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Gibraltar Tax Facts 2012/2013

A practical and easy-to-follow guide to the Gibraltar tax system.

July 2012

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This booklet is also available online at www.pwc.gi

A list of PwC Gibraltar contacts is provided in the back of this guide should you require more detailed advice or assistance tailored to your specific needs.

This booklet is based on taxation law and practice in Gibraltar as at 1 July 2012.

It is intended to provide a general guide only to the subject matter and is necessarily in a condensed form, it should not be regarded as a basis for ascertaining the liability to tax in specific circumstances. Professional advice should always be taken before acting on any information in the booklet.

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Budget summary

Below is a summary of the key taxation changes to existing legislation as a result of the Chief Minister's budget speech on 9 July 2012. These changes are effective as from 1 July 2012.

Corporation tax

There is no change to the corporate tax rate of 10%.

Personal tax

With effect from 1 July 2011 pension income from approved occupational schemes no longer forms part of the taxpayer's assessable income.

Where pension contributions in any one year are below the maximum tax relief that can be claimed for that year, a 'one year carry back' facility is available enabling members of such schemes to top-up any unused tax relief.

In respect of the allowance based system the following changes are announced:

- The lower rate of tax has been reduced from 17% to 15%.
- The low income earners allowance is extended so that any person with income of £9,000 or less will not pay any tax. This figure will rise to £10,000 for the 2013/14 tax year.
- Taper relief is introduced for income between £9,000 and £19,500.
- The allowances for medical insurance premiums and nursery school payments have increased to £1,500 and £2,000 respectively.
- The maximum loan amount upon which mortgage interest is available for relief has increased by £50,000 to £350,000.

In respect of the gross income based system, the following changes are announced:

- Taxpayers are entitled to a deduction from their assessable income in the form of mortgage interest relief up to an amount of £1,000 per annum.
- Taxpayers can benefit from a deduction from their assessable income in respect of approved expenditure incurred on the enhancement of the frontage of their property of up to £5,000.

Commercial property rates incentives

New business start-ups will benefit from an early payment discount of 50% for the first year of trading.

The discount for bars, restaurants and casinos increases to 40% for the year to 30 September 2013, reducing to 30% for the following year.

The discount for offices, workshops, construction, manufacturing, transport and distribution industries increases to 10% with effect from 1 July 2012.

Salt water rates are to be abolished with effect from 1 October 2012.

Statutory minimum wage

This is increased to £5.70 with effect from 1 August 2012.

Changes in import duty rates

Import duty on the following goods has halved from 6% to 3%:

- Perfumes, beauty and make up preparations;
- Clothing and footwear; and
- Watches.

Import duty on the following goods has been exempted:

- Computers (including portable devices);
- Televisions;
- Computer software;
- Hi-fi and other electrical audio or visual equipment;
- DVDs and CDs;
- Biofuels; and
- Stationery made from recycled materials.

Import duty on jewellery and mobile phones has halved from 12% to 6%.

The duty on cigarettes has been increased by £1.00 per carton of 200.

Import duty on vessels over 18 metres in length has been exempted. Vessels less than 18 metres will pay import duty at 6%.

The import duty rate for hybrid vehicles imported by a local dealer has been lowered to 2%. There is also a £500 cash-back to the purchaser of such a vehicle upon registration in Gibraltar.

The import duty on any vehicle which is adapted for the use of a disabled person is abolished.

Who is liable to taxation in Gibraltar?
Income tax is charged on income accruing in or derived from Gibraltar.

Income tax is also charged on certain income accruing in, derived from or received in any place other than Gibraltar by any person ordinarily resident in Gibraltar.

Gibraltar has introduced a number of tax incentives which allow certain categories of resident individuals to limit the total tax payable in any tax year, subject to certain criteria being met (see page 9).

Individual residence
Ordinarily resident means an individual who, irrespective of whether such individual is domiciled in Gibraltar or otherwise, is present in Gibraltar for at least 183 days in the year of assessment, or is present for over 300 days in aggregate over 3 consecutive years of assessment.

