropriate because consultants in Israel who are not qualified are not obligated to have liability insurance to compensate clients in the event of negligence.

For individuals navigating the complexities of investing in Israel the message is clear – take advice from an ISA licensed professional and never sign the Qualified Client declaration if you are not a sophisticated and experienced investor or if you are not prepared to accept the consequences if things go badly wrong.

# ENSURE TO SEEK THE ADVICE OF A QUALIFIED FINANCIAL ADVISER.

# FINAL COMMENT

**IN PART 1 OF THIS GUIDE, I HAVE OUTLINED THE CORNERSTONES FOR A SUCCESSFUL FINANCIAL PLAN FOR YOUR LIFE IN ISRAEL.**

As you can see, many of the issues are subjects that had little relevancy when you lived in the UK but now they should be at the forefront of your thinking.

Whilst many have made one or more of these mistakes in the past, these are potential problems that can be resolved with careful planning and the right advice.

In Part 2 of this guide, I will turn to the issue of how to invest your assets for a life in Israel of financial security and peace of mind.

Wishing you every success in your journey.

**Andrew Album**

January 2021

