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INCOME TAX UPDATE FOR YEAR 2022

(2021 Tax Year)

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Highlights of New Provisions

> During tax year 2021 Congress approved the 3rd Economic Impact Payment (EIP #3) and paid it to over 90% of the eligible taxpayers. Taxpayers who did not receive their payment can claim it as a Recovery Rebate Credit on their 2021 tax returns.

> The child tax credit was expanded for US Citizens who are domestic residents. This required a major redesign of the Form 8812 to compute the allowable child tax credit for domestic and foreign residents. The Child Tax Credit for foreign residents is the same as 2020, $1,400 refundable additional credit per child **under age 18**. The age limit was increased by one year. Children under age 18 are eligible for the additional child tax credit.

> The IRS plans to continue examining crypto currency transactions in search of under-reporters.

> There are credits for sick & family leave for certain self-employed individuals involved in caring for family members with COVID. The legislation provided for expanded child-care assistance for 2021.

> Changes have been made to the Earned Income Credit for US citizens who are domestic residents.

The Recovery Rebate Credit (Stimulus)

The first two Economic Impact Payments (Stimulus) were advance payments against your 2020 income tax. The payments were directly deposited or sent in check form by the IRS during 2020 and 2021.

If you did not receive the 1st EIP or 2nd EIP you may claim them as the Recovery Rebate Credit on your 2020 U.S. Income Tax Return.

Eligible individuals who did not receive the third Economic Impact Payment ($1,400 per person appearing on the 2020 tax return) during 2021 may claim the Recovery Rebate Credit on their 2021 Form 1040.

When claimed on your 2021 U.S. tax return, generally, this credit will increase the amount of your tax refund or decrease the amount of the tax you owe.

You must file the 2020 and 2021 Forms 1040 to claim all Recovery Rebate Credits even if you are normally not required to file a tax return.

Credits for Sick & Family Leave for Certain Self-employed Individuals

The Families First Coronavirus Response Act (FFCRA) helped self-employed individuals affected by Coronavirus by providing paid sick leave and paid family leave credits equivalent to those that employers are required to provide their employees for qualified sick leave wages and qualified family leave wages. The COVID-related Tax Relief Act of 2020 extended the period during which individuals can claim these credits. For more information, see the instructions for Form 7202 and Schedule 3, line 13b.

Expanded Dependent Care Assistance

American Rescue Plan (ARP) expanded the child and dependent care tax credit for 2021 by making it refundable for certain taxpayers and making it larger. For 2021, the dollar limit on qualifying expenses increases to $8,000 for one qualifying person and $16,000 for two or more qualifying persons. The rules for calculating the credit have also changed; the percentage of qualifying expenses eligible for the credit has increased, along with the income limit at which the credit begins phasing out.

1099-K to Be Issued by Third Party Processors (i.e. PayPal, Zelle, etc)

For 2022 the IRS is requiring all businesses that effect transfers between people and or businesses (i.e. PayPal, Zelle, Venmo, Amazon, etc.) to report the transactions as if they were business related and issue Form 1099-K, if the recipient receives $600 or more. PayPal provides an option that the transfers should be a gift. That should not be included as income. Other Third Part Processors should have this option on their sites when one registers to use the service.

Exchange of Information between U.S. and Israel

Under the Intergovernmental Agreement (IGA) signed between Israel and the United States, an exchange of tax information between the two countries has been in effect since 2016. Israeli banks are now required to issue FORM 1099 to its customers who are U.S. citizens and transmit these forms directly to the IRS. Reciprocally, since 2017, Israel has the right to receive U.S. tax information on its citizens directly from the U.S. Israel has an Amnesty Program for Israeli citizens who have not reported their income earned outside of Israel. Please contact our office for further details regarding filing under the Israeli Amnesty Program.

Foreign Accounts Tax Compliance Act (FATCA)

FATCA is an Intergovernmental Agreement (IGA) that the U.S. Department of Justice has signed with more than 120 partner countries. The purpose of the IGA is to provide the U.S. with knowledge about the financial income and account balances of its citizens around the world. In essence, these agreements create a two-way transfer of information between the foreign country and the U.S. and from the U.S. to the partner country. In effect, the U.S. could demand income tax returns from delinquent taxpayers or non-filers based upon information received from a partner country since the U.S. taxes the worldwide income of its citizens. FATCA requires filing IRS Form 8938 under certain circumstances primarily when there are large financial balances (see below).

