

GLOBAL FORUM ON
**TRANSPARENCY AND EXCHANGE OF
INFORMATION FOR TAX PURPOSES**

Peer Review Report on the Exchange of Information
on Request

ISRAEL

2024 (Second Round, Combined Review)

Global Forum on Transparency and Exchange of Information for Tax Purposes: Israel 2024 (Second Round, Combined Review)

PEER REVIEW REPORT ON THE EXCHANGE
OF INFORMATION ON REQUEST

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Reader's guide

The Global Forum on Transparency and Exchange of Information for Tax Purposes (the Global Forum) is the multilateral framework within which work in the area of tax transparency and exchange of information is carried out by over 160 jurisdictions that participate in the Global Forum on an equal footing. The Global Forum is charged with the in-depth monitoring and peer review of the implementation of the international standards of transparency and exchange of information for tax purposes (both on request and automatic).

Sources of the Exchange of Information on Request standards and Methodology for the peer reviews

The international standard of exchange of information on request (EOIR) is primarily reflected in the 2002 OECD Model Agreement on Exchange of Information on Tax Matters and its commentary, Article 26 of the OECD Model Tax Convention on Income and on Capital and its commentary and Article 26 of the United Nations Model Double Taxation Convention between Developed and Developing Countries and its commentary. The EOIR standard provides for exchange on request of information foreseeably relevant for carrying out the provisions of the applicable instrument or to the administration or enforcement of the domestic tax laws of a requesting jurisdiction. Fishing expeditions are not authorised but all foreseeably relevant information must be provided, including ownership, accounting and banking information.

All Global Forum members, as well as non-members that are relevant to the Global Forum's work, are assessed through a peer review process for their implementation of the EOIR standard as set out in the 2016 Terms of Reference (ToR), which break down the standard into 10 essential elements under three categories: (A) availability of ownership, accounting and banking information; (B) access to information by the competent authority; and (C) exchanging information.

The assessment results in recommendations for improvements where appropriate and an overall rating of the jurisdiction's compliance with the EOIR standard based on:

1. The implementation of the EOIR standard in the legal and regulatory framework, with each of the element of the standard determined to be either (i) in place, (ii) in place but certain aspects need improvement, or (iii) not in place.
2. The implementation of that framework in practice with each element being rated (i) compliant, (ii) largely compliant, (iii) partially compliant, or (iv) non-compliant.

The response of the assessed jurisdiction to the report is available in an annex. Reviewed jurisdictions are expected to address any recommendations made, and progress is monitored by the Global Forum.

A first round of reviews was conducted over 2010-16. The Global Forum started a second round of reviews in 2016 based on enhanced Terms of Reference, which notably include new principles agreed in the 2012 update to Article 26 of the OECD Model Tax Convention and its commentary, the availability of and access to beneficial ownership information, and completeness and quality of outgoing EOI requests. Clarifications were also made on a few other aspects of the pre-existing Terms of Reference (on foreign companies, record keeping periods, etc.).

Whereas the first round of reviews was generally conducted in two phases for assessing the legal and regulatory framework (Phase 1) and EOIR in practice (Phase 2), the second round of reviews combine both assessment phases into a single review. For the sake of brevity, on those topics where there has not been any material change in the assessed jurisdictions or in the requirements of the Terms of Reference since the first round, the second round review does not repeat the analysis already conducted. Instead, it summarises the conclusions and includes cross-references to the analysis in the previous report(s). Information on the Methodology used for this review is set out in Annex 3 to this report.

Consideration of the Financial Action Task Force Evaluations and Ratings

The Financial Action Task Force (FATF) evaluates jurisdictions for compliance with anti-money laundering and combating terrorist financing (AML/CFT) standards. Its reviews are based on a jurisdiction's compliance with 40 different technical recommendations and the effectiveness regarding 11 immediate outcomes, which cover a broad array of money-laundering issues.

The definition of beneficial owner included in the 2012 FATF standards has been incorporated into elements A.1, A.3 and B.1 of the 2016 ToR. The 2016 ToR also recognises that FATF materials can be relevant for carrying out EOIR assessments to the extent they deal with the definition of beneficial ownership, as the FATF definition is used in the 2016 ToR (see 2016 ToR, Annex 1, part I.D). It is also noted that the purpose for which the FATF materials have been produced (combating money-laundering and terrorist financing) is different from the purpose of the EOIR standard (ensuring effective exchange of information for tax purposes), and care should be taken to ensure that assessments under the ToR do not evaluate issues that are outside the scope of the Global Forum's mandate.

While on a case-by-case basis an EOIR assessment may take into account some of the findings made by the FATF, the Global Forum recognises that the evaluations of the FATF cover issues that are not relevant for the purposes of ensuring effective exchange of information on beneficial ownership for tax purposes. In addition, EOIR assessments may find that deficiencies identified by the FATF do not have an impact on the availability of beneficial ownership information for tax purposes; for example, because mechanisms other than those that are relevant for AML/CFT purposes exist within that jurisdiction to ensure that beneficial ownership information is available for tax purposes.

These differences in the scope of reviews and in the approach used may result in differing conclusions and ratings.

More information

All reports are published once adopted by the Global Forum. For more information on the work of the Global Forum on Transparency and Exchange of Information for Tax Purposes, and for copies of the published reports, please refer to www.oecd.org/tax/transparency and <http://dx.doi.org/10.1787/2219469x>.

Abbreviations and acronyms

2016 Terms of Reference	Terms of Reference related to EOIR, as approved by the Global Forum on 29-30 October 2015
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
Banking Order 411	Prohibition of Money Laundering Order and Proper Conduct of Banking Business Order 411, Management of Anti-Money Laundering and Countering Financing of Terrorism Risks
BSPO	Prohibition on Money Laundering (Obligations of Business Service Providers regarding Identification, Reporting and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5775-2014 (applicable to Business Services Providers)
CDD	customer due diligence
CL	Companies Law 5759-1999, as amended
DTC	Double Taxation Convention
EOI	Exchange of Information
EOIR	Exchange of Information on Request
EUR	Euro
FATF	Financial Action Task Force
GDP	Gross Domestic Product
Global Forum	Global Forum on Transparency and Exchange of Information for Tax Purposes
ICA	Israeli Corporations Authority

IMPA	Israeli Money Laundering and Terror Financing Prohibition Authority
ITA	Israel's Tax Authority
ITO	Israel's Income Tax Ordinance
ITR	Income Tax Rules
Multilateral Convention	Convention on Mutual Administrative Assistance in Tax Matters, as amended in 2010
NIS	New Israeli Shekel
PMLL	Prohibition on Money Laundering Law, 5760-2000, as amended
PMLO	Prohibition on Money Laundering (Obligations of Banking Corporations regarding Identification, Reporting and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5761-2001, as amended (applicable to Banks)
PO	Partnership Ordinance
Registrar	Registrar of Companies, Registrar of Partnerships and the Registrar of Associations and Companies for the Public Benefit overseen by the Israel Corporations Authority, as the case may be
Register	Register of Companies administered by the Registrar of Companies Unit, Register of Partnerships administered by Registrar of Partnerships, Register of Associations and Companies for the Public Benefit administered by the Registrar of Associations and Companies of Public Benefit, as the case may be
TIEA	Tax Information Exchange Agreement
VAT	Value Added Tax

Executive summary

1. This report analyses the implementation of the standard of transparency and exchange of information on request in Israel on the second round of reviews conducted by the Global Forum. Due to the COVID-19 pandemic, the review of Israel was phased, starting with a desk-based review of the legal and regulatory framework that culminated in November 2022 with the adoption of the report assessing the legal and regulatory framework (2022 Phase 1 report). The onsite visit to Israel has since taken place in March 2023 and the present review complements the first report with an assessment of the practical implementation of the standard, including in respect of exchange of information requests received and sent during the review period from 1 October 2019 to 30 September 2022, as well as any changes made to the legal framework since the Phase 1 review, as of 25 April 2024.

2. This report concludes that Israel is rated overall Largely Compliant against the standard. During the first round of reviews, the Global Forum previously assessed Israel three times, the last time in 2016 in a supplementary Phase 2 review against the 2010 Terms of Reference. The report of that evaluation (the 2016 Supplementary Report) concluded that Israel was rated Largely Compliant overall (see Annex 3 for details).

Comparison of ratings and determinations for First Round and Second Round Reports

Element	First Round Supplementary Report (2016)		Second Round Report (2023)	
	Determinations	Ratings	Determinations	Ratings
A.1 Availability of ownership and identity information	In place	Compliant	Needs improvement	Partially Compliant
A.2 Availability of accounting information	Needs improvement	Largely Compliant	Needs improvement	Largely Compliant
A.3 Availability of banking information	In place	Compliant	Needs improvement	Largely Compliant
B.1 Access to information	Needs improvement	Largely Compliant	Needs improvement	Partially Compliant
B.2 Rights and Safeguards	In place	Largely Compliant	In place	Compliant
C.1 EOIR Mechanisms	In place	Compliant	Needs improvement	Largely Compliant
C.2 Network of EOIR mechanisms	In place	Compliant	In place	Compliant
C.3 Confidentiality	Needs improvement	Largely Compliant	In place	Compliant
C.4 Rights and safeguards	In place	Compliant	In place	Compliant
C.5 Quality and timeliness of responses	Not applicable	Partially Compliant	Not applicable	Largely Compliant
OVERALL RATING	LARGELY COMPLIANT		LARGELY COMPLIANT	

Note: The three-scale determinations for the legal and regulatory framework are In place, Needs improvement, and Not in place. The four-scale ratings on compliance with the standard (capturing both the legal framework and practice) are Compliant, Largely Compliant, Partially Compliant, and Non-Compliant.

Progress made since the previous review

3. The 2016 Supplementary Report concluded that the legal and regulatory framework of Israel was in place but needed improvement. The most important issues were already identified with the very first review of Israel in 2013 and related to specific reporting exemptions applicable to first-time residents and veteran returning residents. Israel was recommended to ensure availability of identity information and accounting records for trusts created by these persons and which are vested with assets or income from assets abroad, and of accounting records for foreign companies that are managed and controlled in Israel by these persons. Israel was also recommended to ensure availability of identity information and accounting records for foreign trusts having a trustee resident in Israel. Access to information related to these persons, companies and trusts was also lacking, although they might be subject to an information request from Israel's EOI partners. Israel very recently made progress addressing these recommendations. Israel recently

passed new legislation (Amendment to Income Tax Ordinance No 272), which entered into force on 7 April 2024 and partially addresses most of the recommendations regarding the availability of identity information and accounting records, with effect from 1 January 2026.

4. The powers of the Israeli competent authority to access relevant information for exchange of information were limited and recommendations were made for Israel to expand these powers and ensure that the existing ones, some of them had been recently granted, were applied in conformity with the standard. The Amendment to Income Tax Ordinance No 272 taken on 7 April 2024 closes some legal gaps in this respect.

5. Israel also made progress in some other recommendations from the 2016 Supplementary Report. The most notable progress is the entry into force of the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (the Multilateral Convention) on 1 December 2016 and the reduction of the time needed to bring into force the bilateral agreements signed recently.

Key recommendations

6. During the peer review period, the above-mentioned recommendations made in the 2016 Supplementary Report were not addressed and the new provisions will take effect only from 1 January 2026 and their application could not be tested. Accordingly, a monitoring recommendation of the new provisions is introduced.

7. The 2016 Terms of Reference include new requirements in respect of the availability of, and access to, beneficial ownership information of legal entities and arrangements. Several of Israel's new key recommendations in this report are related to these new requirements. In Israel, the main source of beneficial ownership information is the anti-money laundering/countering the financing of terrorism (AML/CFT) framework which requires banks and other AML-obliged persons to identify the beneficial owners of their clients. This framework contains deficiencies, as follows:

- The AML framework covers most, but not all relevant entities and arrangements. Legal entities (including partnerships) and arrangements that are taxpayers in Israel are required to have a bank account in Israel upon registration with the tax authority. However, not all legal entities and arrangements are obliged to engage with a bank in Israel subject to AML requirements, and information on their beneficial ownership may thus not be available.
- The definition of beneficial ownership for trusts and other legal arrangements in the AML legislation is not fully in line with the

EOIR standard, because it does not include all natural persons that exercise ultimate effective control over the trust.

- Information on beneficial owners should be obtained upon account opening and updated each time a doubt arises concerning the identity of the beneficial owner(s) or the veracity of the identification documents, and whenever a new beneficial owner is added to an existing account. Although a general update obligation exists based on the risk level of the customer, the AML legislation in Israel does not include a specified frequency for AML-obliged persons to update beneficial ownership information. In the case of banks, the applicable AML legislation only determines that the frequency of update for high-risk customers will be higher than for other customers, as determined by the bank's risk management policy.

8. Israel recently introduced new tax rules requiring legal entities and trusts taxable in Israel to report information on their beneficial ownership to Israel's Tax Authority. These rules take effect in January 2025 for legal entities and for Israeli and foreign trusts with Israeli resident trustees created after 1 January 2025 (and in January 2026 for the above-mentioned trusts existing prior to 1 January 2025). Legal entities and trusts subject to the reporting requirements must include details of their beneficial owners and their tax residency in their annual tax return by 30 April of the following year. Foreign trusts with Israeli resident trustees that do not derive income from Israel must provide a declaration of beneficial ownership to Israel's Tax Authority within 90 days of their creation. This obligation applies to these trusts created after 7 April 2024. For such trusts created prior to 7 April 2024, the obligation applies within 120 days from 1 January 2026. The definition of beneficial owner(s) in the Income Tax Ordinance is in line with the EOIR standard. However, secondary legislation has not yet been approved in view of establishing specific requirements for reporting beneficial owner details, identification processes, and record-keeping. Another uncertainty lies with the absence of requirement for beneficial owners to report their information directly to the company or trustee of the trust. This might hinder the effectiveness of the reporting requirements. Given the absence of secondary legislation and reporting requirements on the beneficial owners, but also the forward application of the reporting requirements with a first deadline by 30 April 2026, it is not possible to assess if the implementation of these new rules will ensure the availability of adequate, accurate and up-to-date beneficial ownership information on legal entities and trusts with an Israeli resident trustee in line with the EOIR Standard. Israel is recommended to address these gaps to ensure that adequate, accurate and up-to-date beneficial ownership information is available for all relevant legal entities and arrangements, according to the standard.

9. There is a significant number of companies in the Israeli Corporations Authority Register that maintain legal personality and do not comply with their filing obligations before the Israeli Corporations Authority and the Tax Authority. In 2022, 63% of these companies were economically inactive for tax purposes. The same issue applies to partnerships that are not complying with their company law and tax filing obligations. They may not be complying with the obligation to maintain legal ownership information and accounting records, including underlying documentation, and lack supervision. Israel is recommended to ensure that legal ownership information, adequate, accurate and up-to-date beneficial ownership information and accounting records, including underlying documentation, are available in all cases in line with the standard.

10. Further, with respect to Element B.1 on *Access to Information*, during the peer review period, the tax authority in Israel, as the competent authority for exchange of information purposes, had no access to information held by AML-obliged persons pursuant to AML legislation, when the information was sought following a request for information based on a civil tax investigation. This limitation impeded access to beneficial ownership information in Israel, as the only source of beneficial ownership information stems from requirements under the AML legislation. This affected 23 requests during the peer review period with respect to customer due diligence (CDD) information of bank accounts, which could not be provided to the EOI partners. Amendment No 272 to the Income Tax Ordinance Law of 7 April 2024 introduced new access provisions, which will allow Israel's Tax Authority to access CDD information on bank accounts, including beneficial ownership information on bank accounts, from banks and other listed financial institutions in line with the EOIR Standard with effect from 1 October 2024. The authorities confirmed that from 1 October 2024, the new provisions will give access to CDD information held prior to 1 October 2024 for responding to any EOI requests, even those received prior to 1 October 2024. Given the recent change, a monitoring recommendation is introduced.

11. In addition, during the peer review period, the Competent Authority did not have access to information:

- from first-time residents and veteran returning residents, with respect to their foreign-source income and in respect of information on trusts created by these individuals as settlors, or having them as individual beneficiaries, which are vested with assets or income from assets abroad and on foreign companies they effectively managed in Israel in respect of activities outside of Israel, for a period of 10 years
- from the Israel-resident trustees of foreign resident trusts (with no taxable income in Israel) in respect of foreign income.

12. Amendment No 272 to the Income Tax Ordinance Law of 7 of April 2024 partially addresses these gaps. For individuals who will become a first-time Israeli resident or a veteran returning resident, from 1 January 2026 onwards, the exemption from income tax declaration for income produced or accrued from assets abroad is removed. By removing this exemption, these individuals will have to report their foreign income, even if they remain exempt from Israeli taxation under the special tax regime. This change will give Israel's Tax Authority powers to obtain information from these persons. The reporting requirements will also apply to trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026. From that date, any such trust vested with assets or income from assets abroad will remain exempt from tax Israel for a period of 10 years in respect of foreign income, but no longer from reporting to Israel's Tax Authority. Amendment No 272 clarifies that this access is only granted for the purposes of answering an EOI request. In addition, new Article 135A1 of the Income Tax Ordinance (ITO) will provide Israel's Tax Authority with access to information from foreign companies in respect of activities outside of Israel, that are effectively managed in Israel by these individuals who will become a first-time Israeli resident or a veteran returning resident from 1 January 2026. Article 135A1 of the ITO introduces an obligation for such individual or anyone on his/her behalf to provide information to ITA requested under an information request under an EOI agreement within 90 days. The legislation provides that these companies will have to maintain documentation in accordance with the generally accepted accounting principles.

13. Amendment No 272 does not address the gap on access powers to obtain information from individuals who became (or will become) first-time residents or veteran returning residents before 1 January 2026 in respect of their foreign source income, and on trusts created by these individuals as settlors, or having them as individual beneficiaries, which are vested with assets or income from assets abroad for a period of 10 years, as well as on foreign companies they effectively managed in Israel in respect of activities outside of Israel. Israel is recommended to address these gaps and to monitor the effective implementation of the new legislation. However, the Tax Authority has access powers to obtain information from third parties, such as banking information on these individuals, and CDD information on their bank accounts, starting 1 October 2024.

14. These limitations also affect Israel's capacity to give full effect to its exchange of information agreements, as they hinder its capacity to exchange all types of information and to provide assistance to its peers (Element C1). Accordingly, Israel is recommended to ensure that the competent authority can access information regarding first-time residents, veteran returning residents that arrived in Israel prior to 1 January 2026, trusts created by these individuals as settlors, or having them as individual beneficiaries, which are

vested with assets or income from assets abroad, and their foreign companies that they effectively managed in Israel in respect of activities outside of Israel, in line with the standard to give full effect to its EOI agreements.

Exchange of information in practice

15. Israel has a significant experience in EOI especially with its main partners, France, United States, Canada, Germany, Latvia and Belgium. During the review period, from 1 October 2019 to 30 September 2022, Israel sent 319 requests and received 419 requests for information from its EOI partners (counted as 514 requests in its database). Israel's peers are generally satisfied with the timeliness and quality of the responses from Israel, albeit a few partners mentioned that status updates were not systematically provided or where provided, were of a too general nature. Peers noted that Israel has significantly improved its timeliness of response in respect of banking information requests. Israel's experience and effectiveness of EOI in practice was further demonstrated by its efficient work processes that enabled the Competent Authority to respond to 84.2% of received requests within 180 days. However, issues regarding access to CDD information impacted Israel's ability to fully answer EOI requests in 23 cases. In addition, towards the end of the review period, the trend in failure to provide requested information increased rapidly, together with a deterioration in timeliness of responses. This coincided with a high staff turnover due to departures. These developments may affect Israel's ability to provide information in a timely manner and the situation requires monitoring.

Next steps

16. Israel has been assigned a rating for each of the ten essential elements as well as an overall rating. The ratings for the essential elements are based on the analysis in the text of the report, considering any recommendations made in respect of Israel's legal and regulatory framework and the effectiveness in practice. Based on this, Israel has been assigned the following ratings: Compliant for Elements B.2, C.2, C.3, and C.4, Largely Compliant for Elements A.2, A.3, C.1 and C.5 and Partially Compliant for Elements A.1 and B.1. Israel's overall rating is Largely Compliant based on the global consideration of its compliance with the individual elements.

17. This report was approved at the Peer Review Group of the Global Forum on 18 June 2024 and was adopted by the Global Forum on 18 July 2024. A self-assessment report on the steps undertaken by Israel to address the recommendations made in this report should be provided to the Peer Review Group in 2026, in accordance with the methodology for enhanced monitoring, and subsequently once every two years.

Summary of determinations, ratings and recommendations

Determinations and ratings	Factors underlying recommendations	Recommendations
Jurisdictions should ensure that ownership and identity information, including information on legal and beneficial owners, for all relevant entities and arrangements is available to their competent authorities (Element A.1)		
<p>The legal and regulatory framework is in place but needs improvement</p>	<p>So far Israel has relied upon the AML framework for availability of beneficial ownership information of legal entities and arrangements. However, not all relevant entities and arrangements are obliged to engage in a relationship with an AML-obliged person, such that beneficial ownership information may not be available in all cases. Although most entities and arrangements are required to have a bank account with an Israeli bank when they register with the tax authorities, not all relevant legal persons and arrangements must register with the tax authority, and some benefit from exemptions from tax reporting obligations. Furthermore, although there is an obligation to update customer due diligence based on the risk profile of the customer and in certain other circumstances, there is no specified frequency of carrying out customer due diligence to update beneficial ownership information.</p>	<p>Israel should ensure that adequate, accurate and up-to-date beneficial ownership information is available for all relevant legal entities and arrangements, according to the standard.</p>

Determinations and ratings	Factors underlying recommendations	Recommendations
	<p>New provisions in Israel's Income Tax Ordinance require legal entities and trustees of Israeli and foreign trusts taxable in Israel to list the details and residency of their beneficial owners in the tax return by 30 April of the next year. A certificate of beneficial ownership must be provided by Israeli resident trustees of foreign trusts with no taxable income in Israel. The definitions of beneficial owners are in line with the EOIR Standard. However, secondary legislation to set out the conditions for the reporting requirements is yet to be introduced. In addition, the new provisions do not introduce any requirement on the beneficial owners to report their identification information to the legal entity or Israeli resident trustee of the trusts, such that the requirements at the level of the legal entity and trust may be ineffective. Further, the new reporting obligations will provide Israel's Tax Authority with the beneficial ownership information in its database only after 30 April 2026 for legal entities and for new trusts created after 1 January 2025 and from 30 April 2027 for trusts existing before 1 January 2025. It is therefore not possible to assess whether these new requirements will ensure that beneficial ownership information on legal entities and trusts with an Israeli resident trustee will be accurate, adequate, and up to date in line with the EOIR Standard.</p>	

Determinations and ratings	Factors underlying recommendations	Recommendations
	<p>On 7 April 2024, Israel introduced new reporting obligations on trusts created by individual settlors or having individual beneficiaries who are first-time residents or veteran returning residents after 1 January 2026, which trusts are vested with assets or income from assets abroad, aligning them with all other trusts subject to reporting requirements in Israel.</p> <p>However, availability of identity and beneficial ownership information is not ensured in relation to trusts created by individual settlors, or having individual beneficiaries, who have the status of first-time residents or veteran returning residents before 1 January 2026. Any such trust vested with assets or income from assets abroad is exempt from reporting for a period of 10 years.</p>	<p>Israel should ensure the availability of identity and beneficial ownership information in respect of trusts created by individual settlors or having individual beneficiaries who are first-time residents or veteran returning residents before 1 January 2026, and which are vested with assets or income from assets abroad.</p>
	<p>The combination of AML and tax rules covers the identification of the settlor(s), the protector(s) and the beneficiaries, as the beneficial owner(s) of trusts and other similar legal arrangements, but does not include the residual clause “any other natural person exercising ultimate effective control”, as required by the standard. While the new definition introduced by the April 2024 amendments to Israel’s Income Tax Ordinance provides for a complete definition of beneficial owner of trusts in line with the EOIR standard, the tax register of beneficial ownership of trusts will apply only with effect from tax year 2025 for newly created trusts from that date and from tax year 2026 for existing trusts.</p>	<p>Israel should ensure that the definition of beneficial owners of trusts and other similar legal arrangements is in line with the standard.</p>

Determinations and ratings	Factors underlying recommendations	Recommendations
<p>EOIR rating: Partially Compliant</p>	<p>As of 1 May 2023, close to 200 000 companies incorporated in Israel did not comply with their filing obligations before the Israeli Corporations Authority. In 2022, 63% of these companies were economically inactive for income tax purposes. These companies retain legal personality and can resume activities at any point in time. The same issue applies to partnerships that are not complying with their company law and tax filing obligations. While the Israeli Corporations Authority has started campaigns to ensure compliance, this situation raises concerns that legal and adequate, accurate and up-to-date beneficial ownership information may not be available in all cases.</p>	<p>Israel is recommended to ensure that legal and identity information, and adequate, and accurate and up-to-date beneficial ownership on companies and partnerships is available in all cases in line with the EOIR Standard.</p>
	<p>Israel introduced reporting provisions for trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026. From that date, any such trust vested with assets or income from assets abroad will remain exempt from tax Israel for a period of 10 years in respect of foreign income, but no longer from reporting to Israel's Tax Authority. The implementation of these new provisions could not be tested in practice.</p>	<p>Israel should monitor the implementation of the recent provisions to ensure the availability of identity and beneficial ownership information in respect of trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026, which are vested with assets or income from assets abroad, in line with the EOIR standard.</p>

Determinations and ratings	Factors underlying recommendations	Recommendations
Jurisdictions should ensure that reliable accounting records are kept for all relevant entities and arrangements (Element A.2)		
<p>The legal and regulatory framework is in place but needs improvement.</p>	<p>Israeli law does not ensure the availability of accounting records in respect of foreign resident trusts with no taxable income in Israel having a trustee resident in Israel and for trusts created by individual settlors, or having individual beneficiaries, who became first-time residents or veteran returning residents before 1 January 2026. Any such trust vested with assets or income from assets abroad is exempt from reporting for a period of 10 years.</p> <p>In addition, Israel law does not ensure availability of accounting records in respect of activities outside of Israel of foreign companies that are managed and controlled in Israel by these individuals for a period of 10 years.</p>	<p>Israel is recommended to ensure that accounting records consistent with the standard are maintained for all relevant legal entities and arrangements, without exceptions.</p>
<p>EOIR rating: Largely Compliant</p>	<p>There is a significant number of companies in the Israeli Corporations Authority Register that maintain legal personality and do not comply with their filing obligations before the Israeli Corporations Authority and the Tax Authority. In 2022, 63% of these companies were economically inactive for tax purposes. The same issue applies to partnerships that are not complying with their company law and tax filing obligations. They may not be complying with the obligation to maintain accounting records, including underlying documentation, and lack supervision.</p>	<p>Israel should ensure that accounting records, including underlying documentation, are available in all cases in line with the standard.</p>

Determinations and ratings	Factors underlying recommendations	Recommendations
	<p>Foreign companies, that are managed and controlled in Israel by individuals who will become first-time residents or veteran returning residents after 1 January 2026, must maintain documentation in accordance with generally accepted accounting principles. In addition, Israel introduced reporting provisions for trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026. From that date, any such trust vested with assets or income from assets abroad will remain exempt from tax Israel for a period of 10 years in respect of foreign income, but no longer from reporting to Israel's Tax Authority. The implementation of these new provisions could not be tested in practice.</p>	<p>Israel should monitor the implementation of the accounting record keeping requirements in respect of trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026, which are vested with assets or income from assets abroad, and of foreign companies that they manage and control in Israel to ensure availability of accounting records in respect of their activities outside of Israel.</p>
Banking information and beneficial ownership information should be available for all account-holders (Element A.3)		
<p>The legal and regulatory framework is in place but needs improvement.</p>	<p>The combination of AML and tax rules covers the identification of the settlor(s), the protector(s) and the beneficiaries, as the beneficial owner(s) of trusts and other similar legal arrangements, but does not include the residual clause “any other natural person exercising ultimate effective control”, as required by the standard.</p>	<p>Israel is recommended to ensure that the definition of beneficial owners of accounts held by trusts and other similar legal arrangements is in line with the standard.</p>
	<p>Although there is a general obligation to update customer due diligence based on the risk profile of the customer and in certain other circumstances and this requirement is reviewed individually for each bank's risk policy, there is no specified frequency in the legal framework for carrying out customer due diligence to update beneficial ownership information.</p>	<p>Israel is recommended to ensure that up-to-date beneficial ownership information of all account-holders is always available, in line with the standard.</p>

Determinations and ratings	Factors underlying recommendations	Recommendations
EOIR rating: Largely Compliant		
Competent authorities should have the power to obtain and provide information that is the subject of a request under an exchange of information arrangement from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of the information) (Element B.1)		
The legal and regulatory framework is in place but needs improvement	<p>The tax authorities have inadequate powers to obtain information from individuals who became first time residents or veteran returning residents before 1 January 2026. Access gaps apply to information on trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and on foreign source income, including from foreign companies they effectively manage in Israel in respect of activities outside of Israel. These access gaps are applicable for the duration of the 10-year tax exemption they receive under the special status.</p> <p>In addition, the tax authorities' powers to obtain information from the trustees resident in Israel of foreign resident trusts with no taxable income in Israel, in respect of foreign source income is inadequate.</p>	<p>Israel should ensure that its authorities have powers to obtain information for EOI purposes from (1) individuals who became first-time residents or veteran returning residents before 1 January 2026, including in respect of trusts created by these individual as settlors, or in which they have the status of individual beneficiaries, and in respect of the foreign companies they effectively manage and control in Israel in respect of their activities outside of Israel, and (2) from Israeli resident trustees of foreign resident trusts.</p>
	<p>Although this is rarely a source of beneficial ownership information for Israel's Tax Authority, the competent authority is not able to access information gathered under the AML framework by lawyers and accountants, including CDD and beneficial ownership information of their customers, except in the case of a Court order for criminal tax purposes.</p>	<p>Israel is recommended to ensure that its competent authority can access beneficial ownership information and other related documents in line with the standard in all cases.</p>

Determinations and ratings	Factors underlying recommendations	Recommendations
<p>EOIR rating: Partially Compliant</p>	<p>Israel abolished the filing exemption applicable to individuals who will become a first-time Israeli resident or a veteran returning resident after 1 January 2026, with respect to their foreign-source income. The change will allow Israel's Tax Authority to access information from these individuals for EOI purposes. Due to changes in reporting requirements, Israel's Tax Authority will also be granted access to information from trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and foreign companies effectively managed by these individuals, with an obligation for such individuals or anyone on their behalf to provide information requested under an information request under an EOI agreement.</p>	<p>Israel is recommended to monitor access to information from individuals who will become first-time Israeli residents or veteran returning residents after 1 January 2026 onwards, in respect of foreign source income, including in respect of trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and foreign companies they will effectively manage from Israel.</p>
	<p>During the review period, the Competent Authority was only able to access information on CDD (including beneficial ownership information) of customers from banks through a Court Order for criminal tax purposes. As beneficial ownership information is mainly available with banks in Israel due to the AML requirements, the Competent Authority was prevented from accessing beneficial ownership information on legal entities and arrangements and bank accounts for EOI requests involving civil tax matters. This access limitation will apply until 1 October 2024.</p> <p>In practice, during the peer review period, Israel could not fully answer 23 requests for banking information due to access limitations on CDD and beneficial ownership information on bank accounts.</p> <p>With effect from 1 October 2024, the competent authority will be able to access CDD information, including beneficial ownership information, from banks for civil tax cases.</p>	<p>Israel is recommended to monitor the implementation of the new provision to ensure access to CDD information, including beneficial ownership information and other related documents, held by financial institutions, and thereby provide complete responses to requests for civil and criminal tax matters, in line with the EOIR standard.</p>

Determinations and ratings	Factors underlying recommendations	Recommendations
The rights and safeguards (e.g. notification, appeal rights) that apply to persons in the requested jurisdiction should be compatible with effective exchange of information (Element B.2)		
The legal and regulatory framework is in place		
EOIR rating: Compliant		
Exchange of information mechanisms should provide for effective exchange of information (Element C.1)		
The legal and regulatory framework is in place but needs improvement	Despite recent legal amendments, several exceptions still limit access to information on foreign income and assets from individuals who became first-time residents or veteran returning residents before 1 January 2026, including on trusts they created, or in which they are beneficiaries, which are vested with assets or income from assets abroad and on foreign companies they effectively manage in Israel, in respect of activities outside of Israel for a period of 10 years. Thus, Israel is unable to give full effect to its EOI agreements, as the competent authority is not able to obtain all foreseeably relevant information.	Israel is recommended to give full effect to its EOI agreements by ensuring that its competent authority has access to information from individuals who became first-time residents, veteran returning residents before 1 January 2026, including on trusts they created, or in which they are beneficiaries, which are vested with assets or income from assets abroad and foreign companies they effectively managed in Israel, in respect of activities outside of Israel.
EOIR rating: Largely Compliant		
The jurisdictions' network of information exchange mechanisms should cover all relevant partners (Element C.2)		
The legal and regulatory framework is in place.		
EOIR rating: Compliant		

Determinations and ratings	Factors underlying recommendations	Recommendations
The jurisdictions' mechanisms for exchange of information should have adequate provisions to ensure the confidentiality of information received (Element C.3)		
The legal and regulatory framework is in place		
EOIR rating: Compliant	While information received under agreements that do not provide for relief from double taxation, including the Multilateral Convention, will be treated only pursuant to Israel's domestic confidentiality rules which allow use of information beyond the standard in very limited cases, the Israeli Competent Authority confirmed that they interpret the legislation as giving prevalence of the Multilateral Convention over domestic confidentiality rules.	Israel should continue to ensure that confidentiality rules concerning information received under agreements which do not provide for relief from double taxation, including the Multilateral Convention, are applied in line with the standard.
The exchange of information mechanisms should respect the rights and safeguards of taxpayers and third parties (Element C.4)		
The legal and regulatory framework is in place.		
EOIR Rating: Compliant		
The jurisdiction should request and provide information under its network of agreements in an effective manner (Element C.5)		
Legal and regulatory framework:	This element involves issues of practice. Accordingly, no determination on the legal and regulatory framework has been made.	
EOIR rating: Largely Compliant	Some peers, including Israel's most important EOI partner, noted that they did not consistently receive status updates or when received, these updates were of general nature, when information was not provided within 90 days.	Israel should monitor provision of status updates to ensure that the requesting authority is updated on the status of the request in all cases where Israel is not in position to provide the requested information within 90 days.