Any part of a 24 hour period commencing at midnight will be counted as a day of presence whether or not Gibraltar accommodation is used.

Corporate residence
A company will be considered resident in Gibraltar if the management and control of its business is exercised from Gibraltar.

The location of central management and control is established under legal principles laid down in the United Kingdom and is the place of the highest form of control and direction over a company's affairs, as opposed to decisions on the day-to-day running of the business.

Tax year and basis of assessment - Individuals
The tax year runs from 1 July to 30 June and tax is payable on the actual taxable profits for the year.

Tax year and basis of assessment - Corporate
Companies are subject to taxation on income accrued in or derived from Gibraltar on the taxable profits for the financial year.

Partnerships
Partnerships are viewed as transparent entities for tax purposes and therefore the profits or gains from the partnership are deemed to be the share to which the partner was entitled.

The tax year runs from 1 July to 30 June and the basis of taxation is on current year profits.

Branches
The basis for taxation of branches of foreign enterprises is the same as for companies.

Trusts
A trust is considered resident in Gibraltar where it has one or more beneficiaries who are ordinarily resident for tax purposes in Gibraltar (excluding Category 2 individuals). A Gibraltar resident trust is subject to taxation in Gibraltar at the standard rate of tax for individuals. A Gibraltar trust which has non-resident beneficiaries is not subject to taxation in Gibraltar and all of its income (with the exception of income from a trade which has accrued in and derived from Gibraltar) may be accumulated free of tax in Gibraltar.

Taxable income

Income tax is charged on:

- Gains or profits from any trade, business, profession or vocation;
- Gains or profits from employment including any allowances, perquisites or benefits in kind;
- Rents, premiums and any other profits arising from any interest in real property;
- Dividends (see below).

The income of a business whose underlying activities that result in the income requires a licence and regulation under any law of Gibraltar or is licensed in another jurisdiction but enjoys passporting rights into Gibraltar shall be deemed to accrue in and derive from Gibraltar.

Income which is not accrued in or derived from Gibraltar is not taxed in Gibraltar. "Accrued in and derived from" is defined by reference to the location of the activities or the preponderance of the activities which give rise to the profits.

Dividends

There is no charge to tax on the receipt by a Gibraltar company of dividends from any other company, regardless of where incorporated.

There is no tax on dividends paid by one Gibraltar company to another, and there is no liability to tax on dividends paid by a Gibraltar company to a person who is not resident in Gibraltar.

There is also no withholding tax on dividends paid, however, where a company declares a dividend in favour of a Gibraltar resident individual or company, it must submit a return of dividends.

Interest

Except in the case of companies with a banking or money lending licence, interest receivable is not taxable in Gibraltar.

For the above companies no tax shall be charged on the net interest receivable from deposits from related parties to the extent that these funds do not themselves generate interest income from money lending activities to third parties.

Royalties

Income from royalties is not taxed in Gibraltar.

Exempt income

The main types of exempt income are summarised below:

- Interest and royalties;
- Dividends from companies listed on a recognised stock exchange;
- The income of a friendly society, sporting club, or ecclesiastical, charitable or educational institution or trust of a public character;
- Compensation for unfair dismissal and sums paid upon redundancy which have been approved as appropriate by the Commissioner;
- The investment income of any pension fund, provident fund or other fund established in Gibraltar, and approved by the Commissioner;
- The income received by any trust or beneficiary where the beneficiaries are all non Gibraltar resident (this exemption also applies to Category 2 Qualifying Individuals (see page 9));
- Any income arising out of Gibraltar by an individual not resident in Gibraltar for a period of less than 30 days in a tax year;
- Pensions received from an approved occupational pension scheme by individuals aged 60 or over (see page 10);
- The gains or profits derived by a non-resident owner, charterer or operator of ships or aircraft for the carriage of passengers or cargo to or from Gibraltar in any ship or aircraft owned, chartered or operated by them;
- The income accruing to a life fund maintained by a life assurance company;
- Income received by a student from employment during vacation;
- Medical insurance premiums paid by an employer to an approved scheme on behalf of employees up to an amount of £1,120. At the time of publication, it was uncertain whether this figure would increase to £1,500;
- Benefits in kind to an annual value of £250 per employee.