Form 8938 (Statement of Foreign Financial Assets)

This form must be filed with your U.S. income tax return (in addition to your FBAR), if you live in Israel (or abroad) and

i) The value in your foreign financial accounts exceeds $400,000 (filing joint) or $200,000 (filing single) on the last day of the year, or

ii) Your foreign financial accounts exceed $600,000 (filing joint) or $300,000 (filing single) at any time during the tax year.

If you live in the United States, you have a Form 8938 filing requirement if the following applies:

i) The value in your foreign financial accounts exceeds $100,000 (filing joint) or $50,000 (filing single) on the last day of the year, or

ii) Your foreign financial accounts exceed $150,000 (filing joint) or $75,000 (filing single) at any time during the tax year.

FBARs

Under the Bank Secrecy Act, passed in 1970, a Foreign Bank Account Report (FBAR) must be e-filed annually with the U.S. Treasury by April 15th of each tax year (which may be extended to October 15th if you have a valid extension for your current income tax return), if the following criteria apply:

i) The person has a financial interest, signature authority or other authority that is comparable to a signature authority over one or more accounts in Israel or another foreign country. Please note that shareholders who hold more than 50% of a foreign company's shares are considered as having a financial interest in the company's accounts, and

ii) The aggregate value of all foreign financial accounts exceeds $10,000 or the equivalent amount in foreign currency (about 30,000 NIS or more during 2021) at any time during the calendar year.

Foreign financial accounts include, but are not limited to, both checking and savings accounts, Israeli pension accounts, brokerage accounts, mutual funds, and unit trusts. Paper filings of FBARs (form TD F 90-22.1) are no longer accepted by the U.S. Treasury and have been replaced by online filing of form FINCEN 114.

IRS tax examiners have been seriously auditing FBAR’s in cases involving international tax fraud.

Form W-9

Israeli banks, as well as some other foreign financial institutions, are requiring customers to sign a U.S. Form W-9 (or Form W8-BEN for non-U.S. citizens) in order to open a new account or continue banking or investing with the financial institution. In many cases, your Israeli bank may require a declaration that your last 3 years of U.S. income tax returns and FBARs have been duly filed. Not submitting the signed form can result in your Israeli bank freezing your Israeli account(s), as per Bank of Israel rules. Please note that if your bank has not requested you to sign a W-9, you are still obligated to report your non-U.S. income and assets to the IRS and the U.S. Treasury.

Revocation of U.S. Passports

The U.S. Highway Funding legislation calls for potential revocation or denial of U.S. passports for U.S. taxpayers with an outstanding balance of over $54,000 to the IRS. Tax balances due to any State are not part of this legislation. The IRS must notify the taxpayer of this proceeding prior to facilitating a revocation of any U.S. passport. If payment arrangements have been made with the IRS, the taxpayer's passport would still be considered valid and will generally not be revoked. In addition, there have been reported instances where taxpayers have been stopped and interrogated at Passport Control upon entry to the U.S., regarding their balances due to the IRS.

Expired Green Cards

You are a resident for income tax purposes if you are a lawful permanent resident of the United States at any time during the last calendar year. You are a lawful permanent resident of the United States at any time if you have been given the privilege, according to the immigration laws, of residing permanently in the United States as an immigrant. You generally have this status if the U.S. Citizenship and Immigration Services (USCIS) (or its predecessor organization) has issued you an alien registration card, also known as a "green card." You continue to have resident status under this test unless the status is taken away from you or is administratively or judicially determined to have been abandoned.

<u>Resident status taken away</u>. Resident status is considered to have been taken away from you if the U.S. government issues you a final administrative or judicial order of exclusion or deportation. A final judicial order is an order that you may no longer appeal to a higher court of competent jurisdiction.

<u>Resident status abandoned</u>. An administrative or judicial determination of abandonment of resident status may be initiated by you, the USCIS, or a U.S. consular officer.

If you initiate the determination, your resident status is considered to be abandoned when you file either USCIS Form I-407 or a letter stating your intent to abandon your resident status. Until you have proof that your letter was received, you remain a resident alien for U.S. tax purposes even if the USCIS would not recognize the validity of your green card because it is more than ten years old or because you have been absent from the United States for a period of time.

If the USCIS or U.S. consular officer initiates this determination, your resident status will be considered to be abandoned when the final administrative order of abandonment is issued. If you are granted an appeal to a federal court of competent jurisdiction, a final judicial order is required.

