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**The "Combined Solution" to Taxation of Foreign
Trusts in Israel**

by

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Chapter One: Introduction

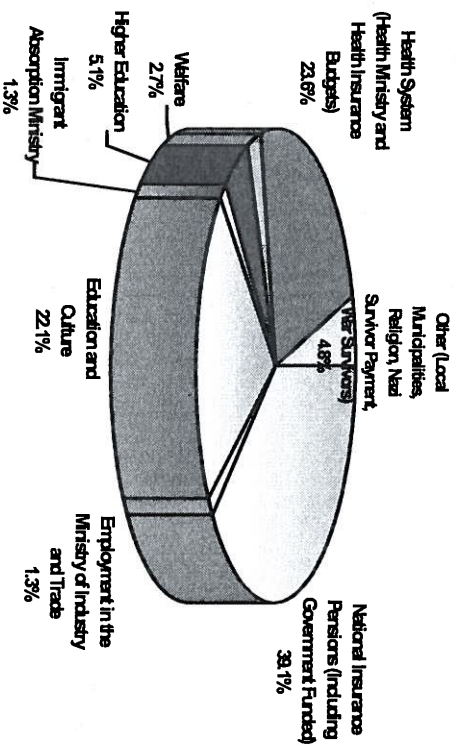
This study aims to examine whether the final product is for the benefit of the "little" citizen. Will we, by taxing foreign trusts, increase the tax pie, and as a result achieve social goals such as equality in the distribution of the tax burden, or, will the opposite occur. It is possible that non-taxation of trusts may lead to positive results, such as:

- Avoiding the escape of foreign capital
- Causing an increase in investments in Israel
- The formation of new businesses
- Israel becoming a tax haven

In the end, the flow of capital from abroad will create the same cash flow, and perhaps even more than monies that would have been collected by the taxation of foreign trusts.

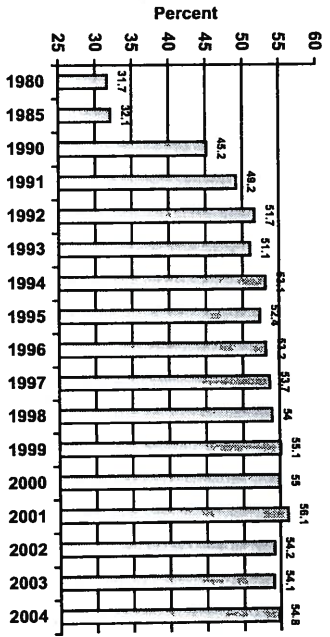
The issue in this research is to examine the benefits of taxation of foreign trusts in Israel according to the new tax reform, on the hypothesis that lowering the barriers will better serve the main goals of the Israeli treasury than intensifying the tax burden. The study further aims to examine the impact of applying different types and rates of taxes on change in the growth rate of the Israeli national economy. It also strives to examine the balance between individual and public interests concerning taxation issues with a focus on taxation of foreign trusts.

In Israel, the tax threshold, i.e. the level of income from which one begins to pay taxes, is a monthly income of approximately \$1000. Therefore, the lower deciles do not pay any tax at all. But moreover, in order for these people to live with dignity, they receive stipends and welfare payments from the Welfare Ministry and National Insurance (see graph no. 1).



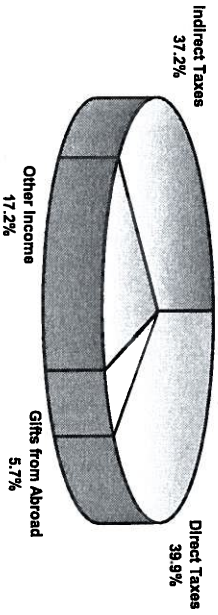
Graph no. 1: Expenditure for social services (including development budgets) – 2005 (in NIS billions)

Most of these payments come from taxes paid by honest citizens on whom the tax burden is particularly high. This government social spending only continues to grow as part of the total government spending as illustrated in the graph below.



Graph no. 2: Development of social spending as a percentage of government spending (without return of debt): 1980-2004

- A complex situation has been created according to which a certain number of problematic conditions exist: Government income, particularly from direct taxes, has declined greatly for the following reasons:
- Inequality in the distribution of the tax burden;
 - An enforcement policy that is not strict enough;
 - A social mood according to which the establishment itself is corrupt and therefore there is legitimacy in not reporting income;
 - The profit overrides the risk (small chance of being caught);
 - Many of the tax laws are obsolete and irrelevant.



