

# Tax Bulletin\*

## Issues Relating to Emolument Income, 2006

Volume 1, Issue 1

January 19, 2006



Since the beginning of the year we have had numerous queries regarding the amendments that have been made and are to be made to the Income Tax regime, especially as regards the taxation of employees. While we propose to issue a more detailed bulletin once the Finance Act 2006 has been passed, we thought it would be prudent to issue an abridged version of our quarterly publication to focus specifically on those issues. The measures outlined below are those that have been given the force of law by the Provisional Collection of Taxes Order, 2005 as amended by the Resolution. Please note that it is possible that some of these measures may be amended by the Finance Act 2006, but until such time they are effective.

The amendments are as follows: -

- Effective January 1, 2006, the rate of Income Tax is 25%;
- A resident individual is now entitled to a personal allowance of \$60,000;
- Conversely, such an individual is no longer entitled to the following: -
  - ⇒ Mortgage interest deduction on owner occupied property;
  - ⇒ Tertiary education allowance;
  - ⇒ First time home owners' allowance;
  - ⇒ Credit union share purchase deduction;
  - ⇒ \$1,200 child maintenance exemption;  
and
  - ⇒ Approved hotel or tourism project investment allowance.



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- *The value of certain “Benefits in Kind” on which PAYE is to be charged/deducted, has also been adjusted as follows: -*
  - ⇒ *Motor Vehicles*
    - ◆ *Motor vehicles acquired by the employer prior to January 1, 2006, made available to the employee for his private use will continue to be valued as before, i.e.: -*
      - ~ *Where the vehicle is a leased vehicle – 1/3 of the rental value;*
      - ~ *Where the vehicle is owned by the company – 1% of the cost of acquisition per month;*
    - ◆ *For a vehicle acquired on or after January 1, 2006, the value of the BIK is 50% of: -*
      - ~ *The rental value if it is a leased vehicle; or*
      - ~ *The wear and tear allowance if the vehicle is owned.*



### ⇒ *Residential Accommodation*

*The value of employer owned accommodation available for the private use of the employee is now the fair market rental of that accommodation. It should be noted that while the provision refers only to property acquired by the company in the year of income, it is expected that this oversight will be amended in the Finance Act, and the provision will, as intended, apply to all company provided accommodation.*

### ⇒ *Loans*

*Where loans are provided to employees at preferential rates, the difference between that rate and the commercial rate as determined by the Central Bank will be the value of the taxable benefit deemed to be received in respect of such loans.*

*These values have not been clearly defined to date and employers may therefore consider contacting a real estate agent/Central Bank for the appropriate guidance.*

- *It should also be noted that: -*
  - ~ *Pre-retirement withdrawals from ESOP are now to be added to the income of the ESOP member and taxed accordingly;*
  - ~ *Refunds of approved pension and deferred annuity contributions/premiums are now subject to tax at 25%.*