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Innovation - the key to Economic Growth
Budget Memorandum 2015

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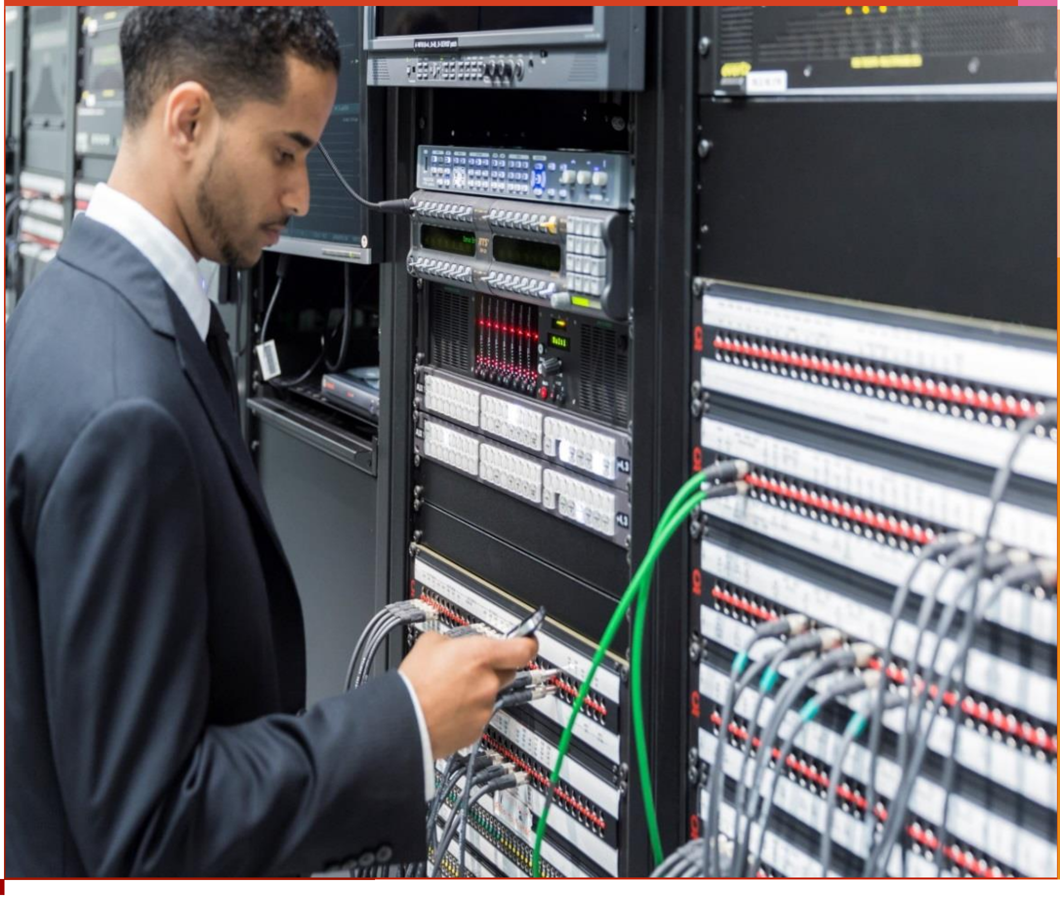


8 September 2014

pwc

Territory Senior Partner’s message

Shaping an Innovative Future

We are pleased to present our annual post Budget Memorandum ***“Innovation-the key to Economic Growth”*** in response to the 2015 National Budget presented by the Minister of Finance and the Economy, Senator the Honourable Larry Howai on 8 September 2014. This publication seeks to share our views on the fiscal and other policies announced. Our Budget Memorandum provides insight to our clients and other stakeholders to navigate the issues that affect them.

As we digest the impact of the 2015 Budget, the last of Government’s current five-year term in office and a natural point for performance review, we must reflect not only on Government’s achievements, but the role of all stakeholders toward this end.

Without doubt, Government’s vision: “*Innovation for Lasting Prosperity*” remains relevant to our country’s competitive positioning in the global arena. Over the period under review, Government will have utilised $270bn. (Appendix I) to achieve this through its seven development pillars and five strategic priorities (Appendix II).

The objective of Government’s financial stimulus was to facilitate an enabling environment through initiatives such as an improved roads network, increased Port efficiency, fuel subsidies, TTBizLink Services, and access to education.

While businesses are appreciative, they continue to clamour for faster and more significant improvements to sustainably lower the costs of doing business. Greatest among these needs is the management of crime and worker productivity.

While Government has spent significantly, the results have not been commensurate with the level of spend. As the largest employer and a direct participant in the nation’s provision of goods and services, Government must lead the clarion call for timely, efficient, cost effective and high quality goods and services. Government must drive the culture of service and worker productivity within the Public Sector.

Government, however, cannot be the only actor shaping a truly innovative future of which we can all be proud. The business community, institutions of learning and civil society must also play their role in developing productive citizens, who in turn will achieve our future goals.

We must all lead by example - instilling ethics, values, and good governance across all spheres of community networks, starting with our role as citizens, parents, employers and service providers. With this commitment, we will truly be the captains of our destiny.

Colin B Wharfe

Our Tax Leader's thoughts

Reform of Revenue Administration required

The Minister of Finance and the Economy, Senator the Honourable Larry Howai delivered the fifth and final budget of this Administration's tenure under the theme "Empowering our People through Sustained Economic Growth and Prosperity." Minister Howai reported that the key macro economic indicators - inflation, foreign reserves, employment and balance of payments - all suggest a return to a sound economy. No doubt over the next week our economists and other commentators will engage in debate as to the merits of this and other claims made by the Senator. In this Budget Memorandum, I briefly considered this Administration's impact on, and contribution to, the tax system during its tenure.

