

Gibraltar Category 2 Residency Tax Advantages for High Net Worth Individuals

Introduction

Gibraltar provides a unique offering for high net worth individuals seeking to establish residency. Situated at the most southerly point of the Iberian Peninsula this self governing British overseas territory has a robust and diversified economy and has emerged as a leading international financial centre within the European Union. With a distinct British feel, strong sense of family and community values, Mediterranean climate and attractive tax features Gibraltar provides a unique environment from which to live and work.

Key Points

- ✓ Available to individuals with minimum wealth of £2M who meet qualifying criteria.
- ✓ Obtain residence status within the EU at a known cost.
- ✓ Low annual tax liability creating a very low effective rate of taxation.
- ✓ No minimum physical presence requirements, allowing maximum lifestyle freedom.
- ✓ Assets can be held worldwide and there is no statutory requirement to hold assets in Gibraltar.
- ✓ Spouse and dependents may be included within the main application, streamlining family taxation, or they may apply in their own right.

Category 2 Residency

With a maximum annual income tax liability of approximately £29,300 it is possible to achieve an extremely low effective tax rate on worldwide income. In addition, income in the form of bank and building society interest, dividends from quoted companies and certain pension income can be received tax free.

As well as a favourable *income* tax regime, Gibraltar has no;

- ✓ Capital Gains
- ✓ Wealth
- ✓ Inheritance, gifts, estate or
- ✓ Sales taxes (e.g. Value Added Tax).

This provides successful applicants the opportunity to reorganise their financial and business affairs extremely tax efficiently, whilst having access to a wide range of products and services offered by the Gibraltar international financial centre. These advantages may be optimised where exit planning from the existing jurisdiction of residency is considered in advance.

Category 2 Requirements

The £2M wealth requirement may take various forms although a key factor in a successful application is to demonstrate that the applicant has sufficient wealth to maintain himself and, if appropriate, his family. An approved residential property, which may be purchased or rented, must be maintained throughout the residency period and be available exclusively for the applicant's use.

In addition to restrictions relating to prior residency in Gibraltar, Category 2 applicants will not, ordinarily, be permitted to undertake any trade or business within Gibraltar but are allowed to establish Gibraltar companies for the purpose of holding investments or for trading outside of Gibraltar. Private medical insurance is also required as well as professional references and a curriculum vitae which form part of the application process. All applications are subject to the approval of the Director of the Finance Centre, part of the Ministry of Finance.

Category 2 Taxation

- ✓ Income tax liability is calculated only on the first £80,000 of taxable income. This equates to a maximum annual tax liability of approximately £29,300.
- ✓ Each applicant is required to contribute a minimum amount of £22,000 per annum. In the years of arrival and departure this amount is prorated.
- ✓ Tax on certain local income, for example property rental, is taxed separately to the above limits.
- ✓ Taxes are settled by self assessment, under which the tax return and payment is due 30th November following the tax year. A system of payments on account then starts from the second year and onwards.

Company Taxation

- ✓ Gibraltar has a 10% rate of tax.
- ✓ A territorial basis of taxation is applied (i.e. not worldwide income).
- ✓ Gibraltar companies have access to the EU Directives on direct taxation.

Gibraltar Advantages

- ✓ **Location & Lifestyle** - A Mediterranean climate, daily flights to the UK from its own airport, 1 hour by road from Malaga and Jerez airports. Approximately 3M expatriates live around the Iberian Peninsula area. Access to top class golf, polo, horse riding, water sports and so on.
- ✓ **Legal system** - Although distinct and separate from the UK, it is based on English common law. Overall, Gibraltar provides a very comfortable and familiar environment, particularly to UK expatriates.
- ✓ **Finance sector** - Robust international financial centre complying with all EU Directives and Regulations. Standards and supervisory practices on financial services match those applying in the UK and internationally. Gibraltar is a white listed jurisdiction under the criteria established by the Organisation of Economic Development and Co-operation ("OECD").
- ✓ **Spain** - Gibraltar now enjoys normal relations with Spain on matters of mutual socio-economic benefit, following the landmark Cordoba agreement of 2006. The Gibraltar Government is now seeking to secure new bi-lateral agreements on maritime, finance and environmental issues.
- ✓ **Economy** - The economy is robust and diversified, growing by an estimated 5% in 2011 and with net public debt of only 23% of GDP. Gibraltar ranks highly in independent surveys on political stability & economic prosperity.

How Almanac can help

- ✓ Dealing with the Category 2 application and immigration process.
- ✓ Local and international tax planning in preparation of, and following, obtaining Category 2 status.
- ✓ Tax planning to maximise the benefits of Category 2 status.
- ✓ Dealing with compliance matters, including filing of the annual tax return and organising payments.
- ✓ Individualised approach.
- ✓ Independent advice.
- ✓ A wealth of local knowledge and contacts.
- ✓ A fee structure based on results.

Notice: This note provides general information on the Gibraltar tax system which may be of interest. It is not intended to be comprehensive and should not be construed as professional advice. Tax rates are for year ending 30 June 2012.