



**Government of Gibraltar
Ministry of Finance
Income Tax Office**

Dual Taxation System

Following the announcement by the Chief Minister in his 2007 Budget Speech of the introduction of a new 'Dual Taxation System' with effect from 1st July 2007, the Government wishes to notify taxpayers that they are still free to elect the tax system that results in the lower tax payment to them.

To enable taxpayers to compare their tax liability under both tax systems, the Income Tax Office has set up an 'On-Line Tax Calculator' on the Government's website. Taxpayers will require to input their estimated gross earnings for the tax year ending 30 June 2008 and their total allowances as reflected in their current Tax Code. If the taxpayer does not know the level of allowances of his or her Tax Code, this information is also available on the webpage. The 'On-Line Tax Calculator' will automatically work out the tax liability under both the Allowance Based System and the Gross Income Based alternative.

Explanatory notes and conditions that will need to be taken into account by taxpayers before deciding which tax system is best suited to their circumstances are also included in the webpage, as well as application forms to be used for electing the Gross Income Based alternative. Taxpayers who wish to opt for the Gross Income Based alternative must submit completed applications forms to the Income Tax Office for processing. In the absence of a specific choice, the existing Allowance Based System would be deemed to have been chosen.

Application forms for taxpayers who wish to opt for the alternative Gross Income Based System can also be obtained from the Income Tax Office, Ministry of Finance, St Jago's Stone Block, 331 Main Street.

The Income Tax Office webpage can be accessed at <http://www.gibraltar.gov.gi> - icon: 'Budget 2007 – On-Line Calculator'.

Taxpayers with queries may contact the Income Tax Office PAYE Section by telephone (Tel: 44161 or 74924) or by email at (paye@gibraltar.gov.gi) or If self-employed by telephone (Tel: 74874) or by email selfemp@gibraltar.gov.gi

**HEREUNDER ARE SOME FREQUENTLY ASKED QUESTIONS AND ANSWERS ABOUT
THE DUAL TAX SYSTEM**

Q. What is the Gross Income Based System (GIB)?

A. GIB is an alternative system of taxation for individuals and employees, introduced with effect from 1st July 2007, where you pay tax on your gross income (assessable income) at the following rates:

20% on the first £25,000
30% on the next £75,000

40% above £100,000

If you elect to be taxed under the GIB alternative you will not be eligible to claim any allowances and/or deductions.

Q. What is the Allowance Based System (ABS)?

- A.** ABS is the existing system of taxation for individuals and employees where you can claim allowances and/or deductions from gross income and pay tax on the net amount i.e. (assessable income less allowances) at the following rates:

17% on the first £4,000
30% on the next £12,000
40% above £16,000

Q. If I opt for the GIB system, can my spouse choose to pay tax under ABS?

- A.** Yes, both you and/or your spouse can opt to pay tax under any of the two systems. However, your spouse will not be able to claim those allowances, which you have been claiming or enjoying up to the tax year ended 30 June 2007. For example, if you were claiming or enjoying mortgage interest relief and/or the home purchase allowance up to 30 June 2007, you cannot 'transfer' any of the allowances, which you were previously claiming, to your spouse.

Q. I have employment income and I also receive an occupational pension that is taxed at zero rate. Can I opt for the GIB alternative in respect of my employment income?

- A.** Yes. However, the occupational pension that is taxed at zero rate will be taken into account in order to establish the GIB percentage rate of tax payable on your employment income.

Q. My spouse and I have recently purchased a home in Gibraltar and neither of us have previously claimed either mortgage interest relief or home purchase allowance. If I opt for the GIB alternative, can my spouse claim any of these allowances?

- A.** Provided that your spouse has at least a 50% legal interest in the property, he/she will be able to claim an allowance not exceeding 50% of the mortgage interest paid in any year of assessment. He/or she will also be able to claim a maximum of 50% of the Home Purchase Allowance. The total of each of these allowances shall not exceed 1/6th of the claimant's assessable income for any year of assessment.

Q. My spouse and I have taken out a new life insurance on both our lives. If I pay tax under the GIB alternative and my spouse is taxed under the ABS system, can my spouse claim tax relief on the life insurance premiums?

- A.** No, your spouse will not be able to claim tax relief on life insurance premiums where you are the assured and/or the life assured.

Q. Can my spouse claim tax relief on the premiums that I/we pay on my/our health insurance if I opt for the GIB alternative?

- A.** No, your spouse will not be able to claim tax relief on health insurance that includes you in the cover.

Q. If I opt for the GIB alternative can my spouse claim tax relief on my pension contributions?

A. No, your spouse cannot claim tax relief in respect of your pension contributions.

Q. What other allowances will my spouse not be able to claim if I opt for the GIB alternative?

A. If you elect the GIB alternative, your spouse will not be able to claim the following allowances unless these were already being claimed or enjoyed by your spouse for the tax year ended 30 June 2007.

- (a) Mortgage interest relief;
- (b) Home purchase allowance;
- (c) Spouse allowance;
- (d) Allowances for children, children educated abroad, disable individuals and nursery school in respect of any of your children;
- (e) Allowance for dependent relatives related to either you or your spouse;
- (f) Allowance for old age (age 65 years or more) in respect of you;
- (g) Blind allowance in respect of you;

Q. If I elect the GIB alternative, what allowances can my spouse claim?

A. The following allowances may continue to be claimed by your spouse if the entitlement exists even if you choose the GIB alternative.

- (a) Personal allowance;
- (b) Low income earners allowance;
- (c) Apprentice allowance, where your spouse is the apprentice;
- (d) Special deduction for senior citizens;
- (e) The top-up allowance up to £3,500;
- (f) Any other allowances which your spouse has been claiming up to 30 June 2007.

Q. How can I find out which of the two systems will result in the payment of the lower tax?

A. The Income Tax Office has set up an 'On-Line Tax Calculator' on the Government's website (<http://www.gibraltar.gov.gi>) to enable you to calculate which of the two tax systems will result in the payment of lower tax.. You will be required to input your estimated assessable income (including overtime pay, arrears, bonus, commissions, benefits-in-kind, etc) for the current tax year and your total allowances as per your current Tax Code. The 'On-Line Tax Calculator' will automatically work out the tax liability under both systems.

Q. I want to opt for the GIB alternative, what do I have to do?

A. You can download an application form from the Government website or obtain one from the Income Tax Office. Once you have completed the form, please send it to the Income Tax Office where your Tax Code will be altered immediately. The election will remain valid until such time as the Income Tax Office is notified otherwise.

Q. If I do not opt for the GIB alternative and at the end of the tax year I realise that I have paid more tax under the ABS system, can I make a claim for the tax that I have overpaid?

A. Yes, irrespective of the tax system you opt for, in the final assessment of your tax liability in any one year, the Commissioner of Income Tax will work out the tax liability under both tax systems and will apply the one that results in the lower tax payment by you. You will receive a refund if you have paid more tax than you would have paid under the other system.

Q. Where can I obtain more information on the GIB system?

A. More information can be obtained from the Government website. However if you do not have access to the Internet or have any specific queries you can contact the Income Tax Office PAYE Section by telephone (Tel: 44161 or 74924) or by email paye@gibraltar.gov.gi or if self-employed by telephone (Tel: 74874) or by email selfemp@gibraltar.gov.gi .

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