On the positive side, there were some key adjustments to the petroleum tax regime to stimulate greater activity in that sector. These included the reduction of the tax rate on profits from deep-sea exploration from 50% to 35% and the simplification and acceleration of capital allowances.

The past and promised amnesties would have been welcome d reliefs to all taxpayers wishing to regularise their tax positions.

The removal of the property tax was welcomed at the time by many, but we all acknowledge that a failure to replace the proposed tax during the last five years resulted in a loss of much needed revenue.

Although progress was made, the government failed to deliver on its promise to clear up the backlog of VAT refunds and maintain a six-month turn around cycle on future refunds.

Perhaps the area which we were most keen to have addressed was a review and revision of the tax administration. Having abandoned the proposed Revenue Authority, this Administration did not introduce any measures to significantly address the many ails plaguing the tax authority including the inadequate accommodation, staff shortages, lengthy delays and absence of tax rulings. One cannot reasonably dispute that any administrating of tax affairs that results in a ten year delay in the resolution of a tax dispute and the deferral of the payment of refunds until those disputes are settled is in dire need of revamping. These issues must be addressed urgently.

I trust you will find the enclosed commentary insightful. Our team stands ready to assist you with the interpretation and application of the new measures.

Allyson West

Table of Contents

Budget overview

Many of the commentators predicted that the 2015 National Budget, the fifth of the People's Partnership Government and the last before the next general election, which is due constitutionally in about one year, would include many re-election favours. However , others called for the government to keep focus and work towards reducing transfers and subsidies and empowering our citizens who are dependent on the State.

The 2015 Budget is an expenditure package of $64.664bn, net of capital repayments and sinking fund contributions, with projected revenues of $60.351 bn and therefore a deficit of $4.313 bn (excluding capital repayments).

This projected expenditure outstrips last year's record $61.398bn.

Oil revenue for 2015 is estimated at $21.223bn or 35.17% of total revenue. A reduction from the 42.5% estimated for the prior year. The revenue estimates are based on a price of US$80 per barrel for oil and US$2.75 per mmBtu for gas.

These prices are conservative and achievable given that over the period October 2013 to June 2014 the price of West Texas Intermediate crude oil averaged US$99.81 per barrel. In the same period the Henry Hub's price of natural gas averaged US$4.55 per thousand cubic feet.

2015 will be another year of deficit budgeting, although Senator Howai indicated that the projected fiscal deficit of 2.3% is expected to be less than that of 2014 (3.6%), in keeping with the Government's commitment to reduce it by 1% per year.

The Senator, as part of his presentation, highlighted many of his government's achievements including:

- Restoration of a growth path after three years of decline
- Low unemployment and stable inflation rates
- Reducing fiscal deficit
- Increases in Foreign Direct Investment
- A strong reserves position and a healthy Heritage and Stabilisation Fund

It is encouraging to hear the Senator address the issue of Trinidad and Tobago's tax treaty network from the perspective of the renegotiation of the treaties with the Federal Republic of Germany, the United Kingdom and Luxembourg and also the negotiation of new treaties with the Netherlands, Japan and South Korea. One benefit of tax treaties is the encouragement of trade between countries.

Four "new" sectors have been identified as targets for development:

1. Food and Beverage
2. Creative, Arts and Entertainment
3. Maritime
4. Yachting

These however, are not new sectors as we have heard of efforts in the past to develop these as a platform for the diversification of the economy. We look forward to a more rapid development of these sectors.

In the energy sector the absence of new initiatives to stimulate exploration activity indicate that there was no consideration given to the recent Ryder Scott 2013 gas reserves report which painted a less than rosy picture.

Budget overview

It appears, based on the Senator's statements, the Government is confident that the recent changes to the legislation, levels of investment and increased drilling activity will lead to improvements in the oil and gas reserves.

Although tax administration continues to be a major issue, no specifics were provided as to how/when the results of the 'modernisation' will become evident. It seems that the response to the industrial action and perhaps a related decline in tax collections is the offer of another tax amnesty. Undoubtedly, many taxpayers will welcome this initiative.

There are several measures in this budget that will appeal to the persons dependent on the State, including increases in disability grant, public assistance grant, senior citizens pension, pensions of retired public officers and the increase in personal allowance for individuals 60 years and over.

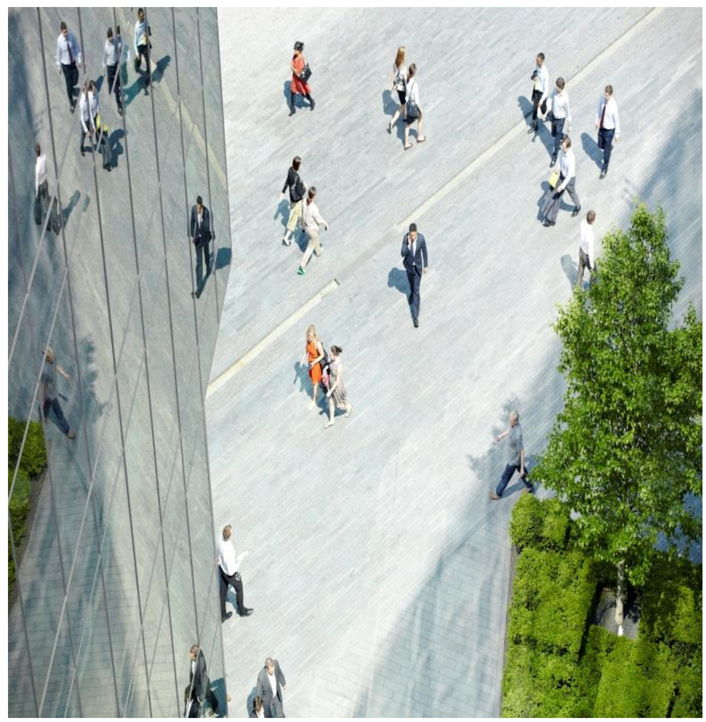
For some time the issue of bringing the self employed into the scope of the National Insurance Scheme has been discussed without putting in place the machinery to facilitate contributions by self employed persons. 2015 will potentially see the start of contributions by such persons and the payment of benefits to them facilitated by injections of funds by the government.

