

# *Navigating the tides to economic sustainability*

## Budget Memorandum 2017

*Serving our  
clients with  
agility, passion  
and a focus on  
value.*

October 2016



## *Territory Senior Partner's message*

### *“Re-building trust by taking measures to re-balance and stabilise our economy”*

We are pleased to present our 23<sup>rd</sup> annual Budget Memorandum entitled **“Navigating the tides to economic sustainability”** in response to the presentation of the 2016/2017 National Budget by the Minister of Finance, the Honourable Colm Imbert on 30 September 2016. This document provides the platform for us to share our perspectives on the fiscal package presented.

Following the PNM Administration's initial assessment of the state of the economy when it assumed the reins one year ago, they have actively taken steps to restore confidence and rebuild trust of the populace by delivering on some of the policies and programs put forward in their manifesto to restructure and stabilise the economy amidst turbulent times.

It is no secret that we no longer enjoy the luxury (or perhaps curse) of energy prices which supported our collective financial indiscretions.

Consequently, the last fiscal year has borne numerous economic challenges arising from lower revenue, cash flow and fiscal deficits.

In this second year of office, the Government's mandate to operate a balanced budget by 2018 has clearly not changed course. Measures taken in its April 2016 mid-year review served as evidence of its commitment by proposing and implementing a series of austere measures aimed at curbing expenditure and generating revenue.

Going forward, Government initiatives will likely further the pursuit of a fiscal consolidation strategy to align expenditures with revenues. Commendably, the size of government intervention in the economy would be reduced through the rationalisation of transfer payments and subsidies in programmes such as GATE, CEPEP and URP. The Honourable Minister has also pledged to continue the gradual removal of the fuel subsidy and divest selective state interests in an effort to improve efficiency and cut costs. Again, we fully endorse this action.

There will also be a long overdue review of fiscal incentives aimed at encouraging investment in deep water exploration and upstream production of oil and natural gas.

Other tax changes will be imposed in the new fiscal year with the Government lifting the seven year moratorium on the payment of property taxes (2010-2016) and introducing of a 7% online shopping levy on purchases. Government will also seek to enact transfer pricing legislation in its thrust to optimise tax revenues.

While we whole heartedly commend the Administration for the measures taken to reduce what has long since become a “hard core” fiscal deficit we would suggest that given the persistent shortages in the supply of foreign exchange, that a



comprehensive study be undertaken as to whether our local currency currently trades at levels appropriate to that of our major trading partners. We fully accept that any material change to the current exchange rate regime should not be taken lightly; however we nonetheless believe that permitting the TT dollar to reset to a level more closely aligned to our current economic realities, would likely have material benefits to the overall economic well being of all citizens.

Finally, as the principal economic actor in T&T, the Government has acknowledged its commitment to fiscal prudence and macroeconomic stability. For these targets to be achieved, it is imperative that the business sector and the wider public fully accept the significance of our role in the context of the current economic climate. The situation that confronts us represents yet another opportunity to evaluate our priorities and requires collaborative fiscal discipline and sacrifice from all.

Brian Hackett  
Territory Senior Partner

## Our Tax Leader's thoughts

*"if Trinidad and Tobago ever needed us it's now".*

Presented under the Theme "Shaping a Brighter Future: a Blueprint for Transformation and Growth, the Honourable Colm Imbert, Minister of Finance presented on 30 September 2016, the second National Budget of the current administration. In doing so he sought to paint a picture of the significant challenges facing us as we try to navigate what the Honourable Prime Minister, Dr Keith Rowley recently referred to as "the perfect storm", while seeking to create a sense of optimism that there is a plan to steer us to calmer waters and return us to prosperity in the medium term; with 2020 seeming to be the target date to get us there.

Minister Imbert painted a grim picture of the reality of our declining revenue, in particular those from the petroleum sector, indicating that as compared to 2014 when GORTT received \$19.3bn from the petroleum sector, in 2016 those revenues were down by 92% to \$1.7bn. For an economy that has been so heavily dependent on oil and gas for decades, if we don't treat that as a wake-up call then Rip Van Winkle will have nothing on us. Diversification is not only a wish, it is an absolute necessity, and it must begin now.

