

2008 Budget Memorandum



End Of The Rainbow?*

*connectedthinking

PRICEWATERHOUSECOOPERS

2008 Budget Memorandum

We are pleased to set out in this Memorandum our commentary on the National Budget 2008 with particular reference to the Fiscal Measures contained therein which was presented by the Honourable Prime Minister and Minister of Finance, Mr Patrick Manning on Monday, August 20, 2007.

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Executive Overview – 2008

Vision 2020 - ‘Determined to Reach Our Goal’

The Honourable Prime Minister and Minister of Finance presented the sixth budget of his current administration in an address that lasted over three hours and included an extensive review of the country’s economic performance for 2006/07. He reported on Government’s major initiatives and then proceeded to outline the plans and related fiscal measures for 2008.

The Ryder Scott Report has raised the question of the adequacy of the Nation’s gas reserves and once again has fuelled debate on whether the “*end of the rainbow*” is within sight. The Honourable Prime Minister in the course of his 2008 Budget Presentation dealt comprehensively with the issue and in his view undoubtedly the rainbow continues to offer an extended period of prosperity for the Country.

Given that 2008 is an ‘election year’ most observers had anticipated that the budget would be geared towards placating the major interest groups within the electorate with the proverbial ‘basket of goodies’ for all. This was not the case albeit that the Government is ideally placed to deliver such ‘goodies’, with the economy continuing to grow positively; foreign reserves increasing; inflation reportedly on the decline; unemployment at an all time low and the Heritage and Stabilisation Fund now standing at over \$10.9 billion.

These are all very positive indicators and could lead one to conclude that all is well within ‘God’s Country’. However for this very reason it is most instructive to consider an independent viewpoint, as set out in the statement released by the recent IMF Mission to T&T. The Statement noted among other things, that:-

- Trinidad and Tobago is rightly aiming at using energy resources to reach **ambitious** development goals before energy reserves are exhausted;
- Key to this goal is the transformation of the energy wealth into a **balanced** combination of external financial assets, and physical and human capital;
- The challenge is to implement a **prudent** mix of macroeconomic and structural policies as this is essential to support an orderly and efficient absorption of the increased energy earnings over time;
- The policies also need to take into account intergenerational aspects associated with the exploitation of exhaustible resources;

The Statement went on to note that: -

- There are indications that the economy is operating at full capacity;

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Executive Overview – 2008 (Continued)

- Emerging capacity constraints and labour shortages represent a downside risk;
- Fiscal policy needs to be **tightened** in response to signs that the economy is operating at full capacity and to help contain inflation pressures;
- The Government should make every attempt to achieve **maximum savings** from the current expenditure envelope;
- **Transparency and accountability** in the use of public resources are important to ensure that public policy objectives are attained;
- Need for **adequate checks and balances** to ensure accountability of the special purpose companies to the Government and Parliament;

Finally the IMF Statement notes that: -

- Success of the Government's economic diversification efforts hinge on adequately preparing the economy for the eventual exhaustion of energy resources; and
- Efforts are needed to create the conditions for the development of sectors that are viable over the medium term without permanent government subsidies.

The Mission recommended focussing on addressing the infrastructure bottlenecks, improving the business environment, intensifying regional integration efforts and developing human capital.

While generally complimentary of Government's strategic goals and objectives and its handling of the economy, the IMF Mission identified a number of critical issues that Government must take into account in its determined drive to achieve developed country status. Not least of these are the need for 'transparency and accountability' and for 'adequate checks and balances' to ensure accountability of the special purpose companies.

The words used by the IMF Mission in its Statement (which we have highlighted above) are particularly meaningful: -

- Ambitious (development goals)
- Balanced (combination of assets)
- Prudent (mix of policies)
- Tightened (fiscal policy)

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Executive Overview – 2008 (Continued)

- Maximise (savings from current expenditure)
- Transparency and accountability
- Adequate checks and balances

These are nothing more than the people of T&T have a right to and should expect from the Government in power.

In the context of the Energy Sector, the continuing driver of the economy, the much discussed Ryder Scott report remains at the forefront of the debate. Are T&T's oil and gas reserves adequate to fuel Government's downstream industrialisation plans? The Honourable Prime Minister and Minister of Finance went to some length to downplay the significance of the Report and remains confident that there is no shortage of reserves.

He largely dismissed any suggestion that Government should temper its industrialisation plans and proceeded to pour scorn on those who suggest otherwise while confirming that the five (5) gas based projects that have received approval are due to come on stream in the short term. History remains his justification for maintaining that new reserves will be found and will be developed. A perspective on this issue is set out later in the Memorandum.

Integral to this debate however is the Petroleum Tax system which, following the reform program of 2003 to 2006 was intended to increase Government's take from the sector and also to encourage further exploration. We did however point out in our 2007 Memorandum that this balance would not easily be achieved since the present system contains few incentives to encourage further exploration programmes especially in the deep water areas. bpTT's unsuccessful Ibis Deep project costing upward of US\$80 million is a testament to the risks of the deep sea exploration business.

The most recent Bid Rounds have generated limited interest from the international community sending a clear message to Government that more needs to be done to attract the much needed investment in exploration activity. Government needs to be mindful that T&T is competing with other countries for the 'direct investment dollar' and must therefore ensure that we remain competitive in all respects.

The Honourable Prime Minister in response to this message did signal his Government's clear intention to review the Petroleum Tax regime during 2008 with a view to introducing an appropriate range of incentives to encourage the much needed exploration programmes. We shall have to await the outcome of these deliberations but, unlike the 2006 reform exercise that lasted three years, more immediate results are required.

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Significant investment in new exploration is anticipated over the next several years, but success is not guaranteed. In the meantime producer companies are likely to have to invest heavily to simply maintain production levels, given the natural decline of our mature oil and gas fields. Government must therefore be mindful of these issues in formulating its plans involving gas utilisation. In this regard it is of interest to note the reference to new industrial estates for energy based industries at La Brea, Point Lisas South and East along with two (2) other potential sites.

Notwithstanding the above it is instructive to note that of the major downstream projects announced in the 2007 Budget, which included: -

- Urea Ammonium Nitrate Plant;
- Ammonia/Urea/Melamine Plant;
- Ethylene Complex;
- Malaeic Anhydride Processing Facility; and
- Two (2) Aluminium Smelters

...there has been little tangible progress made in moving some of these projects forward in the course of 2006/07, such that Government was forced to defer cessation of the grant of new incentives under the Fiscal Incentives Act to 31st December 2007.

The uncertainty over the available gas supply for the twenty (20) year (plus) duration of these projects will certainly be a significant issue in the speed with which these projects move to the implementation stage. The conclusions reported in the Ryder Scott report, however these are interpreted, cannot have assisted T&T's cause.

Government however remains steadfast in its determination to pursue its infrastructural development programmes that are geared to make T&T a developed country by 2020. Massive spending programmes have been planned to bring about improvements to the nation's Housing, Transportation, Roads, Drainage, and Water and Sewerage. Government is committed to the pursuit of its programmes and has the funding needed to finance the many projects being undertaken. It has continued with some of the projects, including the Tarouba Sporting Complex; the Prime Minister's residence; the Light Rail System; the Zoo Expansion and several others, despite the adverse reactions expressed by a wide range of the Country's citizenry. This seeming disregard for the concerns expressed has given rise to claims that the Government is arrogant and dismissive of the views and wishes of the electorate and the containing influences of 'private sector business', once the providers of good counsel, has now all but been eroded.

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Executive Overview – 2008 (Continued)

A schedule of some of these projects and their estimated cost is included in the appendix to this Memorandum.

The 2008 Budget has therefore been developed within the framework of an economy that is performing at an all time high but which, to the independent observer, is not without major challenges and concerns.

What is the Honourable Prime Minister's focus for 2008 and beyond?

As the theme of the Budget presentation indicates the focus of the 2008 Budget is the continuation of the journey down the road to developed country status by 2020....(dare we say) 'regardless of the consequences'.

The Honourable Prime Minister rightfully boasted of an economy that over the period 2002 to 2006 has: -

- Grown at a high rate with real GDP growth of 9.7% per year;
- Doubled from \$55 billion to \$114.5 billion;
- Increased the per capita income from US\$7,100 to US\$14,790;
- Increased new jobs by approx 14,400 annually;
- Reduced unemployment from 11.7% to 5.0%;
- Reduction in the poverty rate from 35% to 16.7%;
- Received foreign direct investment in excess of US\$6 billion;
- Lowered public debt from 60% to 28% of GDP;
- Lowered external debt from 17% to 5% of GDP;
- Foreign exchange reserves increased to over US\$6.5 billion;
- Heritage and Stabilisation Fund that stands at \$10.9 billion (August 2007).

The Honourable Prime Minister was therefore rightfully upbeat about the future and proceeded to map out his Government's plans not only for 2008 but also for the years beyond.

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Executive Overview – 2008 (Continued)

This included a deepened focus on the traditional areas of Crime, Education, Health Care and Housing.

The budget arithmetic as referred to by the Honourable Prime Minister is based conservatively on a US\$50 per barrel price of oil and a gas price of US\$3.55 per mmbtu. Government must be commended for its prudent policy in this regard and also for its continued focus in building the Heritage and Stabilisation Fund with the addition of over \$3.3 billion in 2007 alone.

The total revenue forecast is \$40.38 billion (2007 - \$40.54 billion) with targeted expenditure of \$40.29 billion (2007 - \$39.27 billion) with a projected surplus of \$89 million.

The Honourable Prime Minister drew reference to Government's plans to accelerate efforts to diversify the economy and to initiate a 'virtual' revolution in commercial agriculture. One hopes that the initiatives in agriculture this time round will translate to something more meaningful insofar as the efforts in past years have been nothing more than 'virtual' reality. His statement that a large commercial farm is to be located in Tucker Valley, Chaguaramas is welcome news and hopefully lays to rest the idea of establishing a housing estate in this most idyllic of agricultural lands.

He also emphasised Government's plans for continued improvement to the infrastructure throughout the country including, improved delivery of water to the entire population, improvements to transportation and other infrastructural bottlenecks. These will undoubtedly be welcomed by the entire population who spend large numbers of unproductive man-hours travelling to and from their places of work.

In making reference to his Government's plans to accelerate efforts to diversify the economy the Honourable Prime Minister presented little tangible evidence of what is to be done. We continue to have reservations that the seven industries targeted as the industries of the future are capable of delivering what is expected by Government. The industries include Music and Entertainment, Printing and Packaging, Merchant Marine, Film, Fish and Fish Processing, Yachting, and Food and Beverage. Interestingly no mention was made of any incentive measures in relation to these special focus industries. The 'diversified landscape' of the T&T economy still remains something of a vision.

Government's perspective as regards the Non-Energy Sector of the Economy is that this is performing above expectation and does not require any special attention. We would concur generally with this view insofar as it is arguable that the 'effective tax rate' is such that tax is no longer a material issue to the private sector in the country. Of far greater significance is the drive for efficiencies, managing costs (including labour) and removing the bottlenecks that plague the business environment. The reduction in the standard rates of Withholding Tax from 20% to 15% will nonetheless be welcomed by those companies sourcing services from foreign providers.