The initiatives introduced in the past to address the fuel subsidy have been limited and the Honourable Minister is introducing another measure in the form of the tax and VAT exemptions on hybrid and electric powered vehicles. It is widely accepted that the fuel subsidy at its current level is not sustainable and must be addressed in a meaningful manner but it does not appear that this will occur in fiscal 2015.

The 2015 budget is silent on some significant issues that have been mentioned in the past as needing consideration:

- Transfer pricing;
- Property tax;
- Formalisation of the treatment of assets transferred between related parties;
- Relief for the creation or acquisition of intangible assets as part of the facilitation of innovation.

We hope that the promised public consultation on tax reform will provide an effective forum for the ventilation and resolution of those and other issues plaguing the tax regime in T&T.



Economic growth and innovation

Senator Howai, at a recent Pre-Budget 2015 Forum hosted by the Employers Consultative Association (ECA), identified the five priority areas of his 2015 Budget as Crime, Law and Order; Food Security; Health Care Services and Hospitals; Economic Growth and Job Creation, Competitiveness and Innovation; and Poverty Reduction and Human Capital Development.

This article focuses on the key aspects of Economic Growth and Innovation. Michael Porter, in his 2015 presentation at the Arthur Lok Jack Graduate School of Business' Distinguished Leadership Conference, spoke of "the 100 little things" that Trinidad and Tobago (T&T) at the national level will have to emulate in order to catch up with countries like Singapore. To understand what outcome we should expect of those initiatives and the timeframes over which they are to be achieved we surveyed some "reliable sources" to understand the quantitative and qualitative natures of economic growth.

The Senator also quoted Moody's investors' service as forecasting 2.9% growth in 2014 and 3.2% in 2015. The critical issue is how do we gain a deeper and more meaningful understanding of those key indicators of economic progress.

The Meaning of Development

Terrence Farrell in the book titled, "Under-Achieving Society" provides the following contrasting perspectives on economic growth and development - "Most people would understand and appreciate that while 'growth' refers to quantitative increase in output and income, the word 'development' implies more than this. As 'growth' in its biological sense means that the animals or plants get physically bigger, 'development' means that there are qualitative changes - faster, smarter, psychologically more mature, more capable of dealing with or adapting to the environment, more robust or resilient. Arguably, growth is a necessary but not sufficient condition for development. Farrell also provides this contrasting quotation attributed to Kari Levitt - " Development cannot be imposed from without. It is a creative social process and its central nervous system, the matrix which nourishes it, is located in the cultural sphere. Development is ultimately not a matter of money or physical capital, or foreign exchange, but of the capacity of a society to tap the root of popular creativity, to free up and empower people to exercise their intelligence and collective wisdom."

With those key insights on the true nature of economic growth and development how are we to access real economic progress?

The key to the Government's initiative is the need to set the framework for long term sustainable levels of growth and development with a clear view of the roles, responsibilities, opportunities and threats of the public and private sectors respectively.

Government by design: Four principles for a better public sector is a 2013 study conducted by the Mc Kinsey Centre for Government Research. It is one such data based framework, providing practical examples of innovation in government which sits at the core of a nation's economic growth and development.

1. **Better evidence for decision making** – use of hard data and statistical analysis to inform decisions such as:
   - Collecting credible performance data
   - Benchmarking consistently against peers
   - Using data to design and improve interventions
2. **Greater engagement and empowerment of citizens**
   - Using innovative channels to make services more citizen centric
   - Soliciting citizens' input to improve public services
   - Tapping citizens to help deliver better services at lower cost

Economic growth and innovation

3. **Investment in expertise and skills building**
   - Using adult learning capabilities to build core capabilities
   - Developing specialised capabilities in critical sectors
   - Sharpening strategic and risk management skills
4. **Closer collaboration with private and social sectors**
   - Improving Government's procurement of goods and services
   - Unleashing Government's power as a provider of public goods
   - Refining Government's role as an economic shaper and integrator

The Government is one of the largest providers of goods and services in T&T. Therefore any innovation in the delivery of goods and services delivery can potentially have a significant impact on the level of productivity in the economy. A key component of T&T's diversification drive away from oil and gas dependency is preparation of future generations for a non-energy, knowledge based T&T economy. In this regard, the current Administration is to be commended for its investment in education in general and the continued support of the GATE programme.

Innovative ambitions and policies have to be adapted to diversification opportunities and levels of education. Support should be focused on promising diversification strategy in order to build a climate of self confidence through success stories which will then facilitate a broader reform process.

Taxation of digital goods and services – the challenges

eCommerce - a new era

According to recent statistics the Business to Consumer (B2C) e-commerce generated worldwide sales of US$1,233bn in 2013 (2016 forecast is US$1.92tn). Based on the same source, in the US only, there were 191m digital shoppers in 2013.

eCommerce however is not limited to the sale and purchase online of physical items. The sale of digital goods (intangible goods purchased electronically such as ebooks, songs, apps, ring tones, streamed movies and videos, etc.) and digital services (cloud computing services, distance learning, streaming, etc.) component is soaring:

- In 2008, ten million ebooks were sold in the United States versus 457m in 2012.
- Digital music album sales made up 43% of all album sales in the first six months of 2013. There were over 50bn audio and video streams in the first six months of 2013.
- According to Apple Inc., customers spent over US$10bn in the appStore in 2013 and in December only they downloaded almost three billion apps.
- Netflix made more than US$2.7bn in revenue from domestic streaming in 2013, which represents an increase of 26% over the prior year.

