words | Ian Le Breton

THE BUDGET SPEECH 2015

Delving into the budgetary briefcase

One of the most enduring impressions for visitors to Gibraltar is its Britishness. And it's not just the red post and telephone boxes. Anyone who happened to be outside our Parliament on 22 June this year, would have seen Chief Minister, Fabian Picardo, arriving to deliver this year's Budget address. The speech was even carried in a Westminster-style dispatch box.

I thought I might delve inside that box for this month's article. Typically, measures announced in Gibraltar's Budget are analysed comprehensively (and very swiftly) in the excellent briefings provided by Gibraltar's accountancy firms. So, I don't propose to repeat the exercise some six weeks after the event. Rather, I thought it might be useful to consider the broader messages contained in the address.

As we approach the next general election – this Budget is the last before we go to the polls again – those with an interest in politics will be scrutinising closely the state of Gibraltar's finances. Without straying into politics, I think it safe to say that this Budget, despite the temptations attendant on all politicians as they seek our votes, could by no means be described as a "giveaway" one. The Gibraltar electorate is far too savvy to fall for that sort of trick anyway.

So, let's start by taking a look at the highlights of the Budget speech, which in fact, more closely resembles a US-style "State of the Union" address than the strictly financial proposals contained in the British Chancellor's version. Although the Chief Minister's brief extends to other areas, I will restrict my comments to the budgetary element only.

Inflation remains at very low levels although GDP is forecast to grow at double-digit rates to reach £1.64bn in 2014/15. Put another way, Gibraltar now ranks third in the world in the International Monetary Fund's per capita GDP ranking – behind only Qatar and Luxembourg. It is probably useful to look at this a little more closely.

I have discussed GDP in some detail in previous articles. The acronym stands for Gross Domestic Product and, broadly speaking, represents the total value of a country's output – including both goods and services (or "visibles" and "invisibles" to use economic parlance). This national figure is then divided by a country's population size to produce a GDP share for each individual – the "per capita" sum.

Some commentators may argue that to compare an economy of the scale of Gibraltar's with other economies worldwide and conclude that we rank third is misleading. Other economies may certainly be larger and more diverse than ours, but the fact remains that our small territory has an annual output that must be the envy of other small countries – and, I'm sure, quite a few larger ones too.

According to the Budget, tax receipts were up across the board and that the government reported a net surplus of over £50m – a figure that stands up rather well in comparison to almost any other country you can think of in today's uncertain climate. A "Budget surplus" – that is the excess of government receipts over payments – is a very rare creature indeed in a world where so many governments run deficits, both current and structural. Employment locally is now at a record high of 24,222 and average earnings have risen to £28,244. This is for me one of the best measures of our economic progress.

This is all very reassuring but, as I have said on many occasions over the years, we should resist any feeling of complacency. Not every sector is growing and, whilst unemployment remains encouragingly low, the global economic situation has taken its toll. Gibraltar may be autonomous in respect of policy that lies outside the UK and EU ambits, but we are certainly not immune to external shocks. We cannot, for instance, influence interest rates, the value of the pound or the price of oil.

We can take comfort that our economy as a whole is undoubtedly growing. Employment generation, especially new job opportunities, is to be welcomed given its positive "knock on" effect on the wider economy. Despite the global recession, for instance, the firm I work for has seen a significant uplift in business over the last few years. Our staff in Gibraltar has doubled in the ten years I've been here and today we employ more than 100 people. There will have been a corresponding increase in the tax being paid into government revenues and the money being spent on Gibraltar goods and services. If you multiply that by all the other businesses that have taken on staff, then it's not difficult to see why job creation should be one of the key drivers to future success.

Now, we turn to the proposed changes announced in the Budget. Individuals under the allowance or gross based systems will benefit from reduced tax rates or increased allowances respectively. For those new to Gibraltar, individuals can elect to pay under either system – there are even some allowances under the gross based system too!

There is plenty of assistance available to determine which version suits an individual best and taxpayers can switch easily from one to the other. I recommend that everyone should monitor any changes made year on year to ensure they are optimising their tax position.

Businesses saw some important changes too. Capital allowances will be introduced for intangible assets – which cover things like patents, copyrights, franchises, goodwill, trademarks and trade names – while all newly-established businesses will be able to claim 100% of their eligible capital allowances in the first year of trade. An allowance for research and development expenditure is also on the cards. These allowances will enable Gibraltar businesses to offset more business costs before assessing their corporate tax liability, which is hugely helpful. And, with the possible exception of local audit firms, most com-

panies will also welcome the increase in the threshold for audited accounts being required by £250,000 to £1.25 million of turnover a year.

More welcome news comes in the form of a proposed tax amnesty to encourage those with undeclared income overseas to "wipe the slate clean" by paying 5% of the amount in question before 21 December this year. After this date any outstanding amounts are potentially subject to a penalty of up to 100% of the tax in question.

My firm has been assisting clients around the world over the past few years as they prepare for the new system of automatic exchange of information between national governments. Since the G20 nations threw their weight behind the OECD's transparency initiative in 2013, progress has been astonishingly rapid and within the next two years there will simply be nowhere to hide. The proposed Gibraltar scheme is particularly generous and anyone with any concerns about their overseas assets should seek immediate advice.

Finally, there was no announcement in the Budget about Gibraltar's Category 2 residency regime, which is currently under review. I understand that the government is continuing to assess its overall offering for high net worth individuals seeking to establish local residence. The ability to attract and retain such people is highly important to small economies; not just for their consumption but for their expertise and entrepreneurial input. I look forward to some certainty in this area being confirmed in due course.

Overall then, the Budget painted a very positive picture for Gibraltar although the ensuing debate on levels of government debt has, I think, signalled the start of what promises to be an intriguing debate as we approach the election later this year. Whatever your politics, the local economy – and its place in the wider world – is of huge significance to all of us and we should all continue to take an interest.

I close by extending grateful thanks to my good friend Darren Anton, Senior Tax Manager at KPMG Gibraltar, who assisted me with the figures quoted in this article and who continues to answer my questions after every Budget speech with patience and wisdom.

Ian Le Breton
is Managing Director of Sovereign Trust (Gibraltar) Limited

Tel: +350 200 76173
Email: ilebreton@SovereignGroup.com