Determinations and ratings	Factors underlying recommendations	Recommendations
	<p>Israel has in place appropriate organisational processes. Nevertheless, towards the end of the review period, the trend in failure to provide requested information increased rapidly, together with a deterioration in timeliness of responses. This coincided with a high staff turnover due to departures. These developments may affect Israel's ability to provide information in a timely manner.</p>	<p>Israel is recommended to take measures to ensure that appropriate resources are in place to provide quality information in a timely and complete manner.</p>

Overview of Israel

18. This overview provides some basic information about Israel that serves as context for understanding the analysis in the main body of the report.

19. Israel is a small State located in the Middle East region with a population of 9.4 million.¹ Hebrew and Arabic are the official languages; however English and Russian are also widely spoken. The official currency is the New Israeli Shekel (NIS).²

20. Israel is a developed country with GDP per capita of 54 847 United States Dollars in 2022. The service sector produces about 70% of the GDP followed by industry with about 25% and agriculture 2%. The financial services represent about a quarter of the services sector contribution to Israel's GDP. Israel has a technologically advanced market economy. It depends on imports of crude oil, vehicles, raw materials, and military equipment. Cut diamonds, high-technology equipment, chemicals, and medicine are the leading exports. The main trading partners of Israel are the United States, the European Union member states and the People's Republic of China.

Legal system of Israel

21. Israel is a parliamentary democratic republic with a multi-party system. Israel's highest legislative body is the 120-seat unicameral Parliament (Knesset). Knesset members are elected for a four-year term based on the share of total national vote in general elections. The Israeli head of state is the President, elected by the Knesset for a seven-year term. Most executive power lies with the Government which is accountable to the Knesset. The Prime Minister, who is the head of government, is appointed by the President based on the general election results.

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1. Central Bureau of Statistics, December 2021, <https://www.cbs.gov.il/he/publications/doclib/2021/yarhon1021/b1.pdf>.
 2. The conversion rate as of 1 June 2024 was 1 NIS equal to EUR 0.25.

22. Israel's legal system is strongly influenced by the common law tradition. The courts have made a significant contribution to the development of Israeli law by means of judicial interpretation. In their decisions, the courts, to some extent, have been influenced by continental law, although English and American laws also have persuasive force. Israel has no formal constitution. The main principles of the state's power and its functioning are stipulated in a number of Basic Laws. Laws are passed by the Knesset. The Government (typically ministers) can issue secondary legislation to implement laws within the limits laid down by the law. Laws and secondary legislation come into force on their promulgation. International treaties have the same legal power as domestic laws approved by the Knesset unless specifically provided by the respective domestic law. International EOI agreements prevail in the case of conflict (see paragraph 389).

Tax system

23. The Israeli tax system is mainly based on indirect taxation of goods and services and income taxes. All taxes are administered by the Israel Tax Authority (ITA).

24. Income tax is levied according to the Israeli Income Tax Ordinance (ITO). The ITO contains rules for corporate income tax, individual income tax as well as for the administrative aspects of taxation. As of 2021, corporations in Israel are generally subject to a basic tax rate of 23%. Companies engaged in research and development and production are entitled to a reduced tax rate between 6% and 16%. Individuals are subject to progressive personal income tax rates up to 50%. Special rules apply to passive source income, rental fees, persons aged over 60, new immigrants (or first-time residents) and veteran returning residents.³

25. The main benefits for first-time residents and returning residents who became citizens since 1 January 2007 and onwards are as follows:⁴

- 10-year tax exemption on foreign-source income.
- 10-year exemption from declaring foreign-source income which is exempted for individuals who became first-time residents or veteran returning residents before 1 January 2026 (see below).

3. Section 14(a) of the ITO refers to the term “first time resident” and “veteran returning residents” and the exemptions they enjoy under tax law. The first term is defined as individuals who become Israel residents for the first time and the latter, as an individual who returned and became an Israel resident after he/she stayed abroad during at least 10 consecutive years.

4. Source: Israel Tax Authority at <https://www.gov.il/en/departments/general/immigrant-guide#:~:text=The%20main%20benefits%20for%20new,source%20income%20which%20are%20exempted.>

- 10-year exclusion from definition as an Israeli company resident – for a company established abroad and owned by individuals who became a first-time resident or a veteran returning resident before 1 January 2026.
- For individuals, option to be considered a foreign resident for taxation purposes, for 1 year from arrival.
- 3.5 years of entitlement to tax credit, with options of extension.

26. Personal and corporate income taxes are levied on the worldwide income of individuals or companies who are Israeli tax residents. Non-residents are taxed on Israeli-source income. An individual is an Israeli tax resident if the “centre of life” of that person is in Israel (s. 1(a) ITO). A company is considered as Israeli tax resident if it is incorporated in Israel, or it is managed and controlled from Israel (s. 1(b) ITO).

27. The standard value added tax (VAT) rate is 17%. Certain goods and services are subject to zero VAT rate, including exported and intangible goods and provision of certain services to a non-resident (e.g. in tourism). Financial institutions are subject to profit tax instead of VAT at the same rate as VAT. Employers and employees are subject to national insurance (social security) and pension contribution. The employee’s share of national insurance includes compulsory health insurance. Employee’s contribution to national insurance is applied at rates from 2% to 12%; employer’s rates are from 3.45% to 7.5%. The government further levies real estate taxes, betterment levy and land betterment levy,⁵ customs duties, purchase tax and municipal taxes on real estate.

Financial services sector

28. Israel’s regional financial sector is dominated by banks. Banks operating in Israel are mainly domestically owned. In May 2023, the banking system in Israel included 11 banking corporations, 4 branches of foreign banks, 8 merchant acquirers companies⁶ and 1 joint service company. The

5. Taxes or fees applicable on real estate that has increased its value due to public infrastructure investments or a policy action executed by a public body.

6. Pursuant to the Banking Licensing Law 5741-1981, an acquirer is a company that holds an acquirer licensing. Further “acquiring of payment card transactions” is defined as the “payment to a supplier as consideration for the assets which a customer had purchased from that supplier using a payment card, in exchange for receiving the value of the assets from the issuer of the payment card, and where payment to said supplier is made by the issuer, in exchange for receiving the value of the assets directly from the customer”. In other words, it is a financial institution that processes credit and debit card transactions on behalf of another company.

banking system in Israel is dominated by five larger banking groups, accounting for more than 99% of all bank assets. The total of bank assets amount to about 139% of the GDP. Banking assets amount to NIS 2 497 billion (EUR 624 billion) as of September 2022.

29. The Bank of Israel is responsible for the supervision of the banks, merchant acquirer companies and controlled payment systems. The Governor of the Bank of Israel, after consultation with the Licensing Committee, issues among other: (i) a bank licence, (ii) a permit to control a banking corporation or a bank holding corporation, or (iii) a foreign bank licence.

30. The Tel Aviv Stock Exchange is the only stock exchange operating in Israel, with around 540 listed companies. It is supervised by the Israel Securities Authority and offers various products for investors, including the trading of shares, corporate bonds, treasury bills and bonds, index-tracking products, and derivatives on shares, indices, and currency exchange rates.

Anti-money laundering framework

31. The AML regime in Israel covers all financial institutions required by the Financial Action Task Force (FATF), including banks, members of stock exchange, portfolio managers, trading platforms, credit service providers, money service businesses, insurers and provident funds, and the Postal Bank.⁷ For non-financial professionals, lawyers and accountants are subject to licensing requirements and are subject to CDD and record keeping AML obligations.

32. The Prohibition on Money Laundering Law (PMLL) enacted in 2000 is Israel's AML legislation. The PMLL is the primary legal instrument setting out the preventive measures, including customer due diligence (CDD), reporting and record keeping obligations which apply to the covered financial sector and non-financial professionals subject to AML obligations in Israel. The law focuses on four principles: prevention, punishment, confiscation, and international co-operation. It includes empowering provisions, allowing AML supervisors to enact enforceable sectoral rules for specifying the detailed operational requirements of these preventive measures. The range of instruments includes regulations, orders, directives, and circulars. In addition, where applicable, Israel relies on general sectoral-specific supervisory powers provided under respective laws to implement AML preventive measures.

33. The PMLL was amended in 2016, notably to add serious tax offences requiring a *mens rea* of intention to the list of predicate offences

7. The Postal Bank services are provided by the Israel Post Company on behalf of the Israel Postal Bank Company and overseen by the Ministry of Communications.

to money laundering. These offences include offences according to the Income Tax Ordinance, the Value Added Tax Law, and the Taxation of Real Estate Law. In February 2017, the definition of “beneficial ownership” was amended.

34. Detailed rules for AML procedures and obligations are contained in orders and directives issued by the supervisory authorities. Under these orders, financial institutions are required to undertake the CDD measures when 1) establishing business relations; 2) carrying out occasional transactions above a threshold of NIS 10 000 (EUR 2 500) for cash transactions, including situations where the transaction is carried out in a single operation or in several operations that appear to be linked; 3) carrying out occasional transactions over a threshold that are wire transfers; 4) When they have doubts about the veracity or adequacy of previously obtained customer identification; 5) when there is suspicion of money laundering or terrorist financing.

35. In 2018, Israel underwent a joint FATF/Moneyval mutual evaluation on its measures to combat money laundering and terrorist financing. Recommendations 10 (Customer due diligence for financial institutions), 24 (Transparency and beneficial ownership of legal persons) and 25 (Transparency and beneficial ownership of legal arrangements) were rated Largely Compliant and Recommendation 22 (Customer due diligence for designated non-financial businesses and professions) was rated Partially Compliant. Immediate Outcome 3 (Adequate supervision for compliance of AML framework) was rated Moderate and Immediate Outcome 5 (Prevention of misuse of legal persons and arrangements) was rated Substantial.⁸

36. In general, the conclusions of the evaluation were that Israel has implemented an AML system that is effective in many areas, with particularly good results in areas of money laundering or terrorist financing risk assessment and risk understanding, including the use of financial intelligence, targeted financial sanctions related to terrorism financing, preventing misuse of legal structures, and co-operating domestically and internationally. However, the report noted the need to strengthen supervision and implementation of preventive measures.

37. In December 2018, Israel became an official member of the FATF.

38. Following the adoption of the Mutual Evaluation Report, the country was placed in the regular follow-up process, which is the default monitoring mechanism for all countries to ensure a continuous and on-going system of monitoring. Subsequently, Israel was required to report back to the FATF after three years from the adoption of the Mutual Evaluation

8. <https://www.fatf-gafi.org/media/fatf/documents/reports/mer4/MER-Israel-2018.pdf>.

Report, in February 2022. Israel's Follow up Report was adopted by FATF in May 2022.⁹ The report analysed Israel's improvement in technical compliance and, consequently some recommendations were re-rated. The ratings for the recommendations of interest in the Global Forum assessment process (10, 22, 24 and 25) remain as stated above in paragraph 35.

Recent developments

39. On 7 of April 2024 Amendment No 272, 5784-2024, entered into force¹⁰ introducing new provisions in the income tax law to address some of the recommendations from the Phase 1 (2022) report, notably regarding access to information. Further information is set out under the sections related to Elements A.1, A.2, B.1 and C.1.

40. The Companies Law Bill (Amendment No. 38) 2024-5784 is pending adoption and proposes amendment to establish a framework to write-off companies in violation with their filing obligations from the Register of Companies. The Bill includes criteria to write-off the companies, provides channels for the companies to contend the decision and the conditions to restore a company with the Israeli Corporations Authority (ICA). According to Israel, the next steps include the three readings in the Parliament, before this bill can become an official law.

41. Israel is working on the implementation of a multi-pronged approach to enhance beneficial ownership transparency, in line with the FATF Recommendations 24 and 25:

- For legal persons: A central registry for legal entities (companies and partnerships) will be housed within the ICA. Legislation is being drafted (completion expected in 2024) to empower the ICA to collect, manage and enforce accurate beneficial ownership information. This includes imposing sanctions for non-compliance.
- For legal arrangements: A separate central registry for beneficial ownership information of legal arrangements (trusts, foundations, etc.) is also planned within the ICA. Similar to the legal person approach, legislation is being developed (public consultation expected in March 2024) to grant the ICA necessary enforcement powers and ensure accurate data collection.

42. In 2022, Israel passed legislation on Country-by-Country reporting, whereas amendments to the 2019 regulation on the Common Reporting Standard were approved in 2023.

9. <https://www.fatf-gafi.org/media/fatf/content/images/Follow-Up-Report-Israel-2022.pdf>.

10. Government Decree 1726, dated 6 April 2024 and Book of Laws 3205, p. 786, dated 7 April 2024.

Part A: Availability of information

43. Sections A.1, A.2 and A.3 evaluate the availability of ownership and identity information for relevant entities and arrangements, the availability of accounting information and the availability of banking information.

A.1. Legal and beneficial ownership and identity information

Jurisdictions should ensure that legal and beneficial ownership and identity information for all relevant entities and arrangements is available to their competent authorities.

44. Identity and legal ownership information on relevant legal entities (including partnerships) and arrangements is available in Israel under the company law, the trust law, and the tax law requirements. The 2016 Supplementary Review concluded that the legal framework for the availability of legal ownership information is in line with the standard, but needed improvement on the availability of identity information on foreign trusts having an Israeli resident trustee.

45. In Israel, beneficial ownership information is available with banks and other AML-obliged persons. All legal entities and arrangements that are taxpayers in Israel are obliged to have a local bank account, with some exceptions applicable to trusts that are considered taxpayers but may hold assets abroad. The requirement to have a local bank account does not therefore ensure availability of accurate, adequate, and up-to-date beneficial information in every case. Moreover, the obligation to identify beneficial owners of trusts does not necessarily include all persons that exercise ultimate effective control over a trust. Furthermore, although there is an obligation to update customer due diligence based on the risk profile of the customer and in certain other circumstances, there is no specified frequency of carrying out Customer Due Diligence (CDD) to update beneficial ownership information. A recommendation is therefore issued in this respect.

46. Israel recently introduced filing requirements on legal entities and Israel-resident trustees of trusts in their annual tax return to set up a tax

register of beneficial ownership within the ITA. With effect from 1 January 2025, Amendment No 272 of 7 April 2024 requires legal entities to list the details of their beneficial owners and their tax residency in the annual tax return by 30 April of the next year (for the first year by 30 April 2026). Similarly, Israeli resident trustees of foreign trusts taxable in Israel are required to file the identity and tax residence of the beneficial owners of the trusts within 90 days from the creation of the trust. Changes in beneficial ownership of a trust with an Israeli resident trustee must be reported annually to the ITA by 30 April of the tax year following the year in which the beneficial ownership changed. Foreign trusts with Israeli resident trustees that do not derive income from Israel must provide a declaration of beneficial ownership to Israel's Tax Authority within 90 days of their creation. This obligation applies to these trusts created after 7 April 2024. For such trusts created prior to 7 April 2024, the obligation applies within 120 days from 1 January 2026. The reporting requirement applies to both new trusts created after 1 January 2025, with filing obligations by 30 April 2026, and trusts created prior to 2025, with filing obligations by 30 April 2027. The definitions of beneficial owners for both legal entities and trusts are in line with the EOIR Standard.

47. Two sets of deficiencies are noted in the measures taken to address the gaps related to trusts. First, a reporting exemption still remains in relation to trusts, the settlor or beneficiary, which became or will become first-time residents or veteran returning residents before 1 January 2026. Second, these new provisions are not yet supplemented with implementation regulations, which would set out the reporting requirements. In addition, there is no requirement for the beneficial owners to report their identifying information to the legal entities/trusts. Amendment No 272 grants the Minister of Finance, subject to the approval from the Knesset Finance Committee, the authority to establish regulations concerning beneficial owner identification. These regulations may encompass aspects like registration, documentation, record-keeping requirements and record management. A recommendation is introduced to monitor the implementation of the new provisions.

48. To conclude, beneficial ownership information may not be available for all relevant legal entities and arrangements, in line with the standard due to the above-mentioned incomplete AML coverage, the recency of Amendment No 272 setting out a tax register of beneficial ownership, the lack of secondary legislation together with its forward application.

49. Concerning supervision and sanctioning powers to ensure the availability of identity and legal ownership information, the Income Tax Authority (ITA) has adequate supervisory and sanctioning powers under the Tax Law. Regarding beneficial ownership information, the AML legislation gives adequate supervisory and sanctioning powers to the regulators

for non-compliance with AML obligations, including maintenance of beneficial ownership information. The Bank of Israel carries out appropriate supervision and enforcement activities on banks with respect to their compliance with AML obligations, including record keeping requirements of beneficial ownership and customer due diligence (CDD) information.

50. As of 1 May 2023, close to 200 000 companies incorporated in Israel did not comply with their annual filing obligations before the Israeli Corporations Authority (ICA) and are considered in violation with the law. In 2022, 63% of these companies were economically inactive for ITA purposes. These companies retain legal personality and can resume activities at any point in time provided they rectify the cause that led to the inactive status. The same issue arises for partnerships that do not comply with the corporate law and tax filing obligations. This non-compliance with filing obligations may prevent availability of legal ownership and identity information of companies and partnerships in the Company Register and in the Tax Authority database, as well as beneficial ownership information.

51. Israel used to allow for the issuance of bearer shares in the past. As noted in the 2016 Supplementary Report, the Company Law was amended to disallow the issuance of bearer shares after September 2016, nevertheless, there remained a possibility for holders of bearer shares to remain anonymous for a potentially unlimited period (see para. 143). The materiality of this gap remains limited to three companies and will exhaust over time.

52. In the peer input received, many peers reported to have requested information on the legal and beneficial owners of legal entities and arrangements and in most cases, they were satisfied with the answers provided by Israel. In five cases, the ITA faced challenges in obtaining beneficial ownership information due to access-related issues (see section B.1).

53. The conclusions are as follows:

Legal and Regulatory Framework: in place, but certain aspects of the legal implementation of the element need improvement

Deficiencies identified/Underlying factor	Recommendations
So far, Israel has relied upon the AML framework for availability of beneficial ownership information of legal entities and arrangements. However, not all relevant entities and arrangements are obliged to engage in a relationship with an AML-obliged person, such that beneficial ownership information may not be available in all cases.	Israel should ensure that adequate, accurate and up-to-date beneficial ownership information is available for all relevant legal entities and arrangements, according to the standard.

Deficiencies identified/Underlying factor	Recommendations
<p>Although most entities and arrangements are required to have a bank account with an Israeli bank when they register with the tax authorities, not all relevant legal persons and arrangements must register with the tax authority, and some benefit from exemption of their tax reporting obligation.</p> <p>Furthermore, although there is an obligation to update customer due diligence based on the risk profile of the customer and in certain other circumstances, there is no specified frequency of carrying out customer due diligence to update beneficial ownership information.</p> <p>New provisions in Israel's Income Tax Ordinance require legal entities and trustees of Israeli and foreign trusts taxable in Israel to list the details and residency of their beneficial owners in the tax return by 30 April of the next year. A certificate of beneficial ownership must be provided by Israeli resident trustee of foreign trusts with no taxable income in Israel. The definitions of beneficial owners are in line with the EOIR Standard. However, secondary legislation to set out the conditions for the reporting requirements is yet to be introduced. In addition, the new provisions do not introduce any requirement on the beneficial owners to report their identification information to the legal entity or Israeli resident trustee of the trusts, such that the requirements at the level of the legal entity and trust may be ineffective. Further, the new reporting obligations will provide Israel's Tax Authority with the beneficial ownership information in its database only after 30 April 2026 for legal entities and for new trusts created after 1 January 2025 and from 30 April 2027 for trusts existing before 1 January 2025. It is therefore not possible to assess whether these new requirements will ensure that beneficial ownership information on legal entities and trusts with an Israeli</p>	

Deficiencies identified/Underlying factor	Recommendations
<p>resident trustee will be accurate, adequate, and up to date in line with the EOIR Standard.</p>	
<p>On 7 April 2024, Israel introduced new reporting obligations on trusts created by individual settlors or having individual beneficiaries who are first-time residents or veteran returning residents after 1 January 2026, which trusts are vested with assets or income from assets abroad, aligning them with all other trusts subject to reporting requirements in Israel.</p> <p>However, availability of identity and beneficial ownership information is not ensured in relation to trusts created by individual settlors, or having individual beneficiaries, who have the status of first-time residents or veteran returning residents before 1 January 2026. Any such trust vested with assets or income from assets abroad is exempt from reporting for a period of 10 years.</p>	<p>Israel should ensure the availability of identity and beneficial ownership information in respect of trusts created by individual settlors or having individual beneficiaries who are first-time residents or veteran returning residents before 1 January 2026, and which are vested with assets or income from assets abroad.</p>
<p>The combination of AML and tax rules covers the identification of the settlor(s), the protector(s) and the beneficiaries, as the beneficial owner(s) of trusts and other similar legal arrangements, but does not include the residual clause “any other natural person exercising ultimate effective control”, as required by the standard. While the new definition introduced by the April 2024 amendments to Israel’s Income Tax Ordinance provides for a complete definition of beneficial owner of trusts in line with the EOIR standard, the tax register of beneficial ownership of trusts will apply only with effect from tax year 2025 for newly created trusts from that date and from tax year 2026 for existing trusts.</p>	<p>Israel should ensure that the definition of beneficial owners of trusts and other similar legal arrangements is in line with the standard.</p>

Practical Implementation of the Standard: Partially Compliant

Deficiencies identified/Underlying factor	Recommendations
<p>As of 1 May 2023, close to 200 000 companies incorporated in Israel did not comply with their filing obligations before the Israeli Corporations Authority. In 2022, 63% of these companies were economically inactive for income tax purposes. These companies retain legal personality and can resume activities at any point in time. The same issue applies to partnerships that are not complying with their company law and tax filing obligations. While the Israeli Corporations Authority has started campaigns to ensure compliance, this situation raises concerns that legal and adequate, accurate and up-to-date beneficial ownership information may not be available in all cases.</p>	<p>Israel is recommended to ensure that legal ownership and identity information and adequate, accurate and up-to-date beneficial ownership information on companies and partnerships is available in all cases in line with the EOIR Standard.</p>
<p>Israel introduced reporting provisions for trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026. From that date, any such trust vested with assets or income from assets abroad will remain exempt from tax Israel for a period of 10 years in respect of foreign income, but no longer from reporting to Israel's Tax Authority. The implementation of these new provisions could not be tested in practice.</p>	<p>Israel should monitor the implementation of the recent provisions to ensure the availability of identity and beneficial ownership information in respect of trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026, which are vested with assets or income from assets abroad, in line with the EOIR standard.</p>

A.1.1. Availability of legal and beneficial ownership information for companies

Types of companies

54. In Israel, the Companies Law provides for the existence of the following types of companies:

- Public companies: legal entities that have their shares listed for trade on a stock exchange or have been offered to the public

pursuant to a prospectus as defined in the Securities Law and are held by the public.

- Private companies: companies that are not public companies.

55. As of 1 January 2023, there were 696 public companies and 433 121 private companies registered in Israel.

56. A third category of companies exists in Israel. Public benefit/charitable companies: The Companies Law 5759-1999, as amended (CL) allows the establishment of public benefit companies (Chapter One A). A public benefit company is only allowed to act for public purposes contemplated in the law¹¹ and is forbidden to distribute profits, whether directly or indirectly, to its shareholders. Supervision and inspection mechanisms of the CL apply to charitable companies as well. Under certain conditions, the Registrar is authorised to make a compulsory registration of a public benefit company in case the company is in fact for public purposes but has not filed a request to register as one. The law also foresees the establishment of a charitable fund as a type of charitable company. Israel reports that as of 1 January 2023 there were 1 651 charitable companies and there have been no requests to establish a charitable fund. These companies are obliged to file annual financial statements to the Registrar, which are audited if the company has a turnover above NIS 1.2 million or EUR 300 000. The annual financial statements are publicly available. Additionally, they must appoint an independent audit committee who has the powers to examine the fulfilment of the public purposes, whether the company acts in accordance with its purposes, and examine the company's financial affairs in line with its purposes. Finally, upon its dissolution and liquidation, the assets remaining from a public benefit company cannot be directly or indirectly distributed among its shareholders. Given the rules applicable to public benefit companies in Israel, they are deemed to have a limited materiality for EOIR purposes.

Legal ownership and identity information requirements

57. The legal ownership and identity requirements for companies are found mainly in the Israeli Company Law (CL) and the Tax Law. According to the CL, upon registration of the company with the Corporations Authority, the applicant is required to provide the details of the company's shareholders and directors. The company will obtain its legal status upon registration in the Register, having provided the aforementioned information.

11. A charitable company can only act for one of the “public purposes” listed in the Companies law: environment, health, religion, heritage, animal welfare, human rights, education, culture and art, science, sports, immigration, charity, social or national welfare, protecting the rule of the law and giving grants for one of the above.

Additionally, all legal entities are required to register with the tax administration and file annual tax returns; however, ownership information on companies registered in the Companies Register that did not comply with their obligation to register with the tax administration (i.e. inactive companies for tax purposes) will not be available with the tax administration. In practice, the ITA receives automatic updates daily from the ICA, which include information on newly incorporated entities and information on “substantial shareholders” of such entities (i.e. those who hold 10% or more of shares or rights).

58. The following table shows a summary of the legal requirements to maintain legal ownership information in respect of companies.

Companies covered by legislation regulating legal ownership information¹²

Type	Company law	Tax law	AML law
Public companies	All	Some	Some
Private companies	All	Some	Some
Relevant foreign companies	None	All	Some

Companies Law requirements

59. The ICA oversees the registration, administration and compliance of companies in Israel. It includes the Registrar of Companies, the Registrar of Partnerships and the Registrar of Associations and Companies for the Public Benefit, among other Registrars.

60. A company obtains its legal status upon registration with the Registrar of Companies, where information on all shareholders and representatives must be provided in a pre-determined form (s. 8 CL). The form includes a statement from the initial directors appointed by the company, and a copy of the articles of association. Pursuant to section 23 of the CL, the articles of association include the identity of the initial shareholders and the shares allotted to each and must be signed by them and authenticated by a lawyer.

61. The Israel authorities indicate that they verify the details of the shareholders in accordance with the population register maintained by the Population and Immigration Authority (Ministry of Interior). When a request

12. The table shows each type of entity and whether the various rules applicable require availability of information for “all” such entities, “some” or “none”. “All” means that the legislation, whether it meets the standard, contains requirements on the availability of ownership information for every entity of this type. “Some” means that an entity will be covered by these requirements if certain conditions are met.

to register an Israeli company includes shareholders and directors that are not Israeli residents, the application must include a certified copy of their passports. This verification is only carried-out upon registration of initial directors and initial shareholders that are individuals. If the director or shareholder is another company or a legal arrangement, the verification process does not look through the ownership chain.

62. An amendment to the CL in September 2020 allowed the identity authentication of the first shareholders upon registration of a company to be done either by a lawyer or online through an online registration. Since 27 January 2023, it is now mandatory for every new application for company registration to be made online, by either a lawyer or any other interested person (e.g. a shareholder).

63. The certificate of incorporation includes the name of the company, its registered address, a company registration number of 9 digits and date of registration. Without such certificate of incorporation, a company cannot open a bank account in Israel, communicate with government authorities or participate in public tenders. All companies must afterwards annually report some information to the Registrar and pay a fee.

64. Up-to-date legal ownership information for **private companies** is available both with the Registrar and with the company:

- Private companies are required to report to the Registrar any transfer of shares, including information on both the old and new shareholders, regardless of the ownership percentages, within 14 days (art. 140(6) CL). Shares issuances and change in share capital must also be reported within 14 days (art. 292 CL). Further, private companies must report to the Registrar any information regarding appointments to the board of directors. This information must also be reported annually, no later than 14 days after the company's annual general meeting or, if no meeting takes place, after the company delivers its financial statements to the shareholders (s. 140-141 CL). From January 2023, newly incorporated companies also have to file their annual report online by means of electronic communication. For existing companies, this obligation will apply from June 2024. These reporting obligations contained in section 140 of the CL are also applicable to charitable companies.
- The company itself must keep a register on shareholders and directors, including their name, identity number and address, as well as the amount and types of shares held by each shareholder. The register must also include identity information on persons that act as shareholders on behalf of another person, with the reference that such person is acting as a nominee (also referred to as "trustee" under Israel's law). The register of shareholders must be kept in the

registered office of the company in Israel or to be kept in digital form (s. 125 CL). A trustee holding shares in a company is considered the shareholder (s. 131(a) CL) and the existence of the trusteeship must be declared to the company and a record made in the register that the trustee is a shareholder. The information recorded does not cover the identification of the person on whose behalf the nominee or trustee is acting.

65. **Public companies** must also report certain information to the Registrar, but this does not include ownership information (s. 142 CL). Ownership information of public companies is available only via the register of shareholders that the company is required to keep. With regard to nominee shareholders of public companies, when the company's shares are listed for trading on a stock exchange in Israel, the nominee is not considered as a shareholder in the company and the shares entered under its name are considered owned by the person for whose benefit the nominee acts, who has to be registered in the shareholders register kept by the company (s. 132 and 177 CL).

Tax law requirements

66. All companies (private and public) are required to register with the ITA. Once a company is registered with the ITA, it must file a form that includes identity information on its directors and shareholders (ss. 134 and 145 Income Tax Ordinance (ITO)). Companies must also file an annual report as part of the annual tax return, which includes information on current shareholders at the moment of filing (and not the list of shareholders during the year), and identity information on current and former directors (s. 131 ITO). This annual obligation ensures that the shareholders and directors' information available to the ITA is updated regularly, although it is not necessarily a complete record of all shareholders the company may have had.

67. Ownership information on companies registered in the Companies Register, but that did not comply with their obligation to register with the ITA, will not be available with the ITA. There were 370 218 companies in the ITA database in April 2024, representing about 85% of the number of companies registered with the ICA in January 2023. Considering that the two sets of information relate to different dates, the discrepancy is not exceptional. In addition, Israel confirmed that while companies may be registered with the ICA to have legal personality, they may not have yet registered with the ITA until they start their economic activities.

Companies that ceased to exist

68. Concerning companies that cease to exist, the legal requirements establish that all records must remain available for a seven-year record retention period following the liquidation. This is in line with the standard. The CL states that a company exists from the date of its incorporation until its termination upon dissolution. When dissolving a company by mandate of law, the court shall order how to keep the documents of a liquidated corporation, provided that they are kept for at least seven years. In a voluntary dissolution, the General Assembly shall order how to keep the documents and if no decision is taken, they will be retained by the trustee, or anyone authorised. The law does not specify whether the trustee or anyone authorised, should be located in Israel. Even though the law does not prescribe whether the information must be physically kept in Israel or the precise place where it must be kept, Israeli authorities have indicated that the information must be kept in a way (in paper form or digitally) that will enable the respective authorities to access the company's information.

69. Information on companies that cease to exist must be kept by the tax authority for a period of ten years, according to the Archives Regulations. As to the Registrar, Israeli authorities have stated that all information is uploaded to the ICA's computing system and kept permanently.

Foreign companies

70. Regarding foreign companies, the ITO states that any body of persons is required to register before the ITA whenever it opens or begins to carry on its business (s. 134 ITO). This provision covers foreign companies that become tax residents in Israel or have a permanent establishment (by undertaking business in Israel). Foreign companies must also file annual reports including updated information on shareholders and directors, as described above for Israeli companies. The return contains the identity information of shareholders at the moment it is filed and does not reflect any changes in shareholders due to share transfers since the last annual return. As of January 2023, there were 3 219 foreign companies registered in Israel. These tax requirements ensure the availability of legal ownership information on foreign companies with a nexus in Israel in line with the standard.

