



Date: 19th December 2023

Ministerial Statement to Parliament on Corporate Tax Reform by the Hon. Nigel Feetham KC MP, Minister for Justice, Trade and Industry

Madam Speaker I rise to make this Ministerial Statement to update our Parliament and our country on an important corporate tax reform. In the Chief Minister's state of the nation address to Parliament during the 2023 Budget debate, he spoke briefly about the importance of the OECD's Pillar Two global minimum tax initiative, mentioning that this is a significant and important change in international tax.

As an Inclusive Framework member, Gibraltar joined the consensus on these changes and remains firm in its commitment to this day. This demonstrates our priority in complying with international standards and collaborating with the global community in preventing tax avoidance through base erosion and profit shifting.

Given the importance of Pillar Two, this government has dedicated specific resources to the creation of a working group in order to ensure the proper implementation domestically.

Our initial view on Gibraltar's Pillar Two implementation was that this was expected to apply to accounting periods of in-scope multinational enterprise groups commencing on or after 31 December 2024.

This has now changed. The adoption of Pillar Two is a dynamic process and its global implementation is anything but uniform. Since that Parliamentary address, the uncertainty regarding the level of global implementation achievable by 31 December 2023 has continued.

Some EU jurisdictions have still not enacted legislation in respect of the latest EU Directive on a global minimum level of tax for multinational enterprise groups; some have even published draft laws as late as November 2023.

We have considered the best implementation plan for Gibraltar. This is an approach all jurisdictions have taken; a road map which best suits their individual circumstances.

The advice the government has now received is that, as part of its Pillar Two implementation, Gibraltar should first implement a Pillar Two Compliant Qualified Domestic Minimum Top-up Tax, ahead of our original schedule. One that becomes effective for accounting periods commencing on or after 31 December 2023.

This is not a change to the domestic tax system as we know it. This change will not affect the vast majority of taxpayers in Gibraltar; it will only affect Gibraltar-based subsidiaries and permanent



establishments belonging to in-scope multinational enterprise groups that are parented outside Gibraltar and whose parent jurisdiction has adopted the Pillar Two rules.

In my capacity as Minister for Taxation, I am therefore announcing today that as early as possible in 2024, Gibraltar will enact the necessary legislation to bring into force this top-up tax; one that is compliant and consistent with the objectives and principles of Pillar Two, the OECD's Model Rules, Commentary and any other guidance material issued up to and including 31 December 2023.

This is one of the aims of the working group we have created. This group of professionals, working in conjunction with the wider pool of expertise in Gibraltar, are well placed to deliver what we need and when we need it by.

I understand that many who are listening may wonder why this is necessary and why the need to introduce it earlier than planned.

The answer is simple. We have monitored global implementation; we have seen how this is developing and are taking the steps to ensure Gibraltar is among the early adopter group commencing with their Pillar Two implementation.

This is not uncommon. Reforms in international tax are large scale projects and timetables for jurisdictional implementation must be flexible.

The introduction of a top-up tax in Gibraltar is a bridge to full Pillar Two implementation.

We have seen how jurisdictions push for rapid implementation of those measures that best suit their individual circumstances. We need to as well.

This is therefore a strategic decision by the government. One that protects our tax base by shielding profits of Gibraltar-based subsidiaries and permanent establishments, preserving our taxing right over these and in doing so raising additional and valuable tax revenues for Gibraltar.

It effectively creates a safe harbour allowing the required minimum effective tax rate to be achieved through a top-up tax paid in Gibraltar.

Without this top-up tax in 2024, revenue from Gibraltar-based subsidiaries and permanent establishments of multinationals would otherwise be subject to the international adoption of Pillar Two outside Gibraltar. If we do not charge the tax, the jurisdiction where the parent company is based will collect it instead. The effect will therefore be, practically, neutral for those multinationals.

It is an important and crucial step; a step towards our full implementation of Pillar Two; one that has approval from the OECD Secretariat's Pillar Two team, cementing our participation in international efforts to address tax challenges whilst allowing Gibraltar the flexibility to continue to monitor how the international landscape in this space evolves.



The government will be releasing an official notice and press release on the introduction of this top-up tax and will continue to provide guidelines and a clear channel of communication for those affected and as we continue with our implementation of Pillar Two. We emphasise this will have no effect at all but for the smallest number of Gibraltar entities.

Madam Speaker, our resilient economy depends on more than just our tax competitiveness, but also in ensuring we continue to raise tax revenues from large businesses, in accordance with international tax rules, to allow us to be able to pay for our high quality public services and education (among other things) and support other areas of government expenditure.

With a limited labour pool, we must equally continue to invest in skills (especially digital skills) development and encourage our young people to join the lucrative financial sectors.

In our commitment to alleviate the tax burden on our citizens, we aim to raise revenues from large corporations that thrive in Gibraltar, sharing in the benefits of our regulatory environment, business opportunities, and unique lifestyle. This ensures a fair and balanced contribution to our community's prosperity.

Over the last 9 weeks we have moved quickly in this regard because we believe it is vital to our economy.

I will not lie by saying that the pace we have set in the last 9 weeks has been easy (the same pace the Chief Minister has set for his government over the last 12 years); it has required working unsociable hours including weekends and sometimes inundated by different and competing Ministerial priorities.

I therefore have to thank the Chief Minister for his unwavering support and guidance (despite his own hugely demanding schedule) as well as officials within my Ministry. In particular, I would like to thank the Commissioner of Income Tax, John Lester. Not a week has passed without a meeting with him, often more than one and countless exchanges. Also, the tax working group members for their expertise and time as well as the advisers we have consulted and stakeholders we have spoken to.

I am obliged, Madam Speaker.

ENDS