

Budget Accelerates Corporate Tax Cut

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Chief Minister Peter Caruana on June 3 presented Gibraltar's 2008 budget, which accelerates the timetable for previously announced reductions in the corporate tax rate and lowers the personal income tax rate for some taxpayers.

While this year's budget includes a few moderate concessions to pensioners, only personal income tax payers in the top income bracket are likely to benefit from any reductions. The rate for those in the top bracket has been cut from 40 percent to 38 percent.

It is increasingly likely that Gibraltar will receive a favorable ruling from the European Court of Justice regarding its proposed new corporate tax structures. That, coupled with forecasts of continued economic growth — within and outside the financial services sector — would seem to put Gibraltar in a better position than many to ride out the current global economic difficulties.

Earlier this year in Geneva, Caruana promised international financiers that a corporate tax reduction was in the cards, and he has made good on that promise — though perhaps not to the extent that many in Gibraltar's finance industry would have liked. (For Caruana's budget speech, see *Doc 2008-12345* or *2008 WTD 109-12*; for the 2008 budget summary, see *Doc 2008-12346* or *2008 WTD 109-13*.)

Caruana has accelerated the reductions he announced in his budget a year ago, cutting the corporate tax rate by 6 percentage points to 27 percent, a level which, had the government adhered to the scale announced last year, would not have been reached for another two years. If the ECJ's ruling is handed down before the end of summer, as is expected, the government could conceivably announce further rate cuts. It has long been the government's intention to the cut corporate rate to 10 percent or 12 percent, making the jurisdiction more competitive with others such as Dublin, Cyprus, and Malta. (For prior coverage, see *Doc 2007-26296* or *2008 WTD 11-12*.)

Although 2010 remains the target date to set a 10 percent or 12 percent corporate tax, any further cuts are unlikely given the massive new commitment to public spending on Gibraltar's infrastructure and a

somewhat restricted Revenue kitty after last year's pre-election largesse. (It should be noted that some companies are still subject to grandfathering arrangements under the exempt tax regime. Grandfathered companies will enjoy their tax exemptions for two more years before tax-exempt companies are phased out in 2010 to comply with EU legislation.)

While the financial services sector welcomes the accelerated implementation of corporate tax reduction, there remains a strong sense that a cut of 10 percentage points rather than 6 percentage points this year would have been feasible. This sector, and investors, may take some comfort from the government's assurance that it will pursue policies that "protect the international competitiveness" of viable businesses and that those businesses would benefit "in a deep and meaningful way from the move soon to very considerably lower the rate of corporation tax."

As was the case in last year's budget, there were token nods toward environmental issues and broader health concerns: an increase in tax on petrol, rising by three pence a liter (compared with four pence last year); and an additional 5 pence a packet tax on cigarettes (or 50 pence per carton). These increases are unlikely to deter Gibraltar's Spanish neighbors from filling their fuel tanks in Gibraltar, or to prevent visitors from taking advantage of what will still be some of the cheapest tobacco in Europe. And in a concession to concerns about global warming, a new system based on carbon emission levels will be introduced for calculating import duty on automobiles.

Also, in what was apparently a reference to the online gambling industry, Caruana claimed he was confident that the industry's global fallout would not affect employment. In fact, revenue from remote gambling taxes has increased from GIP 6.8 million to GIP 8.2 million despite industry losses. Although that is a relatively small portion of an economy that grew by 12.7 percent last year and enjoyed a GDP of GIP 740 million, it is the tip of a revenue iceberg because of the considerable personal tax contribution of some 1,800 employees in the gambling sector.

Caruana also stressed that in spite of the global credit crunch and the soaring world fuel price, Gibraltar's economy is "strong, buoyant and [. . .] growing at a high but sustainable rate." ◆

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