71. As to the CL, all companies that are incorporated outside Israel must be registered with the Companies Registrar, in order to maintain a place of business in Israel, including companies created only for maintaining an office for the registration or transfer of shares (s. 346(a) CL). Upon registration, the foreign company must provide the Registrar with the list of all directors and the contact of a person authorised to receive court orders and other notifications on behalf of the company. However, neither the

information requested upon registration with the Registrar nor the annual statements filed with the Registrar include ownership information on foreign companies. The ICA registered a total of 178 foreign companies in the period 2020-21.

72. Considering the above, legal ownership information is not available with the Companies Registrar but is available with the Tax authorities.

73. During the peer review period, Israel did not receive a request for ownership information regarding foreign companies which are resident in Israel for tax purposes.

Legal ownership information – Enforcement measures and oversight

74. Enforcement of the obligations related to the availability of legal ownership information is applied by the ITA and the ICA.

Supervision by the Israel Tax Authority (ITA)

75. The ITA monitors and supervises compliance with tax reporting obligations. The programme of tax audits includes on-site and off-site inspections, and the on-site inspections include verification of whether the company maintains the shareholder register. Further, the tax administration can apply administrative fines of NIS 500 (EUR 125) per month of delay or request for a criminal sanction of one year imprisonment or a sanction of NIS 29 600 (EUR 7 400) through a court proceeding, or both, pursuant to section 216(4) of the ITO (para. 87, 2016 Supplementary Report) for non-compliance with tax returns and other reports to tax authorities.

76. The aggregate compliance of companies, partnerships and trusts with tax return filing obligations (including filing of annual reports) exceeds 90% on average (see Element A.2). The tax database is connected to the Registrar and automatically detects if a company fails to register with the tax administration. The tax database also automatically identifies companies which fail to submit their tax returns in time. The ITA issues a notice informing the company of the unfulfilled obligation and the respective sanction is applied.

77. While the compliance rate for the annual filing obligation is high, it covers only companies that the ITA considers as economically active. This does not cover companies that have closed businesses and closed their files before the ITA but have not yet been dissolved/liquidated. This category covers about 220 000 companies. For ITA purposes, a company is considered “inactive” if it has no assets (including intangible), no liabilities, does not generate income in the tax year and has no active research and development activities. In such a case, the annual tax report declares that the company

is not active under the above-mentioned conditions. The dissolution or liquidation of these companies is of the competence of the ICA.

Supervision by the Israeli Corporations Authority

78. The supervision of a company's filing obligations with the Registrar is the responsibility of the ICA. The Registrar of Companies forms part of the ICA. The ICA has in total 205 employees dealing with more than 433 000 companies registered in Israel and the registration of about 20 000 new companies every year.¹³

79. Although ownership information is available with the tax authority based on tax filing obligations, The 2016 Supplementary Review invited Israel to continue taking steps to improve the availability of ownership information with the Registrar, including striking off companies which continuously fail to comply with their obligations, in application of section 362 of the CL. The accuracy of the shareholder register is also reviewed during the tax audits that the ITA conducts on corporate taxpayers (see A.2.1 on oversight and enforcement of requirements to maintain accounting records).

80. Filing compliance is necessary to ensure that legal ownership information of private and charitable companies is accurate and up to date. The Register of Companies is available online, and flags the companies that violate their obligations, thus alerting its users that the information contained therein may not be reliable.¹⁴ According to section 362a of the CL, the declaration of a "company in violation" results in the application of several restrictions and limitations and cannot perform certain legal acts in Israel. These limitations and restrictions interfere with the regular business activities of the company, namely:

- The company will not be allowed to register any new act nor conduct other legal operations (e.g. merger).
- The company and its controlling shareholder holding at least 50% of the shares of the company will not be able to incorporate and register a new company in Israel.

81. The Israeli authorities made a distinction between "companies in violation" and "inactive companies" (i.e. inactive companies according to the ITA), which do not fully overlap. About 83% of the non-compliant companies were considered economically inactive as of 1 May 2023. The status of

13. 17 214 in 2020, 20 516 in 2021, 20 650 in 2022.

14. Basic information is available for free (date of registration, type, address) and detailed information for a fee, on the website https://www.gov.il/en/service/company_extract in Hebrew.

companies in violation is publicly accessible, but not that of inactive companies. It remains that they keep legal ownership and can be “revived” any time.

82. Since the 2016 Supplementary Report, the ICA has put in place several reforms to digitalise the Register and the filing process (see paragraph 62) and to improve overall compliance, oversight and enforcement. Its strategy was implemented in stages, with a general awareness raising campaign started in 2019 to incite compliance. In parallel, it conducted a pilot project on a selection of non-compliant companies in 2019. It also started imposing fines on non-compliant companies. The last stage, the striking off of companies persisting in non-compliance, has not started.

83. First, from 2019, the ICA conducted an extensive public information campaign regarding companies in violation with no economic activities, to incite business owners to liquidate these companies.

84. Second, in 2019, the ICA conducted a pilot project whereby financial sanctions were imposed on the director of the company (according to art. 360 CL) if the company had not paid the imposed sanction. The pilot project included 250 companies in violation (with one or more directors), of which 100 were in violation due to a failure to submit the annual report and the other 150 due to failure to pay the annual fee. The outcome of the pilot project show that non-compliance remains high:

- Out of the 150 companies that failed to pay the annual fee, 125 have not corrected the violation, whereas the remaining 25 companies have either complied (9) or went into various legal proceedings (e.g. voluntary dissolution (2), Court liquidation (9), court dissolution (2), bankruptcy procedure (3)).
- Out of the 100 companies that failed to submit an annual report, 30 companies remained non-compliant, 44 went into voluntary dissolution, 3 into court liquidation and 3 into voluntary liquidation, while only 19 companies submitted an annual report.

85. The results of the campaign and pilot project have been mixed. In 2021, a small portion of the companies in violation of the law (i.e. 565 companies in violation) did submit the annual report and therefore corrected the violation. Another small portion (i.e. 435 companies) received a notification from the Registrar (under art. 356(a) CL) that if the violation is not corrected within 45 days of the date of the demand, the company shall be required to pay a financial sanction. Of these companies, 254 corrected the violation while sanctions were imposed on the other 181 companies.

86. While this progress is encouraging, there is room for further improvement to monitor the compliance with filing requirements. Despite

the supervision efforts, the non-compliance remained quite high. In 2020, 33.6% of the companies did not submit an annual return, while in 2021, 34.3%, and in 2022, 35.1%. As of May 2023, there were 191 216 companies in violation registered in Israel. The number is divided as follows: 10 664 companies failed to submit an annual report, 8 621 failed to pay an annual fee, while the rest, constituting 171 931 companies, violated both obligations, sometimes for a considerable number of years.

87. Third, the Registrar may impose financial sanctions of NIS 8 570 (EUR 2 140) for each violation. If the fine is not paid within 45 days, the Registrar may request the payment from the registered director of the company or the registered director at the time of the violation. The Registrar may lift a sanction on request of the company if the Registrar is convinced that the purpose of imposing the financial sanction has been achieved. For instance, if the company has completed a voluntary liquidation process.

88. The number of companies in violation of the law that were sanctioned during the period 2019-22 are set out in the table below.

	2019	2020	2021	2022
Companies in violation of the law that were sanctioned	25 000	27 000	30 149	30 315

89. Finally, the CL further provides, in section 362, the possibility for the Registrar to request the liquidation of a company in violation of the law before a Court. This can be done within three years, following the imposition of a monetary sanction on the company, when the sanction has not been paid and when the Register has also imposed an additional monetary sanction for non-compliance with the first sanction. These provisions have not been applied to date, as the ICA's strategy is to build an information compliance campaign with pecuniary sanctions. Instead, to further the liquidation of companies in violation with no economic activity, Israel adopted temporary provision (Companies Regulations (Fees), 5761-2001, art. 5a) allowing for a voluntary liquidation in an expedited procedure without payment of annual fees and financial sanctions imposed due to non-payment regarding the years after the date when the company ceased operation. This temporary provision is available until 31 December 2024. From 1 January 2023 until 1 February 2024, 44 882 companies submitted voluntary liquidation requests and 27 908 companies were dissolved or liquidated, most of which were without economic activity. The ICA estimates that, by the end of 2024, a very large number of companies will submit such a request to benefit from the exemption provision prior to its expiration.

90. In practice, the ICA carries out a robust oversight of these companies in violation of the law but does not currently have the power to strike-off and liquidate them. In short, the Registrar does not possess the administrative authority to strike off companies in violation with no economic activity. As of 1 May 2023, about 192 000 companies were still in violation of the law in Israel.

91. In conclusion, about 40% of the companies in the ICA Register are in violation of the law but retain legal personality and can resume activities at any point in time, provided they rectify the cause that led to the “in violation” status. This situation raises concerns that legal ownership information (and beneficial ownership information (see section on availability of beneficial ownership information, paragraph 126) in the Registrar may not be up to date for all private companies. Therefore, **Israel is recommended to ensure that legal ownership on companies is available in the Commercial Register and in the Tax Authority database in all cases in line with the EOIR Standard.**

Availability of beneficial ownership information

92. The standard was strengthened in 2016 to require that beneficial ownership information be available on companies. In Israel, this aspect of the standard is currently implemented through the application of customer due diligence under the AML law. The Registrar and the ITA do not receive beneficial ownership information.¹⁵ Amendment 272 of 7 April 2024 introduced filing obligations on legal entities and trustees with the effect that beneficial ownership would be available to the ITA starting from 30 April 2026 for legal entities.

Companies covered by legislation regulating beneficial ownership information

Type	Company law	Tax law	AML law
Private companies	None	None	Some
Public companies	None	None	Some
Foreign companies	None	None	All ¹⁶

15. As they obtain legal ownership information via annual reports that companies are obliged to file before each authority, beneficial ownership information may be available with ITA and the Register whenever the beneficial owners are the legal owners of the company, i.e. in simple companies (with no ownership chain and no nominee shareholders), but this would require checking the information each time.
16. Where a foreign company has a sufficient nexus, then the availability of beneficial ownership information is required to the extent the company has a relationship with an AML-obliged service provider that is relevant for the purposes of EOIR. (Terms of Reference A.1.1 Footnote 9).

Scope of the Anti-Money laundering and Combating the Financing of Terrorism (AML) Law

93. The obligations applicable to the AML-obliged persons include identification, reporting and maintenance of records governed by the PMLL and are further developed in the Prohibition on Money Laundering Order 5761-2001 (PMLO), applicable to banks and credit card companies, and the Prohibition on Money Laundering Order 5775-2014, applicable to Business Service Providers (BSPO), meaning lawyers and accountants.

94. Concerning business service providers, section 8B(a) of the PMLL expressly defines such terms as “an attorney or an accountant, that provides or that is asked to provide as part of his professional services a business service for a customer”.

95. Pursuant to the PMLL, “business services” include any of the following activities:

- purchase, sale, or the perpetual leasing of real estate
- purchase or sale of business entities
- management of client assets, including managing money, securities, and real estate, as well as management of clients’ bank accounts in a financial institution
- receipt, possession, or transfer of funds for the purpose of creating and operating a company
- creation or operation of a company, business, or trust for another.

96. In the case of lawyers and accountants as business service providers, the obligations included in the PMLL are:

- to identify the customer and the person for whom or for the benefit of whom, either directly or indirectly, the business service is being provided
- if the customer is a corporation or the business services are to be provided at the request of a corporation, the identification requirement includes those who have controlling interest over the corporation, i.e. the beneficial owners
- to refrain from providing a business service unless he/she possesses all identification data and
- to create and maintain records on the identification data and any other matter determined by the PMLO for the compliance of the law.

97. There are no CDD obligations applicable to other trust managers or other professional service providers. In total, Israel reported that there are two Trust and Company Service Providers (TCSPs) in Israel, which are not

lawyers or accountants. However, Israel indicates that most of trust managers or other professional service providers' activities are conducted by lawyers and accountants, who are covered by the AML framework for trust and corporate services. Given that only lawyers that fulfil certain requirements are able to obtain a notary licence, the scope of the AML obligations applicable to lawyers in Israel covers notaries as well. However, they are not approached in their capacity as lawyers to obtain beneficial ownership information as they are not involved in company formation or corporate formalities.

98. Legal entities and arrangements are not required to engage with a lawyer or accountant in all cases for their formation, but Israel has indicated that this is the usual practice. However, lawyers' involvement for company formation is decreasing in practice (from 100% of incorporations in 2020 to less than 80% in 2022). In any case, unless the legal entity or arrangements keep the engagement with the lawyer or accountant, their CDD requirements would only provide availability of beneficial ownership information at the moment of rendering the incorporation services, which would not ensure an up-to-date source of information to rely upon after incorporation.

99. All legal entities (including partnerships) that are taxpayers in Israel are required to have a local bank account upon filing their annual income tax returns with the ITA or at registration for VAT purposes. However, some non-compliant legal entities may not be registered before the ITA (i.e. in case they have not started their business activities), thus they may not have a bank account in Israel.

100. In Israel, the obligation for AML-obliged persons to identify the beneficial owner(s) of a legal entity or arrangement derives from the PMLL obligation to identify the "beneficiaries" of the service or transaction. When such beneficiary is a corporation, the AML-obliged person must always identify the individual(s) that is/are the controlling person(s) of such corporation using a cascading approach.

Definition of beneficial ownership

101. For purposes of the CDD procedure applicable to banks as described above, the AML legislation in Israel defines beneficiary (s. 7(a)(1) PMLL) as:

a person for whom or for whose benefit the property is being held, the transaction is being undertaken, or who has the ability to direct the disposition, whether directly or indirectly; and if the beneficiary is a corporation, also the controlling person in the corporation

102. The PMLO adds that when the beneficiary is a corporation, both the corporation and the holders of the controlling interest in it shall be considered beneficiaries (s. 1 PMLO). Section 1 of the PMLL defines “controlling person” as

(i) an individual who has the power to direct the activities of a corporation, alone or with/through others, directly or indirectly, except the power derived solely from fulfilling a position as a senior officer in a corporation

(ii) without precluding the previous rule, an individual will be considered a controlling person of a corporation if he holds 25% or more of any kind of controlling measures, and if there is no other person holding controlling measures of the same kind in an amount exceeding his share of holdings and

(iii) without precluding the previous rules, in a corporation where [there] is no individual as defined above, the controlling person will be the chairman of the board of directors or an equivalent senior officer and the managing director of the corporation, and if there are no individuals holding those positions, the senior officer that holds an effective control over the corporation.

103. Concerning paragraph (ii), when determining controlling person applying the 25% threshold, the question arises as to whether the phrase “and if there is no other person holding controlling measures of the same kind in an amount exceeding his share of holdings” could result in the non-identification of certain beneficial owners. Israel authorities and the representatives of the private sector met during the onsite visit confirmed that in every case, all persons holding 25% or more of the controlling measures must be identified as beneficial owners.

104. Even though there is no express reference to “the natural persons exercising control through other means”, the reference to “[the person] who has the ability to direct the disposition, whether directly or indirectly” in the definition of beneficiaries can include persons that exercise control by other means, as confirmed by Israeli authorities and the representatives of the private sector met during the onsite visit.

Customer due diligence obligations

105. Banks must identify the person receiving their services, including the beneficiary of the transaction or the person creating a trust or endowment. For this purpose, the bank must identify each account holder and authorised signatory with its name, identification number, date of birth and sex (for individuals) or date of incorporation (for corporations) and address

(s. 2(a) PMLO). If the person receiving the service is a corporation, or the transaction is being undertaken at the request of a corporation or through the account of a corporation, the PMLO indicates that the bank shall obtain the name and identification (ID) number of the beneficiaries. If after taking reasonable steps, the bank cannot obtain the ID number of the beneficiaries, it shall obtain the details of its date of birth and sex (for individuals) or the date of incorporation (for corporations) and the country of citizenship or incorporation, as applicable (s. 2(b) PMLO).

106. In case of corporations, banks shall also record the identification of the individuals holding controlling interest in it, i.e. the beneficial owners (s. 2(e) PMLO). The latter also includes name and ID number, and when ID number is not obtainable, date of birth and sex and the country of citizenship.

107. Additionally, applicants wishing to open a bank account are required to provide the bank with a signed declaration stating whether there exists a beneficiary of the account. If the applicant is not the account holder, this declaration must be provided by the account holder as well. When the account is being opened for a corporation, the declaration must also contain information on the controlling persons (s. 4(b)).

108. The PMLO allows for a partial exemption (s. 5(b)), i.e. simplified due diligence, as follows: “The provisions in Sections 2(c), 2(d)(3), and 4(b) about recording a holder of a controlling interest shall not apply to the accounts of a banking corporation, an insurer, a provident fund, a managing company on behalf of a provident fund under its management, a company whose shares are traded on the Tel Aviv Stock Exchange or on a stock exchange in a member country of the OECD, or to the account of another type of accounts specified by the Supervisor of Banks in a directive”.

109. The list of situations where this partial exemption is applicable is exhaustive for specific potential customers of low risk, which are expressly covered by the FATF standard (Interpretative Note to Recommendation 10) and corresponds to some of the limited exceptions under the standard.¹⁷ However, the category “another type of account specified by the Supervisor of Banks in a directive” could allow the application of this provision to other types of accounts. Israel clarified this exception was intended to be used for accounts with numerous beneficial owners – for example an account of a “kibbutz” (Israeli communal settlement, based on egalitarian and communal

17. Article 5(4)(b) of the 2022 Model Agreement on Exchange of Information on Tax Matters provide that “this Agreement does not create an obligation on the Contracting Parties to obtain or provide ownership information with respect to publicly traded companies or public collective investment funds or schemes, unless such information can be obtained without giving rise to disproportionate difficulties”.

principles in a social and economic framework). The second example of an intended use for this exception is an account of an embassy, which inherently does not have beneficial owners. The Bank of Israel indicated that the categorisation by banks of those customers subject to simplified due diligence is strictly reviewed in the individual annual reporting by banks, the desk-based reviews, and the onsite visits. They reported that there was no misinterpretation by banks of this partial exemption, which is applied narrowly by banks. Further analysis is set out in paragraph 263.

110. Israeli laws do not permit reliance on third parties for undertaking CDD measures. According to the PMLL, CDD and record keeping requirements for AML purposes must be carried out directly by financial institutions and regulated business services providers, which are solely responsible and accountable for complying with these obligations.

111. All identification data recorded by the bank must be authenticated, before opening the bank account. Identity information must be verified by obtaining an ID card or passport or a certified copy thereof, and by comparing the information against the population registry in the Ministry of Interior. For foreign residents, identity must be verified against other documents bearing a photograph, identity number or address and date of birth (s. 3(a)(1) and (2) PMLO). The PMLO requires banks to obtain, authenticate and verify the identity information of beneficial owners.

112. Section 30 of the Banking Order 411 requires banks to perform additional due diligence on high-risk customers, including to “obtain additional information on the customer from other sources” and updating more frequently the identification data of the beneficial owner. The legislation requires banks to examine the plausibility of the declaration received from the client and to adopt reasonable measures to verify the identity of the beneficial owners by use of relevant information or data received from a reliable source which satisfy it (s. 4(e) PMLO). In practice, banks verify the identity of the beneficial owners against other sources of information, and the Bank of Israel oversees the correct application of this part of the due diligence process.

113. Banks are required to keep all necessary records on transactions, including CDD information, for seven years from the date the transaction was recorded or after the closure of the account (s. 7 PMLO). The seven-year retention period applies to banks that ceased to exist or cease operations in Israel. In case of a bank continuing to exist, but ceasing its operation in Israel, the records are kept at the Central Bank Offices.

114. Banks must refrain from opening an account unless it possesses all identification data and must also keep and maintain records, covering the

identification details and the transactions with respect to which the reporting obligations apply.

115. As stated in section 2a(b) of the PMLO, banks must conduct ongoing monitoring regarding the CDD procedure carried out at the beginning of the relationship, in line with the customer's level of risk of money laundering or financing of terrorism and update its records accordingly. Banks are also required to carry out the CDD procedure each time a doubt arises concerning the identity of the beneficial owner or the veracity of the identification documents. However, neither PMLL nor the PMLO provide for a specified frequency for updating beneficial ownership information, and only state that the frequency of the update depends on the level of risk of the customer. The practical aspects are described in paragraph 261.

116. The definition of beneficiaries and controlling persons contained in the PMLL, as described in paragraphs 101 and 102, is also applicable to lawyers and accountants in application of their identification due diligence measures. Pursuant to the Business Service Providers Order (BSPO), the updating requirements described in paragraph 115 are also applicable to them. This means that they must update beneficial ownership information when the identification data or its supporting documents are no longer reliable and based on the risk level of the customer, but there is no specified frequency.

117. For business service providers subject to AML, the requirement is to retain identification documents for a minimum period of five years after providing the business service. This can be extended at the written request of the supervisor. The requirement also includes the maintenance of all the main records which a business service provider has used in performing the customer recognition procedure, in an efficient manner to facilitate identification of and availability of the information. In the case of individual lawyers that cease to practice, Israel's section 89A of the Bar Association Law provides that the respective district court is able to appoint a member of the bar to be in charge of the affairs of an attorney that has died, retired from the bar or prevented from fulfilling his/her duties. Israel has indicated that the retention period will apply to the appointed member of the bar. In the cases of accountants that cease to exist or are unable to perform their duties, the Institute of Certified Public Accountants (CPA) in Israel transfers the files to another accountant, who receives the files for his/her handling, including all documents relating to clients that were in the hands of the previous accountant.

118. Information obtained by AML-obliged persons is only accessible by the Israel Money Laundering and Terror Financing Prohibition Authority (IMPA), which is the Israeli financial intelligence unit. The IMPA can share such information with other domestic agencies, including the ITA but only

for purposes of its AML functions. For EOI purposes, the ITA cannot access beneficial ownership information held by AML-obliged persons on requests based on civil tax investigations. For criminal tax investigations, it must obtain a court order to obtain information from financial institutions. This matter is further analysed under Section B.1.

Availability of beneficial ownership information with the ITA

119. The ITA currently holds legal ownership information obtained via annual reports that companies are obliged to file. Beneficial ownership information is only available with ITA when the beneficial owners are also the legal owners of the company. With effect from 1 January 2025, Amendment No 272 introduced a filing requirement for legal entities to list their beneficial owners' details and residency information during the year, in article 131 of the ITO.

131. (a) The following shall submit a return: (...)

(5) a body of persons which had income in the tax year; (...)

(c3) A report as stated in subsection (a)(5) shall list the details of all those who had control over the corporate during the tax year, and the residency of each of them; for this matter, “controlling owner” – as defined in section 135b.

120. This requirement will allow the ITA to create a register of beneficial owners within the ITA, starting from 30 April 2026, which is the filing deadline for 2025 annual tax return. Israel stated that although the first reporting period will have the deadline of 30 April 2026, the ITA will have the powers to request information from the company regarding its beneficial owner(s) as from 1 January 2025 under its general access powers. However, since the law does not create an explicit obligation for companies to collect and maintain beneficial ownership information before the date of filing their return, it is unclear how the access powers would be enforceable against companies that would have not yet collected the requested information.

121. Amendment No 272 refers to Article 135B ITO with the “controlling persons” definition, which was previously introduced to implement the Common Reporting Standard, to provide a definition of beneficial owner. Article 135B ITO references the definition of a “controlling persons” established in the Prevention of Money Laundering Act (PML) 2000. As mentioned in paragraphs 101 to 104 above, this definition is in line with the standard when taken together with the methodology described in the related order, which the ITO does not refer to.

122. Amendment No 272 is silent about requirements on the beneficial owners to provide information to the legal entities and it is unclear how

such beneficial owners would be required to provide their identity information. Article 131(h) of the ITO provides that this matter will be dealt with in secondary legislation. Secondary legislation will cover “provisions concerning the issue of identifying a beneficial owner and provisions concerning registration, documentation, keeping documents and managing records regarding the said identification details”. The reporting obligation cannot apply without these details and the secondary legislation has not been issued yet.

Conclusion

123. Not all relevant entities and arrangements are obliged to engage in a relationship with an AML-obliged person. This lack of coverage may result in beneficial ownership information for certain entities and arrangements not being available. This is to some extent compensated by the requirement of having a bank account in Israel for all entities and arrangements that are registered taxpayers.

124. This means that in Israel, legal entities like companies are not obliged to engage with an AML-obliged person on an ongoing basis all through their existence. This could lead to situations where beneficial ownership information on companies may not be available or may not be accurate and up to date.

125. Additionally, the updating requirements under the AML law are applicable when the identification data or its supporting documents are no longer reliable or in case of doubts, or otherwise based on the risk level of the customer, but there is no specified frequency for updates of beneficial ownership information in the AML legislation either for banks or for business service providers. In addition, as set out in paragraph 122, the new filing requirements on legal entities, introduced by Amendment No 272, for the tax year 2026 will ensure availability of beneficial ownership information on legal entities with the ITA with effect from 30 April 2026 (deadline of the 2025 corporate tax return). However, given the absence of secondary legislation detailing the requirements and the forward effective application of the new requirements, the compliance and effectiveness of these new filing requirements with the EOIR standard to ensure availability of accurate, adequate, and up-to-date beneficial ownership information on legal entities could not be assessed.

126. Thus, **Israel should ensure that adequate, accurate and up-to-date beneficial ownership information is available for all relevant legal entities, according to the standard.**

127. Further, as mentioned in paragraph 91, about 40% of the companies in the ICA Register are in violation of the law but retain legal personality and

can resume activities at any point in time, provided they rectify the cause that led to the “in violation” status. This situation raises concerns that beneficial ownership information may not be up to date for all private companies. Therefore, **Israel is recommended to ensure that adequate, accurate and up-to-date beneficial ownership on companies is available in all cases in line with the EOIR Standard.**

Nominees

128. In Israel, there are no impediments in law for a person to act as a nominee shareholder for another person. Information regarding the nominee shareholder and its status is available in the Company Register. In addition, should the nominee shareholder act as such on a professional basis, he/she is subject to CDD requirements under AML legislation, to the extent it operates as a bank, lawyer or accountant (see paragraph 94), and must know the identity of its client.

129. A shareholder who acts on behalf of another person shall file a declaration to the company and a record must be made in the register of shareholders kept by the company, indicating the fact that this person acts as a nominee/trustee (s. 131 CL). This information does not cover the identification of the person on whose behalf the nominee/trustee is acting in the case of private companies. The nominee shareholder/trustee is treated as a legal owner of shares and the same tax rules apply. This means that there is no obligation for the nominee shareholders to provide the identity information, in respect of the person on whose behalf they are acting.

130. Israeli authorities have advised that nominee shareholders are treated as trustees in Israel and provisions of the Trust Law apply in the matter, and trustees must hold information on the persons on whose behalf they hold shares. Israel has further clarified that the definition of trustee and trust under the Income Tax Ordinance is very broad and refers to any kind of relationship in which one person holds assets on behalf of another person, no matter how that relationship is classified under Israeli or any other law. Therefore, nominee shareholders are treated as trustees under the provisions of the ITO as well.

131. In Israel, nominee shareholders of private companies are treated as trustees which are subject to AML obligations included in the PMLL and the BSPO for business service providers. Accordingly, when acting as professional nominees, business service providers must apply AML/CDD measures and identify the person on whose behalf they act and keep such information updated. However, there is no legal requirement for non-professional nominee shareholders in private companies to identify the persons on whose behalf they act. Although the persons performing nominee services

on a non-business basis are not covered under the AML provisions, these services generally would be performed for no consideration during a purely private non-business relationship, such that the deficiency is likely minor. In practice, the Israeli authorities confirmed they never encountered situations with non-professional nominees and the Competent Authority never received an EOI request involving a non-professional nominee. Israel should continue to monitor this activity to ensure that it does not become an impediment in the effective exchange of information (see Annex 1).

132. When a company's shares are listed for trading on a stock exchange in Israel, the nominee/trustee is not considered as a shareholder in the company and the shares entered under its name are considered owned by a person for whose benefit the nominee acts. This information – the fact of the trusteeship and the identity of both the nominee/trustee, and the person on whose behalf the trustee acts – must be entered into the register of shareholders (ss. 132 and 177 CL). Such shareholders must declare the fact of trusteeship and the identity of the beneficiary to the member of Tel Aviv Stock Exchange, which is subject to CDD requirements (see also obligations included in paragraph 62).

133. Section 237 of the CL specifies that alternate directors cannot be appointed unless this is permitted by the articles of association. When a corporation is designated as a director in a company, the corporation must nominate an individual to act on its behalf. In this case, the name of the individual will be registered in the company's register of directors and the obligations applicable to a director apply to the corporation and individual jointly. Israel's authorities consider that these provisions mean that nominee directors are not allowed.

Beneficial ownership information – Enforcement measures and oversight

134. All AML-obliged persons are subject to administrative sanctions in the PMLL. This law enables the setting-up of an administrative sanction committee by each competent supervisor, including the Bank of Israel for banks and the Ministry of Justice for Business Service Providers. Each Committee is empowered to impose financial sanctions for breaching the AML obligations of the PMLL and the AML regime and its orders. The AML requirements of the PMLL cover the reporting obligations, record keeping obligations, secrecy obligations, and the general customer identification, including identification of beneficial owners. For AML-obliged persons who fail to comply with these requirements, the Committee can issue a financial sanction for an amount up to ten times the amount of the fine specified in section 61(a)(4) of the Penal Code: NIS 2 260 000 or approximately

EUR 565 000 (s. 14(a) PMLL). These sanctions can be imposed on the individual or the employing corporation.

135. The amount of the administrative fine is determined by different factors, e.g. whether it is a first, further or continuing violation, the seriousness and extent of the breach and the violator's co-operation.

Supervision by the Bank of Israel

136. The Banking Supervision Department of the Bank of Israel oversees the supervision of banks' compliance with AML requirements and assesses the quality of the banks' risk management, including retention period for beneficial ownership information requirements of their clients. During the review period, the Department carried out robust enforcement and oversight activities, with 18 offsite examinations and 20 onsite inspections all of which covered beneficial ownership information (also see Element A.3, paragraph 266 and following). Israeli authorities have indicated that during this period there have been no sanctions concerning deficiencies found in the on-site examinations, only minor deficiencies on which they have followed up. During these examinations, the main deficiencies found are not particularly related to beneficial ownership information but up-to-datedness of information like expired supporting documents, lack of date of receipt of supporting documents and form-related issues in the way the beneficial owner's declaration is filled. The beneficial owner's declaration is an "identification certificate" required at bank account opening under sections 2(b) 2(c), 4(a) and 4(b) of PMLO. Before applying sanctions, and particularly when it comes to minor findings, the bank is required to correct the deficiencies found and the requirements included in the Examination report (in accordance with the level of the risk), including to improve the effectiveness the internal controls.

Supervision by the Ministry of Justice

137. The Minister of Justice oversees supervising lawyers and accountants. The ITA confirmed that lawyers and accountants are not used as information holders with respect to beneficial ownership information on companies and legal arrangements. Further, the ITA would not be able to access information from lawyers gathered under the AML framework to answer an EOI request on beneficial ownership information due to the restrictions set out in section B.1.1 of this report.

138. As of March 2023, there were about 70 000 active lawyers and 26 000 accountants in Israel. All lawyers can provide services that fall under the AML legislation, and as such, would be subject to the AML legislation and supervision by the Ministry of Justice for such activities. These are

mainly trust and corporate services. Israel indicated that is not possible to distinguish between lawyers who are business service providers (subject to AML requirements) and those who are not, because Israeli law does not require them to declare this information on a regular basis. In contrast, the main line of business for accountants in Israel consists in auditing activities, which is not covered by the AML framework.

139. The Ministry of Justice has a Supervision Unit in charge of this work, which includes ten supervisors in 2023. However, during the peer review period, the team was limited to one head, one supervisor and two outsourced supervisors. Overall, during the review period, 31 supervisions took place, out of which 5 were onsite supervisions leading to a sanctioning process for deficiencies found and a penalty ranging from NIS 2 000 to NIS 20 000 (EUR 500 to EUR 5 000). The Ministry of Justice indicated that some minor deficiencies were found regarding the implementation of CDD obligations by the inspected lawyers. They were instructed to improve their compliance with CDD requirements.

140. The Ministry of Justice also conducted some training and awareness activities regarding CDD requirements during the review period, with 12 trainings for lawyers only and 5 trainings for lawyers and accountants as a part of Compliance Officers course. The Ministry of Justice conducts regular face-to-face and online trainings on AML obligations, but these are on a voluntary basis and may not cover the complete scope of AML-obliged persons.

141. Although lawyers are subject to AML obligations and supervision by the Ministry of Justice, and despite recent strengthening of supervisory activities, during the review period the supervision activities appeared insufficient to ensure that adequate, accurate and-up-to date beneficial ownership information is available with these professionals in all cases. Israel should continue to strengthen the supervision of lawyers with respect to their AML requirements, to ensure that beneficial ownership information is available with these professionals in line with the standard (see Annex 1).

Availability of legal and beneficial ownership information in EOIR practice

142. Israel received 47 requests for legal and/or beneficial ownership and was able to provide the information in most cases. However, Israel was not able to access and provide CDD information, which included beneficial ownership information on bank accounts, in 23 cases. It is unclear whether this prevented Israel from providing beneficial ownership information on legal entities and arrangements in other cases.