Graph no. 3: Decrease in direct taxes 2010 vs. 2005

Chapter Two: Review of the Literature

Preface

Since the dawn of humanity, from the beginning of the era in which taxes were collected from citizens, creative solutions have been sought to decrease the tax burden or even to evade tax payment. One of the original methods used is the creation of a trust. A trust is an entity created and governed under the State law in which it was formed. A trust involves the creation of a fiduciary relationship between a grantor, a trustee and a beneficiary for a stated purpose. A trust may be created by any of the following methods:

- A declaration by the owner of property that the owner holds the property as a trustee;
- A transfer of property by the owner during the owner's lifetime to another person as a trustee;
- A transfer of property by the owner, by will or by another instrument taking effect upon the death of the owner, in trust, to another person as trustee;
- An exercise of a power of appointment to another person as trustee or an enforceable promise to create a trust (<http://www.irs.gov/businesses/small/article/0,,id=10651,00.html>).

Profile of an investor in tax havens

In the short history of the field, there have been a few hints according to which it is possible to sketch the profile of investors in offshore investments. They include residents of countries such as the US and Britain, which have profit taxes when transferring from investment to investment. Such people clearly are interested in investing outside of their countries. The high rate of offshore trust funds managed by administrative groups in those countries prove the effectiveness of this incentive.

Another group of investors in offshore foreign trusts, whose importance is continually growing, is composed of individuals who live outside their countries or other investors that includes institutions and trustees, who are interested in achieving the advantages of professional specialization in a certain sector, the offshore trust fund, managed by a reputable group, may be the ideal solution

What is a trust?

A trust is a legal concept. It is a web of legal relationships according to which the creator of the trust (the trustor) transfers ownership of his assets to a trustee. The trustor provides the trustee with legal ownership of the assets and the right to act as a trustee according to the instructions of the trust deed, and according to the law.

Reasons for creating trusts

The trust institution has existed for hundreds of years. There are many reasons for establishing a trust of which tax planning is only. The following are the main reasons for establishing a trust:

- Planning the benefits of assets for a number of generations of beneficiaries

- Protecting property against the litigation of creditors: Coping with inheritance laws
- Caring for disabled individuals (the disabled, the sick, etc) Protecting family property from a family member with personal problems:
- Pension plans for employees: Setting up this type of trust aims to ensure the future of retired employees and their families.
- A trust program for investment purposes: It is common to invest in cooperative trust funds in the stock market.
- Trusts for charitable purposes: Use of trusts for various public activities, particularly charitable works, is common.
- Ensuring control over family assets: A trust may serve to coordinate family property holdings and ensure control of diverse businesses.

Special characteristics of foreign trusts

- A foreign trust will generally have special characteristics (Clarke, 1999):
- It is created by the grantor in a country in which he does not reside, and in which the beneficiaries probably do not reside.
 - The country in which the trust is created will usually be a common law tax haven. The Bahamas, Bermuda, the Cayman Islands, the Channel Islands, Gibraltar, Hong Kong, the Isle of Man, and Vanuatu all have numerous trusts.
 - The trustee probably will be a bank or trust company with an office located in the foreign country in which the trust will be administered.
 - The trust will be a living trust.
 - The trust may provide for income and be accumulated for some years before any distributions are made to beneficiaries.
 - The grantor will normally reserve the right to amend or revoke the trust unless tax reasons in his home country compel him to relinquish these rights.
 - The grantor generally also will reserve the right to change the trustee. He may also provide for someone else to have this power after his death.

Use of growth models

Many theoretical and empirical studies have used growth models to simulate the influence of a basic tax reform on economic growth. One may conclude from these studies that it is possible to permanently increase economic growth by lowering the distorting influences of the taxation system (see, Engen and Gale, 1996, and Auerbach, 1996). However, a rise in economic growth depends greatly on the hypotheses of the models and therefore there is a difference in conclusions regarding the precise impact of taxation over economic growth. The following is an itemization of the results of some of these studies.