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Executive Overview – 2008 (Continued)

In concluding our overview of the 2008 Budget we note that the Honourable Prime Minister rightfully boasted of a high performing economy which enabled him to announce programmes geared towards addressing virtually all of the country's needs, with appropriate focus on the elderly and low income groups that require ongoing support. The mission outlined continues to be gargantuan and despite the projected surplus generated in 2007 and projected for 2008 we remain concerned at the pace and price being paid in the development process.

Given the enormous sums invested in these Government sponsored projects we share the concerns expressed that Government must be fully accountable to Parliament and the people of T&T for the investment programmes that it is pursuing in these various areas. We also remain concerned that, as alluded to in the IMF Statement, the country's absorption capacity is incapable of handling the level of annual expenditure that such projects and programmes entail, which if left unchecked could lead to the further overheating of the economy with the attendant adverse consequences.

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The United States Financial Developments – Its Impact on Trinidad & Tobago

The United States (US) markets have recently seen a significant and continuing correction with share prices falling more than 10% from recent highs. For some time there was concern about a housing bubble. Cheap money had led to a major property boom that could not be sustained. Rising interest rates caused falls in property prices and then a melt down in the sub-prime (low quality) mortgage market. This in turn has led to pressure on mortgage companies and even large financial institutions. The final step was a reversal in confidence and an across the board decline in the stock market, exacerbated by a liquidity crunch.

While US markets boomed in the first six (6) months of this year, the Trinidad & Tobago (T&T) stock market remained stagnant. So it's reasonable to assume that the major correction in the US will have no impact here. Right? Not so fast. World markets are now so interconnected that events in one geography almost certainly have consequences in other locations. Interest rates for the US dollar will certainly impact interest rates in T&T. Rising rates will cause rising rates in T&T in both US and T&T dollars and put downward pressure on share prices. Conversely lower rates could fuel another boom or bubble. Prices of shares are related to growth prospects for profits and the cost of capital as well as relative opportunities for investment. It is easy to see that if the US markets sneeze the rest of the world can catch a cold. With local markets already weak we must be careful to gauge what the ultimate impact will be. Certainly the fall in prices may make some overseas stocks look attractive if (big if) the US economy continues to grow at current rates. US interest rates and US growth rates will certainly have an impact locally not least of all because of the potential impact on energy prices and demand.

The Prime Minister in formulating his budget proposals must, of necessity, take account of world economic conditions and both the likely demand for commodities we produce and the outlook for energy prices. In particular he must continue the search for the holy grail of economic development that achieves sustainability without dependence on energy by the year 2020.

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T&T Gas Reserves – A Perspective

The recent Ryder Scott Gas Reserves Report has once again put the spotlight back onto the Country's gas reserves and shows that we are consuming our gas reserves faster than we are replacing them. In the absence of any further discoveries the Country's proven gas reserves will be exhausted in twelve (12) years. Given the importance of this sector to the economy there has been surprisingly little reaction by the public to this announcement. Furthermore media commentary has not been particularly illuminating nor insightful. This probably stems from a general lack of understanding and/or confusion over the definition of petroleum reserves. The Government exploits this confusion and adds to it as they attempt to class Probable reserves as Proven, thereby making the situation look a lot better. So once again let us begin by defining the three (3) main categories of Reserves, Proven, Probable and Possible. The industry accepted definitions are as follows: -

Proved Reserves are those quantities of petroleum, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under defined economic conditions, operating methods, and government regulations. There should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate.

Probable Reserves are those additional Reserves which analysis of geoscience and engineering data indicate are less likely to be recovered than Proved Reserves but more certain to be recovered than Possible Reserves. It is equally likely that actual remaining quantities recovered will be greater than or less than the sum of the estimated Proved plus Probable Reserves (2P). There should be at least a 50% probability that the actual quantities recovered will equal or exceed the 2P estimate.

Possible Reserves are those additional reserves which analysis of geoscience and engineering data suggest are less likely to be recoverable than Probable Reserves. The total quantities ultimately recovered from the project have a low probability to exceed the sum of Proved plus Probable plus Possible (3P) Reserves, which is equivalent to the high estimate scenario. There should be at least a 10% probability that the actual quantities recovered will equal or exceed the 3P estimate.

There are further categories of Contingent Resources, which include discovered oil and gas which are not commercial to develop, and Prospective Resources which include oil and gas yet to be discovered. These latter two (2) categories do not concern us since such resources are not bankable. The above definitions of Proved, Probable and Possible are best understood when considering the following fishing analogy.

You are out fishing on a pond in your boat. You have caught fish which you can weigh, smell and eat; this is like Proven petroleum reserves coming on line. Then there are those reserves that might be candidates for development - they are like fish on the hook that are ready to be boated, you are not sure of the size and they may still get off the hook.

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T&T Gas Reserves – A Perspective (Continued)

Then there are probable and possible reserves - the fish may be there, but you don't know for sure. Finally the more fish you catch from the pond the harder it is to catch the next fish. Unfortunately oil has no offspring so this latter comparison is not as dramatic as it could be.

The Government's public position is that based on the Proven and Probable, 2P, reserves position, we have reserves for seventeen (17) years and maybe even more as it is likely that Possible reserves will also materialize. Whilst this is a possible outcome it is not certain, and investors in upstream and downstream projects will only proceed with such projects provided they are economic on the basis of Proven reserves. Financial institutions want certainty and do not lend on the basis of Probable, much less Possible reserves. Earlier this year the Honourable Prime Minister also indicated that our reserves lifeline would be Trinidad and Tobago's share of the gas, some 2.5 tcf, from the Loran Manatee field straddling the border with Venezuela. However, at the recent Government sponsored Energy Conference he appeared less bullish about a positive outcome of the negotiations with President Chavez.

So where does this leave us?

We do not believe that we need to panic, however, the situation is one that demands our immediate attention.

The industry viewpoint is that there is more gas still to be found. For all hydrocarbon basins in the world there is the so-called "creaming curve" which shows that there may be one or two very large fields, a handful or so of large fields, a dozen or so of medium fields and then lots of smaller fields. Typically the larger fields are found and developed first. As the basin matures discovered field sizes get smaller and become more difficult to develop. At the Energy Conference both bptt and Talisman indicated that they believed that the sizes of the fields yet to be discovered are no larger than 0.5 tcf, which are still reasonably sized fields but much smaller than the multi tcf fields discovered in the past. To put this into context the country is consuming approximately 1.5 tcf per year, which means that just on a pure replacement basis we need to find and develop at least three such gas discoveries each year. We have not had any such discoveries over the last few years, hence our declining reserves position. Those we have found are much smaller and we have not found many of them. One commentator at the Energy Conference suggested that we need to be drilling between 28 to 40 exploration wells each year in order to stand any reasonable chance of finding 1.5 tcf of gas per year; in any event we are only drilling a dozen or so exploration wells in 2007. Why is this when Trinidad is considered to be one of the top 10 hydrocarbon provinces in the world?

Simply put the fiscal pendulum has swung too far in the Government's favour. Since the last election the Government has tightened the fiscal terms so much, that it is no longer attractive for oil and gas companies to explore here. Trinidad and Tobago has one of the highest tax takes in the world and the Government's position is that Trinidad and Tobago is such an attractive hydrocarbon province that companies will be lining up to do business here irrespective of the tax terms.

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T&T Gas Reserves – A Perspective (Continued)

This is a global industry and investment goes where it can get the best return. One only has to look at the results of the recent two (2) Licence rounds held over the last year. Both were failures as the oil companies voted with their feet and stayed away. At the Energy Conference all of the multi-national energy companies made the same plea for improved fiscal terms to stimulate exploration and also to enable the development of what are called marginal fields. With ever increasing costs and competition for scarce resources (rigs, people etc) many of the smaller fields that are likely to be found in future will be marginal from an economic standpoint. The Honourable Prime Minister stated that the Government has recognized that the Fiscal Regime has to be overhauled, unfortunately he did not give an indication of the direction they are heading. If the proper stimulus is not provided then we will not see an increase in exploration and investment in the sector will continue to decline. Such reform needs to be implemented as soon as possible given the long development lead times of any discoveries, particularly those in the deep and ultra-deep waters. Such lead times from the start of exploration to first gas could easily take five to ten years which takes us very close to the point at which our Proven reserves will be depleted.

In addition to providing the necessary fiscal stimulus, one view of the upstream providers is that gas into the local market (Pt Lisas) needs to be priced relative to prices received on the export market. We can no longer afford to supply ageing and inefficient downstream plants with cheap gas from a rapidly diminishing supply. There is a long list of downstream plants being considered by the Government. Given the gas reserves situation it would be foolish at this time to proceed with any of them, however, political dictates may mean that some of them may proceed. In which case, National Gas Company will end up with a time bomb of twenty (20) year gas supply contracts for these new plants which they cannot fulfill unless more gas is found and developed.

The Honourable Prime Minister has often quoted a letter he saw when he was a young geologist in Texaco claiming that the oil was about to run out and this letter was dated decades before the Honourable Prime Minister saw it. His position and belief is that we have always found oil and gas and we will continue to do so.

This is faulty logic and some day our luck will run out, as will the gas and oil.

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Summary of 2008 Fiscal Measures

Personal Income Tax

- Flat rate of Income Tax of 25% retained;
- Personal Allowance of \$60,000 per taxpayer retained;
- Tertiary Education Allowance for children attending university abroad of \$60,000 retained;
- Lump sum death benefits paid under approved deferred annuity plans exempted from tax;
- Deduction for contribution to approved pension fund/annuity plans increased from \$12,000 to \$25,000.

Corporation Tax

- Corporation Tax rates of 25% and 35% retained;
- Business Levy of 0.2% of Gross Income retained;
- Green Fund Levy of 0.1% of Gross Income retained;
- Initial Allowance for manufacturers increased from 60% to 75% of cost of plant and machinery.

Withholding Tax

- Standard rate of tax reduced from 20% to 15%;
- Rate applicable to dividends reduced from 15% to 10% and in the case of a parent company from 10% to 5%;
- Penalty for non-compliance reduced from 100% to 25%.

Petroleum Tax

- Energy tax regime to be reviewed in 2008 to provide incentives for exploration;
- Petroleum Profits Tax rate of 50% retained;
- Unemployment Levy rate of 5% retained;

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Summary of 2008 Fiscal Measures – Petroleum Taxes

- Supplementary Petroleum Taxes retained as per existing Table of Rates;
- No adjustment to allowances or incentives.

Customs/Import Duties

- CET on powdered milk and cream suspended/reduced from 5% to 0%;
- Import surcharge on selected poultry products removed.

Value Added Tax

- No adjustments to VAT rates or schedules.

Stamp Duty

- Stamp Duty on transfer of residential and commercial property remains unchanged.

Other Fiscal Measures

- Senior Citizens Grant (formerly Old Age Pension) revised and increased;
- Pension for retired public servants revised and increased;
- NIS retirement pension of \$2,000 per month from January 1, 2008;
- Disability Grants increased from \$900 to \$1,100 per month;
- Amnesty by waiver of penalty and interest for late filing of tax returns and payment of arrears of tax if brought up to date by April 30, 2008;
- Accelerated Wear and Tear allowance of up to \$500,000 for costs incurred by a company in construction of day care facilities for its employees in the year incurred, with normal wear and tear for the residue of the cost;
- The qualifying period of time for residing abroad for returning residents to claim relief from customs duty and motor vehicle tax reduced from five (5) to two (2) years.