Tax paradox

Interestingly enough, governments and corporate data alike reveal that many tech companies are among the least taxed. For instance, over the last two years, the 71 technology companies in the Standard & Poors 500 stock-index-including Apple, Google, Yahoo and Dell - reported paying worldwide cash taxes at a rate that, on average, was a third less than other S&P companies.

While various factors account for this discrepancy, this is a testimony that in many jurisdictions, the tax statutes are obsolete and thus inadequate when it comes to our modern digital economy.

This is the first in a series of articles intended to review how some more advanced jurisdictions are dealing with the challenges associated with the taxation of ecommerce from a Sales Tax and Corporation Tax standpoint and to outline the seeming deficiencies of our current tax laws in this regard. This article focuses on some aspects of Sales Taxes.

Sales taxes

Value Added Tax/General Consumption Tax and other Sales Taxes have been at the center of many a controversy in the on-going debate pertaining to the taxation of digital goods and services.

United States of America

In the US, the tax regime is very fragmented and varies drastically from one State to the other.

- Some States have made no change to their legislation but, instead, have issued bulletins and rulings taking the position that current laws and regulations are sufficiently broad to enable the State to tax the sale of digital goods
- Other States have enacted specific laws addressing the taxation of digital goods. For example: Digital goods attached to a tangible medium are almost always subject to tax. If electronically delivered or accessed, some States consider whether the same product can be purchased in tangible format. Other States expressly do not tax digital goods, but may have specific laws regarding the taxation of software.

At the Federal level, legislation seeking to establish a consistent framework for the taxation of digital goods and services was proposed with little success. For example, the Digital Goods and Services Tax Fairness Act of 2013 attempted to address the issues pertaining to the taxation of the digital economy. It defines the object of the tax and provides sourcing rules to avoid double taxation across States. This legislation is unlikely to become law in the near future.

Taxation of digital goods and services – the challenges

European Union (EU)

The 2015 EU VAT legislation changes the place of supply and the country of taxation of "electronically supplied services" from the supplier's country to that where the customer resides (applied both intra EU and for transactions between EU and an external country). There is however a distance selling threshold element.

The EU commission is of the view that the taxation at the place of consumption which it will now move to, should apply globally and to all cross-border B2C transactions. In this regard, it is seeking to promote the extension of international tax treaties to consumption taxes and the amendment of model tax conventions.

The major difficulty with the application of the new EU legislation is, for the supplier who imposes the charge, to determine the country where the customer resides. To this end, the EU based on a series of scenarios (e.g. supply made from Wi-Fi spot, a hotel room, etc.) provided specific guidelines to identify where the customer are deemed to reside.

Trinidad &Tobago

In this segment we have focused on cross-border transactions where the customer is in T&T.

As a general rule the current T&T legislation already charges to VAT:

- the importation of goods into T&T
- the supply of goods by a non-resident supplier where the goods are in T&T at the time of the supply.
- the supply of services by a non-resident where these services are performed in T&T by a person who is in T&T at the time the services are performed.

Any collection of VAT on entry into T&T of digital goods cannot currently be managed by Customs and Excise due to the very nature of these intangible digital goods.

With respect to the imposition of VAT on local supplies, in the context of the digital economy, the issue arises as to whether the sale of digital items constitute a supply of goods or services for T&T VAT purposes. In some circles, the sale of digital items is treated as the sale of a "right or right to use intellectual property" or a "chose in action." Based on the T&T VAT Act these do not constitute a supply of goods or of services and thus fall outside of the scope of VAT.

With respect to the supply of digital services (e.g. streaming), in order to tax services supplied by a non-resident, the legislation requires the presence in T&T of the supplier of the service, at the time of provision of the service. In most scenarios, this criterion would not be met and such a supply would escape the charge.

Even if our legislators decide that they should not seek to impose a consumption tax on eCommerce (as the Bahamas is currently seeking to do in its VAT Bill which is currently before Parliament), it is essential that they issue a policy statement/guidelines on the issue to ensure certainty exists to facilitate a more predictable economic environment and promote investment.

Sources:

http://www.statista.com/topics/871/online-shopping/

Are you paying the iTunes tax? by Melanie Hicken June 5, 2013

http://www.aicpa.org/Publications/TaxAdviser/2014June/Pages/SALT-JUNE2014.ASPX - Taxation of Digital Goods

http://www.nytimes.com/2012/04/29 - How Apple Sidesteps Billions in Taxes

European commission Directorate-General Taxation and Tax Administration Value Added Tax published 3 April 2014

commission expert group on taxation of the digital economy - Report dated May 28, 2014

Boosting exploration and production levels while encouraging downstream investment

The recent presentation of the results of the Ryder Scott Non Associated Gas Reserves Certification for the year 2013 indicated the need to boost exploration.

The Ryder Scott report indicated that for the period under review proved gas reserves fell by 7%. This is the obvious corollary of producing proved reserves without sufficient activity or success in replacing them, or at least not at the same pace at which they are being produced.

Even though gas production has been on the decline for the past few years (as indicated in our pre-budget newsletter circulated on 2 September 2014) the replacement of proved reserves has not kept pace.

In one of his pre-budget presentations to the Employers Consultative Association (ECA), Senator Howai indicated that one of the areas of focus in the national budget for 2015 will be the strengthening and expansion of fiscal policies to boost energy exploration and production levels as well as encourage investment in downstream activities, specifically ammonia.

Senator the Honourable Kevin Ramnarine, Minister of Energy and Energy Affairs in his presentation at the delivery of the Ryder Scott Report pointed to the levels of foreign direct investment (FDI) over the period 2003 to 2013. Of particular interest were the increases since 2010. See table.

