

GSD MANAGEMENT OF THE FINANCIAL SERVICES INDUSTRY IS SHOWN TO BE HAPHAZARD AFTER ANOTHER ARBITRARY CHANGE IN GSD CORPORATE TAX POLICY

The Opposition notes the reported announcement made yesterday in London by Hon Peter Caruana QC at the Finance Centre lunch at the the expensive “Gibraltar Day in London” referring to the reform of the rate of corporate tax which should reportedly be lowered to 10% for the year of assessment starting July 2009.

This is an announcement of an apparently competitive (subject to sight of the detail of the reforms) rate of low tax for all companies doing business in Gibraltar (whether nationally or internationally) that is long overdue and which the Opposition has been calling for in successive budget sessions. The Opposition's policy was for a final rate of 8% by 2011.

The failure to make the announcement earlier has previously been blamed by Mr Caruana on the fact that the European Court of Justice had not yet decided the case the government has brought against the EU Commission. In fact, the government had previously stated that it would not reduce corporation tax before the decision of the European Court of Justice on the State Aid challenge, and that the Opposition was wrong to suggest the contrary.

As usual, this is another case of Mr Caruana relying on arguments when they are to his momentary advantage and of discarding them when they are not; given that the government is now set to act to reform corporate tax despite the judgement of the EU Court still not having been delivered.

The announcement is also contrary to the announcement made by Mr Caruana in the course of his budget contribution of June 2008, in which he announced that the move to the rate of between 10% and 12% would be from 2010, the year by which even existing Exempt Companies had to disappear.

Shadow Minister for Financial Services, Hon Fabian Picardo, MP, said: “The government has really been found wanting in dealing with the State Aid issue affecting corporation tax, but Mr Caruana’s latest U-turn and decision to adopt our policy on this issue (of implementing the low tax model even prior to a decision from the ECJ) is to be welcome. The initial decision by Mr Caruana to go for a zero rate of corporation tax was unwelcome to most of the financial services industry and the government took too long to come round to the low tax model that it now

trumpets as its own. The financial services industry has been unable to market a home-grown company product for some years now, given the phasing out of exempt companies, and has been crying out for certainty. The GSD have been unable to provide that certainty, changing the corporate tax goal-posts year on year in a haphazard manner that is the antithesis of the certainty that financial services professionals look for in structuring their tax models and implementing an interim system of "Tax rulings" from the Commissioner of Income Tax that was highly unsatisfactory on its own. As a result, the industry will welcome this move, but it will remember that - despite the usual fanfare and spin - Mr Caruana and the GSD has been unable to provide clear leadership on this issue previously, having waited until the Gibraltar finance centre has been pushed against the wall by the Commission timetable to phase out Exempt Companies."

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Note to Editors: In his last budget speech, Hon Mr Caruana said the following which is of relevance: (see page 26, measure number 10 of the Chief Minister's budget address, 2008, at <http://www.gibraltar.gov.gi/budget/budget2008/2008BudgetSpeech-ChiefMinister.pdf>) : "(10) Last year, and in order to signal the Government's seriousness of purpose in reducing corporate tax rates, I reduced corporate tax rates to 33%, and said that I would reduce it further this year to 30%, with a signalled reduction to 27% next year. In order to further signal the Government's commitment I am advancing that timetable by one year, and therefore the corporate tax rate is now reduced by 6% from 33% to 27% with effect from this year that is the year of assessment 2008/09. I envisage a further cut in the rate next year, before moving to the rate of between 10% and 12% from 2010, to which the Government remains firmly committed. My strong preference will favour the bottom end of that range."

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