IRS Streamlined Procedures for Non-Compliant U.S. Taxpayers Living Abroad

In recognition that some U.S. citizens living abroad have failed to file annual U.S. Federal income tax returns and foreign bank account reports (FBARs), the IRS has a streamlined procedure to allow taxpayers to reenter the IRS tax filing system and then be considered in “good standing”. Many factors and requirements apply, but primarily this procedure is available for U.S. taxpayers that have resided outside the U.S. since January 1, 2009, have not filed U.S. income tax returns for at least 3 years and have not been contacted by the IRS. Among the strict requirements for being accepted under the IRS streamlined process are a) filing three years of U.S. income tax returns, b) filing six years of FBARs, c) not spending more than 35 days in the U.S. in one of the last 3 years, d) writing a detailed explanation under penalties of perjury, delineating your non-willfulness and delinquency, and attaching it to your filed tax returns. The IRS will expedite the review process and may not assess penalties for taxpayers filing under this procedure; however, interest on overdue balances will be assessed. The Offshore Voluntary Disclosure Program (“OVDI”) has been terminated by the IRS as of 2018.

U.S. Child Tax Credit

A U.S. Taxpayer identification number (SSN) is now required by the due date of tax return. If you do not have a Social Security Number (SSN) for your dependent by the due date of your 2021 return (including extensions), you may not be able to claim the child tax credit (CTC), the additional child tax credit (ACTC) or the Stimulus rebate that will be claimed as a Recovery Rebate Credit on line 30 of the 2021 1040. This applies to your original or amended 2021 tax return, even if you get the SSN at a later date. (i.e., a child born in March 2021 has until December 15, 2022 to receive a Social Security Number and still be eligible to claim the child credit with extensions.) Taxpayers who exclude earned income, currently up to $108,700 (per taxpayer) on their 2021 joint tax returns will not be eligible to receive an additional child credit (ACTC) even if only one taxpayer uses the exclusion. Please be advised that the credit may not be claimed retroactively. If you claim the CTC or ACTC, but you are not eligible for either credit and it is later determined that your error was due to reckless or intentional disregard of the CTC or ACTC rules, you will not be allowed to claim either credit for 2 years. If it is determined that your error was due to fraud, you will not be allowed to claim either credit for 10 years. You may also have to pay interest and penalties to the IRS. **We recommend applying for Social Security numbers immediately after your U.S. child is born, to avoid missing a year of child tax credit.**

For **2021** the child tax credit was revamped. There are now two pieces to the child tax credit and there are also differences between domestic residents and foreign residents.

Differences between the Child Tax Credit and the Enhanced Child Tax Credit		
	Child Tax Credit/Additional Child Tax Credit	Enhanced Child Tax Credit
Residency	Domestic and Foreign residence	Domestic residence only
Age Limit for Qualifying Child	Under age 18	Under age 18
AGI Income phaseout	MFJ: $400,000 MFS/Single: $200,000 HOH: $200,000	MFJ: $150,000 MFS/Single: $75,000 HOH: $112,500
Maximum refundable credit	$1,400 per eligible dependent	$3,600 dependents under age 6 $3,000 dependents age 6 - 18
Minimum income required	$2,500	$0

If applicable, the credit per eligible child may be available to offset any potential U.S. income tax liability or be partially refunded. Taxpayers must have reportable earned income from wages (via Israeli Form 106 or similar foreign wage slip) or self-employment income. The earned income of both husband and wife can be combined even if one spouse is NOT a U.S. citizen. The non-citizen spouse requires a U.S. tax identification number (ITIN), which can be acquired by filing U.S. Tax Form W-7. Children must be U.S. citizens aged 18 and below and must possess a valid U.S. Social Security number by the tax return due date (including extensions). Please note that maximizing the child credit can be quite complicated since there are many factors to consider. In addition, the IRS has the ability to conduct income tax audits which may require verification of income and other pertinent information.

Please note that using a domestic US address on your tax return does not qualify you for the domestic Enhanced Child Tax Credit. Two years after you possibly received the refund the IRS will audit the return with one question. "Send us proof that your child was in school or daycare in the U.S." By not satisfying this request they will charge you criminally with tax fraud. Just as the EIC (Earned Income Credit) is audited as a desk audit on 100% of the claims, the enhanced child tax credit will be audited as a desk audit. The IRS Criminal Investigation division realizes the possibility for major fraud with this enhanced credit and are gearing up to protect the U.S. against tax fraud.

U.S. Dependent Tax Credit

A non-refundable credit was added by the Trump Tax Act. Starting with the 2018 tax filing, if your child has passed age sixteen there is still a $500 tax credit available to offset your tax liability for the tax year. Any dependent on your tax return who does not qualify for the child tax credit may create eligibility for the dependent credit. For 2021 the dependent tax credit applies dependents above age eighteen.