The level of FDI in the energy sector is an indicator of investor confidence in Trinidad and Tobago (T&T) and specifically in the sector, and ought to indicate the level of exploration activity in the sector.

Foreign Direct Investment (FDI) in T&T

For the period 2003 to 2013

Year	FDI (US-$m)
2003	808.3
2004	998.1
2005	939.7
2006	882.7
2007	830.0
2008	2,800.8
2009	709.1
2010	549.4
2011	1,831.0
2012p	2,452.9
2013p	1,712.6

Source: Ministry of Energy and Energy Affairs

Some 47 wells were drilled during the period October 2013 to May 2014 compared to 64 in the comparative period of fiscal 2012/13. Forty seven of these were development wells while seven were exploration wells (Review of the Economy 2014).

Commercialisation of our reserves is critical and therefore it is necessary for T&T to boost exploration and production. However, there is no need to reinvent the wheel as other countries have faced a similar issues, and we can learn from their experiences.

Boosting exploration and production levels while encouraging downstream investment

In an article entitled "Russia redesigns fiscal policy to boost oil E&P" in the Oil & Gas Journal (20 April 2009) the writer explained the actions taken to encourage exploration and production. He identified that in spite of significant increases in exploration expenses, work accomplished did not similarly increase but remained flat.

The major reasons advanced for the decreasing exploration attractiveness were an unfavourable fiscal system and the absence of stimulus to finance exploration activities.

To stimulate exploration activity by private companies, the Russians proposed to introduce tax credits or deductions for exploration expenses against the Mineral Extraction Tax (MET).

T&T may also do well to look at Norway in its effort to boost exploration. Faced with a slowdown in oil exploration the solution was found in taxation measures.

Similar to T&T, Norway is a country that is very reliant on oil and gas revenues and any slowdown in exploration has implications for the country's revenues.

Oil and gas companies in Norway benefit from a 78% rebate on every dollar spent on exploration in Norwegian waters.

This tax rebate initiative led to a significant increase in exploration activity which has translated into some spectacular discoveries that underpin the industry's future according to Guy Chazan in an article on the Financial Times (FT) website on 14 July 2014.

Access to finance can be a challenge to smaller producers and therefore such a rebate can prove to be particularly useful as security for borrowing.

The result of the introduction of this rebate according to Graham Stewart, chief executive of Faroe Petroleum as reported in the FT article is that "A country that was suffering from terminal decline in exploration, and therefore production and therefore tax revenue, has turned it around, all thanks to the government's innovation and creativity".

The upshot is projections of increased investment in the Norwegian upstream sector notwithstanding the introduction of a tax increase in 2013, the first petroleum tax increase in 20 years.

Compared to the current 100% deduction of exploration expenses in the year incurred, a rebate provides cash in hand to finance further exploration. There will be a significant time lag before the deduction of exploration expenditure has a cash flow impact for the oil company.

The UK has also sought to address the issue of boosting investment in the North Sea. Jessica Furseth wrote on the Interactive Investor website on 19 March 2014 that in order to boost North Sea oil and gas investment in the UK a new tax allowance was announced by Chancellor George Osborne in his budget speech. This tax allowance took the form of the exemption of a portion of a company's profits from the supplementary charge.

The exempt profits will equal at least 62.5% of qualifying capital expenditure incurred on the specified projects.

Onshore oil and gas exploration companies will also receive a similar profit exemption but in this case this will be 75% of qualifying capital expenditure incurred for onshore oil and gas projects.

Boosting exploration and production levels while encouraging downstream investment

While considering what, if any, tax incentives ought to be introduced in T&T the following other factors should be considered to achieve the objective of increased investment in the sector:

- Government must work to establish a reputation as a predictable and reasonable tax collector
- Investors look for certainty in the legislation
- The introduction of a system for providing advanced rulings in a timely manner would promote certainty
- Simplify provisions of the legislation that create administrative difficulty
- Modernise the tax collection system to enable wider application of electronic payments and payments in foreign currencies

While it is understood that tax incentives are not the only or even the main factor in boosting the levels of exploration, they are not to be underestimated, and, as can be seen from the Russia, Norway and the UK experiences, such incentives can be used with reasonable success.

The Senator in delivering the 2015 National Budget has not introduced any new measures to boost exploration and production and encourage downstream investment. Instead he has articulated his confidence that starting 2017 "we shall see improved results arising out of the audit of our oil and gas reserves."

This confidence is based on the changes to the oil and gas tax regime over the past few years and the projected level of investment in the sector by the oil companies.

There is still need, however, to address the issues identified above and perhaps this can be included as part of the terms of reference of the Taxation Committee mentioned by the Finance Minister.

Summary & Analysis of Fiscal Measures

Manufacturing

Increased rebate and cap on production expenditure to 20% and US$8m respectively on use of local labour in film, fashion and music sub sectors.

Commentary

This incentive is geared towards attracting foreign investment in the film, fashion and music industries. While the incentive may attract foreign investment there will be a need for proper administration of the rebate programme.

Tax Administration/Amnesty

Waiver of penalties and interest up to March 31, 2015 (for years of income up to 2013) for late filing of returns and payment of income tax, corporation tax, VAT, business levy and environmental levy.

Waiver of penalties on outstanding filings with the Registrar of Companies until 31 March 2015.

Commentary

Having granted the last amnesty in 2011 the Government is once again utilising this mechanism presumably to address the remaining backlog and increase revenue collection. This was likely prompted in part by a decrease in revenue collection in fiscal 2014 due to the prolonged industrial action at the Board of Inland Revenue (BIR). While in the short term this will encourage compliance, the measure could have the effect of discouraging future compliance by creating the expectation of future amnesties.