Deductions allowed

For the purpose of ascertaining the assessable income there shall be deducted all outgoings and expenses wholly and exclusively incurred in the production of the income.

In the case of a person who has income, some of which is chargeable to tax and some of which is not, the deductions allowed shall be apportioned on a pro-rata basis between the chargeable and non-chargeable income.

No deduction shall be allowed in respect of:

- Expenses not incurred wholly and exclusively in the generation of income;
- Domestic or private expenses;
- Any expenses of a capital nature;
- Any sum recoverable under an insurance contract or contract of indemnity;
- Property expenses not incurred for the purposes of producing income;
- Any tax charged under the Income Tax Act;
- Depreciation of assets (although capital allowances are available, (see page 7));
- Employee remuneration not accompanied by a certified statement of names, addresses and amount of remuneration;
- Interest paid on a back to back loan or a loan secured by a connected person;
- With respect to branches, general head office expenses which exceed 5% of turnover;
- Certain business entertainment expenditure which does not qualify as deductible under the guidelines provided by the Commissioner of Income Tax.

Certain other expenses may also be disallowed under anti-avoidance provisions (see page 12).

Capital allowances

The first £30,000 of qualifying expenditure on plant and machinery (including fixtures and fittings) acquired in a year of assessment is fully deductible with the balance deductible at the rate of 15% per annum on a reducing balance basis.

The first £50,000 of qualifying expenditure on information technology investment is fully deductible with the balance deductible at the rate of 15% per annum on a reducing balance basis.

Expenditure on motor vehicles which does not qualify as plant and machinery is deductible at the rate of 15% per annum on a reducing balance basis.

For unincorporated businesses and companies that are obliged to pay the higher rate of corporate tax, wear and tear allowances are 20% per annum on a reducing balance basis.

Capital allowances for industrial buildings are deductible at the rate of 4% per annum on a straight line basis.

Capital payments for leases which are for periods of less than 12 years qualify for capital allowances on a straight line basis over the remaining period of the lease.

Losses

A trading loss incurred in an accounting period may be offset against trading income, if any, arising in the same period or subsequent periods.

If, however, within any period of three years there is both a change in ownership and a major change in the nature and conduct of a trade, trading losses may not be offset against trading income arising in the same or subsequent periods.

Any losses not connected with or arising out of the trade, business, profession or vocation is not an allowable deduction.

There is no provision for the carrying back of losses.

Group relief

There is no group relief available in Gibraltar.

Charge to tax

Individuals have the choice of being taxed under either an allowance based system or under a gross income based system and will be assessed for tax under the system that results in the lower tax.

The rules prevent one family member benefiting from the gross income based system and another from obtaining the benefit of allowances (such as mortgage interest relief) under the allowance based system.

Allowance based system

Under the allowance based system the individual will be taxed on their income less allowances (see below) at the applicable rates:

The first £4,000 of taxable income	15%
The next £12,000 of taxable income	30%
The remainder of the taxable income	40%

Personal relief is granted on submission of a claim to the tax office when applying for a tax code upon registration. The main allowances (which are reduced by one twelfth for each complete calendar month that the individual is not resident in Gibraltar during the year of assessment) for the tax year 2012/2013 are as follows:

Personal allowance		£2,812
Deduction for spouse		£2,632
Deduction for one parent family		£2,632
Deduction for children		£997
Deduction for children educated abroad		£1,105
Deduction for health insurance premiums	(i)	£1,500
Life assurance premiums	(ii)	100%
Mortgage interest	(iii)	100%
House purchase for residential accommodation	(iv)	£15,500
Disabled individuals		£2,724
Nursery school allowance		£2,000
Dependant relative (resident)		£190
Dependant relative (non-resident)		£139
Daughters services (not married)		£211
Blind allowance		£627
Apprentice allowance		£380
Age allowance (state pensionable age - married man)		£5,443
Age allowance (state pensionable age - single persons and married women)		£8,075

(i) Maximum relief.

