

Court bars preparations to share tax data with U.S. - Business

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The High Court of Justice on Wednesday threw a wrench into the government's plans for sharing information with the United States about taxpayers after Justice Hanan Meltzer ordered officials to suspend preparatory work.

A day before it was due to go into operation, Meltzer told the state to suspend work in the mechanism it had developed for sharing information on the accounts of U.S. citizens with banks or other financial accounts in Israel.

He set a date of no later than September 15 to hear arguments against the law filed by a nonprofit group associated with the U.S. Republican Party and Rinat Schreiber, a dual citizen who has an account at Bank Hapoalim, Israel's largest bank.

The mechanism was developed after the Knesset approved a law implementing an agreement with the U.S. signed two years ago under which Israel agreed to comply with the terms of America's Foreign Account Tax Compliance Act. FATCA requires foreign financial institutions to report to the U.S. Internal Revenue Service information about financial accounts held by American taxpayers or by foreign entities in which Americans hold a substantial ownership interest.

Under the agreement with Israel, Israeli financial institutions must transfer data on accounts held by U.S. citizens holding \$50,000 or more. Accounts of U.S. Green Card holders are also included under the legislation. Officials had planned to get the mechanism running by Thursday so that Israel would be ready to meet its commitment under FATCA to share the account information.

The plaintiffs told the court that the law violates Israel's Basic Law on Human Dignity and Liberty, asserting that it contradicts rights to privacy, property and equal treatment. Nor does the law have a compelling public purpose, they said.

The attorneys, Marc Zell, who is also head of the local Republican Overseas chapter, and Noam Schreiber, said that similar appeals against FATCA are being filed in the U.S. and Canada. They are arguing that the law is sweeping and that no effort was made to minimize the damage it causes or to secure the information being shared. As one example, they cited the right of financial institutions to classify accounts with less than \$50,000 as included in FATCA and forcing clients who should be exempt from complying.

In response, the state argued that Israel's failure to comply with FATCA by the deadline could create severe problems for Israeli banks and others.

"[Israeli] financial institutions could be cited as failing to comply with FATCA, which could immediately undermine their ability to work with financial institutions in the U.S. and worldwide that would hesitate to work with institutions regarded as not in compliance with FATCA," the government's attorneys told the court.

Israeli financial institutions were due to begin sharing data on September 20 and the Israeli government to begin transferring it to the U.S. IRS 10 days later.