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Detailed Fiscal Measures

Consistent with the Honourable Prime Minister's statement in his presentation that this was not an "election budget" there were relatively few fiscal measures of significance mentioned in his three hour long presentation and even fewer that provide a direct benefit to the populace at large.

However, as is becoming the norm with this administration, certain other measures, not mentioned during the presentation, were appended to his speech and have been addressed in our commentary below.

Income Tax

Measure

The Income Tax Act is to be amended to increase the deduction available to resident individuals in respect of contributions made to approved pension fund plans, or premiums paid under approved deferred annuity plans from \$12,000 to \$25,000 per annum.

Commentary

We have long been advocating the re-introduction of fiscal measures to promote a savings culture, a virtue for which citizens of this land of ours are not renowned. We commend the Government for doing so in a manner which does not introduce any complications into the tax system since the measure merely increases an already existing deduction and promotes long term rather than short term savings since it is tied to retirement. However, this measure probably puts paid, at least in the short term, to any hopes we may have had for the removal of tax on pensions.

Measure

The Income Tax Act currently exempts from tax a death benefit payable under an approved pension fund plan. This is to be extended to allow a similar exemption to approved deferred annuities.

Commentary

While there continues to be a dispute as to whether a death benefit payable under a retirement plan is in fact caught by the Act, given that the view of the Tax Authority is that it is, the proposed amendment to extend to death benefits payable under approved deferred annuities the exemption already available to similar benefits payable under approved pension plans is welcome. At the very least it will reduce significantly the instances in which the issue will have to be debated.

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Detailed Fiscal Measures – Income Tax (Continued)

Measure

It is proposed that the Act should be amended to require that refunds of contributions under an approved pension fund plan should not only be subject to tax at source, but that the amount received should be declared in the recipient's income tax return for the year and the amount withheld treated as a credit. This is allegedly to put such refunds on the same footing as refunds of premiums under an approved deferred annuity.

Commentary

Our review of the Act as internally updated indicates that this measure is not only unnecessary, but a retrograde step. The most recent version of the Act states that a refund of contributions or a refund of premiums is required to be subjected to tax at source at the rate of 25% and thereafter is not required to be declared in the recipient's tax return which is eminently sensible since the applicable rate of tax is 25% and so no additional tax would be payable on that refund at the time of the filing of the return.

Measure

The Income Tax (In Aid of Industry) Act is to be amended to increase the initial allowance, available on plant and machinery used in manufacturing concerns, from 60% to 75%.

Commentary

With effect from year of income 2005, the initial allowance is available in the year that the plant and machinery in question is first put into use. Wear and tear (tax depreciation) is also available on assets in use and must be claimed when due, or 'lost'. Most plant and machinery used in manufacturing attracts a wear and tear rate of 25%. That combination of provisions means in effect that in the year in which the asset is put into use it would now be entitled to an initial allowance of 75% of the cost of acquisition as well as wear and tear allowance (of 25%) on the said cost, allowing a manufacturer to completely write off the cost of his plant and machinery in the year of acquisition. It should, however, be noted that the Honourable Prime Minister referred to wear and tear in subsequent years and so it is left to be seen whether the legislation will be amended to require manufacturers to defer their first year's wear and tear claim to the year after the year that the asset is first put into use.

Measure

Employers are to be granted an accelerated wear and tear allowance, up to a maximum of \$500,000, in respect of costs incurred to provide day care facilities and or homework centres at their workplace.

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Detailed Fiscal Measures – Income Tax (Continued)

Commentary

This is a welcome move since parents continue to be faced with increasing challenges to find a proper balance between their parental and employment duties. Incentives for the creation of a safe environment where children can be sheltered from the increasingly negative influences of the ‘outside world’ and engage in productive activity while remaining close to the nurturing presence of their parents can only redound to the benefit of all.

We will have to await the detailed measures to assess just how much of an incentive is being offered.

Measure

The Income Tax Act is to be amended to allow the Board of Inland Revenue (BIR) to reduce the period in respect of which interest on the late payment of tax is calculated to a date prior to the date of actual payment.

Commentary

Since the BIR already has the power to reduce or waive interest on the late payment of taxes, one can only conclude that this measure is meant to allow it to do so on a more global basis, rather than on a case by case basis which now applies.

Measure

Currently the law provides that where a person has an outstanding liability, or is owed a refund, of no more than \$3, no payment or refund will be considered due. With effect from income year 2008, this limit will be increased to \$100 as it pertains to taxes outstanding and to \$25 as it relates to refunds due.

Commentary

The removal of these ‘nuisance’ payments and refunds should be a relief to both the payer and the BIR and hopefully free up the BIR to expeditiously address more substantive issues.

Measure

The legislation is to be amended to reduce the penalty on the late payment of certain taxes from 100% to 25%.

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Detailed Fiscal Measures – Income Tax (Continued)

Commentary

This will apply to such taxes as PAYE and withholding tax and is a welcome move not only because the penalty was unduly burdensome, but also because it augurs well that the BIR is so confident of the robust nature of its current structure that it feels comfortable removing this truly penal measure. If one reads between the lines, however, one can fairly safely assume that with the significant reduction in the penalty, one will have to put forward a truly compelling case in future to secure a waiver of this reduced penalty.

Measure

The Government proposes to introduce a further amnesty for the late filing of returns.

Commentary

The merits of an amnesty have always been the subject of debate. However, one thing that is certain is that the amnesty granted around the turn of this century certainly produced an influx of outstanding returns and payments and one would assume that the statistics available to the Government indicate that the level of non-compliance since the expiration of the last amnesty period is likely to give rise to another such influx. However, unlike the prior exercise, it appears that the proposed one will target only income tax and corporation tax returns, since neither VAT, nor petroleum tax returns were mentioned.

Measures Not Addressed

The legislation has not kept pace with the business world, and nowhere is this more evident than in the area of financial instruments. While most developing countries have introduced measures to address the tax treatment to be accorded to the various types of financial instruments currently available, T&T has not done so.

As such we continue to have to rely on old English law principles to determine the treatment to be applied. This has led to tremendous uncertainty in an area which tends to involve significant amounts of capital.

Another area where the absence of specific legislation has led to uncertainty and probably significant differences in approaches is the tax treatment to be accorded to stock option plans. With the high level of foreign investment, the influx of expatriate employees and the increasing popularity of this form of remuneration the need for certainty and uniformity in treatment is becoming critical.

2008 Budget Memorandum

Detailed Fiscal Measures (Continued)

Corporation Tax

While there was no specific mention of amendments proposed to the Corporation Tax Act, many of the measures outlined above will impact on the tax liabilities of companies. These include: -

- The 75% initial allowance;
- The accelerated wear and tear allowance on day care and homework facilities in the workplace;
- The decrease of the late filing penalty on PAYE and withholding tax from 100% to 25%;
- The tax amnesty.

Measures promised in the past and not yet enacted include: -

- The removal of close company provisions
- The introduction of capital allowances on patents and scientific research.

Business and Green Fund Levies

There appears to be no intention to effect any amendment to what many consider to be nuisance taxes. At the very least many hoped that the levy would cease to be computed on the basis of the calendar year and shift to a liability based on receipts of the individual or company's financial year. It appears that this is not to be, at least not in the short term.

Petroleum Profits Tax

The Honourable Prime Minister indicated that a separate exercise is being conducted to determine the appropriate amendments required to this regime, which are to be introduced for fiscal year 2008.

Value Added Tax

No amendments to the VAT Act have been proposed at this time.

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Detailed Fiscal Measures (Continued)

Withholding Tax

Measure

The withholding tax rates are to be reduced as follows:

- On distributions to a parent company from 10% to 5%
- On other distributions from 15% to 10%
- On payments from 20% to 15%

Commentary

This reduction in the standard rate of withholding tax is most welcome since this tax, which is meant to be the liability of the non-resident income earner, though deducted at source by the local payer, has effectively become the liability of the latter since he is often required to remit to the non-resident the stipulated contract amount free of local taxes. This amendment would also remove much of the relief currently available under many of our treaties especially the older ones such as that with the United States.

Miscellaneous Taxes

Measure

Persons required to collect and remit certain miscellaneous taxes to the BIR will now be required to complete and file returns to accompany the payment of those taxes, namely

- Financial services tax
- Insurance premium taxes
- Hotel accommodation tax

Commentary

While the Honourable Prime Minister has indicated that the return will be a simple form to minimize the administrative burden placed on the collectors of these taxes, we will have to wait to see what materializes since in the quest to maximize compliance in the past systems intended to be simple and user friendly have been unnecessarily complicated by the tax authorities. VAT registration is a prime example of this.

2008 Budget Memorandum

Detailed Fiscal Measures (Continued)

Import Duty/Surcharge

Measure

Import duty/surcharge is to be suspended/removed on

- Milk and cream as described
- Poultry meat

Commentary

It is hoped that this relief will trickle down to the consumer and bring some measure of relief from what appears to be ever spiraling food costs.

Measure

Nationals returning to T&T after two continuous years abroad will be allowed to import their personal effects, including motor vehicles, free from customs duty and motor vehicle tax. The previous requirement for such relief was that the person should have been abroad and must have owned the item in question for no less than 5 years.

Commentary

This is likely to lead to an increase of importation of vehicles by returning foreign students, thereby placing an additional burden on the nation's already overcrowded roads.

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Sectoral Analysis & Commentary

Energy & Energy Industries

In ensuring the economic transformation of the economy of Trinidad and Tobago the Energy Sector continues to play a pivotal role with the production and sale of crude oil and natural gas and the continued emphasis on the development of the petrochemical sector.

The Honourable Prime Minister indicated that the Country's energy fortunes and prospects continue to be very bright and it is the expectation that the energy sector will continue to be the driver of the economy and the transformation efforts for many years to come. The budget has been predicated on a conservative price assumption of US\$50 per barrel of oil and of US\$3.55 per mmbtu of gas.

Whilst it is noted that there is currently exploration work being undertaken in both land and marine acreage, and that there are a number of rigs in Trinidad and Tobago, it is important to note that there have been few successes in recent years.

The issue of the reserves to production ratio was raised by the Honourable Prime Minister and he acknowledged that there is the need to increase exploration activity and to introduce measures to achieve this.

A report in the Ministry of Energy & Energy Industries (Review of the Economy) referred to a decline in marine exploration drilling. In an effort to address this it would appear that one of the measures proposed is a New Fiscal Regime of Incentives to stimulate further drilling in the Deep Marine areas off the East Coast, to increase production in marginal fields and to pay attention to heavy oil production and farm in and farm out arrangements. It is proposed to introduce this regime in Fiscal 2008 but no information about this incentive regime was provided.

It is hoped that this proposed petroleum tax regime would provide additional incentives to address issues such as Government take in order to attract companies to participate in upcoming bid rounds for exploration activities in both land and marine blocks.

