

Taxation in Gibraltar The Budget

This bulletin summarises the key changes in the Income Tax Act, effective 1 July 2009, as a result of the Chief Minister's budget on 25 June 2009 and highlights a number of practical issues for companies and individuals transacting business in Gibraltar.

Corporate tax

Tax Rates

Corporate tax rates have reduced from 27% to 22% for profits assessable to tax in the year of assessment 2009/2010.

It was further confirmed that the "low rate" announced in the 2007 budget will be 10%. The effective date for this rate will be 1 January 2011.

Those companies that are presently tax exempt will pay tax on their profits at the rate of 10% as from 1 January 2011, assessed on an actual basis. The Companies (Taxation and Concessions) Act will be repealed on 31 December 2010.

Upon the introduction of the 10% rate, energy and utility providers will pay a 10% surcharge and will thus suffer an effective rate of 20%. These will include electricity, fuel, telephone service and water providers.

Basis of assessment

The preceding year basis of assessment will be abolished in favour of an actual basis as from 1 January 2011.

Commencement provisions will be abolished and there will be transitional rules introduced.

Basis of taxation

The basis of taxation will not change and will thus continue to be on an accrued and derived basis, effectively what is known as a source based system.

Anti-avoidance provisions

There will be wide ranging and far reaching anti-avoidance provisions.

Start up incentives

With effect from 1 July 2009, a "start-up" rate of 10% will be introduced, which will apply to any business established in Gibraltar after 1 July 2009. The start-up tax will be assessed on an actual year basis.

As an anti-avoidance provision, the start-up tax will not apply in respect of any commercial activity carried out before 25 June 2009 and which is reorganised by the taxpayer in the name of a different entity for the purpose of benefiting from this scheme.

In order to assist these companies in their early developmental needs, this scheme will also be available, on certain conditions, to businesses that have been recently established. Those conditions are as follows:

- The business must have commenced after the 1 July 2007;
- The company must agree to be taxed on a preceding year basis, and not on an actual year basis in the context of commencement provisions;
- The first tax year for which the company will be liable is 2008/09, and tax will be payable in respect of this period at the rate of 27%;
- In 2009/10 the tax rate will be 10%.

Social Insurance

The maximum weekly social insurance contribution rises by 4% in respect of both employers' and employees' contributions from 1 July.

This amounts to an increase of £1.15 per week for employers and 91p a week for employees.

There is no change to minimum contribution rates.

Gross Income Based (GIB) System

The top band rate for income in excess of £100,000 is reduced from 38% to 35%.

The rate for income in the £25,000 to £100,000 band is reduced from 30% to 29%.

In order to make the GIB system attractive to low income earners, the following modifications to the scheme were announced with effect from 1 July 2009:

For persons whose gross income does not exceed £16,000 per annum, a new band of £10,000 will be introduced on which tax will be payable at the rate of 10%.

For persons with incomes between £16,000 and £25,000, new bands will be added as follows:

- Income of £16,000 to £17,000, on the first £5,000 - 0%
- Income of £17,000 to £18,000, on the first £4,000 - 0%
- Income of £18,000 to £19,000, on the first £3,000 - 0%
- Income of £19,000 to £20,000, on the first £2,000 - 0%
- Income of £20,000 to £25,000, on the first £1,000 - 0%

Allowance Based System

As expected very few changes to this system have been announced as the Government have stated their intention is to encourage tax payers to migrate to the "simpler to administer" Gross Income Based system.

The announcements affecting this system are:

Increase in allowances

All personal allowances are increased by 2.8%.

Retirement Annuity Contracts & Personal Pension Schemes.

Under existing rules, members of an approved Retirement Annuity Contract (RAC) or Personal Pension Schemes (PPS) can claim as a deduction the contributions paid in any tax year up to 25% of earned income.

Members have also been able to, in cases where for any tax year the amount of contributions relieved is less than the total contributions paid, carry back this balance, up to six tax years in the case of an RAC and one year in the case of a PPS, provided that the member was not in pensionable employment at any time during this period.

With effect from 25 June 2009, this carry back will no longer be available.

Category 2 ("HNWI") status

The minimum amount of tax payable by Category 2 individuals is increased from £18,000 to £20,000. The maximum amount of their income on which they pay tax will increase from £60,000 to £70,000. Both changes will be with effect from 1 July 2009.

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