As the Honourable Minister stated, diversification is difficult because it needs a level of collaboration between, and the full engagement of, the major economic partners -

government, business and labour. This requires trust and major changes in the mindset of these partners.

We are facing difficult economic times and to (mis)quote the Mighty Sparrow ..... "if Trinidad (and Tobago) ever needed us it's now." We need to work together, increase our level of productivity, heighten our level of engagement, put aside the "I" mentality and operate for the good of all. We need to acknowledge that it is not about the red team or the yellow team but the red, white and black team.

We cannot afford a repeat of the debacle that we witnessed on Friday last when our Parliamentarians were not able to get together to pass legislation that both sides acknowledged was critical. Fortunately we have got a reprieve on the imposition of sanctions for failing to meet the FATCA deadline, but we must do better. FATCA still has to be resolved. If the Revenue Authority Bill is to be enacted to provide the framework for improved tax administration and enhanced collections, it too will need a 3/5ths majority in both Houses. Would it not be laudable if our Parliamentarians could lead the mindset shift by coming together to ensure that they propel and facilitate, rather than stymie, our recovery?

The last time we faced such economic turmoil we at least did not have the added burden of the



Government having such a small majority in the Lower House. So, for example, passage of the Value Added Tax Bill, which also required a special majority, was a fairly straightforward affair. On this occasion it is imperative for our representatives to rise above the politics and put country first.

However, despite the stark realities presented by the Honourable Minister, the overall impact of his message was that there is a plan and that we can dare to be cautiously optimistic, provided that we are all committed to doing what it takes, and making the short to medium term sacrifice required to steady and turn around the ship. It is at times like this, that a return to fundamental values and principles is important and I can do no better than to remind us all of the national watchwords of discipline, production and tolerance. Adhering to those basic, yet powerful principles will serve us well as we move forward.

Allyson West  
Territory Tax Leader

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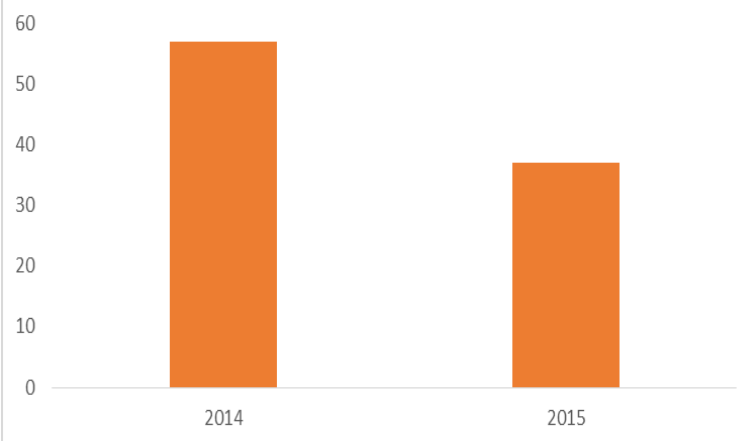
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# Budget overview

In a presentation that lasted just over three hours, the Honourable Colm Imbert, Minister of Finance unveiled the Government's fiscal package for the financial year 2017 under the theme "Shaping a better future: A blueprint for transformation and growth."

Given the circumstances under which the Honourable Minister presented his first Budget presentation in 2016, and the lack of detail regarding the specific plans to address the state of the economy, there was much anticipation with respect to this year's presentation. For better or worse, we tend to be a fairly reactionary populace and rely heavily on GORTT to set the direction and the tone for economic activity. So it was with relief that we got some of the clarity that was previously lacking. In commenting on the performance of the economy in the last year the Honourable Minister painted the grim picture of the impact of the troubled oil and gas sector on government revenues. Revenue from petroleum declined from \$19.3bn in 2014 to \$1.7bn in 2016, a 92% decrease, while revenue from taxation, royalties on oil and profits from State enterprises declined by 35% over the same period from \$57bn to \$37bn. This required significant curtailment of GORTT expenses, which had increased by 35% over the period 2010 to 2014 from \$47bn to \$63bn. In the current climate this trend is not sustainable and should not be encouraged (even if we return to a similar buoyant state) unless it is more strategically channelled.