A.1.2. Bearer shares

143. Israel used to allow for the issuance of bearer shares in the past and the CL was amended to cancel the possibility of issuing bearer shares after September 2016, as noted in the 2016 Supplementary Report. That report also noted that there was still a possibility for holders of bearer shares to remain anonymous for a potentially unlimited period (para. 60, 2016 Supplementary Report).

144. According to the amendment of the CL on the bearer shares regime, all holders of bearer shares who did not convert these shares into registered shares by 17 September 2016 ceased to be considered shareholders in the company. A person holding a bearer share is required to submit the bearer share to the company. Upon submission of the bearer share, the person will be entered into the register of shareholders and receive a registered share in the company. A holder of a bearer share may also ask the company to convert his/her bearer shares into registered shares after 17 September 2016. The shareholder will be entered in the register of shareholders but will not be entitled to receive dividends retroactively for the period after 17 September 2016.

145. The 2016 Supplementary Report included an in-text recommendation for Israel to take measures to restrict the possibility of holders of bearer shares to remain anonymous for a potentially unlimited period of time. Israel has not taken any action to close this gap and has indicated that the risk arising from this gap is limited. Back in 2014, 11 companies with bearer shares were active. Since then, 7 companies liquidated and were removed from the Company Register. One company is “in violation with its filing requirements” in the ICA database, where 3 companies with bearer shares remain compliant and with an economic activity. Israel indicates that they monitor the remaining 3 active companies and the number of companies keep reducing over time. According to Israel, the limited materiality does not justify a general policy towards addressing this gap. However, Israel should take measures to restrict the possibility of holders of bearer shares to remain anonymous for a potentially unlimited period (see Annex 1). In practice, Israel’s authorities have not encountered limitations to exchange information because of the existence of these three companies that still hold bearer shares.

A.1.3. Partnerships

Types of partnerships

146. Partnerships are governed by the Partnership Ordinance (PO), which defines it as “a body of persons engaged in a partnership relationship”. A partnership relationship is defined as “the relationship between persons managing a business together for the production of profits, excluding the relationship between members of a corporation incorporated under any law”. Three types of partnerships, all with separate legal personality, can be distinguished in Israel:

- **General partnerships:** A general partnership is one where all the partners are liable for the obligations of the partnership, jointly and severally. As of January 2023, there were 5 498 general partnerships registered with ICA in Israel.
- **Limited partnerships:** A limited partnership is one where limited partners who brought capital into the partnership are not liable for the obligations of the partnership in excess of their contribution; however, the partnership must include at least one general partner. As of January 2023, there were 6 747 limited partnerships registered with ICA in Israel.
- **Foreign partnerships:** A foreign partnership is one established outside of Israel but with physical presence and activities in Israel. As of January 2023, there were 294 foreign limited partnerships and 103 foreign general partnerships registered with ITA in Israel.

147. All partnerships established for business purposes (e.g. carried out with the objective of generating profits without distinction between civil or commercial purposes) are required to be registered in the Partnership Register (s. 4 PO) and are subject to the same rules and obligations described above concerning companies. Although their legal personality does not depend on their registration, partnerships that fail to register are not allowed to operate for business purposes.

Identity information

148. The main legal obligations ensuring availability of identity information are the PO and the ITO. According to the PO, upon registration, the partnership is required to provide the details of the general partners for general partnerships and limited partnerships; and the details of the limited partners and the funds that are invested in the partnership for limited partnerships and all partners must sign the registration notice.

149. Registration of general and limited partnerships with the Registrar must be done within one month from the date of formation. In case of change in the registration details, a notice signed by all partners must be sent to the Registrar within seven days of the change.

150. Generally, the same filing rules apply in respect of foreign partnerships. Identification of all partners in foreign partnerships conducting business in Israel must be provided upon registration and any change in the provided information must be reported to the Registrar within 14 days.

151. Registered partnerships obtain a certificate of incorporation which is required by banks, government authorities and some private entities (such as real estate agents) before they establish a business relationship with the partnership. Additionally, changes in ownership of a partnership do not have legal effect unless entered into the Register and published by the Registrar. These factors are strong incentives for compliance with the registration requirements.

152. Partnerships are considered as transparent for tax purposes, which means that the partners are taxed separately for their share in the partnership's income. Nonetheless, partnerships are obliged to register with the tax authorities no later than on the date they start operating and one of the partners, resident in Israel, is required to file the annual return on the partnership's income. If the partnership does not have an Israeli resident as a partner, it must appoint a representative, registered in Israel, to file the annual return. This representative does not have to be an AML-obliged person. The annual tax return must contain information on the name and address of all partners and the amount of participation to which each partner is entitled. These provisions apply equally to foreign partnerships becoming tax residents or carrying out business in Israel through a permanent establishment.

153. Partnerships' information is publicly available in the Partnership Register.¹⁸

154. There has been no change in Israel's legal framework since the 2016 Supplementary Report that would have affected the availability of identity information concerning partnerships, thus the conclusion remains that the availability of this type of information is in line with the standard.

18. Basic information is available for free and detailed information for a fee, on the website https://www.gov.il/en/service/company_extract in Hebrew.

Beneficial ownership information

155. The main source of beneficial ownership information for partnerships is the AML legislation. The new filing requirements set out in Amendment No. 272 are equally applicable to partnerships in Israel (see paragraphs 119 to 122 above).

156. As indicated above concerning legal entities, all partnerships undertaking business in Israel are required to register as taxpayers and must have a bank account in Israel. As stated by Israel's authorities, partnerships generally also use a lawyer for their registration with the Partnership Register, who is obliged to obtain and keep updated beneficial ownership information, pursuant to the PMLL. However, as with companies, partnerships can be registered by one of the partners, without the intervention of a lawyer. In addition, this information would not stay updated over the lifetime of the partnership.

157. Israel considers that beneficial ownership information on partnerships is available in the ITA upon registration and via the annual returns to be filed and in the Partnership Register. As stated in the previous section, partnerships are required to be registered in the ITA and file an annual return, which must contain information on the name and address of all partners, and the amount of participation to which each partner is entitled. This information, however, only covers partners. Accordingly, some beneficial ownership information may be available with ITA whenever the partners are also the beneficial owners of the partnership. However, this may not be in line with the beneficial ownership identification requirements of the standard, as beneficial owners under other criteria, e.g. control by other means, would not be identified.

158. The PMLO includes partnerships within the "corporation" definition, which means that all AML obligations with regards to beneficial ownership described in Section A.1.1 regarding corporations are applicable to partnerships. Thus banks and business service providers must apply CDD measures when providing services to partnerships, in order to identify the beneficiary, including the controlling persons when the beneficiary is a corporation, as described previously. The definition in the PMLL is general enough to capture all beneficial owners of a partnership and the methodology in the PMLO refers to individuals who have "the power to direct the activities", which would capture all general partners.

159. However, access to beneficial ownership information held by banks and other business service providers as to partnerships is limited for the tax authority for exchange of information purposes, when it comes to requests based on civil tax purposes, as described in section B.1.1.

160. In conclusion, partial beneficial ownership information is available with the ITA via the initial registration of partnerships that are legal entities and their annual returns. Information on the identity of partners and beneficial owners is available when the partnership is registered through a lawyer, who is subject to AML.

161. In summary, not all relevant partnerships are obliged to engage with a professional service provider subject to AML obligations or to have a bank account in Israel, subject to AML. Additionally, as stated in section A.1.1, neither the PMLL nor the PMLO provide a specified frequency for updating beneficial ownership information on partnerships. These are significant gaps considering that the AML law is the main source of beneficial ownership information for partnerships in Israel. Thus, **Israel should ensure that adequate, accurate and up-to-date beneficial ownership information is available for all relevant partnerships, according to the standard.**

Oversight and enforcement

162. For identity information concerning partners in a partnership, the ITA carries out the same supervisory and enforcement measures as for companies. The tax database automatically identifies partnerships which fail to register with the tax administration or fail to submit their returns in time. If the registration or tax return is not filed within the statutory deadline, the tax office issues a notice informing the concerned person about this obligation and if the information is not submitted, sanctions are applied. The on-site and off-site tax audit programme also includes partnerships on a risk-based approach. As of 7 April 2024, there were 25 928 active partnerships and 83 005 inactive partnerships in the ITA database.

163. The PO set out nominal fines for failure to register and file reports with the Registrar. As in the case of companies, the compliance rate of filing obligations with the Registrar remains low regarding partnerships. Since 2021, the Centre for the Collection of Fines within the ICA is authorised to collect the annual fee from partnerships that failed to comply with their annual obligations. However, the ICA has not started yet applying fines to non-compliant partnerships. No updated statistical information on compliance of partnerships with the Registrar was made available by Israel.

164. Identity information is generally available with the tax authority; however, an in-text recommendation was made in the 2016 Supplementary Report for Israel to continue taking steps to improve the availability of information with the Registrar, including striking off non-compliant partnerships. For the 2016 Review, Israel informed that it was preparing new legal regulations on partnerships that included strike off provisions. However, so far, these draft regulations have not yet been adopted, thus the recommendation

is kept in this report for Israel to continue taking steps to improve the availability of ownership information with the Registrar, including striking off non-compliant partnerships (see Annex 1).

165. Regarding non-compliant partnerships that are in violation with their filing requirements in the ICA Registrar, there are no supervision activities by the ICA Registrar, and it has not started its campaign to strike them off. **Israel is recommended to ensure that identity and beneficial ownership information of partnerships in the Company Register and in the ITA database is available in all cases in line with the EOIR Standard.**

166. For beneficial ownership information, the same enforcement measures and oversight which is described under A.1.1 *Beneficial ownership information – Enforcement measures and oversight* for companies, apply to partnerships.

Availability of partnership information in EOI practice

167. Three peers provided input on information requested from Israel regarding partnerships and informed that they were satisfied with the information provided.

A.1.4. Trusts

168. Israel's law regulates the establishment of trusts under the Trusts Law (TL) and the ITO. A trust is defined as a relationship to any property by virtue of which a trustee is bound to hold the property, or act in respect thereof, in the interest of a beneficiary or for some other purpose (s. 1 TL). Several types of trusts can be distinguished:

- Public Trusts: a trust established with the purpose to promote a public interest. As of June 2024, there were 3 338 public trusts.
- Israeli Residents Trusts: a trust where one or more of the settlors is an Israeli tax-resident. This trust is taxable in Israel (see paragraph 170). As of June 2024, there were 3 515 Israeli Residents Trusts.
- Trusts by Will: a trust where the settlor of the trust is an Israeli tax-resident at the time of passing. As of June 2024, there were 108 Trusts by Will.
- Foreign Residents Trusts: a trust where all settlors and beneficiaries are foreign tax-residents. This trust is exempt from tax in Israel. The assets held by trustee are deemed as owned by the settlor personally. As of June 2024, there were 42 Foreign Trusts.

- **Foreign Resident Beneficiary Trusts:** a trust where the settlor is an Israeli tax resident and all the beneficiaries are foreign tax resident individuals (not entities), and the trust is classified as irrevocable. These trusts are not subject to tax in Israel provided certain conditions are met, including that all beneficiaries are non-Israeli residents and their identity is known. As of June 2024, there were 93 Foreign Resident Beneficiary Trusts.
- **Relatives Trust:** a trust where the settlor is a foreign tax-resident and there is at least one beneficiary which is an Israeli tax-resident, and between the two is a family connection as defined by Israeli law. As of June 2024, there were 4 222 Relatives Trusts.
- **Israeli Resident Beneficiary Trusts:** a trust where the settlor is a foreign tax-resident, but there is at least one beneficiary who is an Israeli tax-resident, and between the two of them, there is no family connection. As of June 2024, there were 81 Israeli Resident Beneficiary Trusts.

Identity information

169. The availability of identity information in respect of trusts is mainly ensured through tax obligations, but some exceptions apply that do not meet the standard.

170. For Israeli tax purposes, a trust is considered an Israeli Residents Trust (see paragraph 168) if at the time of creation at least one settlor and at least one beneficiary were Israeli residents, and in the tax year at least one settlor and at least one beneficiary are residents in Israel. Further, a trust that is not created by foreign residents and is not a Foreign Resident Beneficiary Trusts is regarded as an Israeli resident trust. These trusts are taxable in Israel.

171. Tax return filing obligations apply to Israeli resident trusts and all types of trusts mentioned in paragraph 168, having income or assets in Israel, including Foreign Resident Trusts and Foreign Resident Beneficiary Trusts. For foreign trusts with an Israeli resident trustee, which do not have income or assets in Israel, new reporting requirements have been introduced in April 2024. Foreign trusts with Israeli resident trustees that do not derive income from Israel must provide a declaration of beneficial ownership to Israel's Tax Authority within 90 days of their creation. This obligation applies to these trusts created after 7 April 2024. For such trusts created prior to 7 April 2024, the obligation applies within 120 days from 1 January 2026. Information on the settlors, trustees, protectors and beneficiaries must be also filed in a separate form attached to the tax return (s. 131 ITO). Tax reporting requirements apply to all beneficiaries and settlors, resident

in Israel, except for individuals who became first-time residents or veteran returning residents before 1 January 2026 (see below). Further, a reporting Israeli resident trustee of a Foreign Resident Beneficiary Trust must submit information on the trust, despite not being obliged to file a tax return.

172. The AML rules were amended in September 2014 to also cover attorneys and accountants. The amendment requires them to identify their customers when they provide or are asked to provide a business service for a customer as part of their professional activities. Provision of a business service explicitly includes establishment or management of trusts (s. 8B PMLL). Identification of a customer includes carrying out of CDD measures, which requires the obligated persons to identify the beneficial owners of the trust (s. 1 PMLL). This requirement should ensure that information on settlors, trustees and beneficiaries of a trust is available with the obligated service provider. The CDD documentation is required to be kept for at least five years since end of the business relation (s. 8A PMLL). In case of breach, sanctions are applicable (s. 11 PMLL). However, the ITA does not have access to CDD information (including beneficial ownership) that attorneys and accountants hold on their customers, such that this source of information cannot be used by the ITA.

173. The 2016 Supplementary Report reproduced a recommendation included in the Round 1 reports of Israel. It was found that there is no tax filing or reporting requirements in the case of Foreign Resident Trusts with an Israeli resident trustee that have no assets or income in Israel. Amendment No 272 of 7 April 2024 introduced new reporting obligations on trusts with an Israeli resident trustee, including foreign trusts that have no assets or income in Israel. However, the availability of information with respect to these trusts is not ensured until 30 April 2026 for new trusts created after 1 January 2025 and until 30 April 2027 for trusts in existence prior to 1 January 2025. For foreign trusts with Israeli resident trustees created after 7 April 2024 that do not derive income from Israel, the certificate of beneficial ownership information must be provided within 90 days from the date of creation of the trust. Israel did not have statistics on these recent requirements. Israel should ensure the availability of identity and beneficial ownership information in respect of the settlors, trustees and beneficiaries of foreign resident trusts in all cases (see Annex 1).

174. In addition, the tax law exempts the Israeli settlors of trusts which are vested with assets abroad, who are first-time residents or veteran returning residents, from reporting obligations for the first ten years. Currently, the ITA is not able to provide the number of foreign resident trusts registered in Israel to which this exception applies. Considering the 2016 Terms of Reference, this issue also limits availability of beneficial ownership information in the said types of trusts.

175. Amendment No 272 abolishes the exemption from reporting applicable to trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026, which are vested with assets or income from assets abroad for a period of 10 years. Therefore, these trusts will be subject to the same requirements as the other trusts with an Israeli resident trustee. **Israel should monitor the implementation of the recent provisions to ensure the availability of identity and beneficial ownership information** (see paragraph 177) **in respect of trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026, which are vested with assets or income from assets abroad, in line with the EOIR standard.**

176. In contrast, the reporting exemption remains applicable in respect of trusts created by individual settlors, or having individual beneficiaries, who became first-time residents or veteran returning residents before 1 January 2026, which are vested with assets or income from assets abroad. **Israel should ensure the availability of identity and beneficial ownership information** (see paragraph 177) **in respect of trusts created by individual settlors or having individual beneficiaries who became first-time residents or veteran returning residents before 1 January 2026, and which are vested with assets or income from assets abroad.** In practice, no peer has indicated expressly any limitation to requesting and receiving information on these trusts due to the above-mentioned restrictions.

Beneficial ownership requirements

177. Beneficial ownership information on trusts is available under the requirements of the AML legislation (PMLL, PMLO, BSPO and the Proper Conduct of Banking Business Order 411 in the case of banks) and partly with the ITA. However, under both sources, the information available does not entirely comply with the definition of beneficial owner according to the standard. The 2016 Terms of Reference define the beneficial ownership of trusts to include “information on the identity of the settlor, trustee(s), protector (if any), all of the beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust”. The combination of AML and tax rules covers the identification of the settlor(s), the protector(s), and the beneficiaries, as the beneficial owner(s) of trusts and other similar legal arrangements but does not include the residual clause “any other natural person exercising ultimate effective control”, as required by the standard.

Tax law requirements

178. The ITA maintains a database of trusts obliged to register and report before the ITA, which is available to its investigators and for sharing with other authorities upon request, including EOI requests.

179. Pursuant to section 75p1 ITO, the Israeli-resident creator of a trust must submit an initial notice to the ITA, informing of the creation of the trust, and the particulars of the creator, the trustee, the beneficiaries, and the protector, if there is one. Additionally, as indicated above in paragraph 171, the trustee is obliged to file annual returns pursuant to section 131 of the ITO, where it must include the updated information concerning the trust. The ITO also recognises foreign trusts, and there is no legal restriction for an Israeli tax-resident to act as a trustee, protector, or any other capacity in a foreign trust.

180. Accordingly, some relevant beneficial ownership information on trusts is held by the ITA, including names and residency of settlors, trustees, protectors, and beneficiaries. In this regard, the Terms of Reference refer to Recommendation 10 of FATF for the definition of beneficial owner in legal entities and arrangements. The interpretative note for this recommendation expressly states that, for trusts, the definition of beneficial owner must also cover any other natural person exercising ultimate effective control over the trust, including through a chain of control/ownership. The ITO does not expressly cover “other natural persons exercising ultimate effective control over a trust” in line with footnote 12 of the Terms of Reference. In addition, there is no look-through when the beneficiaries are legal entities. Accordingly, the information on beneficial owners of trusts available with ITA is not fully in line with the standard in all cases.

181. Amendment No 272 of 7 April 2024 introduced new reporting obligations on trusts taxable in Israel and foreign trusts with no taxable income in Israel having an Israeli resident trustee. The legislation is amended for the trusts that are already required to report as referred to in paragraph 179 to address the recommendation from the 2022 Phase 1 Report in respect of the definition of beneficial owners (see below). The requirements are amended to include annual reporting of beneficial owners of an Israeli resident trust in line with the standard. In addition, New Article 75P2(c) of the ITO requires the Israeli resident trustee of foreign trust to submit a notice to the ITA within 90 days from the trust creation with the details of the beneficial owners of the trust and their tax residency. This obligation applies to the Israeli trustee even if his/her appointment as trustee took place after the creation of the foreign trust.

182. For all trusts, the annual return must include the details of all those who had control over the trusts during the tax year, and the residency of

each of them. For newly created trusts, this obligation applies from 2025. For existing trusts, this obligation will apply from 1 January 2026.

183. The definition of beneficial owners is in line with the EOIR Standard. Reference is made to Article 135B ITO for the definition of beneficial owners of trusts. Article 135B ITO was introduced in the context of implementing the Common Reporting Standard and provides a definition of “Controlling Persons” of a trust as “the Settlor, the Trustee, the Protector of Trustees or the Beneficiary and if one of these is not an individual—the individual who is its Controlling Person as the case may be”. Accordingly, Article 135B ITO provides for the look-through approach in the definition of “controlling persons” of a trust in line with the EOIR standard.

184. However, secondary legislation to set out the conditions for the reporting requirements is yet to be introduced. In addition, the new provisions do not introduce any requirement on the beneficial owners to report their identification information to Israeli resident trustees of the trusts, such that the requirements at the level of the trust may be ineffective. Further, the new reporting obligations will provide ITA with the beneficial ownership information only after 30 April 2026 for new trusts created after 1 January 2025 and from 30 April 2027 for trusts existing before 1 January 2025. Israel stated that although the first reporting period will have the deadline of 30 April 2026, the ITA will have the powers to request information from the trust regarding its beneficial owner(s) as from 1 January 2025 under its general access powers. However, the ITO does not create an obligation to keep beneficial ownership information independent from the reporting obligation, and information will not be readily available in ITA database. It is therefore not possible to assess whether these new requirements will ensure that beneficial ownership information on trusts with an Israeli resident trustee, will be accurate, adequate, and up to date in line with the EOIR Standard.

Anti-Money Laundering requirements

185. Beneficial ownership information over a trust is available pursuant to AML requirements where:

- A bank account is opened with an Israeli financial institution, which accordingly would gather the beneficial ownership information under the CDD requirements on its customer (see Section A.1.1 for the CDD requirements). Israel has stated that for tax assessment purposes, registration with the ITA requires opening a bank account for the trust, which subjects the trustee and the trust to CDD procedures. However, as for companies and partnerships, there are some exceptions for registration and reporting before the ITA (i.e. trusts of new residents or veteran returning residents).

- The trust is managed by, or otherwise engaged with, an Israeli-resident trustee which is a bank subsidiary, lawyer or accountant obliged to obtain beneficial ownership information as part of its CDD obligations, pursuant to the PMLL, the PMLO and the BSPO.

186. The AML law requires attorneys, accountants and banks that act as professional trustees to identify their customers when they provide a business service as part of their professional activities, including explicitly the establishment or management of trusts. The identification information required includes the identity of the settlor, the trustee, the protector, the beneficiaries, but not *any other natural person exercising ultimate effective control over the trust*. This would therefore not cover beneficial owners being parties to the trust through a chain of control/ownership. The PMLO and the Banking Order 411 have similar requirements for banks to identify the settlor, the trustee, the protector, and the beneficiaries of accounts held by trusts, but these too do not include the residual clause to require the identification of *any other natural person exercising ultimate effective control over the trust*. Banks are additionally required to verify the protector's identity, but this obligation is not expressly applicable to lawyers and accountants acting as professional trustees under the BSPO. The documentation is required to be kept up to date and for at least five years since the end of the business relation.

187. Accordingly, the AML requirements do not include the “identification of any other natural person exercising ultimate effective control over the trust” in line with the standard.

188. In relation to trustees which are lawyers and accountants, the form of CDD affidavit prescribed under the respective AML Order contains a requirement for the client to update the trustee in relation to any change in the information provided.

189. In summary, relevant identity and beneficial ownership information on trusts is kept both under the tax laws and the AML legislation and orders (trustee, settlor, beneficiaries and protector). However, they do not include “any other natural person exercising ultimate effective control over the trust, including through a chain of control/ownership”. Not all trusts are required to have a relationship with an AML-obliged person or bank and some exceptions to registration with the ITA are also applicable (i.e. trusts of new residents or veteran returning residents), which entails that beneficial ownership information may not always be available for all trusts in Israel. Additionally, the gaps identified in respect of availability of beneficial ownership information in A.1.1 are also applicable to trusts.

190. **Israel should therefore ensure that adequate, accurate and up-to-date beneficial ownership information is available for all relevant legal arrangements, according to the standard, and also ensure that**

the definition of beneficial owner for trusts and other similar legal arrangements is in line with the standard.

Oversight and enforcement

Supervision by the Israel Tax Administration

191. Compliance with tax reporting obligations on trusts is monitored and supervised by the ITA in the same way as in the case of companies. The ITA routinely uses information from the ICA and is provided with the ICA's public records daily. The validation checks include making enquiries of third parties such as banks and other authorities. The tax database automatically identifies trusts which fail to register or submit their returns in time.

192. A trust must maintain identity information in order to submit the following reporting requirements:

- Grant Reporting – A settlor of a trust, that established a trust or granted an asset or income to a trust while a tax-resident in Israel, will file a notice within 90 days via “Form 147”.
- Relatives Trust Reporting – An establishment of a relative's trust must be reported within 60 days via “Form 154”
- Trust by Will – Trustee must file a notice of creation within 90 days via “Form 147”
- Classification Change – “Form 151H” shall be filed by the trustee no later than the last day of April in the following tax year, to reflect the change in classification of a trust.
- Dismantling/Termination – In the event that a trust is terminated or dismantled, and the trust is classified to be taxed in Israel, “Form 151H” will be filed by the trustee no later than the last day of April in the following tax year.

193. The ITA indicated that the review of the identification information of the trust's creator, the trustee, the beneficiaries, and the protector, if there is one is made during annual checks and tax audits (see paragraphs 234 and following).

194. In the event of change in participants to a trust, this will be reflected in the submission of Form 151H which may indicate change of beneficiaries, grantors or trustees or a reason for change of classification.

195. Same as with legal entities, if the registration or tax return is not done within the statutory deadline, a notice informing the taxpayer is issued and sanctions are applied. Failure to provide information to the ITA is subject to

up to one year's imprisonment or a fine of NIS 29 200 (EUR 7 300) or both; and a trustee of a public trust is liable to a maximum of a year's imprisonment or a nominal fine if he does not submit the reports to the Registrar. This sanction did not need to be applied in practice during the peer review period.

Supervision by the Ministry of Justice

196. In the 2016 Supplementary Report, Israel was also recommended to monitor the implementation in practice of the AML requirements introduced in September 2015 (i.e. AML obligations for lawyers and accountants).

197. As mentioned in paragraphs 137 and following, although lawyers were subject to AML obligations and supervision by the Ministry of Justice, and despite recent strengthening of supervisory efforts, during the review period, the supervision activities were insufficient to ensure that adequate, accurate and up-to-date beneficial ownership information is available with these professionals in all cases. This is relevant in particular where an Israeli-resident lawyer acts as a trustee of a domestic or foreign trust. Israel should continue to strengthen the supervision of lawyers with respect to their AML requirements, to ensure that beneficial ownership information is available with these professionals in line with the standard (see Annex 1).

198. Concerning AML obligations, administrative fines (of up to a high level of fine of NIS 2 260 000 (EUR 565 000)) are provided for under the PMLL in relation to failure to grant to IMPA timely access to information regarding the trust.

199. Trustees who are lawyers, accountants, and banks are subject to the criminal, administrative and disciplinary sanctions of the PMLL for failures in relation to maintenance of beneficial ownership information and record keeping. Trustees who submit false information to financial institutions or non-financial professionals subject to AML obligations during CDD procedures are subject to the criminal sanctions established in the PMLL. No such sanction was applied during the peer review period due to absence of non-compliance found during supervision activities.

200. While the ICA has no administrative powers of sanction in relation to public trusts and their trustees, it may apply to the court in order to replace the trustee or request other measures be taken with regard to the public trust/charity (s. 39 of the Trust Law). Court proceedings took place in relation to 22 cases in 2020, 13 cases in 2021 and 20 cases in 2022. The ICA indicated that in practice the Registrar has a spectrum of sanctions available, while its main interest is assisting the trusts with following the law rather than sanctioning them for violating it. Therefore, the application of a certain sanction is based on different considerations, while heavy sanctions are being applied as the last resort.

Availability of trust information in EOI Practice

201. During the review period, Israel received 43 requests concerning identity and beneficial ownership of trusts and was able to answer all of them. One peer provided input on several cases where it requested information on trusts and reported to be satisfied with the information provided.

A.1.5. Foundations and associations

202. Under sections 345Ld and 345Le CL, foundations for public benefit can be set up in Israel. There are three kinds of foundations possible for predetermined set criteria of public benefits. It is not possible to set up a private foundation in Israel. As of today, no public foundations are registered in Israel. Furthermore, it is possible to promote the activity of a foundation through an association or a charitable company (under the condition that it is included in the company's objectives). Public endowments can also function as foundations. All three types of foundations for public benefit are subject to the supervision of the ICA.

203. An association must keep a register of members and board members. An association and every person responsible who does not keep a register of members or board members is liable to a fine of NIS 1 000 (EUR 250)(s. 64 Associations Law). If the association does not file an annual return, the provided information is incomplete or false or it is found during an onsite inspection the association does not comply with its obligations, its Certificate of Proper Conduct is cancelled. This Certificate has to be renewed each year. Associations acting in Israel which do not have this Certificate are severely restricted in their activities. It is required among others in order to receive government subsidy, to supply services to the government or a gift is tax deductible only to an association with the authorisation. Given the nature of associations in Israel, which are for public interest, associations will not be further covered in this report.

204. Public foundations must pursue an activity of public interest, the beneficiary should be unspecified and a class of beneficiaries rather than an identified individual. A public foundation does not make nor distribute profit among its members/shareholders. After dissolution, the shareholders are not entitled to the assets. If after paying the debts there are assets left to the public foundation, these should be transferred to another public purpose with similar purposes (art. 345Ka CL). The transfer of shares is not allowed except if approved by the court and by the Registrar of Trusts (art. 345Je CL). The Public foundations are tax exempt under article 9 of the Income Tax Ordinance. The constitution of public foundations is subject to governmental supervision and approval. The articles of corporation should be approved by the Registrar of Trusts as well as the amendments brought

to it. Considering the above-mentioned criteria, public foundations in Israel are excluded from the scope of this report.

A.2. Accounting records

Jurisdictions should ensure that reliable accounting records are kept for all relevant entities and arrangements.

205. The 2016 Supplementary Report concluded that under Israel's law, accounting records requirements are mainly in line with the standard, with some exceptions. The main accounting rules are contained in the Company Law and the ITO. Both public and private companies are obliged to prepare financial reports in accordance with the accepted accounting rules in Israel, which are in line with the International Accounting Standards Board. The ITO establishes the obligation for taxpayers to keep accounting books and supporting documentation. These rules are also applicable to partnerships, which are considered legal persons. Concerning trusts, tax return filing obligations apply to all types of trusts having income or assets in Israel and entail an obligation to keep supporting accounting records.

206. As the tax rules are only applicable to persons and companies liable to tax in Israel, gaps were found concerning foreign resident trusts having a trustee resident in Israel but no Israeli-source income (see paragraph 170), trusts created by individual settlors, or having individual beneficiaries, who are first-time residents or veteran returning residents which are vested with assets or income from abroad for a period of ten years, and concerning activities outside of Israel for foreign companies that are managed and controlled in Israel by first-time residents or veteran returning residents for a period of ten years. Israel received recommendations to address these gaps in the 2016 Supplementary Report.

207. Amendment No 272 introduced new reporting requirements in respect of trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026, which are vested with assets or income from abroad, irrespective of their tax exemption period of ten years, and concerning activities outside of Israel for foreign companies that they manage and control in Israel. Foreign companies that are managed and controlled in Israel by individuals who will become first-time residents or veteran returning residents after 1 January 2026, will have to maintain documentation in accordance with generally accepted accounting principles. The report introduces a monitoring recommendation for both new requirements and maintain the existing recommendations for trusts created by individual settlors, or having individual beneficiaries, who became first-time residents or

veteran returning residents before 1 January 2026, which are vested with assets or income from abroad and the foreign companies they effectively manage and control in Israel.

208. Israel's legal and regulatory framework is adequately applied to ensure the availability of accounting information when the obligation to maintain such information exists. The ITA carries out checks and audits on a risk basis to verify that relevant obligations are adhered to and to ensure the availability of accounting information.

209. There have been 12 cases where accounting information was not provided because the requested information was not available. Israel received 41 requests for accounting information over the reviewed period.

210. The high numbers of companies non-compliant with their filing requirements in Israel, both in the ICA Register and in the ITA database, yet still maintaining their legal personality, raise concerns that accounting information may not be available in all cases. Israel is recommended to review its system, whereby a significant number of companies not complying with their filing requirements and without economic activities remain with legal personality on the commercial register, to ensure that accounting records, including underlying documentation, are available in all cases.

211. The conclusions are as follows:

Legal and Regulatory Framework: in place, but certain aspects of the legal implementation of the element need improvement

Deficiencies identified/Underlying factor	Recommendations
<p>Israeli law does not ensure the availability of accounting records in respect of foreign resident trusts with no taxable income in Israel having a trustee resident in Israel and for trusts created by individual settlors, or having individual beneficiaries, who became first-time residents or veteran returning residents before 1 January 2026. Any such trust vested with assets or income from assets abroad is exempt from reporting for a period of 10 years. In addition, Israel law does not ensure availability of accounting records in respect of activities outside of Israel of foreign companies that are managed and controlled in Israel by these individuals for a period of 10 years.</p>	<p>Israel is recommended to ensure that accounting records consistent with the standard are maintained for all relevant legal entities and arrangements, without exceptions.</p>

Practical Implementation of the Standard: Largely Compliant

Deficiencies identified/Underlying factor	Recommendations
<p>There is a significant number of companies in the Israeli Corporations Authority Register that maintain legal personality and do not comply with their filing obligations before the Israeli Corporations Authority and the Tax Authority. In 2022, 63% of these companies were economically inactive for tax purposes. The same issue applies to partnerships that are not complying with their company law and tax filing obligations. They may not be complying with the obligation to maintain accounting records, including underlying documentation, and lack supervision.</p>	<p>Israel should ensure that accounting records, including underlying documentation, are available in all cases in line with the standard.</p>
<p>Foreign companies, that are managed and controlled in Israel by individuals who will become first-time residents or veteran returning residents after 1 January 2026, must maintain documentation in accordance with generally accepted accounting principles. In addition, Israel introduced reporting provisions for trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026. From that date, any such trust vested with assets or income from assets abroad will remain exempt from tax Israel for a period of 10 years in respect of foreign income, but no longer from reporting to Israel's Tax Authority. The implementation of these new provisions could not be tested in practice.</p>	<p>Israel should monitor the implementation of the accounting record keeping requirements in respect of trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026, which are vested with assets or income from assets abroad, and of foreign companies that they manage and control in Israel to ensure availability of accounting records in respect of their activities outside of Israel.</p>

A.2.1. General requirements

212. The Standard of accounting records in Israel is generally met by a combination of both company law and tax law requirements, which is analysed in this section.

