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INCOME TAX UPDATE FOR YEAR 2019

(2018 Tax Year)

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Major tax legislation has been introduced by both the U.S. and Israel in recent months, most notably the “Tax Cuts & Jobs Act” (TCJA) which will principally affect your tax situation for 2018 tax returns to be filed in 2019. This mammoth piece of legislation is the biggest tax overhaul of the Internal Revenue Code in the past forty years and potentially provides many tax savings opportunities for individuals and businesses alike. There are also some pitfalls however, which can also cause your tax to increase. For 2018 Specified Foreign Corporations can be subject to the new Global Intangible Low-taxed Income (GILTI) regime, that was created under section 951A of the Internal Revenue Code. Israel likewise is continuing its Tax Amnesty Program for Israeli residents who have not properly complied with reporting past income earned from abroad. It is therefore imperative that you familiarize yourself with the many recent changes to existing tax rules and regulations which permeate both the U.S. Internal Revenue Code and the Israeli Tax Ordinance and contact your tax advisor accordingly. We will certainly keep you apprised of further developments.

Foreign Accounts Tax Compliance Act (FATCA)

FATCA is an Intergovernmental Agreement (IGA) that the US 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.

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 also transmit these forms directly to the IRS. In addition, Israeli banks are obligated to receive a signed IRS Form W-9 from all of their customers who are U.S. citizens. Failure to provide information requested by your bank could potentially lead to both your bank freezing your assets and the IRS imposing penalties. If your bank does not request you to sign this form you are still required to report your income and assets to the IRS and to the US Treasury. 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.

FBARs

Under the Bank Secrecy Act, 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 37,000 NIS or more during 2018) 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.

Israeli Tax Update

In light of ongoing Israeli tax legislation and with the commencement of the 2018 tax year, many of our clients may require Israeli tax and accounting 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"), Israeli corporations, and non-profit organizations ("Amutot"):
 - a. Assistance in opening files with V.A.T. ("Ma'am")
 - b. Opening files with Israeli Income Tax Authority ("Mas Hachnasa")

- c. Opening 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. You may be eligible to receive a refund of up to 35% of your charitable contributions (generally those with par. 46(a) status) or credit against your Israeli tax paid if you contribute to recognized Israeli charities.
 - b. Corporations – all services 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.
 4. Israeli Tax Amnesty Program:

Israel has also changed its tax regime for reporting foreign (non-Israeli) income from tax year 2003 in addition to the regular tax on Israeli source income and has an amnesty program for taxpayers that have failed to report income earned abroad (e.g. from work or investment income earned in the U.S. or in any other foreign country). Proper tax planning and minimization of your taxes requires an analysis of many important issues, including the interplay between the Israeli and U.S. foreign income tax credit rules, the foreign earned income exclusion rules, and also how the applicable provisions of the U.S. – Israel income tax treaty (or with any other country that has an income tax treaty with Israel) affects your tax situation.

For your convenience herewith are the 2018 Israeli tax tables.

Marginal Tax Bracket	Total Income (₪)	Total Taxes (₪)
10%	74,640	7,464
14%	107,040	12,041
20%	172,320	25,025
31%	239,520	45,857
35%	498,360	136,451
47%	999,999,999	
An additional 3% tax will be added on taxable income above 640,000 NIS		

5. Exempt Dealers – “עוסק פטור”

From 2016 Exempt Dealers must report to the VAT authorities. In order to file on time with the Israeli Tax Authorities, it is best to report your total revenue amount for 2018 at the beginning 2019. The maximum income for 2019 in order to be considered as an Osek Patur is 100,187 NIS.

Section 199A New Deduction for Qualified Business Income (QBI)

General Rule

For tax years beginning after December 31, 2017, taxpayers other than corporations will generally be entitled to a deduction for each taxable year equal to the sum of:

1. The lesser of (A) the taxpayer's "combined qualified business income amount" or (B) 20 percent of the excess of the taxpayer's taxable income for the taxable year over any net capital gain plus the aggregate amount of qualified cooperative dividends, plus
2. The lesser of (A) 20 percent of the aggregate amount of the qualified cooperative dividends of the taxpayer for the taxable year or (B) the taxpayer's taxable income (reduced by the net capital gain).

A taxpayer's combined qualified business income amount is generally equal to the sum of (A) 20 percent of the taxpayer's qualified business income with respect to each qualified trade or business plus (B) 20 percent of the aggregate amount of qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership income.

Definition of Qualified Trade or Business

A qualified trade or business includes any trade or business other than a "specified service trade or business" or the trade or business of performing services as an employee. A specified service trade or business means any trade or business involving the performance of services in the fields of health, law, accounting, actuarial sciences, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners, or which involves the performance of services that consist of investing and investment management trading, or dealing in securities, partnership interests, or commodities.

Specified Services Limitation

The specified service trade or business exclusion does not apply to the extent the taxpayer's taxable income does not exceed certain thresholds: \$415,000 (joint filers) and \$207,500 (other filers). Application of this exclusion is phased-in for income exceeding \$315,000 and \$157,500, respectively. In computing the QBI with respect to a specified service trade or business, the taxpayer takes into account only the applicable percentage of qualified items of income, gain, deduction, or loss, and of allocable W-2 Wages and qualified property.

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 \$50,000 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 US, regarding their balances due to the IRS.

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). 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.

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.

Resident status taken away. 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.