- King and Rebelo (1990) conduct a simulation according to which a rise of one tenth of one percent in the tax rate lowered the growth rate by about two hundredths of a percent. The reason for this was the disparity that the tax creates between gross and net yield in savings. Individuals are very sensitive to net savings yields and therefore a rise in tax will lead to a decline in savings and investments.
- An additional simulation model (Mendoza, Milesi-Ferretti and Asea, 1996) estimates a modest rise in growth rate, one quarter of one percent per year, as a result of lowering tax rates by one tenth of one percent

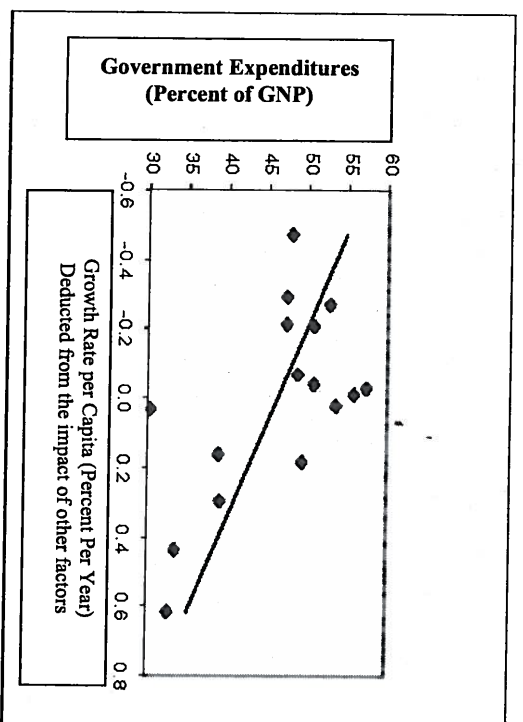
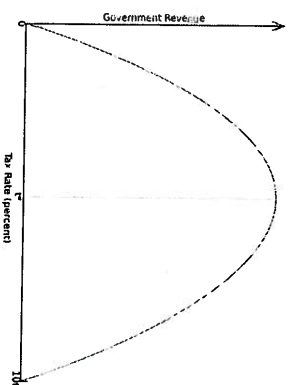


Chart no. 3: Growth rate per capita

Relevant global research and the Laffer curve

The Laffer curve, that became popularized by Arthur Laffer, is used to illustrate the concept of taxable income elasticity - the idea that government can maximize tax revenue by setting tax rates at an optimum point and that neither a 0% tax rate nor a 100% tax rate will generate government revenue. It describes how increasing taxation past a certain point might lower revenue and vice versa.



The curve is most understandable at both extremes of income taxation—zero percent and one-hundred percent—where the government collects no revenue. At one extreme, a 0% tax rate means the government's revenue is, of course, zero. At the other extreme, where there is a 100% tax rate, the government collects zero revenue because (in a "rational" economic model) taxpayers presumably change their behavior in response to

the tax rate: either they have no incentive to work or they avoid paying taxes, so the government collects 100% of nothing. Somewhere between 0% and 100%, therefore, lies a tax rate percentage that will maximize revenue. Critics commonly point out that socialist states, such as the U.S.S.R., have been able to derive revenues at a 100% tax rates, though they would have derived more if tax rates had been lower.

Laffer himself has pointed to Russia and the Baltic states who have recently instituted a flat tax with rates lower than 35%, and whose economies started growing soon after implementation.

Recent research in Israel

Lavi and Stervechinsky (2001) show that in the long term policy variables have a significant impact over GNP demand. Lowering tax by 1% of the GNP (without changing the public deficit, raises the GNP by about 2%. Taxation and deficit have a strong negative impact on productivity and investments and a relatively small impact over production factors.

Dahan and Stervechinsky (1996) study the correlation between the public sector budget and economic growth in Israel. The main findings indicate that the rate of growth per capital is negatively influenced by the tax rate. The composition of taxation affects growth because income tax affects it negatively, damaging the profitability of investments, while indirect tax has no significant impact over growth.

The impact of fiscal policy on investments in OECD countries

Many countries have attributes identical to those in Israel from the economic perspective. There are also many identical attributes in the tax laws of countries mentioned in this research, and close considerations in the establishment of foreign trusts.

Legitimate tax planning is the establishment of a trust fund that exempts its initiator from tax, subject to the tax treaties between the countries and Israel, as a country that absorbs immigrants from many countries, also absorbed, and continues to absorb values, laws and particularly taxation laws, in particular from Anglo-American countries.

Trusts can therefore be divided into two types: Countries adopting the accepted law – England, USA and Australia, as well as those adopting British law such as the Virgin Islands, the Cayman Islands and Gibraltar, and countries adopting continental law such as Liechtenstein, Panama and the Antilles.

