



HM Government
of Gibraltar

Budget 2015

Ministry of Finance

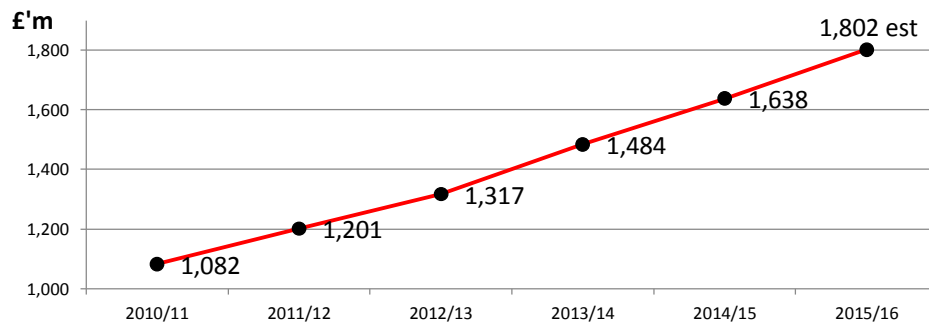
Executive Summary

1. This document summarises the budget speech delivered by the Chief Minister on 22nd June 2015 including the budget measures. It also lays out the Government's revenue and expenditure out-turn for the year ended 31st March 2015 and key economic indicators.
2. This budget has been designed to support working families, our youth and students, senior citizens and the disabled.
3. It is also designed to encourage business, start-ups, entrepreneurs, to improve our public services and to deliver sustainable growth in the economy.

Gross Domestic Product ("GDP")

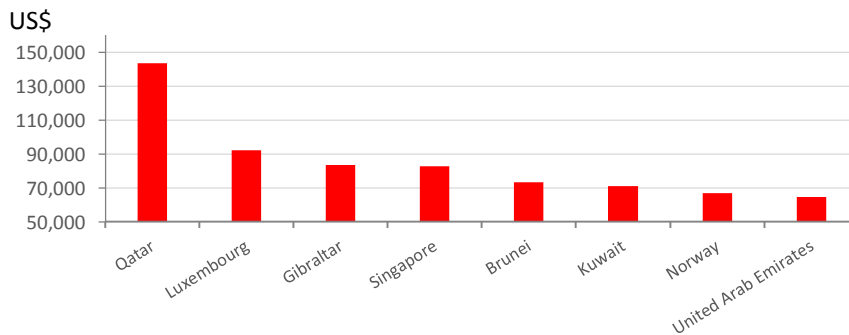
4. GDP for the last financial year 2014/15 is forecast by the Statistics Office at £1.64 Billion, which represents a GDP growth of 10.3% in money terms for that year.
5. This increased level of growth in our economy during the past three years, with an average growth rate of over 10% per annum in nominal terms, means that Gibraltar continues to rank among the fastest growing economies in the World.

Figure 1 – Growth in Gross Domestic Product



6. The estimated GDP per capita is £50,941 using the latest published figure of population of 32,194 people, published last week in the Census.
7. Gibraltar maintains 3rd place on the International Monetary Fund World Economic Outlook Database of GDP per capita rankings.

Figure 2 – Gibraltar 3rd in the world for GDP per capita



8. The main drivers for this positive growth are primarily the continuing increases in employment and turnover in the online gaming and financial services industries, and the increased levels of construction in the economy with the private sector now taking more of the lead in that respect.

Employment

9. The number of jobs in our economy is at a record high of 24,422. This represents a 16.4% increase since 2010.
10. The number of unemployed in Gibraltar is now 190.