(ii) Allowable premiums up to 1/7th of assessable income or 7% of capital sum assured. Relief is granted at the basic rate (currently 15%). Policies acquired prior to 3 June 2008 obtain relief at the tax payer's marginal rate provided there is no change in the value, term or premium.

(iii) Interest payable on a loan to acquire a Gibraltar property to be used as a tax payer's principle residence is allowable on loans up to a value of £350,000. Loan arrangements entered into before 1 July 2008 will be eligible for relief on 100% of the loan as long as the loan continues to be secured on the current property and is in the name of the current borrower. The interest on these loans will be subject to "tapered grandfathering" whereby the relief on the amount of the loan in excess of £350,000 will be reduced by 1/10th per annum.

(iv) One off allowance of £11,500 spread over a number of years and an additional allowance of £4,000 restricted to a maximum of £1,000 per year.

Persons whose taxable income does not exceed £9,000 per annum are exempt from tax.

Taper relief is available for individuals whose taxable income is between £9,000 and £19,500 per annum.

A tax credit equal to the higher of £300 or 2% of the tax payable for the year is available.

There is also a tax credit of up to £4,000 available for individuals aged 60 and over who are not in receipt of pension or annuity income in excess of £2,000.

Gross income based system

Under the gross income based system the applicable tax rates are as follows:

Persons with gross income under £25,000 are taxed at the following rates:

The first £10,000 of taxable income	6%
The next £7,000 of taxable income	20%
The remainder of taxable income	28%

Persons with gross income over £25,000 are taxed at the following rates:

The first £17,000 of taxable income	16%
The next £8,000 of taxable income	19%
The next £15,000 of taxable income	25%
The next £65,000 of taxable income	28%
The next £395,000 of taxable income	25%
The next £200,000 of taxable income	18%
The next £300,000 of taxable income	10%
The remainder of taxable income	5%

Persons under the gross income based system may also benefit from:

- A deduction from their assessable income up to a maximum of £1,000 in respect of approved mortgage interest payments;
- A deduction from their assessable income up to a maximum of £5,000 in respect of approved expenditure incurred on the enhancement of the frontage of their property.

Tax incentives

Category	Requirements	Tax per annum
Category 2 (High Net Worth Individuals)	Approved residential accommodation. Non Gibraltar resident for the five years preceding the application. Minimum of £2 million net assets.	Minimum of £22,000 Maximum of £29,800
High Executive Possessing Specialist Skills ("HEPSS")	Approved residential accommodation. Non Gibraltar resident for three years preceding the application. Minimum annual salary requirement of £120,000. Possess skills not available in Gibraltar which are necessary to promote and sustain economic activity of particular economic value.	£29,940

Standard rate of tax

The standard rate of tax for individuals is 30%.

Benefits in kind

Benefits in kind are taxed as gains from employment. There is specific legislation on how to tax benefits and the allowances available, particularly with respect to:

- Expense payments;
- Vouchers and credit tokens;
- Living accommodation;
- Cars, vans and related expenditure;
- Loans to employees;
- Loans to directors, shadow directors or connected persons;
- Removal benefits and expenses.

The Act provides a mechanism for the Commissioner to tax benefits not specifically covered in the legislation. The value of the benefit is the cost to the employer less any amount made good by the employee.

Where the benefits are less than £250 in total for any year of assessment no tax is payable in respect of those benefits.

The employer may opt to pay the tax on the benefits on behalf of an employee. When the annual value of these benefits is between £250 and £15,000 tax shall be paid at the rate of 20%. When the annual value of the benefit is more than £15,000 tax shall be paid at the rate of 29%.

Pension schemes

Overall employer and employee contributions are eligible for tax relief of up to 25% of earned income in respect of contributions made to approved occupational pension schemes (including contributions by proprietary directors and shareholders).