Company law

213. As stated in the Companies Law (CL), private companies are obliged to prepare financial reports in accordance with the accepted accounting rules in Israel, in line with the standard. Pursuant to sections 124 and 171 of the CL, private companies are obliged to keep accounting records and prepare financial statements annually. These records must be kept in the registered office of the company in Israel. The financial statements must include a balance sheet as of 31 December and a profit and loss statement of the preceding year in accordance with the International Accounting Standards Board (IASB). The company has six months, from the end of the respective fiscal year, to prepare and make available the financial statements (s. 172 CL). These CL obligations are not applicable to foreign companies that have a sufficient nexus with Israel.

214. Similarly, following the Securities Law, public companies are obliged to prepare financial reports in accordance with the accounting rules and must fairly reflect the position of the corporation's business on the balance sheet dates, the result of its activities, the changes in its net worth and its cash flow in the reported years (para. 91, 2016 Supplementary Report).

215. Public companies, private companies and partnerships are not required to submit financial reports to the Registrar of Companies. However, partners within a partnership are bound by a duty to conduct the business of the partnership for their common benefit, to be honest and trustworthy on another and to provide every partner or his/her proxy correct accounts and complete information on all matters concerning the partnership (s. 29 PO).

Tax law

216. Additionally, the Income Tax Rules (ITR) establish that taxpayers must keep a set of accounting books, depending on the type of business or profession carried out and including a cash book, income and payments book, stock book, goods of entry book and an order book. This information must be kept in the premises of the taxpayer, but it can also be kept in the residence of one of the shareholders. The information can also be kept abroad, upon prior authorisation from the ITA and provided that the ITA can always access the information when required. This is common in practice when the documentation is available on a cloud.

217. The information can be kept in hard copies or in computerised accounting systems. For the latter, the software used to keep the information must previously be certified by the ITA, mainly to ensure that the information is kept in the correct format file to be uploaded properly to the ITA systems.

218. For corporations, the ITR further require them to attach to their annual tax return a balance sheet as of the last day of the tax year and a profit and loss account for the tax year, together with an auditor's report and an adjustment account of the profit and loss of the income or loss declared in the annual tax return. These obligations also cover foreign companies that are Israel taxpayers.

Trusts

219. The main provisions applicable to trusts are contained in tax law. As stated in the 2014 Phase 2 Report, Trusts Law determines that the trustee of a trust must keep accounting books in respect of the affairs of the trust (s. 7 TL). A trustee of an Israeli Residents Trust, as defined under paragraph 170, must report to the beneficiaries on the affairs of the trust, annually and upon termination of his/her tenure, and to provide them with any other additional information that they may "reasonably" request (s. 7 TL).

220. Additionally, according to the ITO (s. 131(5b)(1)), trusts are required to file annual tax returns to the ITA, and thus, the same obligations applicable to other taxpayers apply, including the obligation of keeping accounting books and supporting documentation.

Exemptions

221. The 2022 Phase 1 report concluded that as accounting records obligations are only applicable to persons liable to income tax in Israel, and tax law does not cover trusts created under foreign law that have no taxable income in Israel, there is a gap concerning foreign trusts with an Israeli resident trustee that have no assets or income in Israel. Additionally, there is no obligation of any income tax filing on trusts created by individual settlors, or having individual beneficiaries, who are first-time residents or veteran returning residents with assets or income from assets abroad. Foreign companies managed and controlled in Israel by individuals who are first-time residents or veteran returning residents are exempt from taxation in respect to foreign source income, thus the availability of accounting records for such companies is not ensured in Israel.

222. Amendment No 272 introduced new reporting requirements in respect of trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents, after 1 January 2026, which are vested with assets or income from abroad for a period of ten years, and concerning activities outside of Israel for foreign companies that they manage and control in Israel. Foreign companies that are managed and controlled in Israel by individuals who will become first-time residents or veteran returning residents after 1 January 2026, will

have to maintain documentation in accordance with generally accepted accounting principles.

223. Gaps on availability of accounting information remain with respect to (1) foreign trusts with no income taxable in Israel having a trustee resident in Israel, (2) trusts created by individual settlors, or having individual beneficiaries, who became first-time residents or veteran returning residents before 1 January 2026 which are vested with assets or income from assets abroad and (3) in respect of activities outside of Israel of foreign companies that are managed and controlled in Israel by individuals who became first-time residents or veteran returning residents before 1 January 2026. Thus, the recommendations remain but amended with a more limited scope. **Israel is recommended to ensure that accounting records consistent with the standard are maintained for all relevant legal entities and arrangements, without exceptions.**

224. In addition, a monitoring recommendation is introduced with respect to the new accounting requirements applicable to foreign companies that are managed and controlled in Israel by individuals who will become first-time residents or veteran returning residents after 1 January 2026. In addition, Israel introduced reporting provisions for trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026. From that date, any such trust vested with assets or income from assets abroad will remain exempt from tax in Israel for a period of 10 years in respect of foreign income, but no longer from reporting to Israel's Tax Authority. The implementation of these new provisions could not be tested in practice. **Israel should monitor the implementation of the accounting record keeping requirements in respect of trusts created by individual settlors, or having individual beneficiaries, who will become first-time residents or veteran returning residents after 1 January 2026, which are vested with assets or income from assets abroad, and of foreign companies that they manage and control in Israel to ensure availability of accounting records in respect of their activities outside of Israel.**

Companies that ceased to exist and retention period

225. According to the tax rules, accounting books are required to be kept by the company for seven years from the end of the tax year to which they refer, or for six years after the day the return for that tax year was submitted, whichever is the latest. The same retention period is applicable to partnerships and trusts according to the ITO. The CL contains a minimum retention period of seven years for accounting records, which must be kept at the registered office of the company.

226. Concerning companies that cease to exist, there are legal requirements to ensure that all records are available for a seven-year record retention period following the liquidation. The CL states that a company exists from the date of its incorporation until its termination upon dissolution. When dissolving a company by mandate of law, the court orders how to retain the documents of a liquidated corporation. In a voluntarily dissolution, the General Assembly orders how to retain the documents and if no decision is taken, they will be retained by the trustee, or anyone authorised. As indicated in paragraph 68, the law does not indicate where the information must be kept when a company ceases to exist, but Israel has indicated that the information must be kept in a way that is accessible to the authorities.

227. The rules regarding retention period and record keeping obligations for companies that cease to exist in Israeli law are in accordance with the standard. During the peer review period, Israel did not receive requests for information regarding companies that had ceased to exist.

A.2.2. Underlying documentation

228. Tax rules require all taxpayers to keep accounting books, including documentation such as receipts, a daily income ledger, cash register, delivery notes, invoices and an inventory list. This applies to companies, partnerships, and trusts subject to tax return filings. This information must be kept in the same manner as the basic accounting records described in the previous section. Further, VAT taxpayers must fulfil requirements and, among others, keep all documents from which flows of goods and services can be traced and all invoices.

229. Following the exemption applicable to trusts created by individual settlors, or having individual beneficiaries, who became first-time residents or veteran returning residents before 1 January 2026 with assets or income from assets abroad and foreign companies they manage and control in Israel, there is no obligation to keep underlying documentation in these cases (see paras. 221 to 224).

230. For tax purposes, accounting books are required to be kept for seven years from the end of the tax year to which they refer, or for six years after the day on which the return for that tax year was submitted, whichever is later (s. 25(c) ITR). The CL contains a minimum retention period of seven years for accounting records (ss. 124 and 173 CL). The same retention period is also prescribed under the VAT Law (s. 75 VAT Law). For companies that cease to exist, the same retention period applies and, according to Israel's authorities, underlying documentation must be kept in a way that is accessible to authorities, as described above in paragraph 226. Underlying documentation is required to be kept as required under the standard.

231. Tax obligations to keep accounting underlying documentation are supervised in the same way as general accounting obligations.

Oversight and enforcement of requirements to maintain accounting records

Sanctions available

232. Both the ITO and the Value Added Tax Law allow the ITA to reject the books not managed as required by the regulations, in cases where deviations or defects are found in the accounting books that are material to the ascertainment of a taxpayer's income. If the taxpayer is not compliant with accounting obligations, his/her accounting records will be disregarded, and the tax assessment shall be based on the assessing officer estimate. When the taxpayers or the practitioners' books have been rejected, the following sanctions are applicable:

- non-recognition of expenses
- freezing tax returns
- no reduction for Tax advanced payments
- cancellation of benefits for Encouragement Law
- penalties under VAT Law
- not allowing reduced tax rates for individuals.

233. Further, section 216(5) of the ITO establishes that a taxpayer who did not keep accounting books in accordance with the tax law is liable to one year imprisonment and/or a fine as established under section 61(a)(2) of the Penal Law. This article of the Penal Law sets the pecuniary fine at NIS 29 200 (EUR 7 300). Sanctions under section 95 of the VAT Law are also applicable, which include a fine equal to 1% of the total price of the transactions or of the total amount of the wages and profits, for the tax year in which books or records were not kept as prescribed. In any case, the fine shall not be less than NIS 316 (EUR 79).

Supervision by the tax authorities

234. Availability of accounting information in practice is mainly ensured through supervision and enforcement of tax obligations. These bookkeeping requirements are overseen by three departments in the ITA: the bookkeeping department, the assessment department, and the VAT department. The tax administration conducts desk audits, on-site inspections and uses computer software to detect discrepancies in the provided accounting

information or in accounting books kept by the taxpayer when inspected. On-site inspections and tax audits carried out by the tax administration include checking whether accounting underlying documentation is kept. If underlying documentation is not properly kept the taxpayer's tax assessment is based on an estimate and sanctions under section 216(5) ITO and under section 95 of the VAT Law are applied.

235. Certified Public Accountants generally conduct the tax filing requirements for legal entities and arrangements. The responsibility for compliance with filing obligations remains with the taxpayer. The annual tax returns are filed electronically, except for taxpayers that have no access to a computer. The ITA has direct access to updated information from the ICA, the Population Authority and the Immigration Authority for cross-checking and compliance work. As described in section A.1.1, the ITA database is connected to the ICA Registrar and the ITA receives daily updates on newly incorporated companies. This indicates if a company fails to register with the tax administration.

236. If the registration or the tax return is not filed within the deadline, the ITA issues a notice informing the taxpayer of the unfulfilled obligation and the respective sanction is applied. Compliance with tax filing obligations is high for all categories of taxpayers for the years 2019, 2020 and 2021. Compliance rate has decreased in 2021.

Type of taxpayers	Year 2019			Year 2020			Year 2021		
	Number in total	Submission	Compliance rate	Number in total	Submission	Compliance rate	Number in total	Submission	Compliance rate
Companies without business income	4 091	3 864	94.45%	4 055	3 752	92.53%	4 079	3 012	73.84%
Ordinary companies not falling under other categories	197 099	187 155	94.95%	204 590	189 963	92.23%	219 286	145 067	66.15%
Companies that are under the assessor of large enterprises	2 180	2 096	96.15%	2 161	2 045	94.63%	2 148	1 762	82.03%
Companies that ceased operations with remaining tax liabilities	6 597	5 445	82.54%	4 946	4 376	88.48%	3 085	2 550	82.66%
Self-employed	759 961	743 084	97.78%	809 997	778 785	96.15%	871 888	727 930	83.49%
Employees	100 752	94 715	94.01%	108 538	100 456	92.55%	118 687	101 396	85.43%

237. To ensure compliance with tax filing requirements, the ITA sends warning letters to non-filers. If the books are disqualified, there are multiple sanctions in the ITO, in VAT Law and in other laws. Examples for sanctions in the ITO include, amongst others, reversal of the burden of proof at trial, disallowance of expense deductions, higher tax rates. Under the VAT Law, sanctions include the reversal of burden of proof during trials and fines. Failure to submit a tax return leads to penalties. The table below shows the number of penalties applied for the period 2019-21 and their amount, noting that as the VAT return is to be submitted monthly, the same offender can receive several penalties in a given year.

Year	Number of penalties	Amount of penalties in EUR
2019	67 897	46 873 000
2020	63 987	37 237 000
2021	17 018	6 731 000

238. The programme of tax audits includes on-site and off-site inspections. The work plan for audits is managed by the headquarters of the ITA and performed by the assessment offices, and the planning is made and fed into by information provided by the assessment officers-auditors, based on risk assessment and findings from previous years.

239. The Assessment department carries out tax audits for the purpose of proper tax assessment. A compulsory part of these tax audits is the audit of accounting records. The common criteria for selecting a file for audit include i) files that have not been reviewed in the past two years, ii) files that were opened in the previous year, and iii) specific business types within the trading industry. When performing an audit, the ITA makes sure that the information required is kept in the correct location – business or residence of the person, or abroad if previously allowed, verifies the authenticity and accuracy of the documents, and ensures that the information is kept for the time required by the law (seven years). The Israeli authorities provided statistics of activities over the last years (but no information was provided for year 2023). The ITA carried out:

- 32 988 audits in 2019
- 25 621 audits in 2020
- 23 584 audits in 2021
- 23 418 audits in 2022.

240. About 4% of corporate taxpayers are audited per year on a risk-based approach. The main deficiencies related to incomplete invoice details or misreporting of cash receipts.

241. Accounting records are also subject to enquiries of the VAT department in the course of the regular VAT audits. The penalties applied in respect of VAT audits from 2018 until 2022 are set out below.

Year	Offences	Penalties applied (NIS) for VAT audits	Penalties applied (EUR)
2018	458	70 860 646	17 596 919
2019	399	57 103 887	14 180 685
2020	325	80 182 893	19 911 925
2021	261	50 730 127	12 597 880
2022	278	46 605 794	11 573 679
Total	1 721	305 483 347	75 861 091

242. If the taxpayer is not compliant with accounting obligations, the tax assessment will be based on an estimation from the assessing officer. A taxpayer whose accounting books were disqualified is not entitled to several benefits such as reduced advance payments or withholding tax rates. Further, sanctions under section 216(5) ITO (see above) and under section 95 of the VAT Law are applied.

243. Overall, the supervision by ITA is robust and ensures the availability of accounting information.

Inactive companies

244. Legal entities incorporated in the ICA Register that are not compliant with their tax registration and filing obligations with the ITA are considered as “inactive companies” by the ITA. As of 1 February 2023, close to 202 000 companies were considered inactive in the ITA database. While 94 489 of these companies have settled their tax liability with the ITA, and their status is closed, 94 273 companies have ceased operations but still have tax liabilities and are therefore, non-compliant. Companies inactive for ITA purposes are not subject to ITA supervision. The same issues apply to inactive partnerships that are not complying with their company law and tax filing obligations.

245. In practice, should an EOI request be sent to Israel about a company “in violation of the law”, the Competent Authority indicated that ITA would still issue a notice to produce information to the person last known to be in possession of the information. During the peer review period, Israel did not receive a request for information regarding “inactive companies”. Nevertheless, **Israel should ensure that accounting records, including underlying documentation, are available in all cases in line with the standard.**

Availability of accounting information in EOIR practice

246. Israel received 41 requests for accounting records and was able to provide the information fully in 29 cases. Peers reported having requested accounting information concerning companies, partnerships and individuals. The types of information requested included general accounting records and more specific items such as invoicing of exports, business relations and transactions, details of services provided, payments.

247. Most partners reported that they were satisfied with the information received, except for two partners. One indicated it received complete information for only 2 out of 11 requests sent for accounting information. The peer stated that these 9 requests for accounting information that were partially answered were complex and less than 180 days old at the end of the review period. Israel had provided partial responses and regular status updates on the requests. If the information was not obtainable, Israel informed the peer. According to the peer, where information did not exist, Israel provided adequate explanations, including their attempts to locate the information.

248. The other partner indicated that the majority of the responses for its 73 requests regarding accounting and banking information were satisfactory but that accounting information was not provided in 3 cases. In one of these cases, Israel indicated that the information was not available as the entity had not complied with its filing obligations. In another case, Israel confirmed that the company subject to the EOI request was a foreign company that had not generated taxable income in Israel and thus the information was not available. In a third case, the information was not available with the lawyer who was the intermediary with the taxpayer under investigation. In all of these cases, the ITA did not use its compulsory powers to obtain the requested information (see Element B.1.2).

249. The practice reflects that even though there have been some shortcomings in providing accounting records information in very specific circumstances and due to different reasons, Israel generally responds satisfactorily to requests for accounting information.

A.3. Banking information

Banking information and beneficial ownership information should be available for all account holders.

250. The 2016 Supplementary Report concluded that Israel's legal requirements to maintain banking information were in line with the standard. There have been no changes in the legal framework for banks to maintain financial and transaction information.

251. The standard was strengthened in 2016 to specifically require that beneficial ownership information be available in respect of all account holders. Under the PMLL, the PMLO and the Proper Conduct of Banking Business Order 411, banks are required to obtain and verify beneficial ownership information upon account opening and update such information regularly, depending on the risk profile of customers. Both the AML legislation and the AML regulations do not provide a specified frequency for updating beneficial ownership information. The adequacy of the risk policy for the CDD and the respective frequency is reviewed for each individual bank through annual questionnaires, during desk-based audits and onsite visits. Nevertheless, considering the lack of binding frequency in the legal framework, Israel is recommended to ensure that up-to-date beneficial ownership information held by banks for all legal entities and arrangements is always available, in line with the standard.

252. The definition of beneficial ownership for legal entities is in line with the standard. However, for trusts and other legal arrangements, the AML legislation and regulations do not require the identification of any other natural person(s) exercising ultimate effective control over a trust. Thus, Israel is recommended to address this gap.

253. The supervisory activities of the Bank of Israel are adequate, both in scope and coverage. Sanctions have been imposed where non-compliance was established.

254. Israel received 257 requests for banking information and was able to answer them, except for 23 requests which only received partial responses with missing CDD information, including beneficial ownership information on bank accounts, due to access issues. These issues are analysed in sections B.1 and C.1 of this report.

255. The conclusions are as follows:

Legal and Regulatory Framework: In place, but certain aspects of the legal implementation of the element need improvement

Deficiencies identified/Underlying factor	Recommendations
The combination of AML and tax rules covers the identification of the settlor(s), the protector(s) and the beneficiaries, as the beneficial owner(s) of trusts and other similar legal arrangements, but does not include the residual clause “any other natural person exercising ultimate effective control”, as required by the standard.	Israel is recommended to ensure that the definition of beneficial owners of trusts and other similar legal arrangements is in line with the standard.

Deficiencies identified/Underlying factor	Recommendations
Although there is a general obligation to update customer due diligence based on the risk profile of the customer and in certain other circumstances and this requirement is reviewed individually for each bank's risk policy, there is no specified frequency in the legal framework for carrying out customer due diligence to update beneficial ownership information.	Israel is recommended to ensure that up-to-date beneficial ownership information of all account-holders is always available, in line with the standard.

Practical Implementation of the Standard: Largely Compliant

No issues have been identified in the implementation of the existing legal framework on the availability of banking information. However, once the recommendations on the legal framework are addressed, Israel should ensure that they applied and enforced in practice.

A.3.1 Record-keeping requirements

Availability of banking information

256. As of May 2023, the banking system in Israel includes 11 banks. In addition, there are four branches of foreign banks, 8 merchant acquirers companies and 1 joint service company. The banking system in Israel is dominated by the five largest banking groups (accounting for about 99% of all bank assets). The Bank of Israel regulates and supervises the activities of banks.

257. As indicated in the 2016 Supplementary Report, banks operating in Israel must keep all records pertaining to the identity of the account holders and all transactional documentation on transactions carried out by the bank in the course of business relationships. Identification documents and documents attesting transactions must be kept by banks for at least seven years after the account is closed or a transaction has been carried out (s. 7 and 14 PMLO and s. 35 Banking Order 411). Israel confirmed that the 7-year retention period is also applicable to banks – including foreign banks in Israel – which cease to exist or cease operations. In these cases, the information must be kept by the trustee that is required to be appointed as part of the liquidation process of the bank. There has been no change in these requirements since the 2016 Supplementary Report.

Beneficial ownership information on account holders

258. The standard was strengthened in 2016 to specifically require that beneficial ownership information be available in respect of all bank account holders.

259. Banks are required to keep all records obtained through CDD measures and other information (Section 7 PMLO), including beneficial ownership information (section 2 of the PMLO). At account opening, the applicant (being an individual or a legal entity or arrangement) must provide a declaration on the beneficial owner(s) of the account with the name and identification number of each beneficial owner.

260. The PMLO and the Banking Order 411 also require the banks to “examine the plausibility of the declaration” and to adopt reasonable measures to authenticate the identifications of the beneficiaries and the holders of the controlling interest by use of relevant information or data received from a reliable source. The banks are required to keep this information (including the identification certificates defined as any document provided for purposes of identification and authentication) for at least seven years from the date of the transaction regarding transactional information and from the closure of account in case of identification documents and CDD documentation.

261. As indicated under Element A.1, although there is a general obligation to update customer due diligence based on the risk profile of the customer and in certain other circumstances, there is no specified frequency of carrying out CDD to update beneficial ownership information. The adequacy of the risk policy for the CDD and the respective frequency is reviewed for each individual bank through annual questionnaires, during desk-based audits and onsite visits. The Bank of Israel stated that, in practice, banks are expected to update CDD for high-risk clients at least once annually, and for medium risk customers at least once in three years. There is no indication of frequency for low-risk customers. Banking Order 411 provides for the high-risk indicators, so that the banks have guidance to identify their high-risk customers. The Bank of Israel representatives indicated during the onsite visit that, generally, banks conduct an update of the CDD information annually high-risk clients annually, once in three years for medium risk customers, and every 5-7 years for low-risk customers. Nevertheless, considering the lack of a specified frequency in the legal or regulatory framework, **Israel is recommended to ensure that up-to-date beneficial ownership information of account-holders is always available, in line with the standard.**

262. As described previously under Element A.1, the cascade approach to identify the beneficial owner of a legal entity is in line with the standard. However, the combination of AML and tax rules covers the identification of the settlor(s), the protector(s) and the beneficiaries, as the beneficial owner(s) of trusts and other similar legal arrangements but does not include the residual clause “any other natural person exercising ultimate effective control”, as required by the standard. Accordingly, beneficial ownership information on legal arrangements, i.e. trusts that are customers of a bank

is not in line with the standard and **Israel is recommended to ensure that the identification of beneficial owners of accounts held by trusts or other similar legal arrangements is in line with the standard.** In practice, the Bank of Israel indicates it did not identify issues with respect to the identification by banks of beneficial owners of trusts.

263. As indicated in paragraphs 108 and 109, the PMLO allows for a partial exemption (s. 5(b)), i.e. simplified due diligence, applicable also to banks, which provides for an exemption from declaration of beneficial owners. It covers an exhaustive list of specific potential customers of low risk (see paragraph 109), which are expressly covered by the FATF standard (Interpretative Note to Recommendation 10) and corresponds to some of the limited exceptions under the standard. However, there is one case, “another type of accounts specified by the Supervisor of Banks in a directive” that could allow the application of this provision to other types of accounts. Israel clarified this exception was intended to be used for accounts with numerous beneficial owners – for example an account of a “kibbutz” (Israeli communal settlement, based on egalitarian and communal principles in a social and economic framework). The second example of an intended use for this exception is an account of an embassy, which inherently does not have beneficial owners. The Bank of Israel indicated that the categorisation by banks of those customers subject to simplified due diligence is well understood and applied, strictly reviewed in the individual annual reporting by banks, the desk-based reviews, and the onsite visits. Although the exception regarding “another type of account specified by the Supervisor of Banks in a directive” seems to be applied in line with the standard, Israel should continue to ensure that the limited exceptions to identifying the beneficial ownership information under the simplified CDD is applied in line with the standard (see Annex 1).

Oversight and enforcement

264. The Banking Supervision Department of the Bank of Israel supervises the implementation of the AML rules by banks. Each bank is subject to ongoing monitoring through off-site checks and onsite inspections are programmed as follow up on the offsite monitoring on a risk-based approach. Additionally, the Banking Supervision Department carries out annual assessments of compliance risk, including AML risks.

265. Banks are subject to financial sanctions and corrective sanctions in case of non-compliance with obligations to keep banking information and record keeping in accordance with the PMLL and the Banking Order. Israel has indicated that according to the PMLL, the sanctioning committee has the authority to impose financial sanctions on banks that violate their obligations pursuant to the AML laws and regulations.

266. The Banking Supervision Department supervises the compliance by banks and assesses the quality of their risk management. It uses various tools and measures, such as requests for information, engagements with the Board and Senior Management, surveillance of emerging risk and trends, questionnaires, review of adequacy of Board and management reporting, review of policy and procedures, interviews, review of internal and external audit reports, and follow-up on inspections. It includes two main divisions:

- The Off-Site Evaluation Division conducts an annual assessment of compliance risks, including AML, as part of the Supervisory Review and Evaluation Process. It also conducts off-site inspections on a risk-based approach on AML issues, during which it holds ongoing meetings with senior management in the supervised entities.
- The On-Site Examination Division examines the compliance of banks with AML regulations and directives. It reviews the adequacy of the bank's policy, implementation, and effectiveness of internal control mechanisms, including the Compliance Officer and Internal Audit.

267. The on-site inspections are based on risk-based methodology. They may cover general aspects of the bank's activities or can be targeted to specific inspection, e.g. sample checks regarding maintaining and keeping updated all records pertaining to the accounts. The inspectors review policies, procedures, accounts and records and use meetings with branch managers and sample testing using the risk-based approach. The table below shows the number of onsite inspections for the period 2019-22. The year 2020 only allowed for three inspections given the physical restrictions linked to COVID-19 pandemic. With an average of five onsite visits per year which represents close to 50% of the bank population, the onsite supervision is robust and frequent.

Year	No. of onsite inspections
2019	5
2020	3
2021	5
2022	5

268. The Onsite Examination Division consists of six units, each unit is responsible for a substantial risk to which the banking system is exposed: Credit Risks Unit; Market and Liquidity Risks Unit; AML/CFT and Compliance Risks Unit; Corporate, Governance and Control Unit; Model Risk Management Unit; Financial Reporting Unit. The AML/CFT and Compliance Risks Unit includes a manager and four examiners. The examinations are done with the assistance and collaboration of the Data Risk function (data risk examiner) in the Onsite Examination Division.

269. In practice, the Onsite Examination Division examines the adequacy of the bank's policy, its implementation, and the effectiveness of internal control mechanisms, including the Compliance Officer and Internal Audit. The examinations process duration is about four to six months, depending on the type, nature and depth of the subject that is being tested and on the objectives of the examination. Two examiners carry out the examinations with the assistance and collaboration of the Onsite Examination Division Data Risk function in accordance with an examination plan.

270. The examination plan considers various inputs: Information and data received from and published by the IMPA, guidelines, views and "red flags" regarding AML risks as published in the FATF publications; conclusions from previous examinations, and exposure level to risk indicators based on the analysis of data reported to the Banking Supervision Department in accordance with Directive No 825 on "bi-annual report of exposure to compliance risks".

271. The examination process includes three main parts:

- Adequacy of the bank's policy – Reviewing bank documents, such as AML policy, risk assessment, protocols from the board of directors and its committee meetings, protocols and documentation from management discussions, the Compliance Officer's assessment report, internal audit reports, including those of the bank's branches and subsidiaries abroad.
- Policy implementation – Reviewing the bank's procedures and work processes including discussions and meetings with all the relevant functions in the bank.
- Effectiveness of internal control mechanisms – Checking the effectiveness of the bank's internal controls, including the design of the controls and their implementation.

272. As part of the examination process, the onsite team samples bank accounts in order to verify the bank's compliance with CDD regulations, including the beneficial ownership information and the plausibility of the declaration of beneficial ownership. Following the examination report, Bank of Israel follows-up with a review of the implementation of the risk mitigation procedures that banks introduced to address any identified deficiencies.

273. The banks are required to correct the deficiencies found and to address the recommendations included in the Examination report (in accordance with the level of the risk), including to improve the effectiveness of the internal controls. During its supervision, the Bank of Israel identified minor deficiencies in gathering beneficial ownership information during the examination processes within the account sampling activities;

namely 9 deficiencies in 2019, none in 2020, 3 in 2021 and 2 in 2022. The Bank of Israel did not apply sanctions on this basis during the peer review period, considering that these deficiencies were minor and addressed within the follow-up process. Based on outcomes of the inspections, no major deficiencies were found in respect of maintaining transactional and CDD documentation and the level of compliance is considered very high.

Availability of banking information in EOIR practice

274. Israel received 257 requests for banking information during the peer review period. Most peers that indicated they had requested banking information reported that they were satisfied with banking information received, though two peers reported delays in obtaining this type of information, but these related to complex requests.

275. Four peers reported that CDD information (including beneficial ownership information) on bank accounts was not provided in 23 cases. The partial responses related to two requests from one peer in 2019, one and eight requests from that same peer in 2020 and 2021 respectively, and 12 requests from four peers in 2022. Israel confirmed that it was unable to access this information due to the access restrictions in civil tax matters. This gap is analysed in sections B.1, C.1.3, C.1.5 and C.1.6 of this report.

276. The practice and peer input received concerning banking information reflects that Israel has greatly improved its timeliness of responses to requests for banking information and that there is no issue with respect to the availability and quality of banking information.

Part B: Access to information

277. Sections B.1 and B.2 evaluate whether competent authorities have the power to obtain and provide information that is the subject of a request under an EOI arrangement from any person within their territorial jurisdiction who is in possession or control of such information, and whether rights and safeguards are compatible with effective EOI.

B.1. Competent authority's ability to obtain and provide information

Competent authorities should have the power to obtain and provide information that is the subject of a request under an exchange of information arrangement from any person within their territorial jurisdiction who is in possession or control of such information (irrespective of any legal obligation on such person to maintain the secrecy of the information).

278. The 2016 Supplementary Report concluded that Israel's Tax Authority (ITA) has broad powers to access relevant information from any person and other public authorities for the tasks of the domestic tax administration. These powers include requiring a person to provide information upon request and for the ITA to enter any place in which business is carried out to access information or to summon persons related to an assessment. Non-compliance can be sanctioned with administrative and criminal penalties.

279. At the time of the 2016 Supplementary Report, Israel had improved its legal framework substantially concerning ITA's access powers for the sole purpose of exchanging information under any types of international tax agreements. Amendments to Israel's Income Tax Ordinance (ITO), with effect from 1 January 2016, clarified that the tax authority's domestic information gathering powers can also be used for exchange of information purposes, regardless of domestic tax interest and for requests under all agreements providing for EOI. The practical implementation of ITO's amendment could not be assessed at the time and a monitoring recommendation was included. During the current review period, the ITA used its access powers as amended in 2016 to access information for EOIR purposes. This recommendation is considered addressed.

280. Back in 2016, Israel also improved access to banking information, by removing banking confidentiality rules towards clients in cases of EOI requests and holding regular meetings with banks. According to the Israeli authorities, the latter resulted in significantly better co-operation between the ITA and the banks. The 2016 Supplementary Report recommended that Israel monitor the efficiency of the implemented measures and, if necessary, take additional measures to ensure access to banking information in line with the standard. Since the last review, Israel indicated that from 2019, the ITA has implemented further relevant changes in this regard, including that the Competent Authority can now contact the banks directly, without the need for a designated ITA liaison to act on its behalf. These new measures have had a positive effect on the capacity of Israel's Competent Authority to access banking information in a timely manner. The 2016 monitoring recommendation is considered addressed.

281. Back in 2013, it was recommended that Israel ensures that its competent authority have powers to obtain information from first-time residents, veteran returning residents, trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and on foreign companies they effectively manage in Israel in respect of activities outside of Israel. These access gaps were applicable for the duration of the 10-year tax exemption they receive under the special status. In addition, the tax authorities' powers to obtain information from the trustees resident in Israel of foreign resident trusts with no taxable income in Israel, in respect of foreign source income, were found to be inadequate.

282. Israel recently amended ITA's access powers to access information from first-time residents, veteran returning residents, in respect of foreign source income and on information from foreign companies they effectively manage in Israel regarding their foreign activities. The amendments remove the filing exemption applicable to individuals who will become first-time residents or veteran returning residents after 1 January 2026, in respect of their foreign income. This means that individuals who received this status before 1 January 2026 will keep being exempt from reporting obligations on their foreign income for 10 years and the ITA will not have powers to access information on their foreign income. Accordingly, the ITA still does not have adequate powers to access information from these individuals in respect of foreign income, trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and foreign companies they effectively manage and control from Israel in respect of their foreign activities. The report maintains the recommendation but limits its scope.