Figure 3 – Total number of jobs

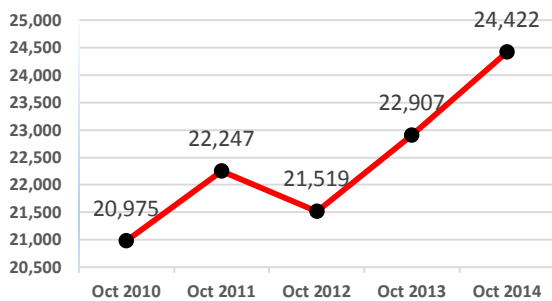
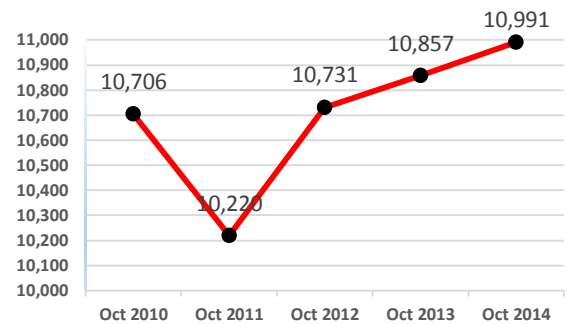


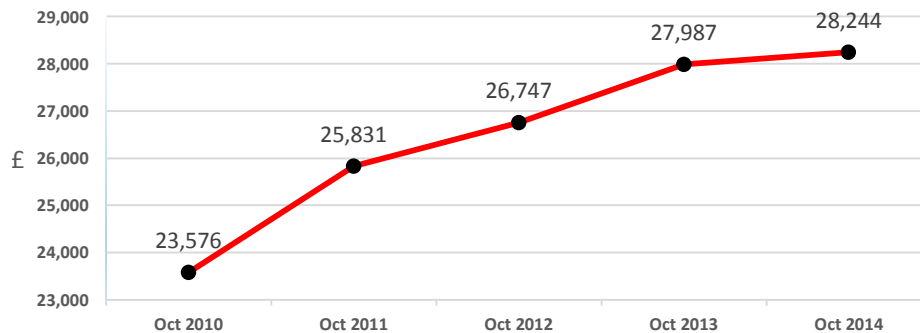
Figure 4 – Total Gibraltarians in Employment



Average earnings

11. Average annual earnings in Gibraltar were £23,575 in 2010. By 2014 average annual earnings in Gibraltar had grown to £28,244. That amounts to a 19.8% increase in average annual earnings since 2011. Inflation for the same period was 13.5%.

Figure 5 – Average Earnings 2010/11 to 2014/15



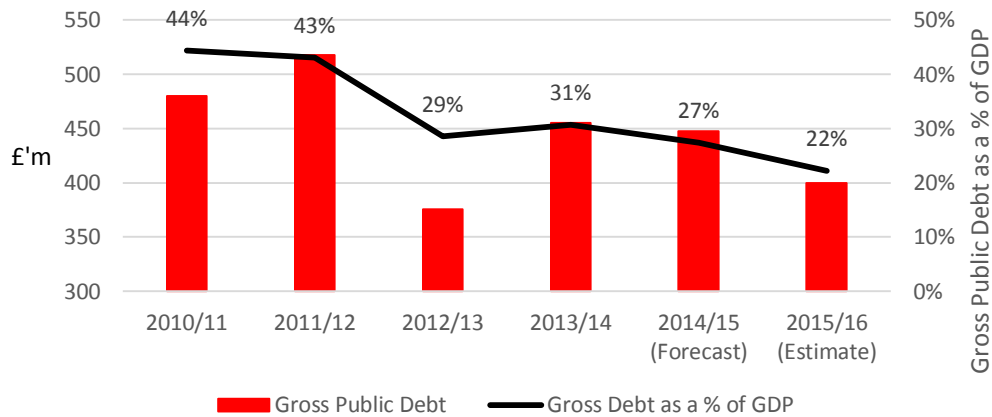
Public Finances

Public Debt and Cash Reserves

12. The level of Gross Public Debt as at 31st March 2015 was lower than last year at £448m. This sum is £72m lower than the £520m of Gross Public Debt in 2011 – a 36.6% reduction.
13. Current estimates are that Cash Reserves will reach £85m at the end of the financial year.

- 14. With cash reserves as at 31st March 2015 at around £72m, this gives rise to a Net Public Debt of £375m or 22.8% of GDP.
- 15. Borrowing levels continue to be low in relation to the size of the economy and, as a percentage of GDP, is currently among the lowest of the countries in the European Union.