With respect to the construction of plants, the five (5) gas based projects i.e.: -

- Alutrint Smelter;
- Essar Steel Complex;
- Methanol Holdings AUM Complex;

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Sectoral Analysis & Commentary – Energy and Energy Industries (Continued)

- Gas to Liquids Plant;
- Gasoline Optimisation Program

are reportedly all set to come on stream in the short term. The Honourable Prime Minister also reported that the Methanol Propylene/Polypropylene project manufacturer of a basic building block of the plastics industry is expected to come on stream in 2011 at a cost of US\$1.5 billion.

With respect to the main petrochemical sector, the Government seems intent to establish the new industrial estates to accommodate the energy based industries.

The question that remains is whether there is sufficient feedstock/reserves for these projects?

The statistical information available from the Review of the Economy shows declines in production and sales in the following areas: -

- Ammonia;
- Urea;
- Methanol

during the period October 2006 to May 2007 compared with the same period in the prior year. This could be attributed to shortages in the supply of natural gas to these plants during this period by the producer companies. At the same time we note that there was an increase in 2007 in the production of natural gas resulting from the increased demand for natural gas by ALNG Train IV and the Nucor DRI plant which began operations in Trinidad and Tobago in 2005 and 2006 respectively.

This Sector while faced with challenges of its own (including questions as to its available reserves) remains vibrant and is expected to be the primary stimulus to the economy for many years to come.

Financial Services

The Honourable Prime Minister in his budget address for 2008 has reiterated his administration's ambition for the Trinidad and Tobago Financial Sector: -

“Mr Speaker there is no doubt that Trinidad and Tobago has evolved as the economic centre of the Caribbean and the gateway to the Americas and beyond.

2008 Budget Memorandum

Sectoral Analysis & Commentary – Financial Services (Continued)

We intend to leverage this success and take full advantage of our geographical location to enhance Trinidad and Tobago's international connectivity and transform Port of Spain into a regional hub and an International Financial Centre”.

A key component of any financial architecture for this to become a reality is not only abundant financial intellectual capital and innovation but a robust system capable of absorbing the impact of local and more importantly international crises as and when they inevitably occur. The ability to take effective corrective action is critical to restoring the true currencies of any financial system that of **trust and confidence** in the system.

The US financial market is considered to be the largest, deepest, broadest and most resilient example that the global markets currently have.

The US market has been able to withstand all the threats to its existence (see below) and continue to grow: -

- October 28 and 29, 1929 commonly referred to as Black Monday and Black Tuesday which followed the Black Thursday on October 24, marked the start of the memorable Stock Market Crash of 1929;
- October 19, 1987 also called Black Monday: the second largest single-day percentage decline in the history of stock markets. Given the suddenness of the crisis, conjectures still dominate the debate as to the real causes of the crash;
- The Savings and Loan crisis of the 1980s: outbreak of savings and loan association failures in the United States whose estimated ultimate cost totalled around USD\$150 billion, about 85% of which was covered by direct governmental subsidies thus leading to the sizeable budget deficits of the early 1990s;
- Collateral slowdown in the finance industry and the real estate market are seen as a potential factor of the 1990-1991 economic recession;
- Collapse of Long-Term Capital Management (LTCM), hedge fund set up in 1994: it went bankrupt in early 2000 after losing in a less-than-four-months period \$4.6 billion. This collapse is seen as the most renowned in the area of hedge fund industry risk;
- The Enron case: bankruptcy of the energy Company in 2001, one of the biggest and most complex bankruptcy cases in U.S. history, perceived as a prevalent symbol of deliberate corporate fraud and corruption;

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Sectoral Analysis & Commentary – Financial Services (Continued)

- The current subprime mortgage financial crisis which began in the US in 2006 and culminated in a global financial crisis in July 2007 after having forced a number of main subprime mortgage lenders into bankruptcy.

Noteworthy in all this and another key component of the integrity of any financial system is the following headline from the August 3, 2007 issue of CFO.com.: -

“63 CFO’s convicted of corporate fraud in five years”.

Our laudable aspirations to become the financial hub of the region will expose Trinidad and Tobago to a level of international scrutiny and regulation unparalleled in our history. Such responsibility will also require a collective political maturity similarly unheard of in our brief history as an independent nation.

The Honourable Minister’s Budget Presentation has unfortunately not provided any concrete strategies toward these equally important goals.

Manufacturing

The Manufacturing Sector is fully aware that is it not the engine that drives the prosperity of Trinidad and Tobago economy, though the Minister noted in his budget presentation that the non-energy sector, which includes the activity of our manufacturers, surpassed expectations. This sector should always remain central to our economic and national security and we must therefore continue to strive for the creation of a sustainable “*hybrid economy*”, that is energy and non-energy based as the TTMA noted.

Vision 2020: Moving Onward, the theme of the 2007 budget in which the Honourable Minister of Finance indicated that the strategy to achieve Vision 2020 is to use revenue derived by high international prices for our energy resources to develop a *diversified, dynamic* and *internationally competitive non-energy economy*. The foundations for this diversified economy are very much in place in T&T as evidenced by the growth in our tourism; manufacturing; music and entertainment; agriculture; printing & media and financial services sectors to name a few. However the **dynamism** is lacking.

Dynamism comes in the form of state of the art technology; infrastructure; financing arrangements and an educated society all of which are aimed to increase productivity and price competitiveness.

Does the Budget 2008 presentation “Vision 2020: Determined to Reach our Goal” include proposals to promote this dynamism for our manufacturers?

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Sectoral Analysis & Commentary – Manufacturing (Continued)

The answer to that would be partly yes in that the focus of the Budget was again on the five (5) development pillars: -

- Developing Innovative People;
- Nurturing a Caring Society;
- Enabling Competitive Business;
- Investing in Sound Infra-structure; and
- Promoting Effective Government;

which are essentials for all economic sectors of the economy.

On the negative side the budget did not recognize the risk taken by our manufacturers, in particular the local non-energy manufacturers who are not blessed with the good fortune of the financial backing of international conglomerates who are able to take larger risks and better able to withstand adverse effects in exchange rates; increases in costs etc.

In his presentation on the topic of ensuring economic transformation the Honourable Prime Minister focused on the five (5) large gas-based manufacturers. These are directly linked to the energy sector and so arguably do not qualify as true diversification.

Though the economic contributions of this sector are not to be dismissed in any form, the true diversified economy includes the “other” manufacturers such as the large clothing manufacturers; food and drinks manufacturers etc.

To assist these “other” manufacturers the Honourable Prime Minister referred to a multi-pronged industrial strategy to accelerate economic diversification. One aspect of this strategy is the provision of assistance and incentives to allow manufacturers to expand and introduce new innovative technologies to be able to compete in the global market place. This would take place through a Business Expansion and Industrial Reengineering Programme (BEIRP).

A commendable intention but one wonders how the assistance would be rendered and more importantly by whom? Perhaps this proposal really is aimed at the seven (7) industries targeted for special focus by the government and not for the manufacturers.

Manufacturers acknowledge the fiscal measures which have been consistently forthcoming in the form of gradual reduction in corporate tax rates (including Business Levy) over the past fifteen (15) years as follows: -

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Sectoral Analysis & Commentary – Manufacturing (Continued)

<u>YEAR</u>	2007 – 2006	2005 – 2003	2002 – 1996	1995
Tax Rate	25%	30%	35%	38%
BLV	0.20%	0.20%	0.40% to 0.20%	0.50%
GFL	0.10% from 2001			

<u>YEAR</u>	1994	1993 - 1992
Tax Rate	30% / 45%	45%
BLV	0.25%	0.25% (1993)

This year the Minister in his fiscal measures has proposed to further increase the wear & tear allowance for assets acquired by manufacturers to 75% (previously set at 60% from income year 2002 and 50% prior to this) effective January 1, 2008. Manufacturers would certainly be grateful for this additional write-down of their capital expenditure which together with their annual wear & tear allowances of 25% results in a 100% deduction for capital expenditure incurred and in use. If this results in tax losses these continue to be available for carry forward indefinitely without limit.

However, for loss making manufacturers seeking to expand this measure will be of no immediate benefit to them. Such entities will remain burdened with the minimum Business Levy currently at 0.20% of gross income plus Green Fund Levy at 0.10% also on gross income.

Analysed further, this budget proposal does not recognize the financing costs of this capital investment and the associate costs of training of employees; increased insurance costs etc. These latter costs could significantly increase the costs of any additional capital expenditure and should have also been incorporated within the budget by way perhaps of an uplifted allowance.

Another fiscal measure benefiting manufacturers is the reduction in the standard rate of withholding tax on payments to non-residents from 20% to 15%. This will be of direct benefit to manufacturers who were obligated to absorb the costs of this tax and is therefore an important concession on the part of the Government.

Finally the reduction in penalties of 100% assessed on late payment of taxes such as PAYE and withholding tax to 25% will significantly benefit those manufacturers who in error remitted these payments late to the Board. The measure reflects the belief that taxpayers are generally mindful of their obligations and that such high penalties are no longer warranted. This reduction is obviously only of benefit to those in default.

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Sectoral Analysis & Commentary – Manufacturing (Continued)

Ongoing Challenges

Even with the advantage of cheap energy and low corporate taxes our manufacturers have many challenges in the area of costs (now with the increases in minimum wages; National Insurance Contributions and costs of raw material imports) and encouraging young people to pursue a career especially in the manufacturing sector.

Financial costs of expansions and improvements are add-ons to T&T manufacturing costs and at times can be the most significant costs. The risk of a devaluation of the T&T dollar is a very real risk especially for imported raw materials. This is an area where Government may consider providing some form of protection for manufacturers.

Government should also seek to offer incentives to manufacturers who encourage energy conservation, efficiency and development of renewable fuels. This is a must for any developed nation.

To conclude T&T manufacturers remain challenged. The fiscal concessions proposed will no doubt be well received and appreciated but for T&T manufacturers we need to focus on creating this dynamic economy that would put T&T in a position of sustainability when the oil & gas is no longer the “driver” of our economy.

Construction

There is little doubt that the construction industry has been buoyant if not booming over the last five years. Given the potential impact of this sector on the cost of living in Trinidad and Tobago we thought it would be a useful exercise to survey individuals and firms within the construction industry. We asked industry representatives about their perceptions of how commercial construction costs have increased over the last three (3) years i.e. from July 2004 to July 2007.

We interviewed a total of eleven (11) representatives of businesses operating in the industry including construction companies, and architectural and quantity surveying firms. We wish to point out that the exercise was not intended to be a scientific/statistical exercise but literally a **perception index** for the three year period ending July 2007.

Nevertheless our participants did share some of the factors they considered to be critical in coming to any sound conclusion:-

- Significant delays in completion of many projects means that financing cost in the form of interest is a significant cost outside of the building costs normally considered.

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Sectoral Analysis & Commentary – Construction (Continued)

- While some components such as cement (or steel) have risen significantly, their overall contribution to the total cost of a project may be minor compared to other cost components on certain projects.
- There are a number of sub-sectors within the construction industry such as industrial, residential and commercial construction which may affect the rate of cost increases.

With all this in mind the simple question we asked our eleven (11) participants was: -

“If a particular construction job cost \$100.00 per square foot in July 2004, how much would that same job cost in July 2007”?