This researcher believes the important research questions remain of whether lowering barriers (decreasing bureaucracy) in the taxation system, and implementing taxation of trust funds abroad encourage investors in Israel and abroad, and encourage the flow of capital into and out of the country?

In view of all the above, this researcher hypothesizes that

1. Lowering the barriers within the Israeli taxation system will encourage investors in Israel and abroad.
2. Taxing foreign trusts will lead to money escaping from Israel abroad.

Chapter Three: The Economic Significance of Trusts

Today, trusts are used as a legal structure to cope with aspects of individual and international taxation. In other countries, trusts are considered to be a legal solution for solving problems of taxation of inheritances and gifts.

According to the survey conducted by STEP amongst its 3,400 members it transpires that there are 1018 trust companies in the world that hold a government license, of which 78 are in Gibraltar and 162 in the Jersey Islands. The result – the global accumulated property held in the trust is estimated to be \$2.4 trillion.

By nature, because of sophistication, the need for financial experts and those with legal training, and based on the large sums required for investment (at least \$1.2 million), this tool is utilized by the upper thousandth of the population and well-to-do foreign residents who are looking for attractive investment horizons.

The reasons for a foreign resident creating a foreign trust fund

According to American law, an individual who bequeaths up to \$1 million is exempt from inheritance tax. In Israel, there is no inheritance tax. This tax was applicable until the 1980s, and led to legal manipulations in order to avoid paying it so that in 1993 it was finally canceled. One of the reasons for its cancellation was that it was a tax that serves only the rich, who would get around it through experts and consultants such as lawyers and accountants.

A situation was created in which wealthy Americans, whose property was valued above this sum and wanted to bequeath it to their offspring, had a problem with tax payment, which in many cases, reached 52% on the inheritance (above \$1 million).

On the other hand, the marginal tax rate on personal work was lower than that in Israel. There are leniencies in this law, for example, if the individual left the US and gave up his American citizenship, he is exempt after ten years from inheritance tax when bequeathing his property to offspring.

As a direct result of the American law, there are two strong arguments for a lack of desire to pay this tax:

- a. An individual who earned money all his life and paid tax on income is actually required to pay additional tax on assets that he accumulated - when inheriting. Therefore he sees this justifiably, as double taxation.
- b. Inheritance law is in principle an egalitarian tax that aims to divide wealth and transfer it from the rich to the poor. The rich, by nature look for ways to maintain their capital, without sharing with the treasury and the public coffers.

Therefore, one elegant way to avoid paying tax is by creating a trust fund in Israel, because in other countries, such as England and Canada, he will be required to pay tax.

Today there are more than one hundred countries that provide low tax rates to their residents or to companies and foreigners, some even delineating free trade zones for

this purpose. However, a company or individual who decides to move its business to a tax haven will encounter some complex questions, such as:

1. What type of company should be managed in a tax haven?
2. How does one construct holding of the company?
3. The quality and skills of the local work force.
4. The attitude of OECD countries and the US towards these havens

Thus, in view of the above, one can understand the tendency to utilize trusts ever more with the economic intention of savings in taxes, preferring this method over other tax havens, despite the disadvantages.

In Israel, as presented above, tax that foreign trust funds contribute to the national coffers is estimated to be 0.28% of the total GDP. It can be clearly seen that this fact is significant for the purposes of utilizing resources (see graph no. 2) and for increasing expenses for public consumption.

Chapter Four: The Research Methodology

The research approach

The research approach in the present study is basically the quantitative approach. Research questionnaires were distributed in two rounds, with the first round conducted according to the qualitative method, in which six experts in the field of international taxation and who were influential over decision-makers in the Israeli economy, were sampled.

The questionnaires contained interviews that were the main source of information. Asking questions and receiving answers is a more difficult task than it first seems. The written or spoken word may have more than one implication. Even if questions are very carefully formulated, one must report and codify the responses carefully.

The research population included a total of 43 respondents. Questionnaires were distributed to two groups having different levels of knowledge. The first group, were experts in the field. The second group included 37 respondents with a broad education in the field of taxation in general, and specifically international taxation.

The responses of the respondents in both groups were analyzed based on the Delphi method.

The Delphi group research method

The Delphi research method is a powerful instrument for examining future developments and making strategic decisions in the business and government sectors, and for supporting a process of consolidating national scientific policy. The method is based on interaction between experts, using recurring rounds of structured questionnaires, until the responses converge towards a reasonable degree of consensus.