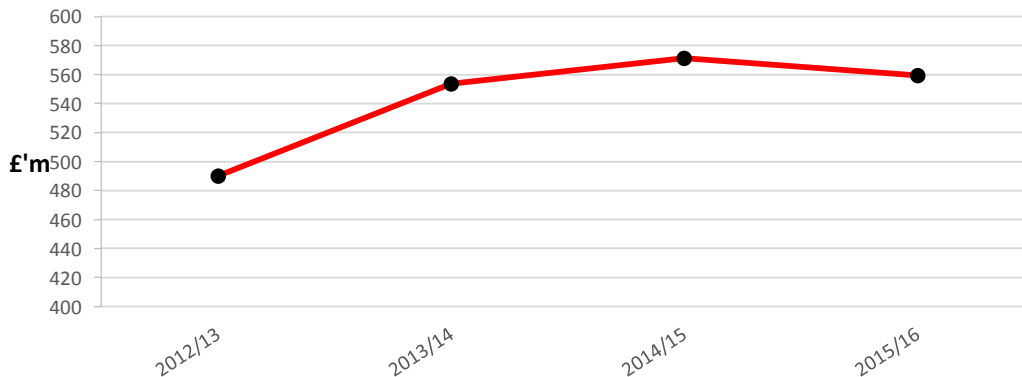
Figure 6 – Gross Public Debt and as a % of GDP



Revenue and Expenditure Outturn for the Financial Year 2014/15

- 16. This year's outturn reflects a surplus of revenue over expenditure of **£51.3 million**.
- 17. Out of this record surplus for the year, a sum of £30 million has been earmarked by the Government as a contribution to Gibraltar Community Care Trust bringing total contributions to the Trust during the past three financial years to £134 million.

Figure 7 – Recurrent Revenue 2012/13 to 2015/16 (est)



The Areas of Growth of Revenue

- 18. Government revenue during the last financial year exceeded the original budget by around £24m. As a reflection of the continuing growth in our economy, income tax receipts were up by around £8m over the budgeted figure and company tax receipts were up by around £9m.