283. This lack of access powers on foreign income lasts during the 10-year tax and reporting exemption period on foreign income linked to the status of first-time residents and veteran returning residents before

1 January 2026. This access gap in respect of foreign income derived by individuals will reduce overtime. The ITA confirmed it did not receive EOI requests regarding first-time residents or veteran returning residents during and after the peer review period. The ITA also confirmed it can access banking information on accounts held by any first-time residents and veteran returning residents from Israeli banks (and CDD information from 1 October 2024) and any information related to assets and income in Israel.

284. The 2016 Terms of Reference require that Competent Authorities have access to beneficial ownership information. In Israel, beneficial ownership information on legal entities and arrangements and on bank accounts, together with CDD information, is only available with AML-obliged persons under AML legislation, and with the Money Laundering and Terror Financing Prohibition Authority (IMPA). During the peer review period, the Competent Authority had limited access to this information for EOIR purposes, and this situation will persist until 1 October 2024 (see paragraph 287):

- The ITA could get access to information held by the IMPA upon request, and upon IMPA's spontaneous initiative solely for executing the responsibilities of the ITA under the PMLL, i.e. for the investigation of tax-related predicate offences to money laundering. Accordingly, the IMPA could not share information with the ITA for purposes of answering EOI requests that were not covered by the PMLL.
- Concerning information held by banks, lawyers and other AML-obliged persons in application of the PMLL, including CDD and beneficial ownership information, the ITA could only access such information under a court order and only for criminal investigations. This is particularly relevant as the main source of beneficial ownership information on companies and legal arrangements in Israel is held by banks, considering lawyers and other AML-obliged persons were not relevant as sources of beneficial ownership information.

285. Consequently, the ITA as Competent Authority in Israel was not able to access any information gathered under the AML legislation, including CDD and beneficial ownership information on bank accounts, to answer EOI requests in civil tax matters. The 2022 Report recommended that Israel addressed this gap and ensured a full access to information to answer all valid EOI requests. During the peer review period, four peers reported that CDD information (including beneficial ownership information) on bank accounts was not provided in 23 cases during the peer review period. The partial responses were sent to 1 peer for 11 requests, and to 4 other peers for 12 requests in 2022. Israel confirmed that it was unable to access this information due to the access restrictions on information gathered under the AML framework in civil tax matters.

286. In April 2024, Israel approved new access provisions amending both ITO and the PMLL, which will allow the Competent Authority to access CDD information on bank accounts, including beneficial ownership information on bank accounts from banks and other financial institutions, in line with the EOIR Standard with effect from 1 October 2024. The banks and other listed financial institutions are required to provide such CDD information to the extent it is required to answer an EOI request. The ITA confirmed that from 1 October 2024, the new provisions will give ITA access to CDD information held prior to 1 October 2024 for any EOI requests, even those received prior to 1 October 2024. The procedure to access banking information from banks is in place and the timeliness of responses from the banks has decreased over time and appears efficient. However, given the recent change, a monitoring recommendation is introduced.

Legal and Regulatory Framework: in place, but certain aspects of the legal implementation of the element need improvement

Deficiencies identified/Underlying factor	Recommendations
<p>The tax authorities have inadequate powers to obtain information from individuals who became first time residents or veteran returning residents before 1 January 2026, in respect of foreign source income. Access gaps apply to information on trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and on foreign companies they effectively manage in Israel in respect of activities outside of Israel. These access gaps are applicable for the duration of the 10-year tax exemption they receive under the special status.</p> <p>In addition, the tax authorities' powers to obtain information from the trustees resident in Israel of foreign resident trusts with no taxable income in Israel, in respect of foreign source income is inadequate.</p>	<p>Israel should ensure that its authorities have powers to obtain information for EOI purposes from (1) individuals who became first-time residents or veteran returning residents before 1 January 2026, including in respect of trusts created by these individual as settlors, or in which they have the status of individual beneficiaries, and in respect of the foreign companies they effectively manage and control in Israel in respect of their activities outside of Israel, and (2) from Israeli resident trustees of foreign resident trusts.</p>
<p>Although this is rarely a source of beneficial ownership information for Israel's Tax Authority, the competent authority is not able to access information gathered under the AML framework by lawyers and accountants, including CDD and beneficial ownership information of their customers, except in the case of a Court order for criminal tax purposes.</p>	<p>Israel is recommended to ensure that its competent authority can access beneficial ownership information and other related documents in line with the standard in all cases.</p>

Practical Implementation of the Standard: Partially Compliant

Deficiencies identified/Underlying factor	Recommendations
<p>Israel abolished the filing exemption applicable to individuals who will become a first-time Israeli resident or a veteran returning resident after 1 January 2026, with respect to their foreign-source income. The change will allow Israel's Tax Authority to access information from these individuals for EOI purposes. Due to changes in reporting requirements, Israel's Tax Authority will also be granted access to information from trusts created by these individuals as settlors, or having the status of individual beneficiaries, and foreign companies effectively managed by these individuals, with an obligation for such individuals or anyone on their behalf to provide information requested under an information request under an EOI agreement.</p>	<p>Israel is recommended to monitor access to information from individuals who will become first-time Israeli residents or veteran returning residents after 1 January 2026 onwards, in respect of foreign source income, including in respect of trusts created by these individuals as settlors, or having the status of individual beneficiaries, and foreign companies they will effectively manage from Israel.</p>
<p>During the peer review period, the Competent Authority was only able to access information on CDD (including beneficial ownership information) of customers from banks through a Court Order for criminal tax purposes. As beneficial ownership information is mainly available with banks in Israel due to the AML requirements, the Competent Authority was prevented from accessing beneficial ownership information on legal entities and arrangements and bank accounts for EOI requests involving civil tax matters. This access limitation will apply until 1 October 2024.</p> <p>In practice, during the peer review period, Israel could not fully answer 23 requests for banking information due to access limitations on CDD and beneficial ownership information on bank accounts. With effect from 1 October 2024, the competent authority will be able to access CDD information, including beneficial ownership information, from banks for civil tax cases.</p>	<p>Israel is recommended to monitor the implementation of the new provision to ensure access to CDD information, including beneficial ownership information and other related documents, held by financial institutions, and thereby provide complete responses to requests for civil and criminal tax matters, in line with the EOIR standard.</p>

B.1.1. Ownership, identity and banking information

287. Israel's Competent Authority for exchange of information for tax purposes is the International Tax Unit of the ITA. The International Tax Unit is part of the Professional Affairs Division of the ITA and has been officially designated by the Ministry of Finance as Competent Authority.

Accessing information generally

288. In 2016, section 214C was incorporated into the ITO to expressly allow the ITA to use its information gathering powers set out under sections 135 through 140A of the ITO for the purpose of collecting information pursuant to international agreements, in the same manner as for domestic purposes, provided that the information can be exchanged in line with Israel's law and the international agreement. Sections 135-140A of the ITO, applicable to the ITA in its EOI Competent Authority capacity, gives powers to demand returns and information, enter any place for examinations and seize documents. More precisely, the ITA has the power to directly request relevant tax information from any business and its customers, which includes banks and other financial institutions (s. 135A ITO). The amendment aims to ensure that the tax authority can use its domestic gathering powers for exchange of information purposes on all Israel's EOI agreements, regardless of domestic tax interest (see section B.1.3).

289. The use of these powers is subject to certain conditions: i) the information collected can be exchanged pursuant to an international agreement as stipulated in section 214B and ii) the powers shall be exercised in the same manner as they are exercised for implementing the ITO for domestic purposes and subject to the same terms, restrictions and prohibitions. The 2016 Supplementary Report concluded that since the amendments entered into force in January 2016, the practical application of the amended access powers remained to be sufficiently tested and an in-box monitoring recommendation was included. During the review period, the ITA accessed information for EOIR purposes using its domestic gathering powers for exchange of information purposes when the information was not already available in the tax database. The 2016 recommendation is now considered addressed.

290. The tax database contains a vast amount of information, including information on shareholders, registered addresses, directors, ownership structures and business transactions. The database is linked to databases of other government authorities such as the register of real estate, the registers of cars, ships and planes, the immigration office, the social security authority, the labour office, and the trade licence office.

291. The tax administration uses several IT tools to retrieve ownership information from the database, notably the data mining application allowing officials to search for defined sets of information through all modules of the database, including identity or ownership information. Entities are identified based on one or more criteria such as name, tax identification number, business identification number, registered address or, in the case of individuals, the name and date of birth or passport number (if the name is not unique). There is no statutory limit on the time the information can be kept in the tax database. The ITA confirmed that the information is not deleted, such that the historical data of all taxpayers are kept.

Limitation to access information in relation to first-time residents and returning persons

292. Since 2013, Israel received recommendations regarding access limitations related to information on individuals who became an Israeli resident for the first time or veteran returning residents. These individuals benefit from a tax exemption during the period of ten years after the date on which they became residents – on their income that were produced or accrued abroad or that are derived from assets abroad unless they elect otherwise (s. 14(a) ITO). Such persons also benefit from an exemption from submitting an income tax return of their capital and assets abroad during ten years after the date on which they became an Israel resident. The exemption also applies to information on trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries. Similarly, foreign companies which are effectively managed and controlled by these individuals are also exempt from corporate income tax in Israel and from filing tax returns for the first 10 years following the date on which they became residents. These individuals are entitled by law to decline to supply information on capital and assets abroad during the duration of the tax exemption.

293. Due to the reporting exemption set out in Article 134B of the ITO, information held by first-time residents or veteran returning residents in respect of their foreign income, including trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and foreign companies they effectively manage in Israel, cannot be obtained, or provided to the ITA. During the peer review period, the Competent Authority did not receive information requests on first-time residents or veteran returning residents, nor in respect of trustees of a foreign resident trust. The Competent Authority indicated that should they receive such a request, they would be able to provide information related to income generated in Israel and already contained in the ITA database (i.e. contained in their tax return). The ITA was unable to provide statistics on the number of individuals subject to the reporting exemption, as it does not keep such statistics in

its database. In 2021 alone, Israel received 25 000 first-time residents on a long-term or permanent basis, 73% of them under the Law of Return and 27% family members.¹⁹

294. The previous reports made a recommendation for Israel to ensure that domestic access powers in Israel also apply with respect to information on foreign source income from first-time residents, veteran returning residents and the resident trustees of foreign trusts.

295. Amendment No 272 abolished the reporting exemption set out in Article 134B of the ITO. This change provides ITA with adequate powers to access information from individuals who will become first-time residents or veteran returning residents after 1 January 2026, in respect of foreign source income and including in respect of trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and foreign companies they effectively manage in Israel regarding their foreign activities.

296. The new Article 135 A1 of the ITO provides ITA with access to information from foreign companies effectively managed by first-time residents or veteran returning residents and an obligation for such individual or anyone on his/her behalf to provide information to ITA requested under an information request under an EOI agreement within 90 days.

297. As these changes were not applicable during the review period and their application could not be tested, **Israel is recommended to monitor access to information from individuals who will become first-time Israeli residents or veteran returning residents after 1 January 2026, in respect of foreign source income, including in respect of trusts created by these individuals as settlors, or in which they have the status of individual beneficiaries, and foreign companies they will effectively manage from Israel.**

298. In contrast, ITA's powers to access information from individual who became or will become first-time residents or veteran returning residents before 1 January 2026 remains inadequate in respect of information on their foreign income, and information on including created by these individuals as settlors, or in which they have the status of individual beneficiaries, and foreign companies they effectively manage and control in Israel in respect of their foreign activities. This lack of access powers lasts during the 10-year tax and reporting exemption period. **Israel should ensure that its authorities have powers to obtain information from individuals who became first-time residents or veteran returning residents before 1 January 2026, including in respect of trusts created by these individuals as settlors, or**

19. OECD, International Immigration Outlook 2023, 47th Edition, Chapter on Israel, page 240.

in which they have the status of individual beneficiaries, and the foreign companies they effectively manage and control from Israel.

299. Finally, Israeli resident trustees of foreign resident trusts with no taxable in Israel are not subject to any tax return filing or any other reporting obligations. **Israel should ensure that its authorities have powers to obtain information from Israeli resident trustees of foreign resident trusts which might be subject of an information request from its EOI partners.**

Sources of information in practice

300. The main sources of information for the competent authority are the following:

- The ITA database contains information obtained from taxpayers' tax returns, tax assessments and third-party reporting such as information from the Registrar of Companies, the social security authority, or the registry of real estates. It is mostly used for the identification of taxpayers, their address, reported income, taxes paid, residency, etc.
- The taxpayer's file at the local tax office includes tax returns, financial reports, communication between the taxpayer and assessing officer, original documentation obtained from the taxpayer or audit reports.
- The taxpayer is contacted directly only for information which cannot be obtained otherwise. This is the case for accounting underlying documentation such as invoices, shipment bills, contracts, or business correspondence.
- Banks are contacted in respect of banking information.

301. The EOI Unit has full access to the ITA database and can provide the requested information directly to the requesting competent authority if the requested information is contained therein and is readily retrievable. If the requested information is not in the ITA database, the EOI Unit approaches the assessing officer where the taxpayer's file is kept. If information is not contained in the IT database or in the tax file, the ITA uses powers under sections 135 through 140A of the ITO, whereby the ITA can use its domestic access powers for EOI purposes.

302. Over the period under review, the requested information was:

- already at the disposal of the EOI Unit in approximately 1% of requests
- already at the disposal of the tax administration or with the taxpayer but obtained via the tax field officer in 46% of requests
- in possession of a bank in 53% of requests.

Accessing beneficial ownership information

303. The ITA obtains some relevant information from companies obliged to file declarations annually, including ownership information according to the tax law. Israel has stated that it considers this declaration to contain beneficial ownership information, however, such information does not correspond to the definition of beneficial ownership in the standard and merely corresponds to legal ownership (who in some cases can be the beneficial owners). Beneficial ownership will be available with the ITA only once the beneficial ownership register will be put in place (see paragraphs 119 and following).

304. As mentioned in sections A.1 and A.3, beneficial ownership information on legal entities and arrangements and on bank accounts is mainly available with AML-obliged persons under AML legislation.

305. In the case of the ITA, the IMPA can provide information upon request (s. 30(b1) of the PMLL), and upon spontaneous initiative (s. 30(e)(2)). This sharing of information is solely for executing the responsibilities of the ITA under the PMLL, i.e. for investigation of predicate tax offences listed in the first schedule of the PMLL. As a result, the IMPA cannot share information with the ITA for purposes of answering EOI requests.

306. Until 1 October 2024, the competent authority is only able to access information gathered by AML-obliged persons (e.g. banks and non-financial regulated persons) under the PMLL, including CDD and beneficial ownership information of their customers, through a Court order and only for criminal tax purposes. As beneficial ownership information is mainly available with AML-obliged persons in Israel (specifically with banks), the Competent Authority is prevented from accessing this information concerning legal entities and arrangements and bank accounts for EOI requests involving civil tax matters. It is also prevented from access CDD information on bank accounts.

307. During the peer review period, in a few cases, the Israeli Competent Authority has been able to provide beneficial ownership information by accessing information held by the taxpayer, and not under the AML laws. The Competent Authority confirmed that when the EOI request does not identify the information holder but only the entity for which the beneficial ownership information is requested, information is accessed through bank account details, the name of the corporate taxpayer and its Tax Identification Number. In these cases, the beneficial owners were the direct shareholders. During the review period, 4 peers indicated that beneficial ownership information of bank accounts, together with other CDD information, was not available in 23 cases.

308. With effect from 1 October 2024, Israel approved new access provision amending both ITO (amended Article 214b(a)(3)) and the PMLL (new

Article 31A(c)(2)), which will allow the Competent Authority to access CDD information on bank accounts, including beneficial ownership information on bank accounts from banks and other financial institutions²⁰ in line with the EOIR Standard. However, although this is rarely a source of beneficial ownership information for the ITA, the competent authority remains unable to access information gathered under the AML framework by lawyers and accountants, including CDD and beneficial ownership information of their customers, except in the case of a Court order for criminal tax purposes. **Israel is recommended to ensure that its competent authority can access beneficial ownership information and other related documents in line with the standard in all cases.**

309. The banks and other listed financial institutions are required to provide such CDD information to the extent it is required to answer an EOI request. The ITA confirmed that from 1 October 2024, the new provisions will give ITA access to CDD information held prior to 1 October 2024 for any EOI requests (both for civil and criminal tax matters), even those received prior to 1 October 2024 without the need to go through a Court Order. Given the recent change, a monitoring recommendation is introduced.

310. To conclude, with effect from 1 October 2024, the competent authority will be able to access CDD information, including beneficial ownership information, from banks for civil and criminal tax cases. Israel confirmed the ITA will access such information from 1 October 2024 in respect of requests submitted before 1 October 2024. **Israel is recommended to monitor the implementation of the new provision to ensure access to CDD information, including beneficial ownership information and other related documents, held by financial institutions, and thereby provide complete responses to requests for civil and criminal tax matters, in line with the EOIR standard.**

Accessing banking information

311. The procedure used to access banking information depends on the purpose of the EOI request, being for criminal or civil tax matters. If the EOI request relates to a criminal tax matter, access is granted under a court

20. The list of these financial institutions is included in the third addendum of the PMLL 5760-2000, which includes a member of the Stock Exchange, a company holding a trading platform license, a portfolio manager, an insurer or insurance broker as defined in section 1 of the Insurance Business (Control) Law, 5741-1981, a management company as defined in the Control of Financial Services (Provident Funds) Law, 5765-2005 with regard to the provident funds under its management, a money service business, a credit services provider or a credit and deposit services provider and the Postal Bank.

proceeding. If it relates to civil tax matters, the ITA is able to contact the bank directly. In civil tax matters, some limitations apply until 1 October 2024 in case the requested information is related to obligations under the AML legislation (see above). These limitations do not apply for criminal tax matters.

Different processes for criminal and civil tax matters

312. In practice, when the ITA receives a request for banking information, the Competent Authority asks the requesting jurisdiction whether the information is sought for criminal or civil tax purposes.

313. If information is requested for criminal tax purposes, the ITA uses a court order to obtain the requested information from the bank. Such a court order is obtained from the magistrate court, which then issues a warrant for the bank to provide the requested information. During the review period, this procedure was used in 29 cases and the process took 113 days on average.

314. If information is requested for civil tax purposes, there is no specific procedure, and the ITA directly goes to the relevant bank to obtain the requested information under sections 135 through 140A of the ITO. As confirmed by the representatives of the banking sector, there is no specific identification of the person holding the bank account required to be provided to the bank if the account number is provided.

Access to banking information in civil tax cases

315. The 2014 Report found that Israel had some issues with accessing banking information in civil tax matters, mainly because the Competent Authority had to request the assistance of a contact person in the Intelligence Department of the ITA, who handled all requests for banking information without needing a court order. This practice was found not to be in line with the standard, as it did not ensure timely access to banking information. During the 2016 Supplementary Report, it was determined that Israel implemented several relevant changes to address this issue (para. 134 of the 2016 Supplementary Report). In 2019, the ITA has implemented further changes in its communication with financial institutions: the Competent Authority can now contact the banks directly, without the need for a designated ITA liaison to act on its behalf. The ITA confirmed that communication with the banks has significantly improved since the last quarter of 2019. The ITA has a contact person in each bank with whom all requests for information related to the specific bank are communicated.

316. In practice, in case the bank or the taxpayer were not identified in the EOI request, the Israeli competent authority would contact the requesting jurisdiction and request further information to be able to identify them.

317. The table below shows the average response time to the requesting jurisdiction for the banking access procedure in days, showing steady improvement from 2019 to 2022. The average response time from the Competent Authority to the foreign jurisdiction includes the time needed to review the validity of the requests, the time to gather the other pieces of requested information and validate the answers.

	Year	2019	2020	2021	2022
Average response time to the foreign jurisdiction (in days)		130	94	53	79

318. The improvement in communication and processes between the Competent Authority and the banks resulted in a steep reduction of response time from the banks during the peer review period as highlighted in the table below.

	Year	2019	2020	2021	2022
Average response time from the bank (in days)		89	32	38	39

319. There was no case during the reviewed period in which obtaining banking information for EOI purposes presented a challenge with the bank or was subject to a court dispute. The Competent Authority confirmed that information from the banks may be provided in hard copy in some cases, which involved more processing time (scanning, labelling, etc). The information also needs to be translated into English.

320. For the review period from 1 October 2019 to 30 September 2022, peers reported they were generally satisfied with the banking information provided, except for 4 peers that mentioned that CDD and beneficial ownership information was not provided in 23 cases (see below). This supports the improvements in timeliness of responses with respect to banking information and efforts made by the Israel Competent Authority to improve the procedures with the banks. Israel should continue to monitor access to banking information for exchange of information purposes and, if necessary, take further measures to ensure timely access to all banking information as required under the standard (see Annex 1).

Limitation to access information gathered in application of the AML law

321. The law provides relevant powers to access information from banks, however during the review period, there are limitations when it comes to requests for CDD information held by banks. In those cases, as such

information is gathered pursuant to the PMLL, the limitations described above in paragraph 306 apply. This means that Israel could only access the CDD information held by banks with a court order, and such court order could only be obtained when the request was based on a criminal tax matter and not for civil tax matters. This took place in respect of 29 EOI requests during the review period.

322. As stated in the Phase 1 of this review, in relation to requests sent from 1 January 2018 until 31 December 2020, several peers reported unjustifiable delays in receiving banking information from Israel and in some cases incomplete banking information. Additionally, one peer reported that it did not receive CDD documents with respect to requests for banking information due to “legal constraints” according to Israel’s authority. Israel confirmed the shortcoming was due to limitations to access CDD documents held by banks when the request is based on a civil investigation. For the review period from 1 October 2019 to 30 September 2022, four peers indicated that in 23 cases, they did not receive complete banking information. The missing documentation related to information gathered under the AML framework, such as CDD information. Israel confirmed it could not obtain such information due to limitations on access powers in civil tax matters. The partial responses related to two requests from one peer in 2019, one and eight requests from that same peer in 2020 and 2021 respectively, and 12 requests from four peers in 2022.

323. As mentioned in paragraphs 308 to 310, with effect from 1 October 2024, the competent authority will be able to access CDD information, including beneficial ownership information, from banks for civil and criminal tax cases.

324. In conclusion, while the ITA was prohibited from accessing CDD documentation held by banks for requests based on civil tax cases during the review period, the Competent Authority significantly improved the access processes and the interactions with the banks, thereby improving the timeliness of responses. Israel received a total of 257 requests for banking information and was able to provide the requested information in 234 cases. However, Israel could not respond to 23 requests related to CDD information. With the new access powers applicable from 1 October 2024, **Israel is recommended to monitor the implementation of the new provision to ensure access to CDD information, including beneficial ownership information and other related documents, held by financial institutions, and thereby provide complete responses to requests for civil and criminal tax matters, in line with the EOIR standard.**

B.1.2. Accounting records

325. The Competent Authority has direct access to the ITA's tax database which includes tax returns, tax assessments, third party reporting and other relevant tax information. The Competent Authority can also access the taxpayer's file at the local tax office, which includes financial reports and other relevant supporting documentation. Finally, through using local tax offices, it has the power to contact the taxpayer directly or third-party information holders, particularly for accounting underlying documentation not kept in the local tax file, such as invoices, shipment bills, contracts and business correspondence.

326. Israel's procedures to access accounting information is generally in line with the standard. During the review period, Israel received 41 requests for accounting records. Most of the peers were satisfied with Israel's responses. Two peers indicated they did not receive complete accounting information in certain cases concerning individuals and legal entities. Israel has clarified that one case was due to non-availability of such information due to non-compliance with reporting obligations, and it was not related to access powers. The reasons for the other failures in the other 11 cases were not provided. The Israeli Competent Authority confirmed they did not apply sanctions for failure to comply with reporting obligations. Israel should consider applying sanctions for non-compliance with reporting obligations discovered in the framework of answering an EOI request (see Annex 1).

B.1.3. Use of information gathering measures absent domestic tax interest

327. As described previously, in 2016 an important amendment was introduced in the ITO, which established expressly that the ITA as Competent Authority can use the same powers granted for domestic investigations, for purposes of collecting information required under an international agreement and without regard to the existence of a domestic tax interest.

328. During the review period, Israel answered EOI requests related to non-resident taxpayers, absent a domestic tax interest. However Israel was not able to retrieve the statistics regarding this issue.

B.1.4. Effective enforcement provisions to compel the production of information

329. The legal and regulatory framework in Israel provides for monetary sanctions and the use of search and seizure powers which can be applied by ITA when requested information cannot be provided. According to sections 215 and 216 of the ITO, a person who does not appear, as required by

a notification under the ordinance or does not answer a request lawfully put to him/her is guilty of an offence and is liable to a fine of up to NIS 29 200 (EUR 7 300), to one year imprisonment or to both penalties. Failure to provide the requested information is also considered an administrative offence and subject to additional fines according to the Administrative Offences Regulations.

330. The information gathering powers provided in sections 134 to 140A of the ITO include power to enter any place in which a business or a vocation is carried on or to summon any person who has business relations with the taxpayer and who it is believed can testify on his/her income. Non-compliance can be sanctioned with administrative as well as criminal penalties. However, these enforcement powers are also affected by the limitations described in Section B.1.1 on Ownership, identity and banking information.

331. In practice, the Competent Authority sends a request to the assessment officers to obtain the information needed to answer the EOI request. The Competent Authority confirmed that when the information holder did not provide the requested information, it was a problem of availability of accounting information in two cases, and not a co-operation issue with the information holder. Accordingly, Israel did not impose sanctions in cases where taxpayers and information holders failed to provide accounting information requested for EOI purposes (see paragraph 326).

B.1.5. Secrecy provisions

Bank secrecy

332. Secrecy provisions are part of the contractual relationship between the bank and its customers based on the Private Protection Law.²¹ Nonetheless, Israel's tax administration has the power to request relevant tax information from any business and its customers, which includes banks and other financial institutions (s. 135A ITO). The Supreme Court has acknowledged that banking secrecy has a unique standing, but it does not override disclosure obligation stipulated by the law.²²

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21. Israel indicates it is common to see the origin of this obligation in the contract between the bank and the customer, both explicitly and implicitly, in combination with the right to privacy in the Privacy Protection Law, which was given the status of a fundamental right in Section 7 of the Basic Law: Human Dignity and Freedom; Another legal source of this right is the case law, which incorporated the rules of English case law in the form of the principles established in the judgment *Tournier v National Provincial and Union Bank of England* [1924] 1 KB 461. Another source of the banking confidentiality obligation is the banking trust obligation.
 22. Supreme Court decision – Civil Appeal, 1917/92 Jacob Skholer vs. Bank Hamizrachi.

333. In practice, no issue was raised during the review period. Banks met during the onsite visit confirmed that they co-operate with the ITA and have not declined to provide information because of banking secrecy. Israel was able to access banking information, except for the limitations set out in Element B.1.1.

Professional secrecy

334. Section 135A(b) of the ITO provides that the general powers of the ITA to request information and documents from parties for purposes of investigations, and for EOIR, shall be limited in the cases of an “advocate, physician or psychologist” on “any information or document which he is bound to keep secret under any statute”. This refers to the possibility for legal professionals to decline a request for information when such information is privileged, i.e. protected under professional secrecy. The definition of professional secret covers communications between an advocate and its client and other information that is substantively connected to the professional service rendered by the advocate to the client.

335. Israel has stated that this professional service is limited to the services provided as advocate and does not extend to any other services rendered by the same person under other capacities, such as provision of trust and corporate services governed under the AML legislation. As it was also concluded in the 2016 Supplementary Report and as confirmed during the interviews with the practitioners, the professional secrecy provisions are in line with the standard, and there has been no change in Israel’s legal framework since then.

336. In practice, the assessing officer requests information from the taxpayer who is obliged to provide the requested information, whether he/she is represented by a lawyer or not. According to Israel’s authorities, cases where the relevant information is held only by an advocate or other admitted legal representative are not frequent in practice. Although there were about 228 cases where information was obtained from a company’s lawyers or accountants for domestic cases, none of them claimed to be operating as admitted legal representatives and therefore covered by legal professional privilege. Accordingly, there was no case where a person refused to provide the requested information because of professional privilege.

337. However, as described previously in the report, the PMLL does not allow ITA to access information gathered by AML regulated persons (i.e. lawyers, accountants) under the AML framework, except for bank and other listed financial institutions after 1 October 2024, to answer requests based on civil tax investigations (see paragraph 308). However, access to information is only requested from banks in practice and a monitoring recommendation on access to CDD information after 1 October under the new access provided is issued to this effect (see paragraph 324).

B.2. Notification requirements, rights and safeguards

The rights and safeguards (e.g. notification, appeal rights) that apply to persons in the requested jurisdiction should be compatible with effective exchange of information.

338. The ITO requires the Competent Authority to notify the Israeli tax resident subject to an EOI request unless the requesting jurisdiction asks not to notify the taxpayer. The 2016 Supplementary Report found that the legal framework for notification requirements, rights and safeguards in Israel was in place and, thus, in line with the standard. It concluded, nonetheless, that the implementation of the notification requirement and its procedure should be further monitored in practice:

- Particular attention had to be given to how the exemption from notification would be applicable in cases where peers might not be yet aware of the existence of the notification rules established in 2016.
- The impact of appeal rights to the notification had to be monitored in the context of EOI, as well as the impact of the inclusion of the notification process in the timeliness of responses.

339. As there was no change since 2016 in the legal framework regarding the rights and safeguards of the taxpayer, the element is found to be in place. In practice, the Competent Authority notified 47 taxpayers, none of which challenged the notification before a court. The application of the rights and safeguards in Israel is compatible with effective exchange of information.

340. The conclusions are as follows:

Legal and Regulatory Framework: in place

The rights and safeguards that apply to persons in Israel are compatible with effective exchange of information.

Practical Implementation of the Standard: Compliant

The application of the rights and safeguards in Israel is compatible with effective exchange of information.

B.2.1. Rights and safeguards should not unduly prevent or delay effective exchange of information

Pre-exchange Notification and exceptions

341. Israel introduced in 2016 a notification requirement concerning Israeli tax-residents under Article 214B of the ITO.²³ Accordingly, the notification requirement does not apply to a non-resident taxpayer or to an information holder (if such information holder is not a resident taxpayer subject of the request). Article 214B(c) requires the authorised official to notify the Israeli resident taxpayer subject of the request of the intention to supply information concerning that taxpayer at least 14 days prior to the supply of the information, unless the requesting jurisdiction requested not to notify the taxpayer, which is consistent with the standard. The requesting jurisdiction is not required to justify its request for exception to the notification. Over the peer review period, the Competent Authority notified 47 taxpayers. During the peer review period, the Competent Authority did not track the number of EOI requests for which the requesting jurisdictions requested for an exception to the notification. All peers appeared satisfied on the issue of notification.

342. The 2016 Supplementary Report pointed out that a few aspects of the notification requirement should be monitored, in particular:

- The notification was newly introduced and not tested in practice with respect to the communication with the requesting jurisdictions.
- The impact of the notification on the appeal rights in the EOI context and the information to be disclosed to the taxpayer during the notification or subsequently was to be tested.
- The possible impact of the notification requirements on timeliness of responses was to be tested.

343. The template notification includes language indicating that Israel has received an EOI request from a specified (named) jurisdiction and intends to transfer information according to an international agreement and for the purpose of enforcement of the tax laws of that jurisdiction. It then refers to section 214B(c) of the ITO. The Competent Authority confirmed it notifies the taxpayer only after all the information has been gathered.

344. The notified taxpayer has the right to appeal the decision to supply information to a requesting partner before the Courts (see *Appeal Rights* below).

23. See paragraphs 141-142 of the 2016 Supplementary Report for details.

345. The notification template does not contain any sensitive information of the EOI request nor as to the type of information to be exchanged.

346. Israel has stated that, up to now, EOI requests have not been challenged, so no adverse effect on timeliness has occurred in practice in respect of notification.

347. Further, according to Israeli legislation, the notice for request of information to third parties does not include any reference to the fact that it is based on an EOI request, nor to the requesting jurisdiction. Therefore, the risk that the holder of the information may inform the person concerned of the existence of a request is limited, since the holder himself is not formally informed of the existence of the EOI request.

Post-exchange notification

348. There are no provisions for post-exchange notification in Israel. When an exception to the pre-exchange notification is granted, no notification is provided post-exchange either.

Appeal rights

349. Article 253 of the Civil Law Order Regulation grants general appeal rights to taxpayers to apply to the court against any request, decision, or action of authorities. These appeal rights provide the usual safeguards against unlawful action and appear in line with the standard. Under the appeal, the Court would verify that the information is to be exchanged in accordance with the provisions of the ITO. There has never been an appeal in practice following a notification. Nevertheless, under section 96(h) of the Civil Law Order Regulation, in the case of temporary relief, although the appeal would be suspensive, Israel indicates the processing should be fast and the court hearing the case would be obliged to decide within 14 days from the date of hearing the request. Under the tax law, there is no time-frame for the court to render a decision and whether such decision would have suspensive effects that could unduly delay EOIR. Israel should monitor the timeliness of the appeal process when it is actioned by Israeli-resident taxpayers, to ensure timely exchange of information (see Annex 1).