Tax relief on contributions to retirement annuity contracts and approved personal pension schemes is limited to the lower of 20% of earned income or £35,000.

Employees can obtain tax relief on contributions to an approved scheme of up to 1/6th of their earned income. The 1/6th limit includes premiums payable on approved life insurance policies which are themselves subject to an earnings cap of 1/7th of earned income.

Pensions received from an approved occupational pension scheme by individuals aged 60 or over or who are compulsorily retired at age 55 under Section 8(2) of the Pensions Act (applicable to fire officers, police officers or prison officers) are not subject to tax in Gibraltar.

Where contributions to approved personal pension schemes and retirement annuity contracts in any one year are below the maximum tax relief that can be claimed for that year, a 'one year carry back' facility is available enabling members of such schemes to top-up any unused tax relief.

Pensions received from an approved pension scheme imported from another country shall be taxed at the rate of 2.5% insofar as it forms part of the taxable income of that individual.

Social insurance contributions

Social insurance contributions are payable by every employee or self employed person in any week in which they work.

Employee contributions are 10% of gross earnings subject to a minimum of £5.00/£21.67 per week/month and a maximum of £25.16/£109.03 per week/month.

Employer contributions are 20% of gross earnings subject to a minimum of £15.00/£65.00 per week/month and a maximum of £32.97/£142.87 per week/month.

Self employed contributions are 20% of gross earnings subject to a minimum of £10.00/£43.33 per week/month and a maximum of £30.17/£130.74 per week/month.

Individuals aged 60 and over and those whose statutory occupational retirement age is earlier than 60, as in the case of a fire officer or a police officer, and are in insurable employment shall be exempt from paying the employee's share of social insurance contributions. Employers will continue to be required to pay their share of the contribution.

There is also an exemption from the payment of employer and employee social insurance contributions in the case of payments received whilst on maternity leave.

Corporation tax

The standard rate of Gibraltar corporation tax is 10%, with utility and energy providers and companies that abuse a dominant position paying a higher rate of 20%. This higher rate of tax will be levied on the following types of companies:

- Telecommunications companies;
- Petroleum companies;
- Electricity companies;
- Sewage companies;
- Companies which abuse a dominant position.

Withholding tax on interest payments

As interest is not taxable there is no withholding tax on interest payments.

Withholding tax on payments to subcontractors

Payments made to a subcontractor without a valid certificate are subject to 25% withholding tax on that portion of the payment which is not for materials used in construction.

Anti avoidance provisions

The legislation contains a generic anti-avoidance clause which allows the Commissioner to disregard an arrangement which he believes is fictitious or artificial and also requires promoters of tax planning schemes to notify the Commissioner within 30 days of any schemes which result in the payment of less tax.

The Act also contains specific anti avoidance provisions as follows:

Thin capitalisation rules Interest paid on a loan by a company to related parties (which are not themselves a company) or loans where security is provided by related parties, where the ratio of the value of the loan capital to the equity of the company exceeds 5 to 1 is considered as a dividend payment and thus not a deductible expense for tax purposes.

Transfer pricing legislation The amount of interest payments to connected persons which is in excess of that payable at “arm’s length” is deemed to be a dividend.

Also if the amount charged for goods and services by the connected persons is not at “arm’s length” expenses allowed are subject to a maximum of (i) the expense, (ii) 5 per cent of the gross turnover of the company or (iii) 75% of the pre expenses profit of the company.

Interest payable and back to back loans Any interest paid or payable to a person not resident in Gibraltar is not deductible insofar as the interest is at more than a reasonable commercial rate.

Any interest paid on any money borrowed other than for the purposes of the trade or profession, is also not deductible.

Where the interest income is not taxable the interest expense is not deductible on back to back loans.

Dual employment contracts Income from dual employment contracts is taxed in Gibraltar where the two employers are connected persons. Bona fide arrangements where the purpose is not to avoid tax is a defence to the provision.