In a typical Delphi research, experts are asked a number of questions regarding future technological developments, such as expected year of realization, relative importance,

constraints for realization, chance for business success, implications regarding the environment, etc.

The Delphi method for prediction and decision-making deals with a problem by gathering the separate opinions of the group members ahead of time, from each member individually (and in particularly sensitive cases, anonymously), and only later, discussing the organized results that were gathered. Thus the participants have no way of knowing the opinions of other group members regarding the topic, and the discussion must deal with a wide variety of possibilities and directions for making a decision.

The research field

The research was conducted in the offices of the respondents in northern of Israel. The first circle included six participants.

The second circle included the responses of the other 37 respondents, as described above.

The research objective

The aim of the present research is to examine the new tax reform and highlight how it affects the Israeli economy.

The research question

Will lowering barriers (decreasing bureaucracy) in the taxation system, and implementing taxation of trust funds abroad encourage investors in Israel and abroad, and encourage the flow of capital into and out of the country?

The relevance of the research

A study was conducted in 1985 by Dr. Avi Alter, of the Tel Aviv University Faculty of Law, on taxing the income from regular trusts in Israel. Considerable time has passed since the last study that dealt mainly with the legal aspect of trusts and less with macro-economic aspects. Accordingly, the subject should really be reexamined, first because of the lengthy period of time since the study of this subject was conducted, second, change in legislation and the new tax reform in Israel that drastically altered the situation.

The research tools

Data gathering in the present research was conducted using a combination of quantitative and qualitative research.

Four new variables were calculated for the research by averaging the responses of the respondents to the items relevant to the variables. Calculation of the new variables allowed testing the research hypotheses and examining the existence of correlations between the variables.

Variable	Items	Alpha Cronbach Reliability
Lowering barriers in the Israel tax system	6, 12, 17, 19, 20, 23, 24, 28, 32	0.6700
Encouraging investors from Israel and abroad	10, 11, 13, 14, 31	0.7344
Taxation of foreign trusts	8, 9, 15, 16, 18, 21, 26, 27, 30	0.7120
Escape of money from Israel abroad	7, 22, 25, 29	0.7693

All worlds of content that denote the research variables were found to be reliable. Therefore variables were calculated for each of the respondents and participants in the empirical study. Additionally, a number of personal characteristics were examined solely in order to characterize the respondents as regards age, gender, marital status, education, and tenure at work.

Data processing methods

Analysis of the data was conducted based on the unique nature of the case study as a systemic methodology, including a large number of sub-systems, groups or other cross-sections. From each one of these one may infer meanings, and then connect these to present the holistic case.

Interviews with the participants were analyzed by re-reading the transcripts focusing each time on a dimension relevant to the research.

The quantitative section was analyzed through quantitative data processing, using the SPSS statistical computer program. All of the questionnaire data were introduced to the statistical program and then the distributions of the variables in the questionnaires were analyzed and cross checked through statistical analysis methods.

In order to test the hypotheses through statistical analysis, Pearson and Spearman correlation tests were conducted. In the descriptive section, distributions of socio-demographic traits were examined, including testing the reliability of the research tool.

Chapter Five: The Research Findings

The findings indicate that an absolute majority (100%) of the respondents agrees greatly that foreign investors in Israel should receive leniencies, by providing tax breaks. Similarly, the respondents stated that foreign investors in Israel should be given incentives by shortening bureaucratic processes. Only 78% respondents agreed greatly or very much that the existence of a bureaucracy that makes it difficult for foreign investors. However, regarding a need to overcome the existing loophole in taxation of foreign trusts, there were differences of opinion and 34% of the respondents said there was no need at all to deal with this issue, 41% said there was very little to some need to deal with the issue, while 25% felt there was a great or very large need to deal with the issue.

50% of the respondents stated that the main investments of foreign trusts in Israel were financial and/or in real estate and land.

65% of the respondents feel very little or somewhat feel that trusts are established for tax evasion. However, 15% of the respondents greatly or very greatly feel this is their purpose.

The findings also indicate an absolute majority (100%) of respondents who greatly or very greatly agree that removing barriers is more beneficial than the tax loss that will be incurred by not taxing. 95% of the respondents feel that lowering barriers in the taxation system regarding taxation of foreign trusts will be greatly or very greatly encouraging.