The estimates range from a high of 235% to a low of 110%. We then knocked off the two extreme estimates and calculated the simple average of the nine (9) other estimates to come up with a percentage increase of 38%. If the highest and lowest estimates are included the cost increase over the 3 years is 58%. This works out to an average compounded annual increase of 11.3% without the highest and lowest estimates or 16.5% compounded with the extreme values.

One implication of these perceptions should they represent reality in any of the sub-sectors of the industry is that construction cost per square foot could double within seven (11.3%) or five (5) years (16.5%) respectively.

The 2008 Budget was silent on any specific measures to mitigate the impact of these increased costs on the vulnerable sectors of the economy. However numerous construction projects are in progress and others in the pipeline which will only serve to exacerbate the labour and other problems faced by the industry.

Agriculture

The rise in food price inflation is a global issue with forecasted increases over the next few years of 20% to 50%. This rise is due to the anticipated increase in the price of oil, the impact of disease, adverse climatic changes and the growing demand of emerging economies such as China and India for feedstock such as corn, to be used as a source of energy rather than a source of food.

So what is Government proposing should be done to address the food security issue. The Honourable Prime Minister at the recent National Consultation on Food Prices commented that “nobody in T&T will ever suffer from the inability to buy food. Government will do everything possible to make agriculture as important as energy”. GORTT promised three major initiatives to produce more food for T&T: -

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Sectoral Analysis & Commentary – Agriculture (Continued)

1. Develop small and medium sized farmers;
2. Collaborate with Caricom (e.g. Guyana) and Cuba;
3. Develop seventeen (17) large farms.

Can GORTT really fulfill these promises when it appears that currently the only booming business in the agricultural sector is praedial larceny?

In past Budget presentations GORTT sweetened its pot of promises to the sector by undertaking to provide a number of incentives including:-

1. Establishing a Praedial Larceny Police unit (Not yet done);
2. Imposing price controls (Not yet done);
3. Creating eight large scale farms;
4. Own and operate two farms in collaboration with the Government of Cuba;
5. Continued development of strategic commodities (see Appendix - Food Index)

In spite of the talk, Agriculture's contribution to Real GDP declined by 5.9% in 2007 and the sector employed four (4) percent of the available labour force in 2006. Based on the statistics available in the Review of the Economy it is anticipated that in 2007, the employment level will remain at four percent in the Sector. Draft estimates of expenditure for 2008 do not reflect GORTT's stated objective as the estimated expenditure on the development programmes for 2008 is \$148m (\$130m in 2007).

Credit must be given for past promises that have materialized such as: -

1. GORTT's injection of \$30m into the Agricultural Development Bank ("ADB"). This amount was spent by April 2007 and GORTT intends to increase its contribution to the ADB in 2008 to \$75m. ADB's current interest rate on loans is 6%. Perhaps a reduction in this rate may attract more investment into what some view as a high risk investment.
2. Distribution of Caroni Lands for small scale farming. Some land is also being used for housing. Should fertile farming land be used for housing?
3. Development of rural access roads.

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Sectoral Analysis & Commentary – Agriculture (Continued)

Will the promises made in this year's budget catapult the sector into the league of the high performing energy industry but more critically address the food security issues particularly for the disadvantaged in T&T? Seemingly, not in the short to medium term.

The revitalization of this critical sector calls for significant capital investment in improving infrastructure and preparing for the designated crops / strategic commodities. This is unlikely to be achieved within a three (3) to five (5) year horizon. This will be further impacted by: -

- 1) The establishment of various commissions and councils (more talk!);
- 2) A review of incentives for small/large farms (more delays!);
- 3) No real incentives for the sector introduced for 2008.

We the people of T&T also need to take responsibility for our food security and while individually we may not be able to contribute to the agricultural community on a large scale basis as is laudibly being done by some energy sector companies, perhaps we need to critically evaluate what we eat, what we drink and what we grow and implement changes in our personal lives so that gradually, each one of us, along with GORTT are supporting and contributing to the development and growth of this vital sector.

Tourism

In the 2005 budget presentation, the Honourable Prime Minister noted that "tourism is a significant employment generator, foreign exchange earner and an important contributor to GDP".

Based on the presentation of statistics in the Review of the Economy it is (interestingly) difficult to report on the sector's contribution to GDP and employment levels as tourism is combined with various service sectors. Is there a reason for this?

The Vision 2020 National Strategic Plan identifies The Vision for Tourism as being a "product that is uniquely differentiated, physically functional, institutionally modern and supported by the people of T&T". Its goals include: -

1. To position Port of Spain as the meetings and conventions capital of the Southern Caribbean;
2. To ensure that the country has the supporting infrastructure necessary for sustainable growth;
3. To transform T&T into an exciting location for tourism investment and

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Sectoral Analysis & Commentary – Tourism (Continued)

4. To market T&T as a recognized tourist destination in every principal source market.

Seemingly much is being done to attain these goals. The International Waterfront Project is near completion, the highways are being improved, construction of the “Grand Bazaar” overpass is underway, a Tourism Park was launched at the Divali Nagar site, the Tobago Jazz Festival is becoming an annual event and some development at the Maracas Bay Beach facility took place.

But will these initiatives really entice foreigners to our shores to spend and/or invest? The increasing levels of crime and the recent runway fiasco has certainly put a “dampener” on the international map for T&T.

In 2006 there was a fall in the total amount of air and cruise ship arrivals into T&T (particularly Tobago) as well as a notable decrease in arrivals in the yachting sector which was attributed to the US and British Travel Advisory warnings. So is the sector really contributing? Estimated development expenditure is \$17m (\$15m in 2006) with a six percent (6%) increase in recurrent expenditure. Is this sufficient to move this sector forward as intended.

T&T’s tourism is its eclectic culture. Its history. Its about Carnival, Steelband, the unique flora and fauna. In the 2008 budget presentation The Honourable Prime Minister talked about: -

1. Reviewing the tourism legislation;
2. Constructing performing arts centres in POS, San Fernando and Tobago;
3. Constructing a steelband museum for the Gpan;
4. Providing financial support for cultural events.

Will such incentives materialise, or will there be, as in the past, more talk than action.

If tourism is to be a real contributor to GDP, GORTT must provide the infrastructure, incentives, technology, education and national security to develop the sector to international standards, not only to encourage tourists to visit T&T regularly, but also to give the people of T&T the confidence to buy into GORTT’s vision, so that we want to stay in T&T and be proud to be Trinbagonians to the bone. The current administration does seem to be serious about its mission and we therefore await tangible evidence of this.

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Sectoral Analysis & Commentary

Technology

According to the World Economic Forum, *Global Competitiveness Indexes for 2006-2007*, there are nine pillars or critical factors which drive productivity and competitiveness of a country and included among those factors are a country's "technological readiness".

The report adds that technology is an "efficiency enhancer" i.e. it is one of the key factors for efficiency driven economies. Additionally, it was noted in that report that alongside global economic integration, there has been a marked acceleration in the pace of technological progress and more specifically, information technology has created new opportunities for business in an increasingly complex global economy.

While Trinidad and Tobago's (T&T) Global Competitiveness Index (GCI) ranking is No 67 overall, the Country's GCI technological readiness is currently ranked at No 60 of 125.

In keeping with the importance placed on technology to growing and developing the economy of countries by international players, the Government in its *National Strategic Plan: Vision 2020* has included technological development as part of its focus to take T&T to Developed Nation Status.

The Vision 2020 report states that science, technology and innovation (STI) combined are widely seen as underlying factors behind rapid economic and industrial growth, leading to the development of competitive nations and developed societies. Globally, newly industrialized countries have had to master the use of imported and indigenous technology in order to achieve economic development on par with developed countries.

Countries with high growth rates use technological means to export a strong mix of value added, high tech goods and services. Their private sectors invest aggressively in technology, research and innovation with active support from Government. Their educational systems produce large numbers of scientists and technologists who find profitable employment.

Wealth and job creation depend on the application of new technology and a well trained, adaptive citizenry to keep established industries competitive. STI inputs are therefore essential to the development of most sectors of our society and will also play a critical role in addressing our pressing social and environmental issues.

In recognition of the importance of having advanced technological development, both in terms of infrastructure and its people, the Government has made significant strides in respect of developing its information communication technological base and the computer literacy of the populace. This is manifested in the following ways:-

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Sectoral Analysis & Commentary – Technology (Continued)

1. Liberalizing of the Telecommunications sector which increased usage of mobile telecommunications and broadband services;
2. Modernisation of the operations of the public sector;
3. Allowing for the availability of Government Information on line;
4. Introduction of computers into the schools;
5. Providing exemptions on import duties and Value Added Tax on telecommunications equipment for a period of two (2) years;
6. Providing exemption from Value Added Tax on computer related peripherals.

To reiterate its commitment towards enhancing the Information Communication Technology (ICT) sector, the Honourable Prime Minister indicated that during the next fiscal year, the Government's goals will be to: -

1. Continue with items 1 to 3 above;
2. Promote the development of competitive ICT-based businesses;
3. Encourage greater use of ICT in business operations and market transactions;
4. Expand high speed internet connectivity to all schools, libraries and community centres.

The Prime Minister further added that to achieve the above stated goals it will formulate a National Broadband Action Plan which includes: -

1. Facilitating the establishment of International Carrier Shared Landing Stations;
2. Implementing a public sensitization programme for Broadband in T&T;
3. Facilitating the implementation of a National Internet Exchange Point (IXP);
4. Facilitating the development of a domestic hosting industry.

Notwithstanding the laudable achievements and objectives of the Government to date, there is still room for vast improvement, as is evidenced by T&T's current GCI technology readiness ranking.

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Sectoral Analysis & Commentary – Technology (Continued)

In this respect, we have seen Government continue to focus on one aspect of technology that is ICT and its role in developing this vital area. However, the Honourable Prime Minister has not outlined any initiatives that will result in the expansion of other technology based sectors nor encourage aggressive private sector investment in this area so as to propel T&T towards being more technologically advanced.

One such initiative which would have been welcomed by Private Investors would have been the establishment of the National Research and Development Fund aimed at attracting investment to the Tamana Technology Park. The proposed setting up of this fund was outlined by the Honourable Prime Minister during his 2006 budget speech. However, the fund has not been established to date and no indication has been given as to whether its establishment continues to be an objective of the Government.

Similarly, we have not seen other initiatives that are aimed at attracting private investors to expend significant sums on research and development in sectors such as agro processing, health/medicine and information technology (electronics). These initiatives will not only assist with the diversification of the economy from the energy sector but also assist with educating the populace on various aspects of technology other than the basic areas of telecommunications and computer literacy.

In the absence of broadening its focus to develop other aspects of technology and encourage private sector involvement, Government is likely to face increasing difficulties in diversifying the economy to allow for other competitive sectors to blossom and become an integral part of T&T's economic base.