Standard Deduction

Standard Deduction amounts appear in the table below. Taxpayers with qualifying deductions in excess of these amounts may generally itemize their deductions. Please note that bank mortgage interest, Israeli income taxes, and certain charitable contributions paid to Israeli sources may also qualify as itemized deductions.

FILING STATUS *	DOLLAR AMOUNT
Single	$12,550
Single – Age 65 or older	$14,250
Head of Household	$18,800
Head of Household – Age 65 or older	$20,500
Qualifying Widow(er)	$25,100
Married Filing Jointly	$25,100
Married Filing Jointly – One Age 65 or older	$26,450
Married Filing Jointly – Both Age 65 or older	$27,800
Married Filing Separately*	$12,550

*The standard deduction for MFS is $12,550. When filing MFS an income tax filing requirement applies for income above $5 as opposed to the other filing status options that have a filing requirement if their income exceeds their standard deduction.

Temporary Change to Charitable Contributions

Following tax law changes, cash donations of up to $300 made by December 31, 2021 to qualified charities will be deductible without having to itemize on the 2021 tax return.

A special $300 deduction has been added for people who choose to take the standard deduction, rather than itemizing their deductions.

This change allows individual taxpayers to claim a deduction of up to $300 for cash donations made to charity during 2021. This deduction lowers both adjusted gross income and taxable income – translating into tax savings for those making donations to qualifying tax-exempt organizations.

Recordkeeping rules apply to any taxpayer claiming a charitable contribution deduction. Usually, by law, this includes getting a receipt or acknowledgement letter from the charity before filing a return and retaining a cancelled check or credit card receipt.

PFICs (Passive Foreign Investment Companies) are Reported on Form 8621

Most investments in mutual funds registered outside the U.S. pose a potentially complicated tax and accounting issue for U.S. taxpayers. Whereas U.S. registered mutual funds report gains and losses annually to the IRS and to investors, foreign mutual funds do not. The IRS has termed foreign mutual funds as Passive Foreign Investment Companies or PFICs. PFIC investments, when sold at a profit, must be reported to the IRS based on the income earned subject to interest charges for each year that the investment was held. In effect, the IRS wants to recoup the taxes that would have been paid had the PFIC reported its activity annually. As such, Form(s) 8621, (Information Return by a Shareholder of a PFIC or Qualified Electing Fund), must be filed with the taxpayer's Federal income tax return every year. We recommend discussing this issue with your tax and investment advisor as there may be suitable alternative investments which are not subject to PFIC rules.

Individual Tax Identification Numbers (ITIN's) for Non-Resident Aliens

Individual tax identification numbers are required on every income tax return submitted to the IRS by a Non-resident Alien. A non-U.S. citizen with a U.S. tax filing requirement must obtain an ITIN either before submitting a tax return or submit an application for an ITIN with the tax return submitted to the Internal Revenue Service. Our office can assist you with the process of obtaining an ITIN if necessary.

ITIN's received after the due date of the tax return with extensions cannot be used for the current tax return.

ITIN's expire and must be renewed periodically. The IRS will generally notify you that your ITIN will be expiring. ITIN's that were not used to file a tax return at least once in the past 3 years will generally also expire. Expired ITIN's can be renewed through our office.

U.S. Income Tax Rates

The U.S. income tax rates for the current tax year are 10%, 12%, 22%, 24%, 32%, 35%, & 37%. Under the "stacking rule", in order to determine your income tax bracket, income excluded on Form 2555 (Foreign Earned Income Exclusion) will be added back to your adjusted gross income. As a result, investment income may potentially be taxed at a higher tax bracket. In addition, please contact our office to discuss your taxes related to the "Obamacare" Investment tax and potential tax saving ideas. Also important is that the kiddie tax has been revamped and now follows the estate tax rates after $2,200 of unearned income.

Marginal Tax Rate	Single	Married Filing Jointly	Head of Household	Married Filing Separately
10%	$ 0 - $9,950	$ 0 - $19,900	$ 0 - $14,200	$ 0 - $9,950
12%	$ 9,951 - $40,525	$19,90 1 - $81,050	$ 14,201 - $54,200	$ 9,951 - $40,525
22%	$40,526 - $86,375	$81,051 - $172,750	$ 54,201 - $86,350	$40,526 - $86,375
24%	$86,376 - $164,925	$172,751 - $329.850	$86,351- $164,900	$86,376 - $164,925
32%	$164,926 - $209,425	$329,851 - $418,850	$164,901- $209,400	$164,926 - $209,425
35%	$209,426 - $523,600	$418,851 - $628,300	$209,401 - $523,600	$209,426 - $314,150
37%	Over $523,601	Over $628,301	Over $523,600	Over $314,151