Transfer of assets abroad Where assets are transferred abroad with the purpose of avoiding taxation and the taxpayer has the power to enjoy these assets either now or in the future, then any income or benefits received from these assets will be deemed to be income chargeable to tax. This provision does not apply if the transaction is bona fide and not designed for the purpose of avoiding tax.

Double taxation relief

Any person ordinarily resident in Gibraltar who is liable to pay tax in Gibraltar in respect of income also taxed abroad is able to claim double taxation relief in respect of the tax paid abroad. On furnishing evidence of the payment made abroad, the claimant is entitled to a credit equivalent to the lesser of the:

- Tax payable on that income in Gibraltar; or
- Tax payable or paid abroad in respect of the same income.

If relief from the double taxation has to be made abroad, the relief then given is reduced accordingly.

A claim for double taxation relief has to be made within six years after the end of the year of assessment to which it relates. The time limit is extended where any adjustment or assessment made in Gibraltar or abroad renders any relief previously given excessive or insufficient. In those circumstances, a claim must be made within the six years after the adjustment or assessment.

Value added tax

There is no VAT in Gibraltar.

Customs and excise duties

Goods imported into Gibraltar are subject to import duty at the rate of 0%, 6% or 12%. The most notable exceptions are fuel, tobacco, alcohol and motor vehicles.

Savings Directive

Where a paying agent in Gibraltar makes an interest payment to a beneficial owner that is a natural person resident in another EU member state (or a country with a bilateral agreement with the EU) the minimum amount of information to be reported to the competent authority shall consist of:

- The identity and residence of the beneficial owner;
- The name and address of the paying agent;
- The account number of the beneficial owner;
- Information concerning the interest payment.

The competent authority shall transmit the information to the competent authority of the member state of residence of the beneficial owner within six months following the end of the tax year in which the payment was made.

For residents of the United Kingdom there is an obligation on the paying agent to withhold tax from the amount of the interest payment at the rate of 20% up to 30 June 2012 and 35% thereafter.

A beneficial owner resident in the United Kingdom may request that no tax be withheld where:

- He authorises the paying agent to report all interest payments made to the competent authority; and
- He presents to his paying agent a certificate drawn in his name by the competent authority of the United Kingdom.

Capital gains tax

There is no capital gains tax in Gibraltar.

In deciding whether an activity is a trade or a capital gain the Commissioner will refer to case law.

Wealth tax

There is no wealth tax in Gibraltar.

Estate duty

There is no estate duty in Gibraltar.

Rates

General rates are levied on all properties in Gibraltar.

Stamp duty

Stamp duty is payable on the transfer or sale of any Gibraltar real estate or shares in a company owning Gibraltar real estate (on an amount based on the market value of the said real estate) at the following rates:

Consideration	% value of consideration
£200,000 or less	0%
£200,001 to £350,000	2% on first £250,000 and 5.5% on balance
Over £350,000	3% on first £350,000 and 3.5% on balance

Stamp duty is also payable on mortgages secured on Gibraltar real estate at the following rates:

Mortgage	% value of mortgage
£200,000 or less	0.13%
Over £200,000	0.20%

Capital duty

Capital duty of £10 is payable on the initial authorisation of capital or any subsequent increase thereto.

Gaming tax

Gaming tax is levied at 1% of the gaming income. The tax paid is subject to a minimum of £85,000 and maximum of £425,000.

Tax returns

Both individuals and companies are required to file returns and calculate their tax liability for the year. The return together with the estimated liability needs to be accompanied by payment of the tax due.

Tax returns for individuals, partnerships, sole traders and trusts are due by 30 November following the year in which the income is assessed.

Tax returns for companies are due six months after the date of the company's financial year end.

Companies with turnover of less than £500,000 are required to file accounts accompanied by an Independent Accountant's Report together with the tax return within six months of the company's financial year end.

Companies with turnover of £500,000 or more may submit unaudited accounts together with the tax return but are required to file audited accounts within nine months of the company's financial year end.