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APPENDIX 1

2007 Budget Deliverables – Delivered or Not?

Based on the 2007 budget speech, we have compared the Macro economic indicators for fiscal years 2006 and 2007 and we have sought to determine (using the best information available) the status of projects identified by the Honourable Prime Minister to be undertaken during the last fiscal year using a key as shown in the summary of projects: -

Macro Economic Factors

Macro Economic Indicators	Position as declared in 2006 Budget	Current Position
Real GDP Growth to increase to approx 12%	8%	9.7%*
Unemployment rate to decline to 6%	6.9%	5%
Inflation rate to be contained to approximately 7%	9%	7.3%
Expenditure during the fiscal year	\$38.1 Billion	\$39.3 Billion

* Average GDP Rate for 2002-2006

Y	=	Project completed		
IP	=	Project in progress;		
P	=	Pending approval, procedural or otherwise;		
N	=	Project has not commenced		
Summary of Total Projects- 117				
Sector	Y	IP	P	N
Agriculture	-	2	-	1
Culture	-	3	-	-
Education & Training	5	8	-	3
Energy	-	1	5	-
Health	-	2	-	6
Housing	1	4	-	-
National Security	2	4	3	1
Public Utilities	1	2	-	-
Social Development	3	3	1	1
Sport	1	1	-	2
Tourism	-	1	-	-
Trade and Industry	5	6	3	4
Works and Transport	9	8	3	2
Tobago- Projects	-	8	-	2
TOTAL	27	53	15	22

2008 Budget Memorandum

APPENDIX 1

2007 Budget Deliverables – Delivered or Not?

Project - Agriculture	Status
1. Creation of 8 Large Scale Farms;	IP
2. Expansion of the Youth Apprenticeship Programme in Agriculture (YAPA);	IP
3. Provision of Funding, manpower, equipment and adequate logistical support for the establishment of a Praedial Larceny Police Unit.	N

Project – Culture	Status
1. Commence construction of 2 academies for the Performing Arts at the Princess Building Grounds in Port of Spain and Todd Street, San Fernando.;	IP
2. Commence construction of the National Carnival Centre at Queen’s Park Savannah;	IP
3. Upgrade of Heritage Sites.	IP

Project – Education & Training	Status
1. 80 Early Childhood Care Education Centres to be constructed each Centre to accommodate 50 children;	IP (7 Completed)
2. Establish a Quality Assurance Unit to ensure schools meet standard of accountability, efficiency and performance;	N
3. Construct and upgrade several secondary schools;	IP
4. Purchase 800 additional sixth form places from private secondary schools; in addition to 500 bought every year;	N
5. Commence Construction on 2 advance level colleges;	N
6. Introducing the Magnet School Programme;	IP

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APPENDIX 1

2007 Budget Deliverables – Delivered or Not? (Continued)

Project – Education & Training (Continued)	Status
7. Provide specialized teaching resources and specialized equipment;	IP
8. Introduce Computer Labs to be established in phases (clusters of 60 schools);	IP
9. Expansion of programmes in school which provide meals, books and transportation to include lunches to early childhood care and education students;	IP
10. Government to purchase additional seats on PTSC buses to cater for differently abled students;	IP
11. Continuation of School Book Loan Programmed;	Y
12. Transfer 2 Teachers' Colleges from Ministry of Education of Science, Technology and Tertiary Education to UTT	Y
13. UTT to offer 4yr degree programmes as pre service preparation for joining teaching professional;	Y
14. Government to develop Professional Development Programmes;	Y
15. Construction work on UTT Campuses in Tobago;	IP
16. Expansion of the Eastern Caribbean Institute of Agriculture and Forestry (ECIAF)	Y

Project – Energy	Status
1. To establish plans to produce melamine, urea-ammonia nitrate and acetic acid;	P
2. Construction of new pier to facilitate exports from the ammonia/urea/melamine plant to be built by Methanol Holdings and Clico;	P
3. Commencement of construction of Westlake Ethylene Complex in Point Lisas;	P
4. Petro-chemical plant mainly ethylene, polyethylene to come on stream soon;	P

2008 Budget Memorandum

APPENDIX 1

2007 Budget Deliverables – Delivered or Not? (Continued)

Project – Energy (Continued)	Status
5. The development of 2 aluminum smelter plants in: - <ul style="list-style-type: none"> ▪ Cap-de-Ville Point Fortin and • Union Industrial Estate La Brea. 	<p style="text-align: center;">P</p> <p style="text-align: center;">IP</p>

Project – Health	Status
1. Construction of Sangre Grande Enhanced Health Centre;	N
2. Construction of Toco Maternity Unit (<i>Converting to Accident & Emergency Unit</i>);	IP
3. Construction of the Point Fortin Hospital;	N
4. Construction of Scarborough Hospital;	N
5. Construction of a new wing of the San Fernando Hospital;	N
6. Construction of the National Health Laboratory;	N
7. Launch a Community Care Programme;	IP
8. Initiate the Port of Spain General Hospital Replacement Facility.	N

Project – Housing	Status
1. Construction of a mix of single and multi family units on Greenfield sites and on vacant sites in existing housing developments, including 8,000 new public sector housing units;	IP
2. Increase Mortgage Subsidy for persons earning within the income bracket \$1,440 and \$8,000 per month;	IP
3. Increase in the ceiling for the exemption of stamp duty for residential properties from \$350,000 to \$450,000;	Y

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APPENDIX 1

2007 Budget Deliverables – Delivered or Not? (Continued)

Project – Housing (Continued)	Status
4. Implementation of a “rent to own” programme;	IP
5. Distribution of 4,000 Caroni plots.	IP

Project – National Security	Status
1. Re-establishment and expansion of the Homicide Bureau;	Y
2. Increase training for Police Officers in modern policing techniques;	IP
3. Establishment of an Incident Coordinating Centre comprising units from the Police Service, Defence Force and Intelligence Units of the Ministry of National Security;	Y
4. Restructuring of the Police Complaint Unit;	IP
5. Acquisition offshore patrol vessels;	IP
6. Acquisition of 6 fast patrol boats;	P
7. Acquisition of 4 interceptors for both inshore and offshore operations;	P
8. Acquisition of 4 armed helicopters;	P
9. Establishing a fully functional and operational training programme for crew members;	IP
10. Establish a maritime and support maintenance programme.	N

Project – Public Utilities	Status
1. Construction of two (2) new power generation facilities;	Y

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APPENDIX 1

2007 Budget Deliverables – Delivered or Not? (Continued)

Project – Public Utilities (Continued)	Status
2. Allow for broadband coverage to be available to at least 80% of Trinidad and Tobago’s population;	IP
3. Introducing a permit /license system to upgrade pollution control of companies;	IP

Project – Social Development	Status
<u>Senior Citizens, Disabled, Minors and Family Support:</u>	
1. Two (2) Senior Citizens Centres to be opened in Chaguanas and Rio Claro;	Y
2. Establish Children’s Authority;	P
3. Present National Family Policy to the Public in public consultations;	IP
4. Implementation of a “Smart Card” Programme;	N
5. Implementing Skills Training Programme;	IP
6. Public Awareness Campaign for disabled and sensitization workshop for Government Agencies and Other Stakeholders;	Y
7. Train personal assistants for persons with disabilities;	Y
8. Complete Standardization of Sign Language.	IP

Project – Sports	Status
1. Rehabilitation of Sporting facilities throughout the Country including new facilities in Diego Martin, Sangre Grande, Toco, Point Fortin, San Fernando, Arima, Santa Cruz;	IP
2. Construct a National Cycling Track, an Aquatic Centre and the National Tennis Centre;	N

2008 Budget Memorandum

APPENDIX 1

2007 Budget Deliverables – Delivered or Not? (Continued)

Project – Sports (Continued)	Status
3. Refurbishment of other community recreational facilities;	N
4. Give grants to qualifying Sporting Organizations and Associations to develop elite programmes.	Y

Project – Tourism	Status
1. Upgrade Beach Facilities at Maracas, Las Cuevas, Vessigny and Manzanilla	IP

Project – Trade and Industry	Status
<p><i>Diversification:</i></p> <p>1. Develop the following 7 sectors:-</p> <ul style="list-style-type: none"> • Yachting; • Fish and fish processing; • Merchant marine; • Music and entertainment; • Film; • Food and beverage; and • Printing and packaging; <p>2. Update key legislation and establish Maritime Authority to develop Merchant Marine;</p> <p>3. Establish a National Research and Development Fund to simulate innovation and investment when Tamana Park is completed;</p> <p>4. Develop Trinidad and Tobago International Financial Sector</p> <p>5. Create a financial park to house Local and International Financial Centres</p> <p>6. Create Physical Infrastructure re International Financial Centre;</p>	<p>P IP IP P IP P IP</p> <p>Y</p> <p>N</p> <p>N</p> <p>N</p> <p>N</p>

2008 Budget Memorandum

APPENDIX 1

2007 Budget Deliverables – Delivered or Not? (Continued)

Project – Trade and Industry (Continued)	Status
7. Strengthen regulatory and supervisory framework to encourage expansion of education and training in finance;	Y
8. Taking steps to modernize technological infrastructure;	IP
9. Expansion in hotel capacity and new convention centre being built on the waterfront;	IP
<i>Medium, Small and Micro Enterprises Sector:</i>	
1. Business Development Corporation to develop new business development facility and increase loan guarantees;	Y
2. NEDCO / Entrepreneurial Training Institute Incubation Centres (ETTIC) to be built in Tobago;	Y
3. Continuation of NEDCO and ETTIC	Y

Project – Works and Transport	Status
1. PTSC will acquire 100 new buses for the provision of improved service along the east/west and north/south corridor, in Port of Spain and San Fernando and in several rural areas;	Y
2. Improvement to the East-West and North-South Corridors to improve capacity and safety;	IP
3. Expansion of the highway network with the construction of new highways from San Fernando to Point Fortin, San Fernando to Princes Town, Princes Town to Mayaro and the extension of the Churchill Roosevelt Highway to Manzanilla;	Y
4. The Port of Spain/East-West Corridor Transportation Project which involves the construction of an Interchange at the intersection of Churchill Roosevelt and Uriah Butler Highway;	IP

2008 Budget Memorandum

APPENDIX 1

2007 Budget Deliverables – Delivered or Not? (Continued)

Project – Works and Transport (Continued)	Status
5. Construction of interchange or overpasses at key intersection along the East-West Corridor, such as Aranguez, Curepe, Macoya and Trincity;	N
6. A Road Construction and Rehabilitation Programme that addresses road improvements, road resurfacing, rehabilitation and development of main roads at a national level as well as local roads in residential areas, landslip repairs, bridge reconstruction and traffic management measures;	Y
7. Dualling of the Diego Martin Highway from Victoria Gardens to Acton Courts;	P
8. Improvement to Maraval Access – Saddle Road from Rapsey Street to Valleton Avenue;	IP
9. Road Rehabilitation and Bridge Reconstruction being undertaken through the National Highways Programme;	IP
10. To improve the various the coordination and effectiveness of the various proposal we will establish a Roads Authority to manage and maintain all roads;	IP
11. Curb importation of foreign used vehicles;	Y
12. Examining the feasibility of introducing water taxis, having heavy duty vehicles operate outside peak traffic hours; and introducing flexitime working hours within certain areas of the public service	N
13. Water taxi to start in early 2007; (North/South); once operational service will extend to Point Fortin to Carenage, with stops in La Brea, San Fernando, Couva, Chaguanas, and Port of Spain;	P
14. Express service from San Fernando to Port of Spain;	Y
15. Completion of a Comprehensive Transportation Study;	Y
16. Award of a “Design, Build, Operate, Maintain” (DBOM) Contract for Rapid Rail Project;	P
17. Maintenance of Piarco and Crown Point International Airport;	IP
18. Continuance of restructuring of Port Authority of Trinidad and Tobago;	IP