U.S. Foreign Earned Income Exclusion

The U.S. foreign earned income exclusion has been adjusted for inflation and has increased to $108,700 per taxpayer. As such, married taxpayers filing jointly, who meet certain requirements, may potentially exclude up to $217,400 of foreign earned income per tax return. However, one spouse may not utilize the unused portion of the exclusion of the other spouse. If one taxpayer elects the exclusion on a joint return, starting with the 2015 tax filings there will be no child credit available on that income tax return. If you file separately, one spouse may claim the exclusion and one spouse may claim the child credit. Please note that the Foreign Earned Income Exclusion applies only to work or self-employment income and does NOT apply to other passive income such as pension benefits, investment income, rental, or any other non-earned income.

Foreign Tax Credits

A U.S. foreign tax credit may be used to reduce your U.S. income tax if you have Israeli (or tax of another foreign country) tax paid on income sourced to Israel based on the US-Israel Income Tax Treaty. Conversely, Israel will also recognize taxes paid to the U.S. (or another foreign country) and generally apply them as a credit against your Israeli income tax liability.

Social Security Benefits Received by a U.S. Citizen Residing in Israel

Article 21 of the U.S. - Israel Income Tax Treaty states that U.S. citizens who are Israeli residents are eligible to exclude U.S. Social Security benefits from their adjusted gross income. This provision may result in substantial tax savings. If you have included your social security income in the past on your income tax returns, our office can assist you with preparing your amended tax returns (up to three years retroactively) to potentially receive a refund of excess tax paid.

Net Operating Losses (NOL's)

Due to the Cares Act of 2020, NOL's can be carried back for 5 years. They can be carried forward, to future years, but can now only offset 80% of taxable income (not 100%).

Long Term Capital Gains and Qualified Dividends

Tax rates on long term capital gains (whether derived in the U.S., in Israel, or in another foreign country) generally apply to assets held for more than one year. For single taxpayers with taxable income under $40,000 and for taxpayers filing jointly with taxable income under $80,000 a zero percent long term capital gains and qualified dividends rate will generally apply. Capital losses are still fully deductible against capital gains, and any capital losses in excess of capital gains may offset up to $3,000 of ordinary income if married filing jointly. Net capital losses in excess of $3,000 may be carried over indefinitely to future years.

Long-Term Capital Gains Tax Rate	Single	Joint	Head of Household
0%	$ 0 - $ 40,000	$ 0 - $ 80,000	$ 0 - $ 53,600
15% minimum income	$ 40,001- $441,450	$ 80,001 - $496,600	$ 53,601 - $469,050
20% minimum income	$441,451and above	$496,601 and above	$469,051 and above

General Treatment of Cryptocurrencies (Bitcoin and Other Similar Currencies) by the IRS and by Mas Hachnasa

Both the IRS and the Israel Tax Authority (ITA) have recently ruled that cryptocurrencies are considered property. Since cryptocurrency is not backed by any country, and can be extremely volatile, it will generally be treated as a capital asset and taxed at capital gains rates on the sale. This means that any purchase of goods or services using cryptocurrency will generally result in the sale of a capital asset, which must be reported on your income tax return as such. Since cryptocurrencies can be valued in many foreign currencies tracking buys and sells involves converting to USD and or ILS on the purchase and sale dates, in order to compute the gain or loss. In addition, if you regularly sell or trade cryptocurrency for profit it may result in your trading being taxed at regular income tax rates. A question on page 1 of the Form 1040 addresses owing or trading of crypto-currency.

Identity Verification

The IRS is continuing to flag tax returns that require Identity Verification. In their attempt to ease the verification process, domestic residents can identify themselves online after having registered with ID.ME, a trusted technology partner of the IRS. In order to register with ID.ME both a U.S. address and a U.S. cell phone in your name are required. Those living outside of the U.S. have been disqualified by ID.ME from registering. After successfully completing the ID.ME registration process, taxpayers can respond to id verification requests, can obtain IP Pins online and can view their tax return transcripts online. The registration is moving the IRS technology forward but so far only for domestic residents. For all domestic residents, registration with ID.ME can make dealing with the IRS easier and avoiding the backlog facing the IRS representatives on the phones.

Provisions Related to Foreign Corporations owned by U.S. Citizens

In addition, for 2018, the Global Intangible Low-taxed Income (GILTI) regime was created under section 951A of the IRS Code. GILTI involves complicated calculations and huge additional compliance burdens for corporations, and for certain types of shareholders in foreign corporations (CFC's), can dramatically increase taxes. In 2020, the IRS issued regulations that eased the tax burden for taxpayers who are shareholders of foreign corporations in high tax countries (Israel's corporate tax is 23% vs. US 21%) and in most situations, do not have to pay the GILTI tax.

