

CATEGORY 2 – RESIDING IN GIBRALTAR

A GUIDE FOR HIGH NET WORTH INDIVIDUALS 2021 - 2022

Gibraltar is ideally situated at the southern tip of the Iberian peninsula. Temperatures in Gibraltar range from 16°C in the winter to well above 30°C in summer and the country boasts an average of 300 days sunshine per year. Shipping and tourism are mainstays of Gibraltar's economy with more than 12 million people visiting Gibraltar annually, many of them stepping ashore from cruise liners. The territory is also a dynamic international finance centre with an excellent infrastructure and buoyant financial services and gaming sectors. There has been a vast amount of work in the residential sector, with many new developments having been built to accommodate wealthy expatriates.

An increasing number of High Net Worth Individuals are taking advantage of the fiscal and lifestyle advantages attainable by establishing residency in Gibraltar under the Category 2 regime.

These include a capped tax liability under the Category 2 rules coupled with the benefits of living in a Mediterranean climate and the wide range of activities that can be enjoyed from Gibraltar's geographical position.

KEY CATEGORY 2 FISCAL BENEFITS

- Capped annual tax liability based on income of £105,000 (2020 - 2021 £80,000)
- Maximum annual tax of £37,310 (2020 - 2021 £27,560)
- Minimum annual tax payable of £32,000 (2020 - 2021 £22,000)
- Spouse and family income may be included
- No capital taxation

Under the Category 2 rules, individuals are generally subject to a cap on their Gibraltar tax liability with income tax payable only on the first £105,000 of annual taxable income. This gives rise to a maximum annual tax liability of £37,310. As taxable income does not include, for example, capital gains, gifts or many types of investment income it is possible to lower the tax liability further. However, a minimum annual tax liability of £32,000 is applied, which is pro-rated in tax years of arrival and departure.

The Gibraltar tax year runs from 1 July to 30 June.

The Category 2 rules were amended with effect from 1 August 2021. Given that Gibraltar's tax year runs from 1 July to 30 June it is expected that the above minimum/maximum taxes will be pro-rated in the tax year 2021 - 2022, to the effect that the minimum amount for the tax year 2021 - 2022 is £31,166.66 and the maximum amount for the tax year 2021 - 2022 is £36,497.50.

MAIN REQUIREMENTS

In order to become a Category 2 resident in Gibraltar the following conditions must be satisfied:

- The applicant must have a minimum net wealth of £2 million.
- The applicant must have exclusive use of approved Category 2 property. The property must be of a certain standard and appropriate to sustain the lifestyle of the individual and family. The property may either be bought or rented.
- Generally the applicant must not undertake business activities that compete with local entities that derive their income from within Gibraltar. Certain local activities are permitted, with the approval of the Finance Centre. Such income may be taxed separate to, and in addition to, the Category 2 tax.

There is no minimum physical Gibraltar presence requirement. However, being a Category 2 resident will not protect an individual from becoming tax resident elsewhere. Therefore if time is being spent outside of Gibraltar, awareness of the residency rules in that jurisdiction is essential.

There are restrictions applying where the applicant has previously been resident or working in Gibraltar within the preceding five years.

Category 2 status is awarded on the decision of the Finance Centre Director.

PROPERTY

The Gibraltar property market is buoyant. In recent years, there has been a substantial increase in the number of projects, and in particular, the number of prestigious developments being constructed. Property purchases attract a Stamp Duty charge, but there is no Capital Gains Tax regime and hence no Gibraltar Capital Gains Tax on sale.

As a guideline, Category 2 approved property will cost a purchaser from £450,000, or a tenant from £2,000 p/m.

ACCESSIBILITY

Gibraltar services daily flights to and from cities in the UK including Gatwick, Heathrow, Manchester, and Bristol. New routes from Birmingham, Edinburgh, London City and Southampton also commenced in May/June 2021. It also services a flight to Casablanca and Tangier.

Malaga airport is 1.5 hours drive east from the Spanish border and services most main countries. Jerez airport is a similarly timed drive west from the border and services many main countries.

THE ECONOMY

In addition to the successful tourist, shipping, and construction trades, the Financial Services sector is a key pillar of Gibraltar's economy.

Gibraltar, as an International Financial Services centre, has seen this sector of the economy grow in recent years. With the Government's commitment to making Gibraltar an attractive base from which to do business internationally, it is anticipated that this sector will continue to flourish.

The Government's encouragement of e-business has been reflected in growth in the technology sector, with a number of large gaming companies taking advantage of the favourable fiscal environment and high quality telecommunications infrastructure.

HOW WE CAN HELP

Sovereign Tax Services can assist with all matters relating to the obtaining of Category 2 residency in Gibraltar and maximising its benefits including, but not limited to, the following:

- Introductions to local estate agents, banks and lawyers
- Preparation and submission of Category 2 residency application
- Liaison with the Finance Centre at the application stage and once resident, as required
- Obtaining and renewing a Gibraltar Civilian Registration Card, reinforcing residency status
- Preparation and submission of Gibraltar income tax returns and other compliance matters

ASSET AND WEALTH MANAGEMENT

- Assessing the benefit of any UK pension transfer, under the UK's Qualifying Recognised Overseas Pension Scheme (QROPS) regime
- Creation and management of trusts, companies, pension schemes (e.g. Qualifying Non-UK Pension Scheme - QNUPS) within the Sovereign Group of Companies

SUMMARY OF BENEFITS

- No capital taxes
- No sales taxes
- Generally, maximum £37,310 annual tax for Category 2 residents
- Good economy and infrastructure
- Warm climate
- Vibrant housing market
- Permitted Activities for Category 2 Residents, recognising the growing trend of entrepreneurial High Net Worth Individuals who wish to establish themselves in Gibraltar and yet still carry out important economic activity

Gibraltar offers both fiscal and lifestyle advantages to the relocating High Net Worth Individual and enjoys a close relationship with the UK, as well as a geographical connection to mainland Europe and Africa.



Sovereign Tax Services is a trading name of Sovereign Fiscalis Limited, Sovereign Place, 117 Main Street, Gibraltar, GX11 1AA, Company Registration Number: 84307

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