Part C: Exchange of information

350. Sections C.1 to C.5 evaluate the effectiveness of Israel's network of EOI mechanisms – whether these EOI mechanisms provide for exchange of the right scope of information, cover all of Israel's relevant partners, whether there were adequate provisions to ensure the confidentiality of information received, whether Israel's network of EOI mechanisms respects the rights and safeguards of taxpayers, and whether Israel can provide the information requested in an effective manner.

C.1. Exchange of information mechanisms

Exchange of information mechanisms should provide for effective exchange of information.

351. Jurisdictions generally cannot exchange information for tax purposes unless they have a legal basis or mechanism to do so. In Israel, the legal authority to exchange information derives from international agreements providing for the exchange of information.

352. Israel has an extensive EOI network covering 150 jurisdictions through 60 DTCs and the Multilateral Convention. Since the 2016 Supplementary Report, bilateral treaties with Germany and North Macedonia entered into force in May 2016 and March 2018, respectively. Additionally, Israel negotiated and signed nine bilateral treaties with Albania, Armenia, Australia, Austria, Azerbaijan, Canada, Serbia, United Kingdom, and United Arab Emirates. These nine bilateral treaties have already entered into force. The Multilateral Convention also entered into force on 1 December 2016, which now provides for a broad basis for EOI with 146 jurisdictions.

353. Israel's agreements providing for exchange of information are given effect through the ITO. In 2016, Israel amended the ITO to clarify the Competent Authority's power to exchange information pursuant to an EOI Agreement.

354. However, as mentioned in Section B.1.1, access to beneficial ownership information, which is mainly available with AML-obliged persons in Israel, has been limited because the ITA was unable to access CDD information (including beneficial ownership information) held by banks to comply with requests based on civil tax purposes. Thereby Israel was unable to give full effect to its EOI agreements. Due to this deficiency, four peers reported that during the peer review period, 23 requests for banking information were missing CDD information, including beneficial ownership information on bank accounts. Israel confirmed that this was due to the limitations in access powers available to the ITA for information held by banks and other AML authorities at the time. New access provisions on CDD information will apply from 1 October 2024.

355. Despite recent legal amendments, several exceptions still limit access to information on (1) foreign income and assets from individuals who became first-time residents, veteran returning residents before 1 January 2026, including in respect of trusts created by these individual as settlors, or in which they have the status of individual beneficiaries, and foreign companies they effectively manage in Israel, and (2) from Foreign Resident Trusts, having a trustee resident in Israel, in respect of foreign source income. Israel is recommended to close these gaps.

356. Israel's rules for group requests are in line with the standard, as well as the rules governing the application of the standard of foreseeable relevance. Israel is able to exchange information regarding all persons.

357. The conclusions are as follows:

Legal and Regulatory Framework: In place, but certain aspects of the legal implementation of the element need improvement

Deficiencies identified/Underlying factor	Recommendations
<p>Despite recent legal amendments, several exceptions still limit access to information on foreign income and assets from individuals who became first-time residents or veteran returning residents before 1 January 2026, including on trusts they created, or in which they are beneficiaries, which are vested with assets or income from assets abroad and on foreign companies they effectively manage in Israel, in respect of activities outside of Israel for a period of 10 years.</p> <p>Thus, Israel is unable to give full effect to its EOI agreements, as the competent authority is not able to obtain all foreseeably relevant information.</p>	<p>Israel is recommended to give full effect to its EOI agreements by ensuring that its competent authority has access to information from individuals who became first-time residents, veteran returning residents before 1 January 2026, including on trusts they created, or in which they are beneficiaries, which are vested with assets or income from assets abroad and foreign companies they effectively managed in Israel, in respect of activities outside of Israel.</p>

Practical Implementation of the Standard: Largely Compliant

No issues have been identified on the implementation in practice of the EOIR instruments. However, once the recommendation on the legal framework is addressed, Israel should ensure that the measures are applied and enforced in practice.

Other forms of exchange of information

358. In addition to exchange of information on request, Israel is committed to the AEOI Standard since 2018. First exchanges under the Common Reporting Standard took place in 2019. Moreover, since the Multilateral Convention is in effect since 2016, all EOI relationships provide for spontaneous exchange of information.

C.1.1. Standard of foreseeable relevance

359. The standard for exchange of information envisages information exchange on request to the widest possible extent but does not allow speculative requests for information that have no apparent nexus to an open inquiry or investigation. The balance between these two competing considerations is captured in the standard of “foreseeable relevance”. It does not allow “fishing expeditions”.

360. As Israel is a party to the Multilateral Convention, most EOI relationships are covered by the Convention’s provision on foreseeable relevance and, in those cases are in line with the standard. However, in the DTCs with jurisdictions that are not otherwise covered by the Multilateral Convention the concept of foreseeable relevance is not expressly included in the language of the article pertaining to exchange of information. As stated in the 2014 Report for Israel, it was clarified by Israel that the language used instead of “foreseeably relevant” in the DTC with Ethiopia and the United States (i.e. “pertinent”) is interpreted in line with the standard. For the other treaties (Belarus, Chinese Taipei, Uzbekistan), the term included is “necessary”, which, according to the standard, is consistent with the scope covered by the term “foreseeably relevant”. Further, Israel has confirmed that it interprets the terms in line with the standard.

Clarifications and foreseeable relevance in practice

361. In the 2016 Supplementary Report, Israel was encouraged to continue monitoring its approach to requests for clarification and to take measures to ensure that reasons for clarification are in all cases properly communicated to the requesting jurisdiction, considering that the percentage of requests where clarification was requested was relatively high.

Israel has indicated that the EOI-unit now provides guidance to its officers and field teams to allow for a smoother flow of information and fewer clarifications.

362. In previous EOIR reports of Israel, concerns were raised regarding the application of the standard of foreseeable relevance by the Israeli competent authorities. For the period under review, Israel confirmed that the Competent Authority requested clarification in 33 instances out of 419 requests received (i.e. in 7% of cases). The clarification requests related to additional information regarding the taxpayers, notification issues with the resident taxpayers, and bank accounts information. Amongst the 30 instances, only 3 cases were related to issues regarding foreseeable relevance of the EOI requests.

363. For the period under review, peers did not raise any concerns in this respect. Only one peer indicated that Israel asked for clarification in one case. Following this clarification, Israel accepted and answered the EOI request. No other peer raised any concerns, in contrast to peer inputs received for previous EOIR reports, where Israel was determined to request too frequent clarifications resulting in delays in response. This positive input reflects the significant improvements made in Israel's EOI practice during the review period.

Group requests

364. None of Israel's EOI instruments nor domestic law prohibit group requests. Israel, however, indicated it requires substantiated supporting evidence or arguments that show patterns of behaviour that make the group request relevant. Israel has indicated that the supporting evidence they require relates to examples that can clearly explain the pattern of behaviour of the group under investigation, authentication of the supporting documentation provided and clarifications as to the scope of the request.

365. During the review period, Israel received one large group request and followed the following procedural steps available under the bilateral agreement and a criminal procedure:

- The requesting jurisdiction contacted Israel before the submission of the group request to agree on the content and form of the group request.
- Upon receipt, the EOI Unit reviewed the content of the group request to ensure that all basic elements of an EOIR were present.
- The EOI Unit then reviewed the group request to ensure that there was no conflict with domestic law or limitations of conventions.

- A joint professional and legal team examined the criteria of the request, to ensure that the information requested was foreseeably relevant to the requesting jurisdiction and met the criteria set out in the commentary to Article 26 of the OECD Model Convention.
- The Competent Authority then requested the financial institutions to provide the relevant information.
- The EOI Unit reviewed the information received from the banks to ensure the quality of the requested information.

366. Although the procedure for group requests was not included in the EOI Manual at the time of the review, the Competent Authority put in place a coherent process in practice to respond to the one large request received at the end of the peer review period. The peer involved expressed its satisfaction regarding the collaboration and co-operation with the Israeli Competent Authority. Subsequently, Israel amended its EOI manual to record its practice and refer to the commentary to Article 26 of the OECD Model Convention.

367. To conclude, the provisions applicable to group requests are in line with the requirements mentioned in Article 26 of the OECD Model Convention and, thus, in line with the standard.

C.1.2. Provide for exchange of information in respect of all persons

368. The Multilateral Convention is in force and covers most of the EOI bilateral relationships of Israel. It allows Israel to exchange information on all persons regardless of their nationality or residence with all of its EOI partners, in line with the standard. The five bilateral relationships not covered by the Multilateral Convention are in line with the standard insofar as they cover the exchange of information for the preventing of fraud or fiscal evasion, which can cover any taxpayer, whether resident in, or national of, the jurisdiction of taxation. Despite recent legal amendments, several exceptions still limit access to information on foreign income and assets from individuals who became first-time residents or veteran returning residents before 1 January 2026, and on foreign companies they effectively manage in Israel, in respect of foreign source income. Thus, Israel is unable to give full effect to its EOI agreements, as the competent authority is not able to obtain all foreseeably relevant information. **Israel is recommended to give full effect to its EOI agreements by ensuring that its competent authority has access to information from individuals who became first-time residents, veteran returning residents before 1 January 2026, including on trusts they created, or in which they are beneficiaries, which are vested with assets or income from assets abroad and foreign companies they effectively managed in Israel, in respect of foreign source income.**

369. During the peer review period, Israel did not receive any request where the taxpayer was not a resident or citizen in neither Israel nor in the requesting jurisdiction. Peers did not report any issues restricting exchange of information in respect to residence or nationality.

C.1.3. Obligation to exchange all types of information

370. As stated in section B.1.5 related to Secrecy provisions, Israel's domestic law does not contain express restrictions in respect of access to information solely because it is held by a financial institution, nominee or person acting in an agency or a fiduciary capacity or because it relates to ownership interest in a person. Nevertheless, the 2016 Supplementary Report found that some of Israel's DTCs²⁴ with partners having domestic restrictions on access to information restricted the type of information to be exchanged, as they lacked a provision equivalent to Article 26(5) of the Model Tax Convention. Since the 2016 Supplementary Report, the Multilateral Convention is in force for Israel, such that Israel has now an EOI relation in line with the standard with such partners as well.

371. None of the five DTCs with partners not covered by the Multilateral Convention contains a provision equivalent to Article 26(5). The peer review of one of them confirmed that they have no domestic restriction in the exchange of banking information so the treaties can be used to exchange such information based on reciprocity (with United States). The position of other four partners is not known (as they are yet to be reviewed) or cannot be ascertained (as they are not members of the Global Forum). As such, it is not assured that these EOI relationships are in line with the standard. Israel should ensure that these four EOI relationships²⁵ are brought in line with the standard (see Annex 1).

372. As described previously in the report, prior to 1 October 2024, Israel used to have a significant limitation to access CDD information, including beneficial ownership information obtained under AML laws by AML-obliged persons, when such information is sought to comply with EOI requests based on a civil tax investigation. With effect from 1 October 2024, the competent authority will be able to access CDD information, including beneficial ownership information, from banks for civil tax cases. This change will give the competent authority access to all types of information, including CDD information and beneficial ownership information from banks, in line with the standard. A monitoring recommendation is introduced in Element B.1 on *Access to Information*.

24. DTCs with Luxembourg, Singapore and Switzerland.

25. Belarus, Ethiopia, Chinese Taipei, and Uzbekistan.

C.1.4. Absence of domestic tax interest

373. Israel's domestic law provides access powers for exchange of information purposes regardless of domestic tax interest under all Israel's EOI agreements. The 2016 Supplementary Report indicated that the use of these powers, amended in 2016, was nevertheless linked to certain conditions, which remained to be sufficiently tested in practice, such that a monitoring recommendation was introduced. As described in section B.1.3, the ITA was able to access and exchange information for EOIR purposes in practice, even in cases where Israel did not have a domestic tax interest during the review period. As a result, the 2016 recommendation is addressed.

374. The entry into force of the Multilateral Convention provides for an international legal framework in line with the standard with most of its partners, concerning Israel's ability to provide information to its peers without regard to whether there is a domestic tax interest. In the DTCs with the partners for which exchange cannot be based on the Multilateral Convention,²⁶ there is no express language requiring the requested country to use its information gathering powers to obtain the requested information without the need of domestic tax interest, i.e. paragraph 26(4) of the Model Tax Convention. However, as discussed under Element B.1, there are no limitations in Israel's laws with respect to access to information regardless of domestic tax interest and therefore the absence of such provision in the EOI agreement may restrict exchange of information only if such restriction exists in the domestic law of Israel's treaty partner. As for Element C.1.3, Israel should ensure that four EOI relationships are brought in line with the standard (see Annex 1).

C.1.5 and C.1.6. Civil and criminal tax matters and absence of dual criminality condition

375. There is no dual criminality provision in any of Israel's EOI agreements. Accordingly, there has been no case where Israel declined a request because of a dual criminality requirement as has been confirmed by peers.

376. Under the Multilateral Convention, Israel is able to exchange information in both civil and criminal tax matters. In addition, as indicated in the 2016 Supplementary Report, Israel requires an indication from the requesting jurisdiction whether information is sought for criminal or civil tax purposes only when banking information is requested. If the requesting party requires information held by an AML-obliged person for criminal tax purposes, the tax administration uses a court order to obtain the requested

26. Belarus, Ethiopia, Chinese Taipei, and Uzbekistan.

information (see section B.1.5). However, as stated previously in the report, Israel interprets that the law does not allow the ITA to obtain a court order for civil matters.

377. Prior to 1 October 2024, as ITA did not have adequate powers to request CDD information from banks, Israel's domestic legislation limited Israel's capacity to exchange information in civil tax matters. During the peer review period, Israel could only provide a partial response to 23 requests for banking information, as CDD information including beneficial ownership information on bank accounts were missing. Israel indicated that this was due to the access limitations on information gathered under the AML framework, as the EOI requests were based on a civil tax matter.

378. With effect from 1 October 2024, the competent authority will be able to access CDD information, including beneficial ownership information, from banks for civil tax cases. This change will give the competent authority access to all types of information, including CDD information and beneficial ownership information from banks, in line with the standard in all cases. A monitoring recommendation is introduced in Element B.1 on *Access to Information*.

C.1.7. Provide information in specific form requested

379. There are no restrictions in Israel's domestic law that would prevent it from providing information in a specific form, to the extent it is consistent with its own administrative practices.

380. The 2016 Supplementary Report noted the situation with a peer that reported some cases where Israel provided only incomplete supporting documentation and incorrect reference numbers. Israel stated that it was due to a misunderstanding by the competent authority concerning the scope and relevance of the information requested and it took measures to improve the communication with the peer to avoid such situations in the future. Nevertheless, it was recommended that Israel monitors the quality of its responses to ensure that all requested information is properly documented and provided in the form requested as far as possible under Israel's administrative practices.

381. During the peer review period, peers were generally satisfied with the form in which the requests were answered by Israel. One peer noted that the banking information requested was provided in Hebrew. The Israeli Competent Authority provided the necessary clarifications. The Competent Authority also confirmed that it is common practice to accommodate the requesting jurisdiction with their requested form. A lot of the EOI teamwork is dedicated to translation work, to ensure that the requesting jurisdiction is able to use the requested information. As a result of the positive peer input, the recommendation is considered addressed.

C.1.8 and C.1.9. Signed agreements should be in force and be given effect through domestic law

382. In order to bring the EOI agreement into force in Israel, it must be given notice by order of the Minister of Finance upon its signature and ratification by the Knesset.

383. Since the 2016 Supplementary Report, the DTCs with Germany and North Macedonia, entered into force in December 2016 and December 2018, respectively. Additionally, Israel negotiated and signed nine bilateral treaties: Albania, Armenia, Australia, Austria, Azerbaijan, Canada, Serbia, United Kingdom, and United Arab Emirates, which are now in force. The Multilateral Convention also entered into force on 1 December 2016, broadening the Israel's network and bringing all, but four²⁷, of its EOI relationships in line with the standard.

384. The 2016 Supplementary Report kept the Phase 2 recommendation for Israel to take measures to bring its exchange of information agreements into force expeditiously, because in some cases of bilateral treaties it took Israel more than 36 months to bring them into force. Since 2016, Israel has signed nine new treaties and, in all these cases, brought them into force in less than 24 months. Israel's processes to bring into force and give effect to newly signed agreements are in line with the standard.

EOI mechanisms

Total EOI relationships, including bilateral and multilateral or regional mechanisms	150
In force	146
In line with the standard	142
Not in line with the standard	4*
Signed but not in force	4
In line with the standard	4**
Not in line with the standard	0
Total bilateral EOI relationships not supplemented with multilateral or regional mechanisms	4*
In force	4
In line with the standard	0
Not in line with the standard	4
Signed but not in force	0

* Belarus, Ethiopia, Chinese Taipei, Uzbekistan.

** The Multilateral Convention is not in force in Gabon, Honduras, Madagascar and Togo.

27. Belarus, Ethiopia, Chinese Taipei, and Uzbekistan.

C.2. Exchange of information mechanisms with all relevant partners

The jurisdiction's network of information exchange should cover all relevant partners, meaning those jurisdictions who are interested in entering into an information exchange arrangement.

385. Israel has an extensive network covering 150 jurisdictions through 60 DTCs and the Multilateral Convention. This EOI network encompasses all of its major trading partners, all European Union member states and all OECD members.

386. No Global Forum member indicated in the preparation of this report that Israel refused to negotiate or sign an EOI instrument with it. As the standard ultimately requires that jurisdictions establish an EOI relationship up to the standard with all partners who are interested in entering into such relationship, Israel should continue to conclude EOI agreements with any new relevant partner who would so require (see Annex 1).

387. The conclusions are as follows:

Legal and Regulatory Framework: in place

The network of information exchange mechanisms of Israel covers all relevant partners.

Practical Implementation of the Standard: Compliant

The network of information exchange mechanisms of Israel covers all relevant partners.

C.3. Confidentiality

The jurisdiction's information exchange mechanisms should have adequate provisions to ensure the confidentiality of information received.

388. All of Israel's EOI instruments, including new DTCs and the Multilateral Convention now in force include confidentiality provisions to ensure that the information exchanged will be disclosed only to persons authorised by the agreements.

389. The ITO establishes that "international treaties that provide for the easement of double taxation" (i.e. DTCs) prevail over domestic legislation. Thus, information exchanged under DTCs is treated in line with the standard concerning confidentiality provisions. However, the ITO does not expressly establish that bilateral agreements other than DTCs, such as TIEAs, or the

Multilateral Convention, prevail over domestic legislation. In the absence of explicit coverage in the ITO, the information exchanged under these agreements could be treated according to Israel's domestic legislation that allows the use of information for other than tax purposes without requiring prior authorisation of the partner jurisdiction that provided the information and, therefore, go beyond the standard. However, Israel indicates that they interpret section 96 of the ITO to cover all international tax agreements and, as such, they prevail over domestic legislation, including the domestic confidentiality rules. Accordingly, the ITA is not allowed to share information received under the Multilateral Convention or any EOI agreement. Israel indicates that there has never been any case where information received from an EOI partner was shared with another public authority. The Competent Authority confirmed that if it were to receive a request to share such information, it would decline it.

390. In practice, Israel has extensive measures in place to ensure confidentiality of all exchanged information. All EOI staff are well-trained, experienced, and aware about the aspects of confidentiality in their daily work. EOI requests are clearly marked as treaty protected and confidential. Physical and IT security aspects are in place. There are policies governing various aspects of confidentiality. All exchanged information, including background documents, like correspondence with other Competent Authorities, is treated as confidential.

391. During the review period, no instances of a breach of confidentiality were detected in respect of exchanged information. Further, peers have not raised any concerns in respect of confidentiality of exchanged information.

392. Israel is recommended to ensure that confidentiality rules concerning information received under agreements which do not provide for relief from double taxation, including the Multilateral Convention, are in line with the standard.

393. The conclusions are as follows:

Legal and Regulatory Framework: in place

No material deficiencies have been identified in the EOI mechanisms and legislation of Israel concerning confidentiality.

Practical Implementation of the Standard: Compliant

Deficiencies identified/Underlying factor	Recommendations
While information received under agreements that do not provide for relief from double taxation, including the Multilateral Convention, will be treated only pursuant to Israel's domestic confidentiality rules which allow use of information beyond the standard in very limited cases, the Israeli Competent Authority confirmed that they interpret the legislation as giving prevalence of the Multilateral Convention over domestic confidentiality rules.	Israel should continue to ensure that confidentiality rules concerning information received under agreements which do not provide for relief from double taxation, including the Multilateral Convention, are applied in line with the standard.

C.3.1. Information received: disclosure, use and safeguards

Agreements for the exchange of information

394. Israel's confidentiality provisions on its EOI mechanisms are fully in line with the standard. Most relationships are covered now by the Multilateral Convention, thus, in line with the standard. Further, all bilateral EOI instruments (DTCs) have confidentiality provisions modelled on Article 26(2) of the OECD Model Tax Convention: information exchanged will be disclosed only to persons or authorities (including courts and administrative bodies) concerned with the assessment or collection of, the enforcement or prosecution in respect of, the determination of appeals in relation to the taxes, or the oversight of the above.

Domestic legislation

395. Israel's domestic law requires officials, taxpayers and third parties to keep confidential all information concerning other persons, which they learned during a tax procedure. A person who breaches confidentiality is liable to six-month imprisonment or a fine of NIS 12 900 (EUR 3 225), pursuant to section 234 of the ITO. Israel indicated this obligation continues to apply following the termination of the employment relationship. Taxpayers are not permitted to consult their income tax files, other than their own tax returns and the EOI-related documents are kept confidential.

396. However, section 235 of ITO provides exceptions to the confidentiality rules, allowing for information to be disclosed to the National Insurance Institute under the National Insurance law and in bankruptcy cases following a court order. The National Insurance Institute does not have direct access to information held by the ITA and needs to file a request with the ITA for such information.

397. Further, section 31 of the PMLL allows for the IMPA to request information from the ITA to enforce the PMLL and the Counter-terrorism Law, subject to the authorisation of the Ministry of Finance, as follows:

The competent authority shall be entitled to apply to a tax authority for information which it requires in order to enforce this Law and the Counter-Terrorism Law; the Minister of Finance, within the framework of his authority under the tax law confidentiality rules, shall review the application as soon as possible in the circumstances, and information which he decides to pass on shall be forwarded to the authority without delay.

398. Section 31 of the PMLL concerns information on money laundering or terrorist financing only. The PMLL sets very strict provisions concerning secrecy and confidentiality regarding the information (s. 25 and 31A of the PMLL) and is authorised to disseminate information to the authorities listed in section 30 of the PMLL only. As such, any information received by IMPA from the ITA is bound by strict confidentiality rules and does not infringe on the ITA's confidentiality rules.

399. In Israel, bilateral agreements that provide for relief of double taxation, i.e. DTCs, prevail over the ITO or any other domestic law and, thus, information exchanged under DTCs is covered by the confidentiality provisions of such agreement, in line with the standard (s. 196 ITO). However, TIEAs and the Multilateral Convention do not explicitly fall under Article 96 ITO as they do not provide for double taxation relief.

400. Israel states that regardless of lack of clarity in the ITO, the ITA is not allowed to share information received under the Multilateral Convention or any EOI agreement because the international agreements have precedence over domestic law. They interpret section 96 of the ITO to cover all international agreements and, as such, they are considered to prevail over domestic legislation, including the domestic confidentiality rules. This interpretation has not been challenged in court.

401. Israel has indicated that there has never been any case where information received from an EOI partner was shared with another public authority. The Competent Authority confirmed that if it were to receive a request to share such information, it would decline it. This recommendation has not been addressed by Israel and the problem grew with the entry into force of the Multilateral Convention, which is one of the instruments affected by this gap, and with the existence of further exceptions to the confidentiality rules provided for in the PMLL. **Israel should continue to ensure that confidentiality rules concerning information received under agreements which do not provide for relief from double taxation, including the Multilateral Convention, are applied in line with the standard.**

402. The Terms of Reference, as amended in 2016, clarified that although it remains the rule that information exchanged cannot be used for purposes other than tax purposes, an exception applies where the EOI agreement provides that the information may be used for such other purposes under the laws of both contracting parties and the competent authority supplying the information authorises the use of information for purposes other than tax purposes. The Multilateral Convention provides for this possibility, but not the bilateral agreements. Israel confirmed it did not request its partners to use EOI information for non-tax purposes.

403. In practice, as Israel is not allowed to disclose information received under tax treaties, the Competent Authority is not able to authorise its peers to use information provided under tax treaties for other purposes. Under section 214B(A)(5) ITO, the transfer of information for tax purposes is only allowed if the EOI partner will not share the information for other purposes. During the review period, one peer noted that Israel did not authorise it to share information provided under EOIR with its Financial Intelligence Unit. Israel reported it did not request its partners to use EOI information received for non-tax purposes.

Measures taken to ensure confidentiality of information exchanged

404. Paragraph 186 of the 2016 Supplementary Report included an in-text recommendation stating that Israel should monitor the scope of information provided to banks in a request, so that only the necessary information is disclosed. Israel has stated that, following the review, the Competent Authority acts according to the standard and does not provide unnecessary information to financial institutions. Israel shared the template letter made to banks, which only includes necessary information for the bank to obtain the information requested. It does not include the name of the requesting jurisdiction but only the taxpayer's details (name, ID, address, date of birth and the account details (account number, branch, and address)). There was no evidence of cases during the review period in which information beyond necessary was disclosed. Thus, the in-text recommendation is considered addressed and is removed.

405. As described in section B.2 and in paragraph 187 of the 2016 Supplementary Report, Israel has notification obligations to the Israeli tax resident when receiving an EOI request. In the last review, it was concluded that the content of the notification appeared to be in line with the standard and no change has taken place in this regard.

C.3.2. Confidentiality of other information

406. The confidentiality rules and procedures described in the previous section also cover other information, such as the information provided in the request itself, all information transmitted in the response to a request and any background information and documents thereof.

Confidentiality in practice

407. Israel has put in place measures and policies in respect of human resources, physical and IT security for ensuring confidentiality of all information. Since the last review, Israel has indicated that they have implemented additional good practices, such as the requirement for all staff to sign a cyber-security protocol including key-card protocols, system permissions and “clean-desk policy”. Lectures and training on confidentiality are regularly provided for the ITA staff and constant monitoring of the compliance with confidentiality and security protocols are undertaken. Violations to the application of these protocols can be automatically detected and repeated offences can result in termination of employment and criminal sanctions.

408. Israel has in place operating procedures, particularly the Exchange of Information Procedure, applicable to the International Tax Division. The document contains a diagram of the steps to be taken when a request is received and guidance on how to encrypt files with answers to EOI requests before sending them. It also states that the information must be kept in a particular server that is separated from the data base that holds domestic data.

Human resources

409. The ITA carries out background checks and vetting on its staff before hiring or engagement. The background checks for staff recruitment include checking the national criminal record database to ensure that persons recruited in the tax administration do not have a criminal record.

410. Induction training is provided for new hires and when employees return to work after long absences. As a part of the induction training, new employees are expected to familiarise themselves with the principles of information security. Each staff member signs a statement that he/she has been acquainted with the provisions on the protection of information and undertakes to comply even after the termination of their employment. There is also periodic security training and awareness to staff, including through E-learning courses. Managers are responsible for ensuring that staff attend and finish mandatory training and awareness sessions. Employees must sign a cyber-security protocol including key-card protocols, system

permissions and “clean-desk policy”. Upon termination of employment, permissions are automatically revoked, and the keycard is taken away from the employee.

411. External contractors are required to sign a confidentiality clause undertaking to keep confidential all information accessed during the execution of their contract. Committing an information security violation constitutes a breach of this agreement and is therefore considered a criminal offence. Under sections 231 and 234 ITO, a police complaint may be filed against the contractor, with a possible criminal penalty of 6-month imprisonment and a fine. Contracting firms are also expected to train their employees, subcontractors and any other persons used when performing the contract.

Physical and digital security measures

412. Israel's Competent Authority office is housed in a specific area dedicated for EOI matters. Access to the building is controlled by electronic access cards and only EOI employees have access to the premises. The building has physical security 24/7, fences, and a closed and secure area. The secure areas are photographed and are under constant control.

413. EOIR information is mainly managed in electronic form. Where hard copy EOI requests are received by post, such requests are scanned and entered into the EOIR electronic system. Access to the database is only granted to authorised case officers and team leaders. Each EOI case entered can only be modified by the assigned case officer. Until recently, the hard copies were then stamped with the confidentiality stamp and locked away in secure filing cabinets. The Competent Authority confirmed they do not receive EOI requests on paper anymore, but only receive them by encrypted emails or other secured methods. In these cases, a digital watermark is added marked confidential.

414. Information that is sent from the EOI Unit to the local officers is transmitted by secure email. All such emails contain a warning that the email contains confidential, treaty exchanged information as described above. The EOI officer never transfers the letter of request but merely provides the necessary information for the local officer to gather the information from the taxpayer.

415. Regarding archiving and disposal of information, the retention period for treaty exchanged information is seven years. The EOI Unit stores EOI information in a designated storage space. Access to this room is restricted, logged and monitored. Once files are no longer needed for daily use, but must be retained, they are sent to an archive via strict transfer protocols. Classified documents are shredded once no longer in use. Tapes

and other electronic materials are transferred to be destroyed at a facility authorised by the Israel General Security Service.

Breach monitoring and breach response

416. The ITA has in place procedures for management of security breaches. Israel has reported that they have put in place a process to monitor information related security risks and vulnerabilities. As part of the monitoring policy, sensitisation and raising awareness of management and staff on their role to ensure information security has been carried out.

417. Violations of protocols can be automatically detected when files that are not in the work-plan are searched manually. Advanced pre-defined monitoring applications are embedded in the computer systems which allow monitoring of each click and data-access of each employee in real-time. Repeated breaches by an employee can result in termination of employment and criminal sanctions. For the years 2020-22, 75 warning letters were sent to ITA employees (but not part of the EOI Unit) for information security offences and there were three disciplinary cases.

418. Israel reported that there have been no cases where treaty exchanged information was improperly shared, used or disclosed. The Competent Authority officials met during the onsite visit were well informed of their obligations regarding keeping information confidential.

C.4. Rights and safeguards of taxpayers and third parties

The information exchange mechanisms should respect the rights and safeguards of taxpayers and third parties.

C.4.1. Exceptions to the requirement to provide information

419. The 2016 Supplementary Report concluded that Israel's legal framework concerning rights and safeguards of taxpayers and third parties are in line with the standard. There has been no change in this matter since then.

420. All but one of Israel's EOI instruments contemplate the exemption of Article 26(3) of the OECD Model Tax Convention. With regards to the international legal basis, the 2016 Supplementary Report found issues in the DTCs with the United Kingdom and Sweden (para. 191). Both relationships are now covered by the Multilateral Convention in force since December 2016, which means that those relationships are now in line with the standard. Additionally, the 2019 Protocol to the DTC with the

United Kingdom also resolved the issue as it included the exceptions contemplated in Article 26(3). The four DTCs with jurisdictions not otherwise covered by the Multilateral Convention are also in line with the standard.

421. As set out in Part B of this report, the scope of protection of information covered by this exception in Israel's domestic law appears to be consistent with the international standard.

422. The conclusions are as follows:

Legal and Regulatory Framework: in place

No material deficiencies have been identified in the information exchange mechanisms of Israel in respect of the rights and safeguards of taxpayers and third parties.

Practical Implementation of the Standard: Compliant

No material deficiencies have been identified in exchange of information in practice.

C.5. Requesting and providing information in an effective manner

The jurisdiction should request and provide information under its network of agreements in an effective manner.

423. The 2016 Supplementary Report issued a “Partially Compliant” rating to Israel on this element of the standard, highlighting several issues that in practice affected Israel's capacity to provide information without unnecessary delays, in particular concerning requests for banking information. During the current review, Israel was able to demonstrate a significant improvement in its timeliness for answering EOI requests, with 61% being answered within 90 days and 84% within 180 days.

424. During the review period from 1 October 2019 to 30 September 2022, Israel sent 319 EOI requests to its partners and received 419 requests from its EOI partners.

425. Israel has a functional EOI Unit, with staff devoted particularly to process incoming and outgoing requests, and has recently expanded its guidance for staff, the EOI Procedure of the International Tax Division. The procedures include general guidelines for handling requests, a diagram of the steps in the process of handling inbound requests and instructions on how to file the related information. It also now includes guidance on outbound requests and how to check foreseeable relevance. Israel has

amended its procedures to ensure swifter access to banking information and has endeavoured to provide status updates in a systematic manner to requesting jurisdictions when a complete answer has not been provided within 90 days from the date the request is received. Israel has also changed its practices to ensure better communication with its EOI peers, and this is reflected in positive feedback from partners on their working relationships with Israel.

426. Two peers provided input indicating that Israel did not provide timely updates and noted delays in the provision of information in some cases. Other peers mentioned that the status updates were of general nature. In addition, the trend in failure to provide requested information increased rapidly towards the end of the peer review period, together with a deterioration in timeliness of responses. This coincided with high staff turnover due to departures. Given these developments, a monitoring recommendation is introduced. However, overall, the peer input is positive and provides evidence of the substantial improvements made by the EOI Unit since the last review. The conclusions are as follows:

Legal and Regulatory Framework

This element involves issues of practice. Accordingly, no determination has been made.