Payment of tax

For employees, collection of tax is initially through a Pay As You Earn ("PAYE") system. Every employer paying emoluments to an employee is required to deduct from the amount of emoluments a specified amount of tax. Payment is due by the 15th day of the following month. At the end of the year of assessment the employer is obliged to make a return of the employee's emoluments and tax deducted together with the payment of any outstanding tax. Returns are due by 31 July following the year of assessment. Late filing of a return will incur a penalty of £10 per employee per day.

Individuals are required to make two payments on account on 31 December and 30 June in each year of assessment. Each payment should be equal to 50% of the tax liability for the previous tax year. The 'on account' payments are not applicable to individuals whose only income is from employment which is subject to PAYE deductions.

Companies are required to make payments on account of future liabilities on 28 February and 31 August in each calendar year. Each payment should be equal to 50% of the tax based on the previous year's assessable income. At the time of publication Government issued a consultation paper where one of the proposed changes was to replace the 31 August date with 30 September.

The balance of tax due being the actual liability less payments on account is due on the date of filing of the return which must be within 6 months of the financial year end for companies and by 30 November for individuals, sole traders and partnerships.

Appeals

If a tax payer disputes an assessment, he may appeal against that assessment by notice in writing addressed to the Commissioner within 28 days of the date of service of the notice of the assessment.

Fines and penalties

Penalties are imposed if tax is not paid or if returns are not filed by the due dates. The following penalties and fines are applicable:

For late payment of tax, there is a penalty of 10% of the amount of tax due on the day immediately after such payment was due. If unpaid for 90 days a further amount of 20% of the tax due is charged and if still unpaid after this period then a 10% per annum surcharge will be added which is compounded on a daily basis until the amount of the tax and penalties are fully paid.

Failure to file a return by the due date will result in a penalty of £50 with a further penalty of £300 if the return is not submitted within three months after the due date.

Failure to file a return or for fraudulently, recklessly or negligently delivering to the Commissioner an incorrect return, accounts or information will be liable to a penalty of up to 150% of the difference between the actual tax due and the tax due as per the original declaration, if any. The amount of the penalty will depend on:

- The amount of the tax lost and/or delayed;
- The gravity of the offence, if deliberate or an honest mistake;
- The level of cooperation in the investigation.

Failure to respond to a notice or request to submit information or documentation within 30 days will result in a fine of £200 on the day the failure occurs and a penalty of up to £500 per day thereafter. Failure to comply beyond a three month period, if convicted, can result in imprisonment.

Failure to pay to the Commissioner PAYE or social insurance which has been withheld/should have been withheld is a criminal offence which can lead to imprisonment and/or a fine. If an amount of PAYE and/or social insurance exceeding £5,000 is outstanding for over three months the Commissioner will, after giving 14 days notice, publish in the Gibraltar Gazette the name of the person whom he has reason to believe has failed to comply with the PAYE Regulations.

Failure to notify the Commissioner of an arrangement the main benefit of which is to avoid the payment of tax will result in a fine of £100 on the day the failure occurs and a penalty of £200 per day thereafter.

Fines and penalties introduced under the Income Tax Act 2010 will not apply until after 30 June 2012, however interest on unpaid tax will apply as from 1 January 2011.

Deduction of approved expenditure on premises

For tax payers with an interest in a building situated in Gibraltar an allowance is available for approved expenditure on the painting, decorating, repair or enhancement of the frontage of that building.

The approved amount will be available as a deduction against the taxpayer's income. This deduction is in addition to any deduction, relief or allowance given in accordance with any other provision of the Income Tax Act in respect of the same expenditure.

Notice of proposed works and expenditure needs to be provided to the Town Planner within 28 days from commencement of work.

The claim for the deduction of approved expenditure must be made within two years after the end of the year of assessment in respect of which the deduction is claimed.

The amount of the allowance for taxpayers who are assessed on the gross income based system is restricted to £5,000 per annum (see page 9).

Development aid

In order to encourage private development in Gibraltar, promoters and developers of approved projects are offered certain incentives such as tax relief, import duty relief and rates relief.