2008 Budget Memorandum

APPENDIX 1

2007 Budget Deliverables – Delivered or Not? (Continued)

Project – Works and Transport (Continued)	Status
19. 2 Fast Ferries to be acquired,	Y
20. Complete construction of Government Shipping Services (GSS) facility;	IP
21. Acquire heavy equipment to facilitate more efficient handling of cargo;	Y
22. Implement International Shipping and Port Security Code.	Y

Tobago -Projects	Status
1. The Special Windward Development Programme;	IP
2. The construction of the Shaw Park Regional Recreation Ground and Culture Complex;	IP
3. The construction of the Bacolet Aquatic Complex;	N
4. Development of Cove Industrial Estate;	IP
5. Provide support for the Domestic Airbridge and Seabridge;	IP
6. Provide assistance to Small Properties in the Tourism Industry;	IP
7. Continuing with the HIV/AIDS and Substance Abuse Programme;	IP
8. Commence housing projects at Roxborough, Blenheim, Castara, Adventure Estate and Courland;	IP
9. The Roxborough Town Expansion; and	IP
10. Commence Construction of UTT Tobago Campus.	N

2008 Budget Memorandum

APPENDIX 2

Estimated 2008 Fiscal Revenue and Expenditures

	\$M	\$M	\$M
	Estimate 2007	Revised Estimate 2007	Estimate 2008
Revenue			
Tax Revenue	30,410.70	35,155.60	35,133.40
• Income and profits	22,831.80	26,388.70	25,448.00
• Goods and services	5,243.40	6,188.00	6,858.60
• International trade•	1,933.90	2,132.40	2,386.00
• Other	401.60	446.50	440.80
Non-Tax Revenue	3,305.30	3,915.30	3,894.40
• Property	2,657.90	3,307.90	3,080.90
• Other	604.10	563.50	791.40
• Repayment of Past Lending	43.30	43.90	22.10
Capital Receipts	44.40	50.00	20.90
TOTAL REVENUE	33,760.40	39,120.90	39,048.70
Financing	1,323.30	1,323.30	407.00
TOTAL RECEIPTS	35,083.70	40,444.20	39,455.70
Expenditure			
Recurrent Expenditure	31,552.90	34,470.60	35,342.90
Charges on the Public Debt	2,681.70	2,638.00	2,563.00
Capital Expenditure	3,400.00	3,926.10	3,900.00
TOTAL EXPENDITURE	37,634.60	41,034.70	41,805.90
NET SURPLUS/(DEFICIT)	(2,550.90)	(590.50)	(2,350.20)

Excluded of the Unemployment Fund, Infrastructure Development Fund, Government Assistance for Tertiary Education and the Green Fund

Source: Draft Estimates of Revenue for the Financial Year 2008

* Note: The figures above were extracted from the Draft Estimates of Revenue and Expenditure which was produced some time before the budget document and may vary from the figures quoted in the budget speech which the Ministry of Finance has confirmed are the most up to date

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APPENDIX 3

2008 Budgetary Expenditure

Expenditure Head	Personnel	Other	Development Programme	2008 Estimates
President	2,259,142	16,589,800	0	18,848,942
Auditor General	24,298,150	8,740,800	2,100,000	35,138,950
Judiciary	131,315,444	155,224,000	68,020,000	354,559,444
Industrial Court	19,317,634	21,177,802	2,590,000	43,085,436
Parliament	19,942,620	60,743,800	24,930,000	105,616,420
Service Commissions	25,670,803	33,092,100	4,200,000	62,962,903
Statutory Authorities' Service Commissions	3,626,186	2,417,840	0	6,044,026
Election & Boundaries Commission	24,711,840	54,909,000	8,000,000	87,620,840
Tax Appeal Board	3,149,780	3,903,000	0	7,052,780
Registration, Recognition & Certification Board	2,461,363	1,281,000	0	3,742,363
Public Service Appeal Board	1,546,116	1,459,200	0	3,005,316
Office of the Prime Minister	20,375,260	137,116,750	106,000,000	263,492,010
Tobago House of Assembly	0	1,398,881,167	362,371,000	1,761,252,167
Central Administrative Services, Tobago	9,667,678	8,770,000	0	18,437,678
Personnel Department	16,878,000	16,610,000	9,433,000	42,921,000
Ministry of Finance	260,979,290	7,783,972,000	436,806,000	8,481,757,290
Charges on Account of Public Debt	0	3,282,702,840	0	3,282,702,840
Pensions and Gratuities	0	1,407,674,000	0	1,407,674,000
Ministry of Planning and Development	39,573,902	65,234,212	227,902,000	332,710,114
Ministry of National Security	2,042,133,057	1,515,614,650	411,960,000	3,969,707,707
Ministry of the Attorney General	44,398,966	136,989,600	36,670,000	218,058,566
Ministry of Legal Affairs	32,383,703	82,850,735	15,306,000	130,540,438
Ministry of Agriculture, Land and Marine Resources	237,053,273	288,780,144	205,250,000	731,083,417
Ministry of Education	2,081,843,100	1,357,872,181	775,590,000	4,215,305,281
Ministry of Health	457,870,727	2,423,385,777	395,000,000	3,276,256,504
Ministry of Labour and Small & Micro Enterprise Development	28,988,186	100,541,955	45,800,000	175,330,141
Ministry of Public Administration and Information	60,709,987	401,839,381	261,650,000	724,199,368
Ministry of Tourism	23,267,756	111,958,740	27,000,000	162,226,496
Ministry of Housing	8,478,720	229,555,000	1,000,230,000	1,238,263,720
Integrity Commission	2,149,205	21,864,700	0	24,013,905
Environmental Commission	2,790,770	4,812,000	0	7,602,770
Ministry of Public Utilities & the Environment	89,720,850	2,082,561,000	308,569,000	2,480,850,850
Ministry of Energy and Energy Industries	27,026,993	1,264,268,515	496,900,000	1,788,195,508
Ministry of Local Government	82,519,080	1,185,744,609	212,378,000	1,480,641,689
Ministry of Works & Transport	458,455,585	1,152,069,137	973,080,000	2,583,604,722
Ministry of Sport & Youth Affairs	38,136,117	253,028,588	227,570,000	518,734,705
Ministry of Foreign Affairs	114,708,210	286,717,000	21,000,000	422,425,210
Ministry of Trade & Industry	18,111,800	140,320,000	303,500,000	461,931,800
Ministry of Science, Technology & Tertiary Education	47,009,510	1,550,667,075	530,000,000	2,127,676,585
Ministry of Community Development Culture & Gender Affairs	24,013,113	249,995,476	347,795,000	621,803,589
Ministry of Social Development	39,108,264	2,037,363,492	52,400,000	2,128,871,756
GRAND TOTAL	\$6,566,650,180	\$31,339,299,066	\$7,900,000,000	\$45,805,949,246
2007/2008	14%	68%	17%	100%

NB: Development Programme Expenditure includes the sum of \$4,000,000 which is funded from the Infrastructure Development Fund

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APPENDIX 4

Tax Facts 2008

	2008	2007
1 PERSONAL INCOME TAX		
All Income	25%	25%
Allowances/Deductions		
Severance Pay	\$300,000	\$300,000
Alimony Paid	No Limit	No Limit
Alimony (per Child)	NIL	NIL
Personal Allowance	\$60,000	\$60,000
Mortgage Interest (Owner Occupied)	-	-
Tertiary Education Allowance	\$60,000	\$60,000
Pension / Deferred Annuity	\$25,000	\$12,000
National Insurance	70%	70%
Credit Union Deduction	NIL	NIL
Housing Allowance	NIL	NIL
	} (2)	} (1)
2 COMPANY TAX		
Corporation Tax Rate (Petrochemicals)	35%	35%
Corporation Tax Rate (Non-Petroleum)	25%	25%
Business Levy (On Gross Sales)	0.2%	0.2%
Green Fund Levy (On Gross Sales)	0.1%	0.1%
Small Business Tax Credit	0%	0%
3 PETROLEUM TAXES		
Petroleum Profits Tax	50%	50%
Unemployment Levy	5%	5%
4 INVESTMENT INCOME		
Local Dividends Received	Exempt	Exempt
Interest Received (Individuals)	Exempt	Exempt
5 WITHHOLDING TAXES		
Standard Rate	15%	20%
Dividend - Parent	5%	10%
Dividend - Other	10%	15%
6 Death / Estate Duties	NIL	NIL

Note (1) Maximum \$12,000

Note (2) Maximum \$25,000

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APPENDIX 5

Computations

Corporation Tax Computations (Manufacturing Company)

	2008	2007
Profit as per Financial Statements	<u>12,000,000</u>	<u>12,000,000</u>
Add:		
Depreciation	1,250,000	1,250,000
Donation not under Deed of Covenant	20,000	20,000
Bad Debt General Provisioning	80,000	80,000
	<u>1,350,000</u>	<u>1,350,000</u>
Less:		
Initial Allowance (75% / 60%)	1,500,000	1,200,000
Wear & Tear Allowance	500,000	500,000
Gain in Disposal of Assets	30,000	30,000
	<u>2,030,000</u>	<u>1,730,000</u>
Chargeable Profits	11,320,000	11,620,000
CORPORATION TAX		
Corporation Tax @25%	2,830,000	2,905,000
Effective Tax Rates	23.6%	24.2%
BUSINESS LEVY		
Gross Sales/ Receipts	28,000,000	28,000,000
Business Levy @0.2%	<u>56,000</u>	<u>56,000</u>
GREEN FUND LEVY		
Gross Sales/ Receipts	28,000,000	28,000,000
Green Fund Levy @0.1%	<u>28,000</u>	<u>28,000</u>

Note 1: We have assumed that the Company incurred capital expenditure of \$2M on Plant and Machinery

2008 Budget Memorandum

APPENDIX 5

Computations (Continued)

Higher Income Person	2008	2007
Income (Basic salary \$28,000 per month)	336,000	336,000
Benefit In Kind (50%)	<u>40,000</u>	<u>40,000</u>
Total Income	<u>376,000</u>	<u>376,000</u>
Less:		
Personal Allowance	60,000	60,000
Tertiary Education Allowance	60,000	60,000
Pension/ Annuity & NIS Contributions	25,000	12,000
	<u>145,000</u>	<u>132,000</u>
Taxable Income	231,000	244,000
Income Tax Thereon		
231,000 / 244,000 @ 25%	57,750	61,000
	<u>57,750</u>	<u>61,000</u>
Effective Tax Rate	17.2%	18.2%

2008 Budget Memorandum

APPENDIX 5

Computations (Continued)

Middle Income Person	2008	2007
Income (\$15,000 per month)	<u>180,000</u>	<u>180,000</u>
Less:		
Personal Allowance	60,000	60,000
Tertiary Education Allowance	0	0
Pension/ Annuity & NIS Contributions	25,000	12,000
	<u>85,000</u>	<u>72,000</u>
Taxable Income	95,000	108,000
Income Tax Thereon		
@ 25%	23,750	27,000
	<u>23,750</u>	<u>27,000</u>
Effective Tax Rate	13.2%	15.0%

