

July 31, 2014  
2014-078

**Gibraltar – Healthy Government Finances Bring Positive Measures for Taxpayers**

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For coverage of last year's budget, see [Flash International Executive Alert 2013-111](#), 8 August 2013.

## flash International Executive Alert

A Publication for Global Mobility and Tax Professionals by KPMG's International Executive Services Practice

The recently announced Gibraltar Budget contains measures affecting individuals such as lower income tax rates, higher allowances, and increased deductions.

### Why This Matters

Modifications introduced by this Budget will impact taxpayers' marginal rates of taxation, in many instances, lowering their rates. International assignment cost projections and where appropriate, adjustments by payroll administrators to withholdings, should be considered. With some of these changes taking effect from 1 July 2014, employers are faced with a short period of time to make necessary payroll adjustments.

On 30 June 2014, Fabian Picardo, the Chief Minister of Gibraltar, delivered his third and most extensive (over 100 pages) Budget speech, which he declared as a "game changing" Budget for all the community and exciting times for businesses in Gibraltar.<sup>1</sup>

Below we highlight some of the changes to the tax system affecting individuals. (For more complete details on the Budget, see "[Gibraltar 2014 Budget: Tax Highlights](#)", published by the KPMG International member firm in Gibraltar.)

### Changes for Taxpayers

- **Lower Rate for Taxpayers under ABS:** From 1 July 2014, those taxpayers on the Allowance Based System (ABS)<sup>2</sup> will have the tax rate on their taxable income bracket of £4,001 to £16,000 reduced from 24 percent to 18 percent.
- **Higher Exemption Threshold:** Also from 1 July 2014, taxpayers with assessable income of £10,500 or less will not have to pay any income tax under the ABS or Gross Income Based system (GIB)<sup>3</sup>.
- **Increased Allowances:** Taxpayers under the ABS will also benefit from the following increased allowances from 1 July 2014, some of which we highlight below<sup>4</sup>:
  - Medical Insurance Allowance increases from £2,000 to £4,000;
  - Single Parent Family Allowance increases from £3,000 to £4,000;
  - Personal Allowance increases from £3,000 to £3,100;
  - Spouse Allowance increases from £3,000 to £3,100.
- **First-time Home-Buyers:** Help for first-time home-buyers is increased for taxpayers under the GIB to a deduction from assessable income of £6,000 for approved expenditures incurred towards the purchase of a home from 1 July 2014.
- **Contributions to Approved Pension Schemes:** GIB taxpayers will also be entitled to an increased deduction from income of £1,200 per annum in respect of contributions to approved pension schemes and £2,500 in respect of premiums paid for private medical cover, with effect from 1 July 2014.

## Other

- **Loans to Directors:** With effect from 1 July 2014, all loans or advances made to a director, a shadow director, or any connected person where the terms of the loan have an arm's-length interest rate and the loan arrangements have received approval from the Commissioner of Income Tax, then these loans will not be treated as earnings from employment.
- **Review of Category 2 Regime:** A review of the tax regime for high net-worth individuals is to be undertaken.
- **Stamp Duty on Home/Property Purchases:** No stamp duty will be payable by first- or second-time buyers on the first £250,000 of the cost of their property, irrespective of the total cost of their new home.
- **Charitable Giving through Payroll Deductions:** A payroll giving scheme will shortly be introduced and donations under the scheme will be capped at a maximum of £5,000 per taxpayer per annum.
- **Contributions to Approved Pension Schemes/ Mandatory Pensions:** Changes are to be introduced that will permit members of an approved pension scheme in Gibraltar to continue as active members and make contributions to such pension schemes even when they are not employed. Consideration is being given to the possibility of making it compulsory for every individual working in the private sector to have a pension.

## Next Steps

The changes announced in the Budget presented on 30 June 2014, will be embodied in draft legislation and presented to Parliament for approval. It is difficult to say how long this process will take as deadlines have not been set or made public. Draft legislation has not yet been released and Parliament will be in recess until September.

### Footnotes:

- 1 For the budget speech and related documents, see: <https://www.gibraltar.gov.gi/press-releases/5783-chief-ministers-budget-address-2014> and <https://www.gibraltar.gov.gi/images/stories/PDF/pressoffice/pressreleases/2014/324-2014.pdf>.
- 2 For more information on the personal income tax system in Gibraltar, including a review of ABS and GIB, see the KPMG publication "Taxation of International Executives: Gibraltar" at: <http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/taxation-international-executives/Pages/Default.aspx>.
- 3 Ibid.
- 4 For other allowances and deductions for individual taxpayers in addition to those mentioned, see "[Gibraltar 2014 Budget: Tax Highlights](#)", published by the KPMG International member firm in Gibraltar.

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The information contained in this newsletter was submitted by the KPMG International member firm in Gibraltar. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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