Capital Market : Tax Deductible Bonds

Introduction of savings bonds which are tax deductible up to $5,000 per annum for a period of five years.

Commentary

Heeding the call to encourage investment and savings among the population, the Government is proposing to introduce bonds in smaller denominations with the additional benefit of a tax deduction for the investment.

We applaud this measure and trust that the return on the bonds will be reasonable and the measure will be introduced in a manner that allows for wide-scale participation, perhaps by using the extensive network of branches operated by our various financial institutions.

Social Security Net

Increase in social grants:

- Disability from $1,500 to $1,800
- Public Assistance increased by $300 across all bands
- Personal allowance for persons 60 years and over from $60,000 to $72,000
- 12% increase in Servol Adolescent Programme and Parent Outreach Programme
- $500 per month for one year for any child born to underprivileged parents

Commentary

These measures will be welcomed by the persons who stand to benefit. The devil, as they say, will be in the details and the administration to avoid abuse and ensure that the benefits are received by the persons for whom they are intended.

Families of deceased Security Personnel

$1m Fund for estate of member of Protective services killed in the line of duty.

Commentary

With the increase in crime and the slaying of members of the protective services in the line of duty this measure is a step in the right direction. While the financial contribution will not compensate for the loss of the family member it will provide future financial support and will be welcomed by the affected families.

Summary & Analysis of Fiscal Measures

Pensions

- Increase in senior citizens pension by $500 to $3,500 per month with a cap of $4,500 where pensioners are in receipt of other pensions.
- Increase by $500 for public officers with a minimum of $3,500 per month.

Commentary

Old age pensioners and public officers have been clamouring for some relief and will see this as a step in the right direction.

Self Employed

Inclusion of self employed under the National Insurance system.

Commentary

This measure has been highlighted in previous budget speeches. While additional details with respect to administration have been provided by Senator Howai we wait to see whether the measure will be included in the next Finance Bill.

Registered Annuities

Increase in deduction limit of contribution from $30,000 to $50,000.

Commentary

This measure is aimed at encouraging savings for retirement among middle to high income earners and reducing the cost of a growing group of retired persons on the State's coffers. We welcome this initiative.

Agriculture

Measures geared at improving food security, including 50% rebate on cost of establishing or refurbishing an agro-processing facility for approved products. The rebates will be to a maximum of $100,000 and $50,000 respectively.

Commentary

This is a welcome measure in a sector that needs significant attention if we are to move towards greater self sufficiency in food production.

Road usage

- Increase in fines by 50% for several traffic offenses.
- Reimbursement of motor vehicle tax and VAT to registered maxi taxi owners.

Commentary

The proposed increase in fines will have no hope of curbing the lawlessness on our roads and reducing the high level of road fatalities unless there is consistent and adequate enforcement, which is seriously lacking.

The repayment of the outstanding amounts will be appreciated by the maxi taxi owners.

Hybrid and Electric –powered Vehicles

Exemption of motor vehicle tax and VAT on new or used hybrid and electric -powered vehicles two years or less for a period of five years.

Commentary

The Government continues to seek to encourage an increase in the use of alternative energy. However, like other measures previously introduced the extent to which this measure will be embraced is doubtful. Further, it is not clear how beneficial this measure will be to the wider population given the prohibitive costs of these vehicles.

Summary & Analysis of Fiscal Measures

Minimum Wage

Increase minimum wage from $12.50 to $15 per hour.

Commentary

This measure will increase the spending power of the low income earners and will be applauded by the Trade Union movement which has been clamouring for this over the years. However, the spin off effect is that this move can have inflationary consequences and will result in additional business costs for employers which may compel them to reduce their labour force.

- **Housing**
- Expansion of mortgage programme by increasing qualifying property values and qualified income.
- Introduction of supplemental new mortgage programme for qualifying values and income.
- Increase in first time home owner allowance from $18,000 to $25,000 per annum.

Commentary

Middle income earners will now be able to access a mortgage in keeping with the current market offering and at an affordable rate.

The increase in the allowance for first time owners is welcomed. However, there is a need for clarification as to whether the allowance relates to the mortgage interest as stated by the Honourable Minister during his presentation.

Other Measures

- **Caroni**

  Distribution of reserve fund to pensioners and deferred pensioners on pro rata basis.

- **Mutual Fund Industry**

  Amendment to the Unit Trust Corporation of Trinidad and Tobago Act 1981 in key operational areas in relation to its mutual fund business.

- **Trinidad and Tobago Heritage and Stabilisation Fund**

  Amendments to the Heritage and Stabilisation Fund Act 2007 Chapter 70:09.

- **Fair Share Programme**

  Increase in procurement value from $1m to $1.5m.

Who won and who didn't

Some highlights include:

Who won

Who didn't

Families

Low Income Families

- Increase in Minimum Wage ($12.50 to $15.00)
- "Baby Grant" - $500 per month for one year for a child born to underprivileged parents
- Increase in First Time Home Owners Allowance from $18,000 to $25,000 as of 1 January 2015
- 2% mortgage rate for properties up to $850k

Middle Income Earners

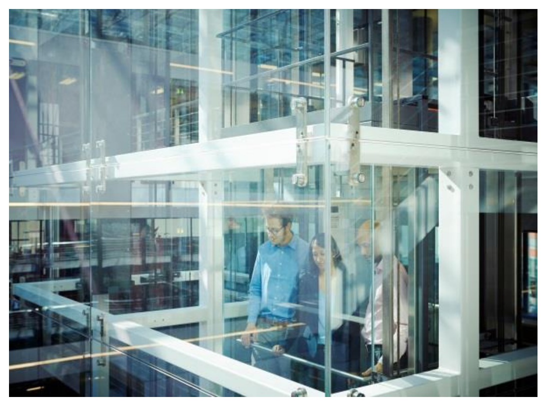
- Increase in tax-deductible amount for BIR -approved annuities (from $30,000 to $50,000)
- Self-employed persons to become entitled to National Insurance benefits
- Tax-deductible savings bonds
- Mortgage interest rate at 5% for properties valued at $850,000 to $1.2m