2008 Budget Memorandum

APPENDIX 5

Computations (Continued)

Lower Income Person	2008	2007
Income (\$5,000 per month)	<u>60,000</u>	<u>60,000</u>
Less:		
Personal Allowance	60,000	60,000
Tertiary Education Allowance	-	-
Pension/ Annuity & NIS Contributions	1,153	1,153
	<u>61,153</u>	<u>61,153</u>
 Taxable Income	 NIL	 NIL
 Income Tax Thereon (25%)	 -	 -
	<u>-</u>	<u>-</u>
 Effective Tax Rate	 -	 -

2008 Budget Memorandum

APPENDIX 5

Computations (Continued)

Retiree - Over 60 years	2008	2007
Income (\$12,000 per month)	<u>144,000</u>	<u>144,000</u>
Less:		
Personal Allowance	60,000	60,000
Tertiary Education Allowance	-	-
Pension/ Annuity & NIS Contributions	-	-
	<u>60,000</u>	<u>60,000</u>
Taxable Income	84,000	84,000
Income Tax Thereon		
84,000 @ 25%	21,000	21,000
	<u>21,000</u>	<u>21,000</u>
Effective Tax Rate	14.6%	14.6%

2008 Budget Memorandum

APPENDIX 5

Production Company Petroleum Profits Tax Computation

Year of Income 2007

Profit per Accounts for the year ended December 31, 2007		600,000,000
Add:		
Depreciation and Amortisation	76,000	
Supplemental Petroleum Tax	550,000	
Green Fund Levy	<u>6,855</u>	
		<u>632,855</u>
		600,632,855
Less:		
Capital Allowances	270,000	
Supplemental Petroleum Tax	<u>550,000</u>	
		<u>820,000</u>
Adjusted Profit		599,812,855
Less: Loss Relief		<u>(560,000)</u>
Adjusted Profit		<u>599,252,855</u>
Petroleum Profits Tax @ 50%		<u>299,626,428</u>
Unemployment Levy @ 5%		<u>29,990,643</u>
Losses Brought Forward and Utilised	<u>560,000</u>	

2008 Budget Memorandum

APPENDIX 5

Petrochemical Company Corporation Tax Computation

Year of Income 2007

Profits / (Loss) per Financial Statements		10,000,000
Add:		
Depreciation	285,465	
Donations not under Covenant	86,511	
Entertainment Expense Restriction	<u>277,106</u>	
Green Fund Levy	100,000	
		<u>749,082</u>
		10,749,082
Less:		
Wear & Tear Allowance	200,000	
Initial Allowance	<u>100,000</u>	
		<u>300,000</u>
Chargeable Profit / (Loss)		10,449,082
Less: Loss Relief		<u>(500,000)</u>
Chargeable Profit / (Loss)		<u>9,949,082</u>
Corporation Tax Liability (35%)		<u>3,482,179</u>
Losses Brought Forward and Utilised	<u>500,000</u>	

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APPENDIX 6

Snapshot of GORTT Fiscal Performance - 2007

	Estimate 2007 \$M	Revised Estimate 2007 \$M	Variance +/- \$M
Revenue			
Tax on Income/ Profits			
Petroleum Companies	13,779	16,703	2,924
Corporation Tax	4,507	4,550	43
Income Tax	3,454	3,568	114
Value Added Tax	4,005	4,985	980
Taxes on International Trade	1,934	2,132	198
Expenditure			
Recurrent Expenditure	31,278	34,178	2,900
Personnel Expenditure	6,029	6,098	70
Goods and Services	4,103	4,242	139
Minor Equipment	328	306	(21)
Interest and Other Debt Charges	2,682	2,638	(44)
Current Transfers and Subsidies	13,658	16,149	2,491
Transfers to Statutory Bodies	4,479	4,726	246
Acquisition of Physical Assets	-	20	20
Development Program	3,400	3,926	526
Capital Repayment & Sinking Fund Contributions	2,956	2,930	(26)
Allocation			
Ministry of Education	3,523	3,578	55
Ministry of Health	2,933	2,759	(174)
Ministry of National Security	3,376	3,494	118

2008 Budget Memorandum

APPENDIX 7

Price Indices - Food Index

Trinidad & Tobago Inflation and Food Prices

	2000	2005	2006	June 2007
Headline inflation	5.63	7.16	9.08	7.31
Food prices	13.39	22.57	22.02	14.69
Vegetable prices	Not available		39.20	19.40
Core inflation	4.24	2.69	4.61	4.51

Notes: -

Headline inflation measures the changes in the overall Retail Price Index.

Core inflation excludes the changes in volatile items such as food.

International forecasts are for global food prices to increase between 20%-50% over the next few years.

Average Food Prices 2006 and 2007

In his previous Budget Presentation, the Honourable Prime Minister identified strategic commodities, which included the following to be given priority to develop T&T's international competitiveness.

	Average Prices (\$)	
	2006	2007
Cabbage	6.45	5.87
Cassava	3.78	3.40
Carrots	7.44	8.17
Cucumber	3.79	5.58
Dasheen	7.57	6.03
Eddoes	7.74	6.88
Lettuce	2.94	N/A
Melongene	4.77	N/A
Ochro	14.16	N/A
Pumpkin	2.19	N/A
Tomato	8.96	N/A

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APPENDIX 7

Price Indices - Food Index (Continued)

Some Other Food Prices

	2005	2006	2007 (Aug)
Rice (2kg)	13.79	13.79	13.79
Flour (2kg)	6.99	6.99	6.99
Oil (1 litre)	14.49	12.99	12.79
Milk – Evap	3.79	3.79	4.59
Dozen Eggs	8.69	9.49	9.99
Sugar – Granulated	10.69	11.69	11.69
Butter – Blue Band (240 grams)	5.29	5.29	5.99
Chicken (kg)	20.25	22.99	22.99
Beef (Clod)	32.99	32.99	46.99
Fish (Carite)	32.99	32.99	32.99

* N/A = Not Available

Glossary of Government Terms

ASS	Aerial Surveillance System (“BLIMP”)
BEIRP	Business Expansion and Industrial Reengineering Programme.
C.A.R.E.	Community Action for Revival and Empowerment (C.A.R.E.) was established to address the aspirations of groups and communities that may be disadvantaged due to financial or other constraints.
CCC	The Civilian Conservation Corps (CCC) is a programme under the Ministry of National Security, which provides training to youths that are considered “risky”. CCC provides educational and vocational training to individuals between the ages of 18 to 25, who are not academically inclined and who are not employed or employable.
CDAP	The Chronic Disease and Assistance Programme provides all citizens of Trinidad and Tobago with free prescription drugs and other pharmaceutical items to combat health conditions such as diabetes, asthma, cardiac diseases and arthritis.
CEPEP	The Community Based Environment Protection and Enhancement Programme was established to facilitate social transformation in the national community and provide employment to semi-skilled and unskilled citizens.
CSP	Citizen Security Programme represents a prosocial approach to crime and focuses on providing at-risk youth with alternative programmes and activities.
G.A.T.E.	Government Assistance for Tuition Expenses. This is a programme under which financial assistance is given to students for tertiary level education. G.A.T.E. funds 100% of tuition expenses for undergraduate programmes and 50% of the tuition expenses, to a maximum of TT\$10,000, for postgraduate students. All students who accept GATE funds are bound by a period of national service that will be linked to the value of funds received.
FSP	Fair Share Programme which reserves 10% of all contracts awarded by GORTT up to \$1M for qualifying small businesses.
HELP	Higher Education Loan Programme is a loan facility initiative that commenced in June 2006. This programme is applicable to students who are in GATE approved programmes, with the exception of a few regional institutions.
HYPE	Helping Youth Prepare for Employment Programmes is managed by the Metal Industries Company Limited (MIC), commenced in 2002, with the mission to assist young low income individuals.

Glossary of Government Terms (Continued)

MuST	Multi-sector Skills Training (MuST) offers nationals of Trinidad and Tobago between the ages of 18 to 50 years of age an opportunity to obtain skills and be trained on actual construction sites and properties in the construction, hospitality and tourism sectors.
OJT	On-the-job training targets persons between the ages of 16 to 30 who are graduates of technical/vocational tertiary institutions. It is designed to provide individuals with work experience and any necessary skills that they may need to enter or re-enter the world of work.
SAUTT	Special Anti-Crime Unit of T&T
URP	Unemployment Relief Programme
YAPA	Youth Apprenticeship Programme in Agriculture
YTEPP	Youth Training and Employment Partnership Programme
Retraining Programme	This programme targets retrenched or displaced workers between the ages of 25 to 45. The main purpose of the programme is to ensure that individuals are retrained to industry standards and that they can adapt to the changing demands of the industry needs.

Source: National Report on the Implementation of the Plan of Action of the Fourth Summit of the Americas for the Period November 2005 – December 2006

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APPENDIX 9

Summary of some of the Major Construction Projects

Projects	Estimated Cost	Completion Date
	\$M	
Central Licensing Division – Chaguanas	208	2010
Construction and Improvements to Coast Guard Buildings	178	2010
Construction of Government Buildings	371	2008-2010
Construction of Industrial Port Facilities	2,000	2010
Construction of Oncology Centre	121	2009
Construction of Police Stations	56	2008
Crown Point Airport	613	2010
Drainage Works	1,300	2010
Eastern Caribbean Institute of Agriculture and Forestry (ECIAF)	56	2009
Eco-Industrial and Technology Park at Wallerfield	600	
Edinburgh 500 Multi Purpose Complex	20	2009
Fishing Centres	152	2009
Hugh Wooding Law School - New Wing	19	2010
Industrial Sites (Downstream Gas Based Industries)	2,300	2010
Interchange (Initial Phases)	1,100	2009
Market and Plaza in Roxborough	24	2008
Mass Transit System (Rapid Rail Project)	2,300	2010
Multi Purpose Sporting Complex (Brian Lara Stadium / Tarouba)	65	2008
National Heritage Site at Nelson Island	3	2009
Natural Gas Pipeline to Tobago	70	2007
New Licensing Administration Complex - Wrightson Road	313	2010
Port of Spain International Waterfront Complex	1,700	2009
President's Office and Residence	55	2010
Primary Schools (Tobago)	33	2010
Primary Schools (Trinidad)	395	2010
Prime Minister's Residence	131	2008
Restoration of Red House	100	2009
Road Works	2,400	2010
Secondary Schools (Tobago)	49	2010
Secondary Schools (Trinidad)	1,500	2010
Upgrade of UWI	255	2009

Source: - *Vision 2020 – Operational Plan 2007 - 2010*

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Caveat

This Memorandum contains a summary of the main features of the proposed budgetary measures and is intended to provide readers with a general guide thereto. It is not intended to be a comprehensive statement of the law and should therefore not be acted upon without professional advice.

While every effort has been made to ensure the accuracy of information contained in this document, no responsibility is accepted for any errors or omissions. No part of this publication may be reprinted without our prior permission.

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