In order to qualify for the above reliefs the project needs to be a new project, the aim of which is:

- To create a tangible immovable asset in Gibraltar that will remain in existence after the applicant has ceased to derive the benefits under the licence; and
- To provide more than two additional units of housing accommodation in Gibraltar; or
- To contribute materially to the development of the tourist industry in Gibraltar; or
- To afford any new employment opportunities or career prospects in Gibraltar; or
- Otherwise to improve materially the economic or financial infrastructure of Gibraltar; and
- The project shall be one which is for the economic benefit of Gibraltar.

The project needs to be completed within a specified time (dependant on the type of project) following the issue of the licence and the applicant must not expend less than the prescribed amount for the project.

Application for development aid must be made to the Minister for Trade.

Historical tax rates

Corporate

	2012/13	2011/12	2010/11	2009/10	2008/09
Corporate tax rate (%)	10	10	22	22	27
Lower band (£)	-	-	35,000	35,000	35,000
Upper band (£)	-	-	43,333	43,333	67,667
Small company rate (%)	-	-	20	20	20

10% rate applicable from 1 January 2011 with utility and energy providers and companies that abuse a dominant position paying a higher rate of 20%.

Personal

Allowance based system - rates

%	2012/13	2011/12	2010/11	2009/10	2008/09
15	4,000	-	-	-	-
17	-	4,000	4,000	4,000	4,000
30	12,000	12,000	12,000	12,000	12,000
40	Balance	Balance	Balance	Balance	Balance

As from 2011/2012 there is a tax credit available equal to the higher of £300 or 2% of the tax payable for the year.

Allowance based system - allowances

	2012/13	2011/12	2010/11	2009/10	2008/09
Personal allowance	2,812	2,812	2,812	2,735	2,660
Deduction for spouse	2,632	2,632	2,632	2,560	2,490
Deduction for one parent family	2,632	2,632	2,632	2,560	2,490
Deduction for children	997	997	997	970	940
Deduction for children educated abroad	1,105	1,105	1,105	1,075	1,045
Disabled individuals	2,724	2,724	2,724	2,650	2,575
Nursery school allowance	2,000	1,023	1,023	995	965
Dependent relative (resident)	190	190	190	185	180
Dependent relative (non-resident)	139	139	139	135	130
Daughters services (not married)	211	211	211	205	205
House purchase allowance	11,500	11,500	11,500	11,500	11,500
Additional house purchase allowance	4,000	4,000	4,000	4,000	4,000
Blind allowance	627	627	627	610	590
Apprentice allowance	380	380	380	370	360
Deduction for health insurance premiums	1,500	1,120	1,120	1,090	1,030
Age allowance (married man)	5,443	5,443	5,443	5,295	5,150
Age allowance (single person & married woman)	8,075	8,075	8,075	7,855	7,640

The low income earners allowances and tax credit for individuals aged 60 years and over are not shown above.

Gross income based system

%	(i)	(ii)	%			
	2012/13 & 2011/12	2012/13 & 2011/12		2010/11	2009/10	2008/09
6	10,000	-	20	25,000	25,000	25,000
16	-	17,000	29	328,000	75,000	-
19	-	8,000	30	-	-	75,000
20	7,000	-	35	-	Balance	-
25	-	15,000	38	-	-	Balance
28	Balance	65,000	40	-	-	-
25	-	395,000	20	351,800	-	-
18	-	200,000	10	295,200	-	-
10	-	300,000	5	Balance	-	-
5	-	Balance				

(i) Persons with gross income below £25,000

(ii) Persons with gross income above £25,000

Notes

Contacts

For further information please contact
PricewaterhouseCoopers Limited
International Commercial Centre
Casemates Square
Gibraltar

Telephone: +350 200 73520
Telefax: +350 200 48267
Website: www.pwc.gi

colin.p.vaughan@gi.pwc.com
edgar.c.lavarello@gi.pwc.com
patrick.s.pilcher@gi.pwc.com
aine.panter@gi.pwc.com
charles.a.bottaro@gi.pwc.com

or your usual PwC contact

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www.pwc.gi