

# The Tax Advantage — Your Options

In his June 2007 budget speech the Chief Minister introduced a new dual system of income tax assessment in Gibraltar. The choice taxpayers now have is whether to continue to be assessed on the existing Allowance system or to opt for the new Gross Income system. Now that taxpayers have had time to absorb the details of the new system they may already have decided on which basis they prefer to be taxed from July 2007, or they may yet have to make up their minds.

In his budget speech the Chief Minister pointed out that under the existing Allowance system there are very high headline rates of taxation of income, although these can be reduced to lower effective rates by tax allowances which include mortgage interest relief, life insurance premium relief and child allowance. However he went on to say that some taxpayers "who cannot benefit from these allowances because they are single, have no mortgage, no children or no life insurance are left to pay the very high 'headline' rates."

It was for this reason that the new Gross Income system of assessment was introduced. Under this system tax rates are broadly the same but, in return for waiving all individual allowances (including the personal allowance and allowances for mortgage, pension and life insurance payments) the lower tax rate bands are considerably wider.

Anthony Drew of European Financial Planning Group argues that whether an individual decides to pay tax on the existing Allowance system or the new Gross Income system should depend as much on their saving ambitions as on reducing tax. He cites two examples of the sort of person who may benefit from the new Gross Income system.

Firstly there is the person earning £40,000 per annum, who is unmarried and lives in Spain and therefore only able to claim the Personal Allowance. Secondly there is the individual earning £80,000 per annum who is married who owns a property in Gibraltar on which they are able to claim mortgage relief of £6,000 per annum. In both cases if no other allowances are claimed



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under the Allowance system then the individual will be significantly better off under the new Gross Income system.

However, both these individuals may want to make personal pension contributions of 5% of their income. In addition the single person earning £40,000 may want to save a

further £500 per month, and the married person earning £80,000 may want to save £450 per month.

On the basis that all of these savings are of a tax relievable type then the amount of income tax due under the Allowance system would then reduce to the same amount as would be payable under the new

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Gross Income system.

Drew says "What's really going on is that under the Gross Income system if the taxpayer can pay less tax he can take the money and spend it on other things".

"Alternatively under the Allowance system, where they can claim income tax allowances through saving by making life insurance or pension payments, they can reduce their tax bill by the same amount. However, through doing things this way there is a requirement to save the income tax saved rather than having the freedom to spend it. Not only that, but there is a requirement to make further additional savings as well. This may seem like a disadvantage, but if you want to save anyway this is fine."

The key issue, Drew says, is given that there are the tax reliefs available on savings not to let the question of the choice of taxation basis cloud the issue of the need — or the best way — to save over the long term.

"Whilst someone who opts for the Gross Income system could simply spend their tax saving equally they could, for example, save by increasing their mortgage repayments and hence saving interest. If they live in Spain and cannot claim tax relief on a Gibraltar mortgage this may very well be sensible.

"On the other hand the advantage of the Allowance system for those whose tax bill can be reduced by as much or perhaps more than under the Gross Income system through saving is that it has a savings discipline built into it. It is better to decide if and how much you want to save and then work out the best way of being taxed — not the other way round".