Resident status abandoned. 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 US 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 and Offshore Voluntary Disclosure Program (“OVDI”)

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 and have not filed U.S. income tax returns for at least 3 years. 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 US 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 2018 return (including extensions), you may not be able to claim the child tax credit (CTC) or the additional child tax credit (ACTC). This applies to your original or amended 2018 tax return, even if you get the SSN at a later date. (i.e. a child born in March, 2018 has until December 15, 2019 to receive a Social Security Number and still be eligible to claim the child credit.) Taxpayers who exclude earned income, currently up to \$103,900 (per taxpayer) on their 2018 joint tax returns will not be eligible to receive a child credit even if only one taxpayer uses the exclusion. Please be advised that the credit may not be able to 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, in order to avoid missing a year of child credit.**

For 2018 tax returns, the child credit increases to \$2,000 but the refundable portion is limited to \$1,400. The phase-out income level also increases significantly, which will allow more, higher-income earners to qualify for the credit. Single taxpayers or those taxpayers whose filing status is married filing separately, can have adjusted gross income up to \$ 200,000, and married taxpayers filing jointly can have adjusted gross income up to \$ 400,000, and still be eligible for a refundable child tax credit.

If applicable, \$2,000 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 in excess of \$3,000. 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 16 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.

U.S. Dependent Tax Credit

A new non-refundable credit was added by the new US 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.

Standard Deduction

Standard Deduction amounts are as follows: Single or Married Filing separately - \$12,000; Married Filing Jointly - \$24,000; Head of Household - \$18,000. Taxpayers over the age of 65 may claim an additional deduction of \$1,300 each, if married, or \$1,600 if single. 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

Personal Exemptions

Starting with your 2018 tax return, personal exemptions will be eliminated. They will be replaced by an additional \$600 child credit for dependents and a \$500 tax credit for non-child dependents. Both of these credits will only offset tax, but are not refundable.

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 expire and have to be renewed. 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 \$2,100 of unearned income.

U.S. Foreign Earned Income Exclusion

The US foreign earned income exclusion has been adjusted for inflation and has increased to \$103,900 per taxpayer. As such, married taxpayers filing jointly, who meet certain requirements, may potentially exclude up to \$207,800 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 earned in Israel. 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) in order to potentially receive a refund of excess tax paid.

Net Operating Losses (NOL's)

NOL's can no longer be carried back. 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 \$38,600 and for taxpayers filing jointly with taxable income under \$77,200 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.

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 in particular 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 US \$ 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.

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, have to 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.

Provisions Related to Foreign Corporations owned by US Citizens

If you have a foreign corporation, you may be required to file form 5471 (Information Return of U.S. Persons with Respect to Certain Foreign Corporations) with your tax return (please contact our office for more details). The U.S. is shifting to a "territorial" tax system for corporations. For 2017 the new US tax law enacted the Repatriation Tax under Sec 965 of the Internal Revenue Code. This provision is only for tax years ending in 2017. The accumulated earnings and profits of your corporation were subject to a 15% tax net of deemed corporate foreign taxes paid. If there was a payment due, it can be paid over eight years (interest free), and the first payment is due as a separate payment on April 15, 2019.

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.

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 Amount
Married filing jointly	\$250,000
Married filing separately	\$125,000
Single	\$200,000
Head of household (with qualifying person)	\$200,000
Qualifying widow(er) with dependent child	\$250,000

Self-employment Income

In order 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 \$5,500 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.

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 [please note, for 2018 only the credit is available.] The credit is generally available for U.S. universities and for certain foreign universities (please contact our office for the list of eligible Israeli universities). The credit begins to phase out at \$80,000 for taxpayers filing single or \$160,000 for taxpayers filing jointly. To claim the AOC a student must receive a Form 1098-T or its equivalent that contains the Tax Identification Number of the university. Students at accredited universities outside of the U.S. will not receive a 1098-T, but may still be eligible to claim the credit.

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

Automatic income tax return extensions are available until June 15, 2019 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 15, 2019, while penalties will begin to accrue after June 15, 2019. Filing an extension will extend the time to file until October 15, 2019. An additional extension may be granted until December 15, 2019, 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 in order 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 US financial account, which will reduce the potential for penalties on late payments.

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 70 1/2 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. 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.

An early IRA distribution may be made without being subject to the 10% early withdrawal penalty provided the 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. The early withdrawal penalty will also not apply in certain circumstances such as medical premium payments or higher educational expenses.

Estates and Gifts

In 2018, 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 \$11,200,000 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 would generally only file a non-resident income tax return in that State and be subject to tax only on that nexus income.

The Affordable Care Act (aka "Obamacare")

This law began affecting taxpayers for 2014. Under the individual shared responsibility provision of the law, taxpayers must have minimum essential coverage (health insurance) for the entire year or will have to make a shared responsibility payment ("SRP") on their 2014-2018 tax returns. For most U.S. citizens living abroad there is an exemption from the SRP provided that the taxpayer would qualify under the bona fide residence or physical presence tests to exclude their income. Even if their income is not excluded, taxpayers residing abroad would generally qualify for the exemption from the SRP. Please be advised that the new US tax bill has rescinded this provision for tax years beginning Jan 1, 2019.

Corporations, LLC's, Trusts

Corporations may be excellent tax planning vehicles, especially for taxpayers working outside Israel and in light of Israeli tax reform. "C" Corporation tax rates for 2018 have been reduced from 35% to 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. Starting in 2018, income from pass-through entities above \$315,000 will be taxed at a maximum rate of 21%, and there are adjustments to income that will be applied.