If this situation applies to you, please call us to discuss.

Net Investment Taxes

In addition to the "Obamacare" tax rules, additional provisions of these rules are as follows: Beginning in 2013 the IRS imposed an additional 3.8% tax on passive income for high-income individuals (see table below). For this purpose, passive income includes interest, dividends and capital gains. Part of the passive income subject to this tax, are dividends from your foreign-owned corporation. The tax on this income cannot be taken as a credit for Israeli tax purposes. Therefore, it may sometimes be advisable that taxpayers with Israeli corporations, report earnings as additional salary rather than declaring a dividend. Earnings from salary are not subject to this tax. Please contact our Israeli tax department for more details.

Filing Status **for Obamacare tax**	**Income Threshold** **w/o Form 2555**	**Income Threshold** **with Form 2555**
Married filing jointly	$250,000	$141,300
Married filing separately	$125,000	$16,300

Filing Status for Obamacare tax	Income Threshold w/o Form 2555	Income Threshold with Form 2555
Single	$200,000	$91,300
Head of household (with qualifying person)	$200,000	$91,300
Qualifying widow(er) with dependent child	$250,000	$141,300

Section 199A Deduction for Qualified Business Income (QBI)

The QBI deduction, allows owners of flow through entities such as Sole Proprietorships, S Corporations or Partnerships a deduction of 20% of the income earned by the flow-through. There are several criteria for the flow-through entity to meet, including an income threshold, and that the flow-through's activity is effectively connected with a U.S. trade or business. Regardless, most flow-through's working abroad might not see much additional benefit from this deduction since it only applies to income tax. Self -employment tax will not be reduced by this 20% deduction The QBI deduction applies to U.S. real estate activities, but books and records must be available for each property owned or managed. The QBI deduction does not apply to real estate outside of the U.S.

Social Security Retirement Benefits

To qualify for future U.S. Social Security retirement benefits a taxpayer must pay into the U.S. Social Security system a minimum of 40 quarters (credits). These credits can be earned even while residing in Israel. One can accrue a maximum of 4 quarters per year by generally earning in excess of $6,000 annually. This is primarily accomplished by:

i) Being self-employed in Israel and reporting Israeli self-employment income on your U.S. income tax return.

ii) Working in Israel for a U.S. entity and receiving a Form W-2 (employee) or Form 1099 (independent contractor).

iii) Traveling to the U.S. to work as an employee (W-2) or as a self-employed individual (1099).

Please contact our office to assist you in qualifying for Social Security benefits.

Filing for Social Security Benefits:

If you are of retirement age and ready to claim benefits, here are some of the steps to take:

I. Obtain an Earnings Record from the Social Security Administration (SSA). The request form (7004) is on the US Embassy website under Social Security benefits.

II. Your benefits can be adjusted for Israeli pensions being received but not for any Kitzvat Ziknah (through Bituach Leumi). This adjustment is based on the SSA's rule called Windfall Elimination Provision (WEP). If you are claiming benefits at the full retirement age, then Social Security payments can be reduced by up to 50% depending on the size of your pension that was based on wages not subject to Social Security. The WEP adjustment for recipients of Social Security at age 63 is Dollar for Dollar up to the value of the Israeli pension. Since Israeli pensions are taxable on your Form 1040 and the SSA has access to your tax returns, the IRS will know your pension amounts. After benefits are adjusted for WEP the SSA decision can be appealed and possibly reversed. Please contact one of our professionals if this applies to you.

III. Make an appointment using the Embassy's email request to start receiving benefits. The request should be answered within 30 days by phone from US Embassy personnel either in Israel, Greece, or Italy. They will set up an appointment and complete the interview on the phone.

IV. After applying, the Social Security Administration sends out a questionnaire (usually three times per year) relating to your income. This questionnaire is sent to determine that benefits are being sent to a live person. If any of their correspondences are unanswered, benefits could cease and must be requested again.

Higher Education Credit

The American Opportunity credit ("AOC") can be claimed for qualified tuition and related expenses for any of the first four years of a college or university degree. The credit is up to $2,500 for those paying $4,000 or more in qualifying tuition for an eligible student. Forty percent of the credit is refundable which allows a taxpayer to receive up to $1,000 cash back for each eligible student claimed on the tax return, even if no income tax is due. The credit is generally available for U.S. universities and for certain foreign accredited universities (please contact our office for the list of eligible Israeli universities). The credit begins to phase out at $90,000 for taxpayers filing single or $180,000 for taxpayers filing jointly. To claim the AOC a student must receive a Form 1098-T or its equivalent that contains the Employer Identification Number of the university. Students at accredited universities outside of the U.S. may not receive a 1098-T but may still be eligible to claim the credit. The credit is not available on a tax return when the filing status is Married Filing Separate.

