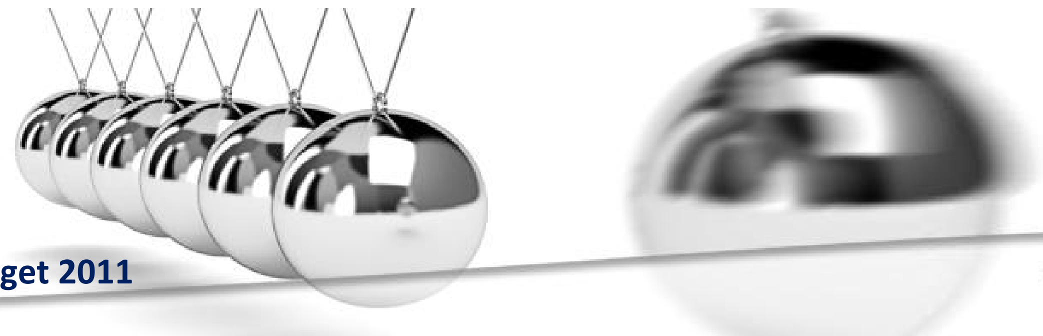

Gibraltar budget 2011

BAKER TILLY (GIBRALTAR) LTD

Following the Chief Minister's budget address, we set out a summary of the changes announced to taxation in Gibraltar, which generally are effective from 1 July 2011 onwards. After the groundbreaking changes announced in 2010 which impact on the tax payable by companies, this year's budget focused mainly on the personal taxpayer.

Personal tax

As anticipated the Government has continued with its reduction in personal tax rates.

Gross income based system

The Government still seems to be keen to move taxpayers from the more traditional allowances-based system to the gross income basis, with the Chief Minister anticipating that after the changes around 86% of all personal taxpayers will find it beneficial to be taxed on the gross income basis.

We are pleased to note that the gross income system has been simplified, as well as the tax rates having been reduced. The top rate has been reduced from 29% to 28%, and the lowest rate reduced from 8% to 6%.

The impact of the changes can be illustrated by a few examples:

Income	*Tax payable 2011/12*	*Tax payable 2010/11*
£12,000	£1,000	£1,200
£20,000	£2,840	£3,400
£30,000	£5,490	£6,000
£45,000	£9,390	£10,575
£75,000	£17,790	£19,125
£100,000	£24,790	£26,250
£250,000	£62,440	£70,250
£1,000,000	£190,940	£200,000

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Allowances based system

No change to allowances or tax rates themselves has been announced. However, a tax credit has been announced for such taxpayers, which will be the greater of £300 or 2% of tax payable. Taxpayers with large mortgages will be pleased to note that there has been no additional restriction on allowances available from the payment of these.

Readers who apply a calculator to the table above may note that the percentage reduction in tax for those on the gross income is significantly more than 2%, thereby encouraging more taxpayers to opt for the gross income basis.

Corporate tax

No changes were announced to the tax payable by companies on their profits. It is noted that the Chief Minister acknowledged that the following areas of the new Income Tax Act are being reviewed:

- Entertainment and marketing expenses
- Allocation of expenses between taxable and non-taxable income
- Goods and services procured by head offices and shared / central head office costs

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