Ninety-five percent of the respondents feel that taxation of foreign trusts in Israel will lead to a decline in income from taxes, but only to a small degree.

The majority (95%) stated that they greatly support the taxation on foreign trusts. 70% agreed only very little or somewhat regarding enforcement of tax collection, for which the cost will be higher than the benefit, and regarding the fact that the tax regime in the state is a function of social ideology.

Lowering barriers in the taxation system in Israel may certainly prevent money escaping from Israel abroad, to a statistically significant degree ($r_p = -0.406$; $p < 0.01$). The lower these barriers become, the more active the encouragement will be to reduce the amount of money escaping from Israel abroad. This correlation is also correct in the opposite direction, as some or non-lowering of barriers may contribute to an increase in the amount of money escaping from Israel abroad, and in frequency of such cases.

Taxing foreign trust funds will encourage investment in Israel and abroad ($r_p = 0.668$; $p < 0.01$). Actually, taxation can explain approximately 40% of all of the changes that will occur in investments in Israel or abroad. However, no significant correlation was found between implementing taxation of foreign trusts funds and between lowering barriers in the Israeli tax system.

Additionally, a significant positive and strong correlation was found ($r_p=0.894$; $p<0.05$) between perception of the benefit of removing barriers, and between the perception of respondents regarding the main investments of foreign trusts in real estate or land. The significance of this correlation is that removal of barriers will direct more foreign investments from real estate or land to other horizons.

A third strongly significant correlation ($r_p=-0.905$; $p<0.05$) was found between the perception of the benefit of removing barriers and between the respondents' perceptions regarding the legal disagreements that may arise with other countries in which foreign trusts have been established, in the event that the laws of taxation of foreign trusts abroad are applied. This negative correlation indicates that the greater the benefit is perceived, the lower the chance is to cause legal disagreements with countries in which trusts have been established, and *vice versa*.

Two further significant correlations were found between the questionnaire items composing the second hypothesis.

A positive significant correlation ($r_p=0.883$; $p<0.05$) was found between the respondents' perceptions of the main goals of trusts as used for tax avoidance, and between their perception of the taxation similarity in Israel and abroad. Collection of tax abroad is similar to the collection of tax on foreign trusts in Israel. The more the common opinion is that establishing trusts is tax avoidance the more common the perception is that collecting tax on trusts abroad is similar to collecting tax on foreign trusts in Israel.

Additionally, a significant positive correlation was found ($r_p=0.875$; $p<0.05$) between the respondents' perceptions of the main goals of foreign trusts to decrease tax payments, and between their perception of the similarity of taxation of foreign trusts in Israel and abroad. A higher perception of the goal led to greater discernment, and *vice versa*.

Summary of the qualitative research – open questions

51% of all the respondents further noted they would recommend invest in Israel if the trust fund is foreign, in a country that does not have a treaty with Israel, as assets in Israel will enjoy leniency in taxes.

- 65% of the respondents said that benefits can be afforded in other ways such as
1. An increment to the trustee's salary (paying less tax on his income)
 2. Delaying tax on income from the trust for several years
 3. Delaying paying tax on income until the sale of the trust assets
 4. Awarding benefits as tax to all those involved in managing the foreign trust

Chapter Six: Discussion

The impact of government investments

Recently, "new" growth models have been developed according to which fiscal policy may have a permanent impact over long term growth rates (Barro, 1990, 1991; King and Rebelo, 1990). These models emphasize the impact of government expenditures on productivity. King and Rebelo (1990) emphasize the distorting influences of taxation over the rate of economic growth, while Jones, Manuelli and Rossi (1993) find that government expenditure that increases investment in the economy has a clear positive influence on growth.

The impact of government expenditures and tax burden on growth in Israel

In order to independently test the influence of government expenditure and tax burden over growth rates, Shidlovsky, and Sarel (2006) conducted an empirical examination between 1990-2000 using data from 16 developed countries. The examination was based on linear regressions of a cross section, with the explained variable being the rate of growth per capita during the period.

The two main explanatory variables whose impact on growth rates were examined were government expenditure and tax burden, both as a percentage of the GNP at the beginning of the period.

The main findings indicate that government expenditure has a detrimental influence on growth rate, while it is not affected by the overall tax burden. In light of this, the size of government expenditure (as a percent of the GNP) enter all of the equations in a negative and significant manner, whereas the size of the tax burden (as a percent of the GNP) does not enter significantly into any of the equations.