Automatic Extension, Estimated Tax Payments and Automatic Withdrawal Via the IRS Payment System

Automatic income tax return extensions are available until June 15th for U.S. taxpayers who reside outside of the U.S. If there is a balance due with your tax return, interest will be accrued from April 15th, while penalties will begin to accrue after June 15th. Filing an extension will extend the time to file until October 15th. An additional extension may be granted until December 15th, but certain restrictions may apply. It is strongly recommended that taxpayers, who owe income tax but do not file by June 15th make a payment with their June 15th extension. For the upcoming year, it is imperative that taxpayers pay estimated taxes on a timely basis to avoid underpayment of estimated tax penalties. Our office can assist you in setting up electronic payments with the IRS using the Electronic Federal Tax Payment System (EFTPS) via automatic withdrawal from your U.S. bank or other U.S. financial account, which will reduce the potential for penalties on late payments.

Penalties

The penalty for Failure to File a tax return within 60 days of the due date (including extensions) has increased to the greater of $435 for returns with a due date after December 31, 2021 or 100% of the tax due. The penalty will apply to 2021 tax returns and will be inflation adjusted each year.

Direct Deposit

Direct deposit of refunds is available only for the current tax year and only to U.S. bank accounts. Please note that each year the IRS closes the e-filing system during the 3rd week of November and direct deposit requests will not be honored by the IRS on tax returns filed after that date.

Kiddie Tax

The tax reform enacted late in 2017 changed how the income of dependent children is taxed (Kiddie Tax). The change caused a child’s unearned income above $2,200 to be taxed at fiduciary rates that could reach the maximum tax rate of 37%. The Kiddie Tax computation reverts to the pre-tax reform method beginning in 2020. It also allows taxpayers to choose whichever method provides the lowest tax for 2018 and 2020. Taxpayers can amend their 2018 return if doing so will provide a better outcome.

Tax Retirement Plans/Required Minimum Distributions (“RMD”)

Within 60 days of a distribution from an Individual Retirement Plan (“IRA”) a taxpayer can roll over the distribution to another retirement plan tax-free. If no rollover is made within 60 days, the taxpayer is required to pay tax on the distribution at ordinary income tax rates.

Once you reach age 72* you generally must begin to withdraw funds from traditional IRAs on an annual basis and pay the required income tax. The amount of your RMD is calculated by using the IRS life expectancy tables and should be supplied to you by your investment advisor (usually 5% of the balance must be withdrawn each year). In addition, conversion to a Roth IRA can be a valuable tax planning tool for both U.S. and Israeli tax purposes. Your tax and pension advisor should be contacted in this regard. The CARES Act (COVID 19 relief) eliminated the RMD requirement for tax year 2020 but any amounts withdrawn from an IRA are taxable for the year.

*The age for RMD has risen to 72 years of age beginning 1/1/2020.

Avoiding Early Withdrawal Penalty on Pensions

There are many circumstances where an early IRA distribution may be made without being subject to the 10% early withdrawal penalty. One is if funds are used to purchase a first home even in Israel. The distribution amount is limited to $10,000 per taxpayer and/or spouse from each individual's account. New in 2020, the early withdrawal penalty will not apply for up to $5,000 for childbirth or adoption expenses.

Estates and Gifts

For 2021 the annual gifting limit for each taxpayer and spouse is $15,000 to each eligible recipient and includes children and grandchildren. Gifting continues to be an excellent way to potentially reduce the value of your U.S. taxable estate as well as future U.S. estate income taxes. There is an inflation-adjusted exemption of $11,700,000 (2021) on U.S. estates. It should be noted that non-U.S. citizens investing directly in U.S. real estate or holding any other asset in the U.S. such as stocks and bonds etc. are only entitled to an Estate Tax Exclusion of $60,000. Any property valued above that amount would potentially have high estate income taxes assessed before the assets can be distributed. Please contact our office for tax planning ideas to minimize your estate tax and also with respect to writing a will.

