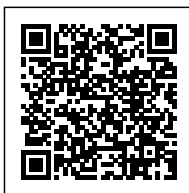


# CORPORATE COUNTDOWN : SETTING OUT A TAX TIMETABLE - HASSANS

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**While not as dramatic as anticipated, Gibraltar's recent budget provides a timetable for the long-awaited introduction of a new low corporate tax regime, says Michael Castiel, Partner at Hassans.**

"The Gibraltar Government's June 2007 budget may have disappointed the local business community, but they and investors will take consolation in the fact that it has now committed to achieve an across-the-board corporate tax rate of 10-12% by 2010," says Michael Castiel, partner at Hassans.

While Gibraltar's financial services sector may have hoped for a bolder approach to corporate taxation, the Government, he believes, felt constrained by pressures to phase out tax exempt companies by 2010, and the imminent decision of the ECJ on Gibraltar's appeal against the European Commission's ruling on "regionality", in relation to Gibraltar's broader tax proposals.

## Sustainable

"There was disappointment that the Government did not deliver the bold new flat rate corporate regime that had been anticipated. Instead, corporate tax payable by resident companies is to be reduced by a mere 2% in 2007/08 (from 35% to 33%) by a further 3% in 2008/09, and cut to 27% in 2009/10," Castiel explains.

Some suggest that with the ECJ ruling only weeks away (see main article), the new low flat rate could have been brought forward to next year. Castiel believes that the Government's own claim that the economy "has never been better" would also justify quicker cuts.

"There is concern that unless there are alternate provisions to off-set the proposed [small] tax reduction it will deter newcomers – particularly within the booming insurance sector," he says.

He nonetheless emphasises that already established companies will continue to enjoy their tax exemptions until the regime is phased out in 2010, while Gibraltar's territorial tax system means that only income accrued or derived there is subject to Gibraltar taxes, and that there is no capital gains tax.

"The Chief Minister stressed that to sustain a successful economic model Gibraltar would have to retain its commitment to a very competitive tax model. As it can no longer justify different taxes for 'local' and 'foreign' companies, a low tax system for all is vital.

" A failure to implement a common regime might otherwise prompt companies to leave, believes the Government. The flat rate regime that it intends to introduce in 2010 will therefore be similar to that which already exists in Ireland, Malta, Cyprus and other EU countries.

"Between now and then, it is expected that the Government will consult extensively with different economic sectors, with a view to further mitigating the consequences of the relatively high rate of tax applicable to companies with a 'bricks and mortar' presence in Gibraltar," comforts Castiel.

## Modest

The budget also brought modest changes to Gibraltar's income tax provision, highlights Castiel, with amendments to the rules affecting High Net Worth Individuals (HNWIs) and "Category 2" residents, while also abolishing "Category 3" and "Category 4" status for new entrants.

The result, he explains, is that from July the minimum tax payable by HNWIs has increased from £14,000 (around €20,600) to £18,000 (€26,600), although the taxable income level has increased by £10,000 (€14,775) to £60,000 (€88,650).

Existing Category 3 individuals will retain their status until June 2009 but will also face a rise in annual taxes to £15,000 (€22,150), while similar time constraints apply to Category 4 individuals, whose taxes will increase by 50 per cent – to £7,500 (€11,075).

In a year in which the Chief Minister seeks a record fourth term, it is no surprise that the budget contained vote-catching measures, says Castiel.

"But given the economy's strong expansion these are measures that the Government can afford."

"The budget has however provided much needed clarity from the Government in relation to corporate tax rates over the medium term. Hopefully, this will be further enhanced when the ECJ's longawaited ruling on regionality is issued in Gibraltar's favour."