Figure 8 – Revenue from Income Tax 2010/2011 to 2014/2015

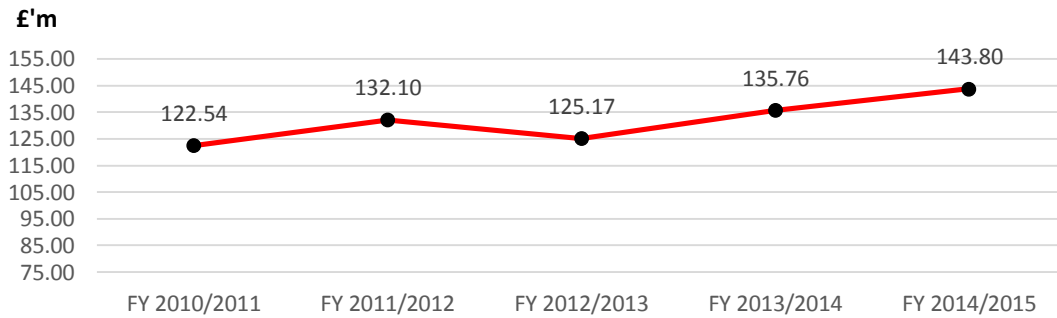


Figure 9 – PAYE in total from key sectors in £'m 2010/2011 to 2014/2015

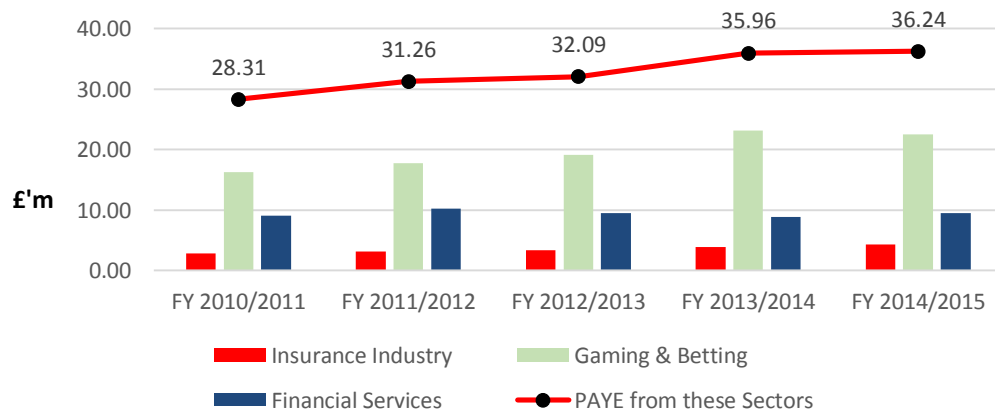


Figure 10 – Corporate tax in total from key sectors in £'m 2010/2011 to 2014/2015

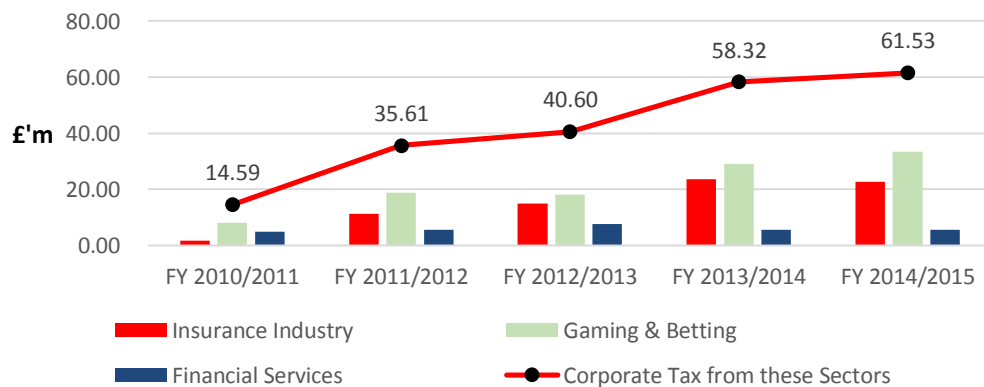
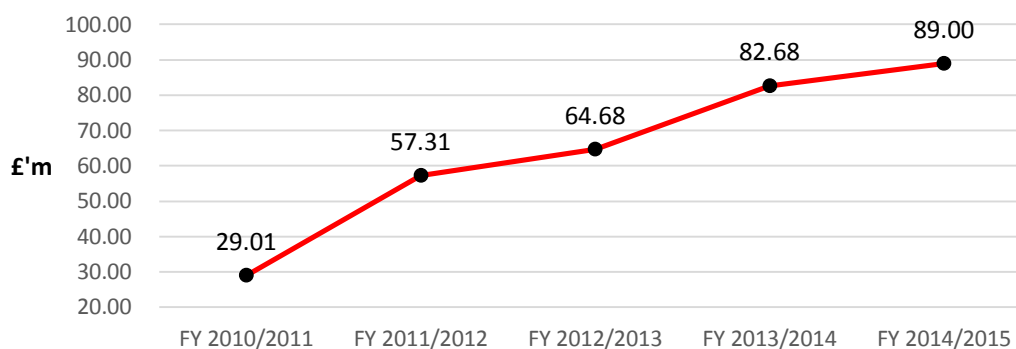


Figure 11 – Corporate tax in total in £'m 2010/2011 to 2014/2015



Revenue and Expenditure Budget for the Financial Year 2015/16

19. Estimated recurrent revenue for the year is budgeted at £559 million.
20. The overall recurrent expenditure budget for the year is £541 million.
21. The Government is therefore projecting a recurrent budget surplus for this financial year of around £18 million.

Budget Measures

Employment related measures

22. Public Sector Pay – a pay increase of 2.75% per year for the next three years or a pay rise in line with the rate of inflation in any one of those given years whichever is the higher.
23. The Royal Gibraltar Police, the Prison Service, HM Customs and the Fire & Rescue Service - an additional ¼ % will be added to the annual increases for the next three years.
24. National Minimum Wage - increased from £6.15 to £6.25 from 1st September 2015.
25. The Pensions (Widows and Orphans) Act will be amended backdated to 9th December 2011. This will provide for all officers in service and retired officers who expressed an interest in re-joining the scheme since that date to be able to rejoin upon payment of their arrears of contributions.

