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Hollywood Mogul's Tax Break at Heart of Israel's Bribery Scandal

By Matthew Kalman

A controversial tax benefit sits at the center of the bribery probe on Israeli Prime Minister Benjamin Netanyahu.

Introduced in 2008, the tax break exempts Israel's new immigrants and some returning citizens from reporting foreign assets and passive income for a decade after their arrival. Designed to to target wealthy immigrants, the break has been dubbed the "Milchan Law" after its most prominent beneficiary, Israel-born billionaire Hollywood producer Arnon Milchan, who could resume residence in Israel without paying tax on certain foreign income.

In a Feb. 13 statement, Israeli police recommended that Netanyahu face bribery and breach of trust charges in a decision that has cast doubt on the prime minister's political future. Netanyahu lobbied for an extension in the tax benefit for a further 10 years while he accepted expensive gifts from Milchan, the police said. In a Feb. 13 statement broadcast on Facebook, Netanyahu acknowledged receiving gifts from Milchan. He stressed, though, that the gifts hadn't influenced his actions.

Snapshot

- Tax break nicknamed for Hollywood mogul at center of corruption case
- Police findings have put the prime minister's political future in doubt

Data Limitations

Scrutiny over the Israel Tax Authority's reporting exemption for new immigrants and returning citizens predates the conclusion of the police's 14-month investigation into Netanyahu.

In its 2018 Financial Secrecy Index, published Jan. 30, the Tax Justice Network transparency advocacy group cited the limitations that the ITA has "placed upon itself" for accessing financial and identity information on new immigrants and returning citizens. In a 2014 report on the implementation of tax transparency measures, the OECD similarly called for Israel to give itself access to this information.

The exemption is "a real loophole for criminality," Moran Harari, founder and director of Tax Justice Network Israel, based at the College of Management in Rishon Lezion, told Bloomberg Tax by phone Jan. 23.

Budget Battles

After Netanyahu was elected in 2009, his first budget further amended the "Milchan Law," allowing the finance minister to determine criteria to extend the tax and reporting exemptions by a further 10 years in the case of people who made a significant contribution to Israel's economy.

Since 2013, the Israel Tax Authority has repeatedly tried to repeal the reporting exemption and the 10-year extension, inserting an appropriate amendment into the budget law each year, and each time it has been rejected either by the government or later in the legislative process. The criteria under which the extension may be granted have never been formalized, and for the time being it remains in abeyance. An ITA spokesperson declined to comment for this article.

The authority doesn't object in principle to the tax benefit for immigrants and returning residents, but the reporting exemption obscures the required information to know the real source of income reported as foreign by taxpayers and has become a major problem in Israel's efforts to be accepted as a fully compliant jurisdiction under international tax reporting agreements.

"I can understand the criticism regarding this reporting exemption, and I know from time to time the tax authorities, because of criticism outside Israel, are trying to suggest to the legislature to cancel it," Harel Perlmutter, a tax partner at Barnea and Co. law firm in Tel Aviv, told Bloomberg Tax by phone Feb. 15. But "at the moment I do not see any movement toward this end"

Boaz Feinberg, partner Zysman, Aharoni, Gayer and Co. law firm in Tel Aviv, told Bloomberg Tax by phone Feb. 15 that Israel still has a strict regime against money laundering. Israel's participation in global tax transparency efforts, such as the Organization for Economic Cooperation and Development's Common Reporting Standard, will make it tough for any new resident to hide income from their jurisdiction of origin, he said.

“I'm not sure the risk is as big as some would think,” added Feinberg, head of the firm's tax and anti-money-laundering department. “If someone is in the habit of concealing unreported income, even if he is under an obligation to the tax authorities, he probably will not comply in the same manner in which he hasn't complied with other jurisdictions.”

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