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Supportive budget in uncertain times for Gibraltar

Less than a fortnight after the unexpected result of the UK having voted in favour of leaving the European Union, Gibraltar's Chief Minister Fabian Picardo delivered his fifth budget address to parliament on 5th July 2016, reiterating Gibraltar's strong socioeconomic position and introducing measures to support new and existing businesses and maintain a fair environment for tax resident individuals. A summary of the principal measures proposed is provided below.

Although the legislation for implementation is still to be enacted, the measures will have effect from 1st July 2016 unless otherwise specified below.

Headline Economic Data

- Gross Domestic Product ("GDP") for 2015/2016 is forecasted as £1.77 billion, up from £1.64 billion (revised 2014/2015 estimated), resulting in a growth of 7.5%.
- Gibraltar's GDP per capita for 2015/16 is forecast at \$90,165.
- Inflation in Gibraltar averaged 0.3% in 2015, compared to 1.8% in 2014. Average inflation to date in 2016 is 0.25%, which is expected to rise by the end of 2016.
- Government revenue increased by 5.5% in the year to £590 million.
- Government budget surplus for 2015/2016 is estimated at £38.8 million.
- During last financial year, Government invested c.£99 million on

capital projects.

Corporate Tax

- Gibraltar's headline corporate tax rate, and higher rate of tax on utilities, unchanged at 10% and 20% respectively.
- New Start-Up Incentive Scheme (subject to conditions below) for companies and limited partnerships, whereby a tax credit equal to the tax due up to a maximum of £50,000 over each of the first three years of trading now available, without possibility of carryforward. Conditions applicable are:
 - Must be a new business set up between 5th July 2016 and 30th June 2017;
 - The business must employ at least 5 employees in the first year;
 - The business must not represent a transfer of a previously existing business in Gibraltar nor one that is used as a transfer pricing mechanism to allocate profits from a previously existing business in Gibraltar;

Anti-avoidance provisions will be applied to ensure this represents a new business setting up in Gibraltar.

- With respect to telecommunications companies, the higher rate of tax of 20% shall apply only to profits and gains arising from telecommunications activities specified in Income Tax Act 2010 and the headline rate of 10% shall apply to profits and gains arising from non-telecommunication business activities.

Personal Tax

No changes announced to the tax rates or bands for individuals on the allowance based system ("ABS") of taxation, who have been given the following benefits:

- Personal allowance is increased from £3,200 to £3,215;
- Spouse and Civil Partners allowance is increased from £3,200 to £3,215;
- Single Parent Family allowance is increased from £5,264 to £5,290;
- Nursery allowance is increased from £5,000 to £5,025;
- Child allowance is increased from £1,100 to £1,105;
- Child Studying Abroad allowance is increased from £1,250 to £1,255;
- Dependent Relatives allowance is increased from £300 to £305 (or from £200 to £205 where relative is resident outside of Gibraltar);
- Disabled Individual allowance is increased from £9,000 to £9,040;
- Blind allowance is increased from £5,000 to £5,020;
- Medical Insurance allowance is increased from £5,000 to £5,020.

No changes announced to the tax rates or bands for individuals on the

gross income based system ("GIBS") of taxation.

Other points to note:

- Tax payers with assessable income of £11,050 or less do not pay any income tax (for both ABS and GIBS);
- No changes to social insurance contributions for employers, nor employees (with position to be reviewed in January 2017);
- Tax Amnesty available for six-months to allow non-compliant taxpayers to pay 7.5% on undeclared monies remitted to Gibraltar.

Import and Stamp Duty

- Import duty reduced on various items, including but not limited to:
 - Spectacles, spectacle lenses and contact lenses reduced to 0%;
 - Sanitary towels, tampons, nappies, shaving preparations, deodorants and antiperspirants reduced to 0%.
- In order to assist local businesses in the marine sector, the following reductions in import duty have been made:
 - Electronic equipment and spare parts for use exclusively in boats, including fish finders, marine radios, radar and GPS plotters reduced to 0%;
 - Sails, propellers and related spare parts reduced to 0%.
- Import duty of 10% imposed on fizzy and other soft drinks (with a sugar content of above 5 grams per 100 millilitres), sugar, sweeteners or other derivatives used for the sweetening of drinks produced in Gibraltar.

Other Measures

- Minimum wage increased from £6.25 to £6.28 per hour with effect from 1st August 2016.
- Public sector pay to increase by 2.75% with effect from 1st August 2016.
- No increase in electricity and water charges.

Deloitte View

In light of the uncertain times ahead for Gibraltar, we welcome this supportive budget designed to encourage new and existing business in Gibraltar. Furthermore, although understandably conservative, it is encouraging to see Gibraltar's commitment to keep rewarding the community through the various personal tax measures adopted.

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