Reduction of Import Duty

26. Import Duty has been reduced on the following :
 - Flooring, carpets and associated construction materials for trade imports from 12% to 6%;
 - Trade imports of white goods rated A and above from 6% to 3%;
 - Items for the elderly, disabled and infirmed reduced to 0%, namely, hearing aids, walking aids, wheelchairs, glasses and frames for prescription spectacles, contact lenses and dentures;
 - Toys from 6% to 3%;
 - Trade imports of Hybrid vehicles is reduced from 2% to 0%. For private imports duty is reduced from the current range of between 12.5% and 17%, to a flat rate of 5%. The hybrid & electric vehicle new car registration cashback is increased from £750 to £1,000;
 - Inboard and outboard marine engines and marine engine spares reduced from 6% to 0%;
 - Import duty on television spares reduced to 0%; and
 - Import duty on suitcases reduced from 6% to 0%.

Other changes to Import Duties

27. Import duty has been increased on the following :
- Rolling tobacco from £42 per kilo to £45 per kilo;
 - Filament bulbs and other non-LED lighting is doubled from 12% to 24%;
 - All appliances or white goods with a B rating is increased to 12%;
 - Two stroke motorcycles is increased from 30% to 50%. This measure will not apply to two stroke motor cycles already in bond in Gibraltar;
 - Wine from 39p to 50p per litre;
 - Beer from 32p to 35p per litre; and
 - Spirits from 80p to £1 per litre.

Electricity and Water Charges

28. Electricity and water charges will not be increased again this year, amounting to an 11% discount.

Social Insurance

29. Social Insurance Contributions, will not be increased again this year, amounting to an 11% discount.
30. Employers' Social Insurance contributions in respect of an employee's secondary employment is abolished.
31. A Social Insurance Credit is introduced of £100 per employee in respect of the Employers' Contribution for small companies with 10 or fewer employees. The credit will be made against the final payment of the year and companies will only be eligible if the required social insurance payments have been made on time throughout the year.
32. For a start-up company, the credit will apply to companies with up to 20 employees in the first year of operation.

Support for Working Families on Purchase of a Home (See also ABS/GIBS allowances/deductions)

33. No Stamp Duty will be payable by first-time and second-time buyers on the first £260,000 of the cost of their property, irrespective of the total cost of their new home.
34. Purchasers of new Affordable Homes will benefit from a rates holiday in the first full rates year with rates then increasing by 10% every year until 100% is reached on the 11th year. The Rates Holiday will commence on the 1st day of July following completion of the purchase of an affordable home.

Support for our Senior Citizens

35. Old Age Pensions and the Minimum Income Guarantee to increase in line with the Index of Retail Prices.
36. The Annual Pensioners Utility Grant is increased from £100 to £120.
37. The Gibraltar Savings Bank will issue a new Savings Bank 'Instant Access' 5 year Pensioner Bond which will pay a monthly interest of 2% per annum. This Bond will allow pensioners to have instant access to their investment and will pay an additional 10% bonus on maturity on any amount that remains invested for the full 5 years.

Other Budget Measures

38. A Payroll Giving Scheme which allows for tax free charitable donations to be made regularly and automatically through employment earnings will shortly be introduced.
39. Maternity Grants are increased from £600 to £700.

