



Gibraltar Tax Budget Alert

30 June 2014

Record budget surplus and strong economic outlook for Gibraltar

Chief Minister Fabian Picardo delivered his third budget address to Parliament on 30th June 2014, providing a very positive overview of the state of Gibraltar's economy and introducing measures to support local business, charities and further encouraging development in both infrastructure and environmentally friendly incentives. A summary of principal measures is provided below.

Although the legislation for implementation is still to be enacted, the measures will have effect from 1st July 2014 unless otherwise specified below.

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Headline Economic Data

- Gross Domestic Product ("GDP") for 2013/2014 is forecasted as £1.41bn, up from £1.28bn (2012/2013 estimate) resulting in a growth of 10.3%.
- GDP/capita has risen to US\$75,117 placing Gibraltar in third place on the IMF World Economic Outlook Database Ranking of Countries.
- The growth in the economy has generated an increase of 6.5% in the number of jobs to 22,907.
- Inflation in Gibraltar averaged 2.1% in 2013, compared to 2.7% in 2012. As at April 2014 inflation stood at 1.8%.
- Government revenue increased by 12.32% in the year, to £487 million.
- Last financial year, Government invested £128 million in capital projects, including the repurchase of the East Side reclamation providing a valuable land bank for the Government. This year £120 million is planned to be spent on capital projects.
- Government budget surplus for 2013/2014 is estimated at a record high of £65 million and next year a surplus of £34 million is projected.
- Strong Board of Directors announced for the new wholly Government owned Gibraltar International Bank.

Corporate Tax

- Last year's initiative to encourage office development, by introducing a new development allowance for construction of office premises is now extended to construction of luxury residential developments as long as the development commences before December 2015.

Personal Tax

Personal tax has been reduced further. Those in the allowance based system ("ABS") have been given the following benefits:

- Medical Insurance Allowance is increased by 100% from £2,000 to £4,000;
- Nursery School Allowance is increased from £3,000 to £4,000 (per child);
- Blind Persons Allowance is increased from £3,000 to £4,000;
- Disabled Individuals Allowance is increased from £5,000 to £6,000;
- Single Parent Family Allowance is increased from £3,000 to £4,000;
- Personal Allowance is increased from £3,000 to £3,100;
- Spouse Allowance is increased from £3,000 to £3,100;
- The tax rate for the taxable income bracket ranging from £4,001 to £16,000 will be reduced from 24% to 18%.

The Gross Income Based system ("GIBS") has had the following measures included:

- £6,000 deduction from assessable income available in respect of approved expenditure incurred in purchasing a home by first time buyers;
- £1,200 per annum deduction available for employee contributions to approved pension schemes;
- £2,500 per annum deduction available in respect of premiums paid for private medical insurance.

Other points to note:

- Standard rate of tax reduced from 30% to 20%.
- Tax rate applicable to trusts reduced from 30% to 10%.
- Tax payers with assessable income of £10,500 or less do not pay any income tax (for both ABS and GIBS).
- £3,000 tax free allowance under both ABS and GIBS available for the installation of solar energy for boilers.
- Loans to Directors or shareholders are no longer treated as earnings from employment provided these are charged at an arm's length rate of interest and have received approval from Commissioner of Income Tax.
- No changes to social security contributions for employers, nor employees.
- Payroll Giving Scheme allowance for charitable donations introduced capped at £5,000/tax payer p.a..
- Common law relationships recognized for tax purposes.

Import and Stamp Duty

- Import duty reduced on various items including 0% on all yachts, pleasure craft and sea going vessels; mobile phones and art work.
- No stamp duty on the first £250,000 cost of property for first and second time buyers.

Other Measures

- New fund created to assist new business start-ups.
- Minimum wage increased from £6.00 to £6.11.
- Public sector pay increased by 2.5%.
- No increase in electricity and water charges.

Deloitte View

This is very much a budget for the community which recognises the efforts of the community in contributing to Gibraltar's prosperous economy and shares some of that success with the community through income tax reductions. In addition the budget aims to stimulate various sectors of the economy and in particular we welcome the reduction in import duty on art and yachts and the incentive to promote luxury developments which are attractive to those we are seeking to attract to our shores. We also welcome the reduction in the rate of tax for trusts which remain popular as a wealth management and succession planning vehicle for families.

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