Possible explanations for these phenomena are:

1. The tax burden is actually determined by government expenditures.
2. The overall tax burden may not be a good enough indicator and what affects growth are variables such as marginal tax rate or tax composition.

The empirical examination by Shidlovsky and Sarel (2006) reveals that lowering government expenditure by five percentage points, from 55% to 50%, may increase the GNP at the end of 10 years by 1.5% (close to \$2 billion, in terms of Israel in 2003). It is not possible to examine the impact of overall taxes on growth as it may be caused by either marginal tax rates or the composition of the tax.

Chapter Seven: Summary, Conclusions and Recommendations

Summary

Many studies relate to the impact of type of tax on growth rates. Almost all find that increasing income tax is a factor that harms growth.

The influence of taxation on growth may be estimated by relating to the impact of tax on individual behavior in areas that influence growth, such as employment opportunities, human capital, investments, technological growth, geographical position, tax evasion, etc. An analysis of the results of the components of individual behavior finds that the size of the tax burden affects individual behavior in a manner that harms economic growth as follows:

1. There is a negative correlation between tax rates and investments.
2. The tax system affects the migration of companies between countries
3. Tax evasion rates are estimated as high and affected by tax rates.

The literature that examines the correlation between government expenditure and growth rates indicates:

1. A negative correlation between the scope of government expenditure and funding methods and between economic growth rates.
2. Lowering company profits and individual profits, and even trust fund profits in our case, lowers the scope of investments and the growth rate accordingly.
3. Investments in infrastructure capital and human capital have a positive influence over growth rates.

The main finding is an actual breakthrough in the way of thinking regarding the concept of creating income, growth, and increasing the public pie.

The research group that responded to the questionnaire is a heterogeneous group of experts in the fields of economics and taxation in Israel. This is perhaps the difference differentiating it from the Taxation Committee, which was mainly composed of taxation experts who come from the establishment and whose vision is systemic.

Conclusions

The main conclusions from this research are:

1. A rise in taxation lowers profits and investments (and vice versa), although the impact of taxation is lower than that of government expenditures.
2. A rise in public expenditures lowers profits and therefore lowers investments (the opposite influence to the case of lowering public expenditure).

The degree of influence of tax rates over growth depends greatly on companies' and households' expectations regarding the continued tax policy in the future. The public expects the government to raise taxes in future. Therefore, for effective and affect growth, it is important that tax lowering policies be accompanied by a significant change in public expenditures.

Recommendations

The recommended solution is the combined solution. This is based on a combination of the recommendations that have been discussed to this point. This researcher assumes that there is a theoretical explanation for each recommendation based on the opinions of people who are knowledgeable in the field of taxation law, economics and trusts.

The most correct recommendation must be chosen from the standpoint of enriching the public coffers, on one hand, contributing to the Israeli economy in the end, but on the other hand, must encourage investors, particularly foreign investors, to invest and move their trust assets to Israel.

Principles of the combined solution

Based on the recommended solution, a response will be provided for all types of foreign trust funds, with the differentiating factor being the size of the investment. Since most trust funds hold assets in the range of \$1-2 million, and few trust funds invest over than \$10 million, two types of trusts can be discussed.

One type of trust fund allows tax breaks and the removal of barriers (such as in the existing model in Ireland), or other beneficial tax regimes, and compares only the internal laws in various countries:

Trust funds that are \$10-20 million or larger should be eligible for participation exemption, similar to the Israeli law providing tax exemption to mega-companies that invest huge amounts in Israel of over \$500 million.

The Israeli law enables a foreign resident to establish an exempt business center in Israel for international activities in the form of an Israeli Holding Company. This is an Israeli company that fulfills several conditions, a major one of which is that the company's investment in foreign subsidiaries will be at least 120,000,000\$.

When the IHC distributes dividends to the foreign share holder the dividend is subject to reduced tax.

Another option is to give tax exempt to the profits of the Trust Fund in condition that they will not be distribute for a long period of time (like 15 to 20 years), and they will be accumulated to the capital and continue "working" along with him.

Recommendations for further study

The research results are initial results and presented close in time to the implementation of taxation of trust fund ordinances that were passed on 1.1.2006. It is therefore desirable and possible, in the future, to expand the examination of the implications of these laws over the Israeli economy, to include a larger sample of experts.

An additional examination conducted in the future, will definitely contribute another point of view regarding the impact that this issue will have over the Israeli economy.

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