Tax Measures

40. Taxpayers with assessable income of £11,000 or less will pay no Income Tax.

Allowance Based System

41. The following reductions are applied to the tax rates:
 - the first £4,000 of taxable income currently taxed at a rate of 15% is reduced by 1% to 14%;
 - the next £12,000 of taxable income currently taxed at 18% is reduced by 1% to 17%; and
 - the remaining taxable income (that is to say, income exceeding £16,000) currently taxed at 40% is reduced by 1% to 39%.
42. The following allowances have been increased :
 - Personal Allowance is increased from £3,100 to £3,200;
 - Spouse/Civil Partners is increased from £3,100 to £3,200;
 - One Parent Family is increased from £4,000 to £5,264;
 - Nursery Allowance is increased from £4,000 to £5,000;
 - Child Allowance is increased from £997 to £1,100;
 - Child Allowance (child studying abroad) is increased from £1,105 to £1,250;
 - Dependent Relative's Allowance is increased from £190 to £300;
 - Dependent Relative's Allowance (resident outside Gibraltar) is increased from £139 to £200;
 - Home Purchase Allowance for first time home buyers is increased from £11,500 to £12,000;
 - Medical Insurance Allowance is increased from £4,000 to £5,000;
 - Disabled Individual Allowance is increased from £6,000 to £9,000;
 - Blind Persons Allowance is increased from £4,000 to £5,000; and
 - Special Deduction for Senior Citizens is increased from £10,887 to £12,000.
43. New life insurance policies or increases to existing policies currently attract tax relief at 17%. This flat rate will cease to be applicable, meaning that premiums paid in respect of new policies and increases to existing policies shall now attract relief at the policy-holder's marginal rate of tax.

Gross Income Based System

44. The following increases in deductions are introduced:
 - the deduction available in respect of premiums towards private medical insurance is increased from £2,500 to £3,000 per annum;
 - the deduction in respect of mortgage interest payments which currently stands at £1,000 per annum, is increased by 50% to £1,500;

- the Home Purchase Deduction for first time home buyers is increased from £6,000 to £6,500 if completion on the acquisition of the property occurs on or after 1st July 2015;
- the deduction available in respect of employee contributions to approved pension schemes is increased from £1,200 to £1,500 per annum.
- the high-end tax band is reduced from 10% to 5% for all assessable income exceeding £700,000.

Savings Initiative

45. In order to encourage long term savings, tax incentives will be provided linked to an investment in the Savings Bank. Details of that investment and associated incentives will be provided in due course.

Other Income Tax Measures

46. Companies, partnerships and self-employed individuals shall be able to claim 100% of its eligible Capital Allowance in the first year of trade. The provisions will not apply to restructures of existing businesses seeking to take advantage of this incentive.
47. A capped 200% credit is introduced in respect of the cost of any architect's fees incurred in respect of successful planning applications under the Town Planning Act (and any fees charged by Government in respect of any such planning application) made by such a company in respect of its own property in the first 24 months of operation of any start-up company. The credit will be available to be deducted from tax liabilities in the first three years of operation of any such company and is capped at £ 5,000.
48. To incentivise training in the workplace, training costs will be allowed as an expense against the profits of a business or company at the rate of 150% meaning that 50% more than the costs actually incurred can be deducted from assessable income.
49. The income received by full time students from employment during vacation is currently exempt from tax. This exemption is now extended to the income earned by students outside the vacation period.
50. A one-off tax deduction is introduced against assessable income (with the percentage to be verified and subject to the discretion of the Commissioner of Income Tax) on the investment made by an individual, company or business that makes a significant improvement to the EPC rating of their premises.
51. Persons aged 60 and over who remain in employment to supplement their income because they are in receipt of a nominal pension will receive a tax credit of up to £4,000 so long as their pension does not exceed £6,000 per annum. Previously to qualify for this credit the pension could not exceed £ 2,000.
52. An amnesty for a period of six months for individuals who repatriate monies held abroad which are the product of income accrued and derived in Gibraltar, or which on remittance to Gibraltar would have otherwise attracted taxation, will be able to wipe the slate clean on payment of 5% of the total amount remitted to Gibraltar and deposited here. Any individual who fails to avail themselves of this amnesty and in respect of whom the Commissioner of Income Tax subsequently finds taxable income abroad will be subject to a penalty charge in respect of the total of such monies of 100% of the tax that would have been due if properly declared at the time.

Audit Limits

53. The level of turnover beyond which audited accounts are required, is raised from £1,000,000 to £1,250,000. As is currently the case the Commissioner of Income Tax retains a discretion to require an audit.



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