State and Local Tax Returns

Refunds may be available for taxpayers who may be unnecessarily filing resident U.S. State income tax returns after they have moved to Israel. You should be aware that merely maintaining a bank account, brokerage account or driver's license in a particular state does not automatically necessitate a tax filing in that particular State. However, if you own real estate, maintain a business, commute to and work in a particular State, or have any other activity considered nexus (strong connection) to a State, you will generally only file a non-resident income tax return in that State and be subject to tax only on that nexus income. Making internet sales from Israel, in excess of $100,000 to any one state, may require filing and remitting Sales Tax. Please confer with a tax expert if you are in this situation.

Corporations, LLC's, Trusts

Corporations may be excellent tax planning vehicles, especially for taxpayers working outside Israel and considering Israeli tax reform. "C" Corporation tax rates are a flat 21% and have thus regained popularity. "S" Corporations, Limited Liability Companies ("LLC's") and certain Trusts are called pass-through entities. The pro-rata share of the pass-through entity's income must be reported on the taxpayer's personal income tax return and is taxed at the individual's personal income tax bracket.

KEEPING PERSONAL INFORMATION SAFE

There are many articles you can research on the web on the topic of safeguarding your personal information.

Here are some tips:

The IRS never calls or emails a taxpayer. Do not respond to any IRS e-mail requests.

Do not disclose your Social Security number or birthdate on the phone unless you initiate the call and it is necessary.

Do not send credit card information by e-mail or social platforms.

Have an updated firewall and anti-virus protection installed on all computers.

Safeguard your Social Security number and shred all notices stating Social Security numbers before disposing of them.

Israeli Tax Update

In light of the recent Israeli tax legislation and with the commencement of the 2021 tax year, many of our clients may require Israeli tax services during the year. To assist with overall tax planning and compliance, we have a network of tax professionals and lawyers that assist us in this capacity. Among the services provided are:

1. New or Current Businesses for self-employed ("Atzmai"), corporations, and non-profit organizations ("Amutot"):

a) Assistance in opening files with V.A.T. ("Ma'am")

b) Opening up files with Israeli Income Tax Authority ("Mas Hachnassah")

c) Opening up files with National Insurance ("Bituach Leumi")

2. Filing Israeli income tax returns:

a) Individuals – including calculation of tax for self-employed individuals and filing for refunds based on charitable deductions

b) Corporations – including full bookkeeping, write-up, and audit

c) Non-profit organizations – including bookkeeping, write-up and audit

3. Representation before the Israeli Income Tax Authority, V.A.T., and Bituach Leumi in cases of audit or correspondence received.

Israeli Tax Tidbits

1. Payments made to the Israeli Tax Authority before January 31, 2022 for taxes incurred in 2021 will be exempt from linkage and interest. If you think that you may owe tax you are welcome to send your information to Ruchi (ruchi@taxrl.com) who can assist you in calculating an amount for an estimated payment.

2. To help reduce your overall Israeli tax burden you can make contributions before December 31, 2022 to your retirement funds. Depending on your gross income, there is a maximum amount that you can benefit from when you contribute to your Kupat Gemel or Keren Hishtalmut. If you would like an exact calculation based on your own numbers, please contact Ruchi at 073-796-4487.

3. A tax credit of 35% of your charitable donations against your overall Israeli income tax liability is available provided you have contributed more than 180 shekels and that the charities are authorized under section 46(A) of the income tax ordinance. There is a maximum contribution allowed which is either 30% of taxable income or 9,130,000 shekels.

4. Inventory count

In a business that has inventory, it is necessary to conduct a complete count of the inventory (known as a physical count).
The inventory count should be accurate for 12/31/21.
(The physical count could be done starting from 12/20/21 until 01/10/22 on one condition; that there would be an exact listing of the inventory transactions on the 12/31/21). Inventory value should be adjusted to the 12/31/21.

5. Exempt Dealers- "עוסק פטור"

Since 2016 Exempt Dealers must report to the VAT authorities. Report needs to be submitted by 2/28/21 the latest. The maximum income for an Osek Patur is 99,893 ILS for 2021.

For your convenience, the 2021 tax rates are listed below.

Marginal Tax Bracket	**Total Income NIS**
10%	**75,480**
14%	**108,360**
20%	**173,880**
31%	**241,660**
35%	**502,921**
47%	**999,999,999**
An additional 3% tax will be added on taxable income above 647,641 NIS	

6. Rent of personal residence will be exempt up to 5,100 ILS per month. Clients who chose the 10% tax rate for rent should pay a 10% deposit by 1/31/2022.

The materials provided in this presentation and any comments or information provided by the presenter are for educational purposes only and nothing conveyed or provided should be considered legal, accounting or tax advice.

Please contact your own tax attorney, accountant, or tax professional with any specific questions you have related to the information provided that are legal, accounting or tax nature.