Practical Implementation of the Standard: Largely Compliant

Deficiencies identified/Underlying factor	Recommendations
Some peers, including Israel's most important EOI partner, noted that they did not consistently receive status updates or when received, these updates were of general nature, when information was not provided within 90 days.	Israel should monitor provision of status updates to ensure that the requesting authority is updated on the status of the request in all cases where Israel is not in position to provide the requested information within 90 days.
Israel has in place appropriate organisational processes. Nevertheless, towards the end of the review period, the trend in failure to provide requested information increased rapidly, together with a deterioration in timeliness of responses. This coincided with a high staff turnover due to departures. These developments may affect Israel's ability to provide information in a timely manner.	Israel is recommended to take measures to ensure that appropriate resources are in place to provide quality information in a timely and complete manner.

C.5.1. Timeliness of responses to requests for information

427. For EOI to be effective, it needs to be provided within a period that allows the requesting authorities to use the information for the relevant investigations. If the response is provided within a significant period, after too long, the information may no longer be useful for the requesting authorities. This is particularly important in the context of international co-operation.

428. During the period under review, from 1 October 2019 to 30 September 2022, Israel received 419 EOI requests for information from its EOI partners, which were counted as 514 requests for the purposes of its EOI database (see table below). The information sought in these requests could have multiple sources, and related to (i) ownership information (47 cases), (ii) accounting information (41 cases), (iii) banking information (257 cases) and (iv) other types of information (186 cases). Requests for other types of information mainly concern real estate situated in Israel. Israel's main EOI partners were France, the United States and Canada.

429. The 2016 Supplementary Report noted that Israel was facing difficulties in providing a timely response to many of its peers, particularly concerning accounting or banking information, because the information holders usually took a long time to respond to the Competent Authority. Frequent requests for clarification also affected the time needed to answer the requests. Additionally, it was concluded that Israel did not systematically provide updates on the status of requests where information was not provided within 90 days.

430. Since the 2016 review, Israel has implemented new procedures, including mechanisms that allow for internal monitoring of deadlines, to ensure that officers in charge of EOI requests remember to follow up on requests made to third parties if needed and provide updates to the requesting jurisdiction, when applicable. As described in section B.1, Israel's Competent Authority now requests information from banks directly to answer EOI requests in civil tax matters, which has significantly improved the timeliness of responses for banking information. As a result, during the review period Israel provided banking information in most cases within 90 to 180 days, reduced from the average time of between 180 days and 1 year shown in the 2016 Report.

431. The following table relates to the requests received during the period under review and gives an overview of response times of Israel in providing a final response to these requests, together with a summary of other relevant factors affecting the effectiveness of Israel's practice during the period reviewed.

Statistics on response time and other relevant factors

		1 Oct.- 31 Dec. 2019		2020		2021		1 Jan.- 30 Sept. 2022		Total	
		Num.	%	Num.	%	Num.	%	Num.	%	Num.	%
Total number of requests received	[A+B+C+D+E]	32	100	122	100	209	100	152	100	514	100
Final response: ≤ 90 days		17	53	69	57	166	79	63	41.4	315	61.3
≤ 180 days (cumulative)		25	78	104	85.9	193	92.3	111	73	433	84.2
≤ 1 year (cumulative)	[A]	29	90.6	119	98.3	198	94.7	130	85.5	476	92.6
> 1 year [B]		3	9.4	0	0	1	0.5	0	0	4	0.8
Requests withdrawn by the requesting jurisdiction	[C]	0		0		1	0.5	0	0	1	0.1
Failure to obtain and provide information requested (Partial information provided and request closed)	[D]	0		2	1.7	9	4.3	22	14.5	33	6.4
Requests still pending at date of review	[E]	0	0	1	0	0	0	0		0	0.1
Declined for valid reasons		0		0		0		0		0	0
Outstanding cases after 90 days		15		52		43		89		199	
Of these, status update provided within 90 days (for responses sent after 90 days)		10	66.7	42	80	38	88.3	53	59.5	143	72

* Israel counts request as corresponding to one information holder.

** The time periods in this table are counted from the date of receipt of the request to the date on which the final and complete response was issued.

432. Israel counts one letter as one request, regardless of the number of taxpayers linked to the request. However, where a request seeks different types of information that are accessed through different information holders, then Israel may for administrative efficiency treat each element as a separate request and allocate separate reference numbers to each element. For example, a request seeking banking information and accounting information may be treated as two requests, as the Competent Authority will seek banking information directly from the bank and refer the request for accounting information to the relevant ITA assessment office to gather the information. Therefore the 514 requests as counted by Israel relate to 419 request letters as counted by Israel's treaty partners. Even where a request is split into different elements, Israel does not count the request as being closed until all elements of the request have been answered so far as possible.

433. In some cases, as shown in the table, Israel provided partial information and informed the treaty partner that the remainder of the information could not be provided and recorded the request as closed. These are mainly cases where Israel could not provide all of the information because of the systemic limitations in its legal framework described at B.1 and C.1 above, i.e. Israel was not able to obtain CDD information from banks for civil tax

matters, for which a recommendation was issued in the 2022 Phase 1 Report. With effect from 1 October 2024, the ITA will have access powers to access CDD information from banks, also with respect to EOI requests received prior to 1 October 2024. The Competent Authority confirmed they will reach out to the EOI partners that sent the 23 EOI requests for which the CDD information could not be provided and will offer to get the requested CDD information when the access powers enter into application on 1 October 2024. No clear explanation was provided on the other failures to exchange part of the requested information (see paragraph 247).

434. The table shows the significant improvement in Israel's ability to answer EOI requests in a timely manner, when compared to the corresponding table in the 2016 Supplementary report. For the 2016 evaluation, Israel provided the requested information within 90 days in 12% of the cases, and within one year in 48% of requests received over the period under review. In contrast, during the current review period, it is evidenced that a large majority of the cases were answered within 90 days (61.3%), close to 85% within 180 days and almost all within a year (92.6%). However, towards the end of the review period, there was a rapid increase in failure to provide requested information (from 4.3% to 14.5%), together with a deterioration in timeliness of responses. For example, the final responses' rate within 90 days dropped from 79% in 2021 to 41.4% for the first three quarter of 2022. Overall, the 180-day cumulative timeliness dropped from 92.3% to 73% for the same periods.

435. As previously noted, the requests that have generally taken more time to be answered are those related to banking information, and even in those cases the improvement in the time taken to respond is evidenced and highlighted by the peers. The ITA confirmed the average response time for the banking access procedure decreased steeply from 2019 to 2020 (from 130 days in 2019 to 94 in 2020) and continued to decrease in 2021 to 53 days. Response time on banking information requests increased again in 2022 to 79 days.

436. EOI requests that typically took more than one year to respond were related to required information from outside of the ITA.

Clarifications and communication with partners

437. In the review period, Israel sent 33 requests for clarification, mostly related to additional information regarding the taxpayers, notification requirements and bank accounts. When Israel receives a request that requires clarification, it is saved on an encrypted virtual drive and a clarification letter is sent to the requesting jurisdiction before the request is allocated a reference number. Israel received 32 answers to the requests for clarification. Israel answered the requests. However, one request for clarification was

not responded to. Israel contacted the requesting jurisdiction reminding them of the request for clarification and informed the jurisdiction that failing any response, the case would be considered closed. Israel did not receive a reaction from the peer and closed the case, which is considered as withdrawn in the table above.

438. The peer input indicates that the clarifications sought by Israel were not excessive and were in line with the standard.

Status updates and communication with partners

439. Israel has indicated that it provided status updates to its peers, when necessary, as a routine practice, including, for some peers, regularly sending spreadsheets listing all open requests and the status of each case. Israel's Competent Authority has also implemented regular teleconferences with its main EOI partners and uses frequent e-mail communications, to keep partners updated. This regular contact has been noted by several peers in their input. The provision of status updates increased during the peer review period (from 66.7% in the last quarter of 2019 to 88.3% in 2021) but decreased significantly to 59.5% in the last part of the peer review period.

440. Two peers (including Israel's main EOI partner) highlighted that they did not receive regular status updates. This inconsistency may be explained by the fact that Israel has sometimes provided an update indicating that the outstanding information was “in process” without providing further information on what actions were being taken to obtain the information or when the partner could expect a full response. Whilst Israel has recorded these communications as status updates, they are not considered by the peers as status updates in line with the standard and are not in line with the standard.

441. Israel has demonstrated improvement in its practice of providing regular status updates. However, considering the above, **Israel should monitor provision of status updates to ensure that the requesting authority is updated on the status of the request in all cases where Israel is not in position to provide the requested information within 90 days.**

C.5.2. Organisation processes and resources

Organisation of the Competent Authority

442. The Competent Authority in Israel is the International Tax Unit of the ITA. The competent authority's offices are located and operate as part of the Professional Division of the ITA. During the peer review period, the team in charge of EOI consisted of the manager of Division, the EOI Manager and five EOI advisors. After the review period, the Head of the EOI Unit

and a number of temporary employees left. Some temporary employees were replaced by permanent employees. As of April 2024, the information exchange team consists of a manager, two permanent employees, and six part-time temporary employees who are supervised by the permanent employees. Combined with a decrease in timeliness of responses during the third part of the peer review period and increasing failure to provide requested information (see paragraph 434), these developments may affect Israel's ability to provide information in a timely manner. **Israel is recommended to take measures to ensure that appropriate resources are in place to provide quality information in a timely and complete manner.**

443. Contact information of the Competent Authority is updated when changes take place, via email sent to partner jurisdictions and the Global Forum's secure site for competent authorities. The competent authority's work consists of regular contact with Israel's EOI partners, and includes regular e-mail correspondences, occasional phone meetings and in-person meetings on major matters.

Resources and training

444. Israel has an EOI database for recording and monitoring EOI requests. Each request is recorded in the database and files uploaded and saved. Reports can be exported to view the status of requests at any time. Each employee of the EOI Unit is required on appointment to read and follow a handbook providing guidance that includes methods of operation of the Unit, confidentiality obligations and the commentary to the Model Convention, and is then assigned a mentor until the EOI manager is satisfied that the employee has a sufficient knowledge to handle requests. Employees mainly assist the Competent Authority with technical work, maintaining records and translating requests into Hebrew or English. The EOI manager routinely reviews the requests being handled by each team member and holds meetings to discuss the status of outstanding cases and provide advice and support.

445. Further, Israel has stated that it has no limitation in the resources devoted to the EOI work, although it experienced high staff turnover after the review period. Israel is currently working to facilitate the use of upload-links to receive EOI requests, whilst also still managing exchanges of information via encrypted e-mails, USB drives sent via courier and regular post.

446. The increase in the size of the EOI Unit since the 2016 Supplementary Report, the improved internal guidance and changes in procedures have had a positive impact in improving Israel's relationship with its peers and in improving the timeliness of responses. These improvements are recognised and evidenced by the peer input received.

Incoming requests

447. When a request for information is received, it is evaluated by the Competent Authority to check that it meets the standard of foreseeable relevance and that it is clear what information is needed. The Israeli Competent Authority labels the incoming requests from partner jurisdictions as confidential and treaty exchanged.

448. If clarification is necessary, the Competent Authority contacts the requesting jurisdiction to seek clarification. If the request is valid, it is registered in the internal EOI app, which generates a reference number. Where a request involves different types of information from different sources, it may be registered under two or more reference numbers, one reference number for each element. The ITA counts a further request for information on the same taxpayer as the same request when the background story is the same. However, if a further request is linked to the same taxpayer but refers to a different case or background, it will be registered as a new request.

449. Each request is assigned to an EOI employee. Upon receiving the request, the EOI staff member sends an email with confirmation of receipt to the requesting jurisdiction and provides a parallel reference number (or numbers, if the request is split into separate elements). If a request is received with two elements and there are gaps in the information needed to process one of the elements, the EOI staff member seeks clarification or additional information from the requesting jurisdiction without delaying the processing of the remaining requested information. The EOI Procedure includes precise instructions for the EOI staff for cases when the requesting jurisdiction expressly requests Israel to refrain from notifying the taxpayer.

450. If the requested information is available within the ITA, the EOI staff have access to and can collect the information directly from the ITA's databases. If the requested information is not held within the ITA, the staff member submits a request to the Tax Officer in the appropriate Assessment Office to collect the information from the relevant government agency, taxpayer or third party.

451. When a peer requests banking information in relation to a civil tax matter, the EOI Manager sends a letter to the bank directly by courier to require provision of the information and follows this up with a telephone call to ask whether the bank needs any clarifications. Once the information is ready, the EOI staff collect it from the bank. However, in such civil tax cases, CDD information held by the bank, including beneficial ownership information is not obtainable by the ITA, as explained in previous sections of the report. Information that is obtainable includes account opening documentation, copies of passports and licences, details of persons authorised to operate the account, specimen signatures and addresses and other contact

details of the account holders. For requests on criminal tax matters, the EOI office must send a copy of the request together with a summary to the Court, to obtain an order that allows them to access the information.

452. Information available in the ICA is obtained by the EOI Unit through the intelligence unit, which can access the information on-line. Where information is required from a taxpayer or other third party, the EOI Unit provides the relevant Assessment Officer with an explanation of the background to the case and a letter to be issued to the taxpayer or third party. This letter simply confirms that there has been an EOI request and sets out what information is needed.

453. Once the information is received, the assigned staff member checks whether all questions have been answered completely and that the answers do not include any excessive information, before sending the information to the requesting jurisdiction.

Outgoing requests

454. The ITA counts outgoing requests that have more than one taxpayer as one request, regardless of the number of linked taxpayers in the single request. To initiate an outgoing request, the assessment offices in the ITA are to fill out a template to be sent to the Competent Authority to ensure all requirements are fulfilled according to the standard. The template and associated procedures are based on the EOI Procedure that is studied by all staff of the EOI Unit.

455. All communications are done electronically, with the occasional phone-calls for clarifications, if needed. After confirming that all requirements are met, the Competent Authority of Israel forwards the request to the requested jurisdiction.

456. During the review period, Israel sent 319 requests to its peers. Peers have not raised any concerns as to the quality and completeness of Israel's requests. Peer input received indicates that requests made by Israel generally meet the foreseeable relevance standard. A couple of peers needed to request clarification from Israel in some cases, particularly to clarify terms and acronyms used, to understand the relationship between the taxpayer and the party from which information was requested and to clarify the applicable tax. One peer sought clarification to determine the foreseeable relevance of the request and did not receive the clarification from Israel within 90 days, thus the requests were closed. Israel has indicated that after checking with the assessment officer, Israel requested to withdraw the request. The Competent Authority explained this may have been due to the statutes of limitations having elapsed or the taxpayer having voluntarily provided the information.

457. Once received, the Israeli Competent Authority labels the responses to exchange of information requests received from partner jurisdictions as confidential and treaty exchanged when sending to assessment officers by email.

C.5.3. Unreasonable, disproportionate or unduly restrictive conditions for EOI

458. There are no factors identified in Israel’s EOI agreements or domestic laws that could unreasonably, disproportionately, or unduly restrict the effectiveness of exchange of information.

Annex 1. List of in-text recommendations

The Global Forum may identify issues that have not had and are unlikely in the current circumstances to have more than a negligible impact on EOIR in practice. Nevertheless, the circumstances may change, and the relevance of the issue may increase. In these cases, a recommendation may be made; however, it should not be placed in the same box as more substantive recommendations. Rather, these recommendations can be stated in the text of the report. A list of such recommendations is reproduced below for convenience.

- **Element A.1.1:** The Israeli authorities confirmed they never encountered situations with non-professional nominees and the Competent Authority never received an EOI request involving a non-professional nominee. Israel should continue to monitor this activity to ensure that it does not become an impediment in the effective exchange of information (paragraph 131).
- **Elements A.1.1 and A.1.4:** Israel should continue to strengthen the supervision of lawyers with respect to their AML requirements, to ensure that beneficial ownership information is available with these professionals in line with the standard (paragraphs 141 and 197).
- **Element A.1.2:** Israel should take measures to restrict the possibility of holders of bearer shares to remain anonymous for a potentially unlimited period (paragraph 145).
- **Element A.1.3:** Israel should continue taking steps to improve the availability of ownership information with the Registrar, including striking off non-compliant partnerships (paragraph 164).
- **Element A.1.4:** Israel should ensure the availability of identity and beneficial ownership information in respect of the settlors, trustees and beneficiaries of foreign resident trusts having a trustee resident in Israel in all cases (paragraph 173).
- **Element A.3:** AML legislation allows banks to apply simplified CDD regarding “another type of account specified by the Supervisor of Banks in a directive”. Although this provision seems to be applied in line with the standard, Israel should continue to ensure that the

limited exceptions to identifying the beneficial ownership information under the simplified CDD is applied in line with the standard (paragraph 263).

- **Element B.1:**
 - Israel should continue to monitor access to banking information for exchange of information purposes and, if necessary, take further measures to ensure timely access to all banking information as required under the standard (paragraph 320).
 - Israel should consider applying sanctions for non-compliance with reporting obligations discovered in the framework of answering an EOI request (paragraph 326).
- **Element B.2:** Israel should monitor the timeliness of the appeal process when it is actioned by Israeli-resident taxpayers, to ensure timely exchange of information (paragraph 349).
- **Elements C.1.3 and C.1.4:** Israel should ensure that its EOI relationships with Belarus, Ethiopia, Chinese Taipei and Uzbekistan are brought in line with the standard (paragraphs 371 and 374).
- **Element C.2:** Israel should continue to conclude EOI agreements with any new relevant partner who would so require (paragraph 386).

Annex 2. List of Israel's EOI mechanisms

Bilateral international agreements for the exchange of information

	EOI partner	Type of agreement	Signature	Entry into force
1.	Albania	DTC	02-05-2020	29-12-2021
2.	Armenia	DTC	24-07-2017	14-06-2018
3.	Australia	DTC	27-03-2019	06-12-2019
4.	Austria	DTC	27-11-2016	01-03-2018
5.	Azerbaijan	DTC	12-12-2016	28-12-2017
6.	Belarus	DTC	11-04-2000	29-12-2003
7.	Belgium	DTC	13-07-1972	01-11-1975
8.	Brazil	DTC	12-12-2002	16-09-2005
9.	Bulgaria	DTC	18-01-2000	31-12-2002
10.	Canada	DTC	20-09-2016	21-09-2016
11.	China (People's Republic of)	DTC	08-04-1995	22-12-1995
12.	Croatia	DTC	26-09-2006	01-07-2007
13.	Czechia	DTC	12-12-1993	23-12-1994
14.	Denmark	DTC	09-09-2009	29-12-2011
15.	Estonia	DTC	29-06-2009	28-12-2009
16.	Ethiopia	DTC	02-06-2004	01-01-2008
17.	Finland	DTC	08-01-1997	08-11-1998
18.	France	DTC	31-07-1995	18-07-1997
19.	Georgia	DTC	12-05-2010	01-01-2012
20.	Germany	DTC	21-08-2014	09-05-2016
21.	Greece	DTC	24-10-1995	06-03-1998
22.	Hungary	DTC	14-05-1991	13-11-1992
23.	India	DTC	29-01-1996	15-05-1996
24.	Ireland	DTC	20-11-1995	24-12-1995

	EOI partner	Type of agreement	Signature	Entry into force
25.	Italy	DTC	08-09-1995	06-08-1998
26.	Jamaica	DTC	29-06-1984	03-09-1985
27.	Japan	DTC	08-03-1993	08-03-1993
28.	Korea	DTC	18-03-1997	13-12-1997
29.	Latvia	DTC	20-02-2006	13-06-2006
30.	Lithuania	DTC	11-05-2006	01-06-2006
31.	Luxembourg	DTC	13-07-2004	22-05-2006
32.	Malta	DTC	28-07-2011	29-12-2013
33.	Mexico	DTC	19-07-1999	09-05-2000
34.	Moldova	DTC	23-11-2006	12-04-2007
35.	Netherlands	DTC	02-07-1973	09-09-1974
36.	North Macedonia	DTC	23-08-2012	13-03-2018
37.	Norway	DTC	02-11-1966	11-01-1968
38.	Panama	DTC	08-11-2012	30-06-2014
39.	Philippines	DTC	09-06-1992	27-05-1997
40.	Poland	DTC	22-05-1991	30-12-1991
41.	Portugal	DTC	26-09-2006	18-02-2008
42.	Romania	DTC	15-06-1997	21-06-1998
43.	Russia	DTC	25-04-1994	07-12-2000
44.	Serbia	DTC	21-11-2018	25-12-2019
45.	Singapore	DTC	19-05-2005	06-12-2005
46.	Slovak Republic	DTC	08-09-1999	23-05-2000
47.	Slovenia	DTC	30-01-2007	27-12-2007
48.	South Africa	DTC	10-02-1978	27-05-1980
49.	Spain	DTC	30-11-1999	20-11-2000
50.	Sweden	DTC	22-12-1959	03-06-1960
51.	Switzerland	DTC	02-07-2003	22-12-2003
52.	Chinese Taipei	DTC	24-12-2009	24-12-2009
53.	Thailand	DTC	22-01-1996	24-12-1996
54.	Türkiye	DTC	14-03-1996	27-05-1998
55.	Ukraine	DTC	26-12-2003	20-04-2006
56.	United Arab Emirates	DTC	30-05-2021	29-12-2021

	EOI partner	Type of agreement	Signature	Entry into force
57.	United Kingdom	DTC	26-09-1962	13-02-1963
		Protocol II – DTC	16-09-2019	28-10-2019
58.	United States	DTC	26-01-1993	30-12-1994
59.	Uzbekistan	DTC	15-09-1998	09-03-1999
60.	Viet Nam	DTC	04-08-2009	25-12-2009

Convention on Mutual Administrative Assistance in Tax Matters (as amended)

The Convention on Mutual Administrative Assistance in Tax Matters was developed jointly by the OECD and the Council of Europe in 1988 and amended in 2010 (the Multilateral Convention).²⁸ The Multilateral Convention is the most comprehensive multilateral instrument available for all forms of tax co-operation to tackle tax evasion and avoidance, a top priority for all jurisdictions.

The original 1988 Convention was amended to respond to the call of the G20 at its April 2009 London Summit to align it to the standard on exchange of information on request and to open it to all countries, in particular to ensure that developing countries could benefit from the new more transparent environment. The Multilateral Convention was opened for signature on 1 June 2011.

The Multilateral Convention was signed by Israel on 24 November 2015 and entered into force on 1 December 2016 in Israel. Israel can exchange information with all other Parties to the Multilateral Convention.

The Multilateral Convention is in force in respect of the following jurisdictions: Albania, Andorra, Anguilla (extension by the United Kingdom), Antigua and Barbuda, Argentina, Armenia, Aruba (extension by the Netherlands), Australia, Austria, Azerbaijan, Bahamas, Bahrain, Barbados, Belgium, Belize, Benin, Bermuda (extension by the United Kingdom), Bosnia and Herzegovina, Brazil, British Virgin Islands (extension by the United Kingdom), Brunei Darussalam, Bulgaria, Burkina Faso, Cabo Verde, Cameroon, Canada, Cayman Islands (extension by the United Kingdom), Chile, China (People's Republic of), Colombia, Cook Islands, Costa Rica,

28. The amendments to the 1988 Convention were embodied into two separate instruments achieving the same purpose: the amended Convention (the Multilateral Convention) which integrates the amendments into a consolidated text, and the Protocol amending the 1988 Convention which sets out the amendments separately.

Croatia, Curaçao (extension by the Netherlands), Cyprus,²⁹ Czechia, Denmark, Dominica, Dominican Republic, Ecuador, El Salvador, Estonia, Eswatini, Faroe Islands (extension by Denmark), Finland, France, Georgia, Germany, Ghana, Gibraltar (extension by the United Kingdom), Greece, Greenland (extension by Denmark), Grenada, Guatemala, Guernsey (extension by the United Kingdom), Hong Kong (China) (extension by China), Hungary, Iceland, India, Indonesia, Ireland, Isle of Man (extension by the United Kingdom), Israel, Italy, Jamaica, Japan, Jersey (extension by the United Kingdom), Kazakhstan, Kenya, Korea, Kuwait, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Macau (China) (extension by China), North Macedonia, Malaysia, Malta, Marshall Islands, Mauritania, Mauritius, Mexico, Moldova, Monaco, Mongolia, Montenegro, Montserrat (extension by the United Kingdom), Morocco, Namibia, Nauru, Netherlands, New Zealand, Nigeria, Niue, Norway, Oman, Pakistan, Panama, Papua New Guinea, Peru, Poland, Portugal, Qatar, Romania, Russia, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, San Marino, Saudi Arabia, Senegal, Serbia, Seychelles, Singapore, Sint Maarten (extension by the Netherlands), Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Tunisia, Türkiye, Turks and Caicos Islands (extension by the United Kingdom), Uganda, Ukraine, United Arab Emirates, United Kingdom, Uruguay and Vanuatu and Viet Nam.

In addition, the Multilateral Convention was signed by the following jurisdictions, where it is not yet in force: Gabon, Honduras, Madagascar, Philippines, Togo, United States (the original 1988 Convention is in force since 1 April 1995, the amending Protocol was signed on 27 April 2010).

29. Note by the Republic of Türkiye: The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Annex 3. Methodology for the review

The reviews are based on the 2016 Terms of Reference and conducted in accordance with the amended 2016 Methodology for peer reviews and non-member reviews and the Schedule of Reviews.

Israel's review in the round was initially launched in the fourth quarter of 2019, and the review period for peer inputs and statistics provided by Israel was 1 July 2016 until 30 June 2019. Due to the COVID-19 constraints, this review was relaunched in the second quarter of 2021 and new review period used for this report was set for 1 January 2018 until 31 December 2020. Because of the COVID-19 pandemic and multiple postponements for onsite visit, it was decided to carry out a Phase 1 review.

This evaluation is based on information available to the assessment team including the exchange of information arrangements signed, laws and regulations in force or effective as at 25 April 2024, Israel' EOIR practice in respect of EOI requests made and received during the three year period from 1 October 2019 until 30 September 2022, Israel's responses to the EOIR questionnaire, inputs from partner jurisdictions, as well as information provided by Israel's authorities during the on-site visit that took place 21-23 March 2023 in Tel Aviv, Israel.

List of laws, regulations and other materials received

Corporate legislation

Law to amend the Income Tax Ordinance (No. 272) (Amendments to Increase Transparency in Tax Law and Compliance with International Requirements Regarding Exchange of Information), 5784-2024

Companies Law, 5759-1999, as amended

Companies Ordinance, 5743-1983, as amended and Partnerships Regulations

Companies Regulation Amendment (Reporting, Registration Details and Forms), 5781-2021

Temporary provision (Companies Regulations (Fees), 5761-2001)
Securities Law
Partnership Ordinance, 5735-1975, as amended
Trusts Law of 1980, 5739-1979, as amended
Associations Law of 1980
Private Protection Law

Tax legislation

Income Tax Ordinance, 5721-1961
Income Tax Ordinance Amendment, 201-2016
Income Tax Rules
Directive for Implementation No. 10-2019, Israel Tax Authority
Directive for Implementation No. 14-2021, Israel Tax Authority
Exchange of Information Procedure, International Tax Division, Israel Tax Authority
Template requests for banking information, Israel Tax Authority
Value Added Tax Law
Administrative Offences Regulations
Archive Regulations
Law of Return
Government Decree 1726, dated 6 April 2024 and Book of Laws 3205, p. 786, dated 7 April 2024

AML and other legislation

Prohibition on Money Laundering Law, 5760-2000, as amended
Prohibition on Money Laundering Order, 5761-2001 (Obligations of Banking Corporations regarding Identification, Reporting and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism)
Prohibition on Money Laundering (Obligations of Business Service Providers regarding Identification, Reporting and Record-Keeping for the Prevention of Money Laundering and the Financing of Terrorism) Order, 5775-2014

Proper Conduct on Banking Business Order 411, Management of Anti-Money Laundering and Countering Financing of Terrorism Risks
Directive No 825 on bi-annual report of exposure to compliance risks
Bar Association Law
Penal Law, 7737-1977
Civil Law Order Regulation

Banking law

Banking Licensing Law 5741-1981

Authorities interviewed during on-site visit

Representatives from:

- the Israel Tax Administration
- the Israel Corporations Authority
- the Bank of Israel
- the Ministry of Justice
- Israel AML Authority
- the private sector including lawyers, accountants, and banks.

Current and previous reviews

- This report analyses Israel's legal and regulatory framework and its implementation in practice in relation to the international standard of transparency and exchange of information on request against the 2016 Terms of Reference, as part of the second round of reviews conducted by the Global Forum.
- Previously in Round 1, Israel underwent three reviews. In 2013, the legal and regulatory framework of Israel was assessed. In 2014, a combined review analysed both the legal and regulatory framework and its practical implementation and concluded that Israel was overall Partially Compliant with the standard. In 2016, a similar assessment took place and concluded that Israel has made progress in the implementation of the standard and was then Largely Compliant with the standard. These three reviews were conducted according to the 2010 Terms of Reference and Methodology approved by the Global Forum in February 2010.

Summary of reviews

Review	Assessment team	Period under review	Legal framework as of	Date of adoption by Global Forum
Round 1 Phase 1	Ms Marlene Parker, Director of Legislation and Treaty Services, Ministry of Finance of Jamaica; Ms Sarita de Geus, Senior Tax Policy Advisor, Ministry of Finance of the Netherlands; Mr Sanjeev Sharma, Mr David Moussali and Mr Radovan Zidek for the Global Forum Secretariat	not applicable	April 2013	July 2013
Round 1 Phase 2	Ms Lorraine Welch, Deputy Chief Parliamentary Counsel, Attorney General's Chambers, Bermuda; Ms Melisande Kaaij, Senior Policy Advisor, Ministry of Finance, the Netherlands and Mr Radovan Zidek for the Global Forum Secretariat:	1 July 2011- 30 June 2013	8 August 2014	October 2014
Round 1 Supplementary to Phase 2	Ms Lorraine Welch, Deputy Chief Parliamentary Counsel, Attorney-General's Chambers, Bermuda; Ms Sarita de Geus, Senior Tax Policy Advisor, Ministry of Finance of the Netherlands and Mr Radovan Zidek for the Global Forum Secretariat	1 July 2013-1 June 2015	19 August 2016	October 2016
Round 2 Phase 1	Mr David Smith, United Kingdom; Mr Davit Chitaishvili, Georgia; Ms Darma Romero and Ms Séverine Baranger for the Global Forum Secretariat	not applicable	1 August 2022	November 2022
Round 2 Phase 2		1 October 2019- 30 September 2022	25 April 2024	18 July 2024

Annex 4. Israel’s response to the review report³⁰

Israel would like to express its appreciation for the outstanding work done by the assessment team in evaluating Israel for this Phase 2 review and thank the members of the Peer Review Group for their valuable contributions to the Phase 2 review. Israel agrees with the recommendations and the determinations included in the Phase 2 report, which reflect fairly Israel’s current legal framework.

Israel remains fully committed to the global standard for exchange of information for tax purposes and has already a long history of efficient day-by-day cooperation with partner jurisdictions during the review. Israel will continue to take due note of the recommendations that mostly relate to newer parts of the standard, such as beneficial ownership.

Israel will keep updating the Global forum on the follow up process and will report the progress made to the recommendations.

In the meantime, the recommendations of this Phase 2 report will be examined carefully to ensure that Israel’s legal framework is brought fully in line with the standard.

30. This Annex presents the Jurisdiction’s response to the review report and shall not be deemed to represent the Global Forum’s views.

GLOBAL FORUM ON TRANSPARENCY AND EXCHANGE
OF INFORMATION FOR TAX PURPOSES

**Peer Review Report on the Exchange of Information
on Request ISRAEL 2024 (Second Round,
Combined Review)**

The Global Forum on Transparency and Exchange of Information for Tax Purposes is a multilateral framework for tax transparency and information sharing, within which over 170 jurisdictions participate on an equal footing.

The Global Forum monitors and peer reviews the implementation of international standard of exchange of information on request (EOIR) and automatic exchange of information. The EOIR provides for international exchange on request of foreseeably relevant information for the administration or enforcement of the domestic tax laws of a requesting party. All Global Forum members have agreed to have their implementation of the EOIR standard be assessed by peer review. In addition, non-members that are relevant to the Global Forum's work are also subject to review. The legal and regulatory framework of each jurisdiction is assessed as is the implementation of the EOIR framework in practice. The final result is a rating for each of the essential elements and an overall rating.

The first round of reviews was conducted from 2010 to 2016. The Global Forum has agreed that all members and relevant non-members should be subject to a second round of review starting in 2016, to ensure continued compliance with and implementation of the EOIR standard. Whereas the first round of reviews was generally conducted as separate reviews for Phase 1 (review of the legal framework) and Phase 2 (review of EOIR in practice), the EOIR reviews commencing in 2016 combine both Phase 1 and Phase 2 aspects into one review. Final review reports are published and reviewed jurisdictions are expected to follow up on any recommendations made. The ultimate goal is to help jurisdictions to effectively implement the international standards of transparency and exchange of information for tax purposes.

This peer review report analyses the practical implementation of the standard of transparency and exchange of information on request (EOIR) in Israel, as part of the second round of reviews conducted by the Global Forum on Transparency and Exchange of Information for Tax Purposes since 2016.



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