



**GOVERNMENT OF GIBRALTAR**  
**PRESS OFFICE**  
No.6 Convent Place  
Gibraltar  
Tel:20070071; Fax: 20043057

**PRESS RELEASE**

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**GOVERNMENT POSITION ON ECJ TAX CASE RULING**

The Government has read, considered and taken its legal team's advice on the effect of the Tax Case Ruling delivered this morning by the European Court of Justice.

Two separate issues were before the ECJ, on both of which the Gibraltar Government had won in the lower court.

The first of these issues is called "material selectivity" and relates to whether the tax scheme originally notified to the Commission (i.e. the Payroll tax scheme) breached EU State Aid Rules. The lower Court (the General Court) ruled that it did not, but the higher court (the ECJ) has today ruled that it did. As the Government has said before, such a ruling (which has now materialised) has no adverse impact on Gibraltar because Government in any case some time ago abandoned the Payroll Tax Scheme in favour of income tax of 10% for all companies.

The second issue that was before the ECJ is called "regional selectivity" and relates to the question whether Gibraltar has the right under EU law to have a different, lower tax system than the UK itself. As the Government has also previously said, this issue is huge for Gibraltar, since it goes to the very root of the viability of our socio economic model.

In today's ruling the ECJ has decided that it is not relevant or necessary for it to even consider this issue because the case before it is disposed of by its ruling on the material selectivity issue.

The Government is advised and believes that this ruling is quite sufficient and satisfactory for Gibraltar's purpose as it leaves intact our taxation powers.

Accordingly, the position on regional selectivity remains as it stood before to-day's ruling, namely, the favourable ruling of the General Court (against which the Commission did not appeal) and the Advocate General's favourable opinion in this appeal hearing, both based on the favourable principles established by the Court in the Azores Case

The attempt by Spain (only) to use this appeal hearing to obtain a ruling from the Court that Gibraltar does not have the right to have its own tax system and rates has thus failed.

Chief Minister Peter Caruana said:-

"The General Court's favourable ruling of December 2008, and the opinion of the Advocate General to the ECJ of April 2011 are the only judicial pronouncements on the question of Regional Selectivity and Gibraltar, and both robustly confirmed in our favour that the principle of regional selectivity does not apply to disentitle us from having a different and more favourable tax regime than the UK, of which we are not a region. This is the crucial issue for Gibraltar".