Senior Citizens

- Increase in personal allowance from $60,000 to $72,000
- Increase in Old Age Pension ($3,000 to $3,500)

Generation Y

The significant increase in social welfare in the absence of contributions by the persons to benefit will be financed by the current and future workforce



Local Businesses

Significant incentives for:

- Food and Beverage industries, Creative industries (fashion, film and entertainment), Maritime sector and Yachting industry, Housing developers, Tourism industry, Innovators
- Companies with outstanding tax liabilities

Employers

Increase in minimum wage

The Environment

The measures adopted fail to stem the dependence on fossil fuels

Revenue & Expenditure over the five year period

Expressed in $TT (millions)

	2010/2011	2011/2012	2012/2013	2013/2014 (Note 1)	2014/2015 (Note 2)	Total
Total Revenue	45,610.4	47,622.1	50,730.4	57,158.3	57,477.1	258,598.3
Total Expenditure	47,689.1	49,760.1	52,981.0	59,551.1	60,129.1	270,110.4
- Transfers and Subsidies (Note 3)	*25,714.5 (54%)*	*26,819.3 (54%)*	*27,061.1(51%)*	*31,702.1(53%)*	*31,019.5 (52%)*	*142,316.5 (53%)*
- Personnel Expenditure (Note 4)	*6,755.3 (14%)*	*6,858.7 (14%)*	*8,764.5 (17%)*	*8,473.9 (14%)*	*8,718.8 (15%)*	*39,591.2 (15%)*
Surplus/ (Deficit)	(2,078.7)	(2,138.0)	(2,250.6)	(2,392.8)	(2,652.0)	(11,512.1)

Source: Republic of Trinidad and Tobago - Draft Estimates of Revenue for the Financial Year (prepared by Ministry of Finance)

Note 1 – Revised Estimates
Note 2 – Estimates
Note 3 – The Transfers and Subsidies portion of Total Expenditure as a % of Total Expenditure
Note 4 – Wages and salaries of Total Expenditure as a % of Total Expenditure

Government's Vision: "Innovation for lasting prosperity"

Government's Seven Development Pillars

- Pillar 1: People-Centred Development – We need everyone and all can contribute
- Pillar 2: Poverty Eradication and Social Justice – Preference for Poor and Disadvantaged
- Pillar 3: National and Personal Security- Human Security for Peace and Prosperity
- Pillar 4: Information and Communication and Technologies – Connecting T&T and Building the New Economy
- Pillar 5: A more diversified, knowledge Intensive economy – Building on the native genius of our people
- Pillar 6: Good Governance – People Participation
- Pillar 7: Foreign Policy- Securing our place on the World

Government's Five Strategic Priorities

- Priority 1: Crime, Law and Order
- Priority 2: Agriculture and Food Security
- Priority 3: Healthcare Services and Hospitals
- Priority 4: Economic Growth, Job Creation, Competitiveness and Innovation
- Priority 5: Poverty Reduction and Human Capital Development

Source: National performance Framework 2012 -2015, Ministry of Planning and Sustainable Development, Government of the Republic of Trinidad and Tobago

Tax facts

	2015		2014		2013	
Income Tax						
Allowances/ Deductions						
Severance Pay	300,000		300,000		300,000	
Alimony paid	No Limit		No Limit		No Limit	
Personal Allowance	60,000 / 72,000	(1)	60,000	(1)	60,000	(1)
Tertiary Education Allowance	60,000	(2)	60,000	(2)	60,000	(2)
Pension/Deferred Annuity	50,000	(3)	30,000	(3)	30,000	(3)
National Insurance	70%	(3)	70%	(3)	70%	(3)
First Time Homeowner allowance	25,000	(4)	18,000	(4)	18,000	(4)
Covenanted donations to charity	15% of Total Income	(5)	15% of Total Income	(5)	15% of Total Income	(5)
CNG Kit and Cylinder Tax credit	25% of total cost		25% of total cost		25% of total cost	
Solar Water Heating Equipment	25% of total cost		25% of total cost		25% of total cost	
Tax deductible Bonds	5,000	(16)	N/A		N/A	
Corporation Tax						
Corporation Tax Rates (Petrochemicals)	35%		35%		35%	
Corporation Tax Rates (Other)	25%		25%		25%	
Small and Medium Size (SME)	10%	(6)	10%	(6)	10%	(6)
Business Levy (On Gross Sales & Receipts)	0.20%		0.20%		0.20%	
Green Fund Levy (On Gross Sales & Receipts)	0.10%		0.10%		0.10%	
Initial Allowance	90%		90%		90%	
Art and Culture/ Sportsmen/Sporting Activities						
Audio / Visual / Video Production allowance	3,000,000	(7)	3,000,000	(7)	3,000,000	(7)
Fashion Allowance		(7)		(7)		(7)
Production Company Allowance		(8)		(8)		(8)
Covenanted donations to charity	15% of total income	(5)	15% of total income	(5)	15% of total income	(5)
Employees training / retraining	150% uplift	(9)	150% uplift	(9)	150% uplift	(9)
Petroleum Taxes						
Petroleum Profits Tax						
- Shallow water (shelf/block)	50%		50%		50%	
- Deep water block	35%		35%		35%	
Unemployment levy	5%		5%		5%	
Supplemental Petroleum Tax	Base & sliding scale		Base & sliding scale		Base & sliding scale	
Changes to capital allowances were introduced effective January 1, 2014						
Investment Income						
Local Dividends Received	Exempt		Exempt		Exempt	
Interest Received (individuals)	Exempt		Exempt		Exempt	
Gains or Profits from sale of residential house site	Exempt	(14)	Exempt	(14)	Exempt	(14)
Sale / Rental income from commercial buildings/car parks	Exempt	(14)	Exempt	(14)	Exempt	(14)
Value Added Tax						
Registration Threshold	360,000	(10)	360,000	(10)	360,000	(10)
VAT Exemptions on Offshore Equipment	Yes	(11)	Yes	(11)	Yes	(11)
Alternative Energy Incentives						
Wear and Tear Allowance (CNG)	130%	(12)	130%	(12)	130%	(12)
Wear and Tear Allowance (Solar & Wind)	150%	(13)	150%	(13)	150%	(13)
Motor Vehicle Import Duty Relief (CNG vehicles)	50%		50%		50%	
Hybrid and Electric-powered Vehicles	VAT & Tax exemption	(15)	N/A		N/A	

Tax facts
Notes

(1) $72,000 personal allowance for individuals aged 60 and over

(2) For attendance at foreign Universities not GORTT Funded

(3) Maximum increased from $30,000 to $50,000 in 2015 in respect of approved deferred annuities, pension and NIS contributions

(4) First-time homeowners for five years with effect from the date of acquisition

(5) Covenanted donations to charity include an approved sporting body, charitable organisation and/or The Children's Life Fund

(6) 10% rate would apply to listed SMEs - 0% tax rate for five years applies to "approved small companies" as per the provision of Section 16A of the Corporation Tax Act

(7) Tax deduction up to a maximum of $3m. Aggregate of all claims restricted to $3m. The relief in respect of the contributions to the fashion industry is 150% of the expenditure.

(8) Allowance only available to production companies

(9) Effective 1 January 2013, 150% uplift of expenses reasonably incurred in the training and retraining of employees of the company

(10) Effectively $30,000 per month

(11) Offshore Equipment relates to offshore drilling rigs, drilling ships and other vessels associated with offshore activity in the Energy Sector

(12) Wear and tear allowance available at 130% of cost of acquiring plant and machinery and equipment for the purpose of providing a CNG kit and cylinder installation service or on the acquisition and installation in a motor vehicle of a CNG kit and cylinder

(13) Effective 1 January 2011, allowance based on plant and machinery, parts and materials for manufacture of solar water heaters/ wind turbines/ solar photovoltaic systems

(14) Construction must have commenced on or after 1st October 2012 and relates to persons in the business of property development

(15) Effective 1 January 2015, for a five year period, hybrid and electric-powered vehicles < 2years old imported for private or commercial use are exempted from VAT and motor vehicle tax

(16) Effective 1 January 2015, purchase of GORTT bonds are tax deductible up to $5,000 for the first five years.

PwC Tax & Legal Services

Tax Consulting Services

These assignments include advice related to executive and employee compensation, withholding and various tax and double tax treaty implications of client's business operations. Additionally, our team of tax specialists advises on special areas such as:

- Corporate finance and funding arrangements
- Acquisitions and merger tax implications
- Debt restructuring and debt workouts
- Transfer pricing arrangements
- Commodity and financial derivative issues
- Thin capitalisation rules
- State and Central Government proposals for the introduction of incentives to attract foreign direct investment as well as Regional/Government proposals for reorganisation of taxing authorities.

Compliance Services

Corporate Tax Returns
Review and/or preparation of tax returns based on the financial data provided and advice regarding areas of exposure to reassessment by the tax authorities and recommendations for addressing same.

VAT Returns – Preparation of monthly/bi-monthly VAT Returns and associated refund claims if required. Maintenance of a VAT refund monitoring programme for our clients geared towards expediting the receipt or refunds by identifying and clearing up any queries by the Inland Revenue Division on a timely basis.

Quarterly Installments – We notify our clients of quarterly tax installments due and payable where applicable we make applications to the tax authorities for adjustment of these installments.

Personal Income Tax Returns Preparation of personal income tax returns for expatriate personnel.

Tax Audit and Dispute Resolution

Objections/Appeals
We provide assistance, advice and support throughout the Audit, Objections and Appeal Stages.

Maintain Tax Accounting and Payroll Accounting.

Corporate Audit / Health Check

We provide a detailed and meticulous review records as filed with the Companies Registrar as compared with the Company's in-house corporate record and advise on areas of exposure and how to rectify them.

Legal Services /Corporate Secretarial Services

Incorporation of Companies
Incorporation of both the external and local companies. Provide advice to client on general corporate concerns.

De-Registration of both external and local companies from the Companies Registrar.

Tax Registration – We facilitate the tax and social security registrations for both external and local companies.

Maintenance of Company portfolio – We prepare and file Annual Returns on behalf of a company and liaise with the Registrar of Companies to address queries relating to corporate documents filed by the company. We also can provide a registered office address for service of legal notices for the Company.

Amalgamations – Preparation and file the necessary documents with the Government authorities to effect a required amalgamation. We liaise with and advise our clients off the implications and effects of same.

Work Permits/Renewals – We assist with work permit applications and renewals for expatriate personnel, including facilitating the advertising, interviewing and evaluation process required by the Ministry of National Security.

Share Transfers – We can facilitate share transfers between corporate entities including the valuation of shares; drafting of share instruments for review and execution by the company; and having same assessed and stamped for duty by the Board of Inland Revenue.

Liquidation and Dissolution – We advise clients on tax implications of liquidation versus dissolution; and facilitate and implement the mode chosen by the company.

PwC helps organisations and individuals create value they're looking for. We're a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.

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PwC has prepared this budget memorandum on the principal changes in the 2015 National Budget on 8 September 2014.