Reduction in revenue from taxation, royalties on oil, and profits from state enterprises (\$m)

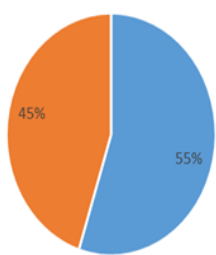


The Honourable Minister cited as evidence of the return of confidence in the economy:

1. The "significant over-subscription" of the recent international \$1bn bond issue." The bond, which is due to mature on 4 August 2026, was assigned a Baa3 rating (with the government's rating being Baa3 with a negative outlook). The rating factors the impact of low GDP growth rates, high exposure to oil and gas related shocks and a weak fiscal policy execution capacity. But it also considers "a moderate and affordable debt burden, a Heritage and Stabilisation Fund, a relatively strong external position anchored by adequate foreign exchange reserves."
2. The increase in foreign direct investment in 2016, "particularly in the energy sector", for which he provided no details.

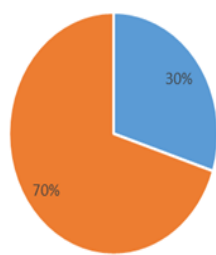
2016 saw declines in areas such as real GDP -2.3%, approximately 10% contraction in value-added in the petroleum sector, 25% reduction in real economic activity in the petroleum services sector, 7.6% decline in the construction sector and 6% decline in the manufacturing sector.

Prior years



■ Energy Tax Collection ■ Other

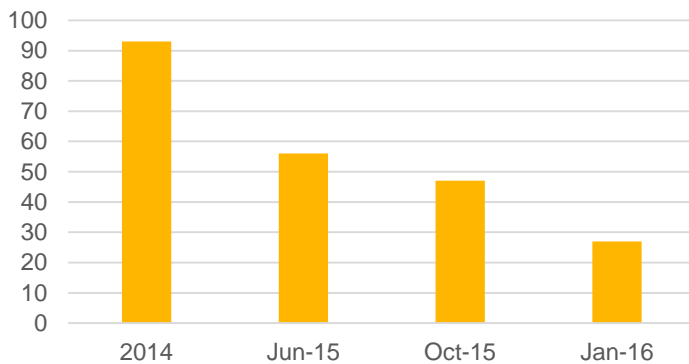
2016



■ Energy Tax Collection ■ Other

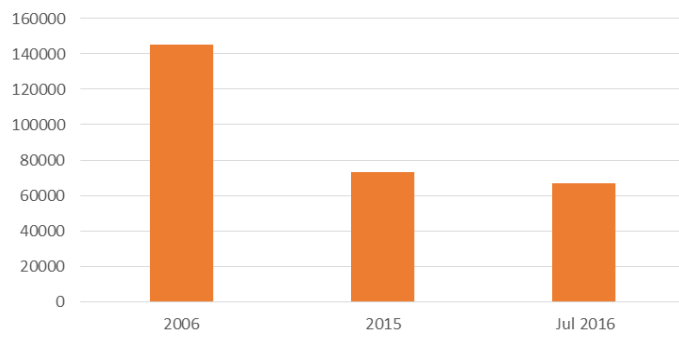
# Budget overview

## Decrease in Prices (USD)



Looking forward to 2017 the Honourable Minister has budgeted for revenues of \$47.4bn which is 5.6% higher than the estimated revenue for 2016. This is predicated on an oil price of US\$48 per barrel and a gas price of US\$2.25 per mmbtu. While these estimated oil prices are below the forecasts by the IMF, World Bank, USEIA and IEA, with prices having dropped to US\$27 in early 2016, and the general unpredictable nature of this industry, one may wonder whether prudence dictates a bit more conservatism.

## Decrease in oil production (per day)



There is a projected “fiscal gap” of \$16bn for 2017 which the Honourable Minister intends to close by borrowings, drawdowns from the Heritage and Stabilisation Fund, sale of

assets, repayment by creditors of past lending, dividends from state enterprises etc.

Part of that deficit is due to a significant reduction in the revenue from VAT (decrease of \$207.3m in 2015). We endorse the initiative taken by the Government to streamline the tax regime and broaden the base. However, having introduced the measure before the introduction of the Revenue Authority, and given the economic downturn, which would have had a negative impact on spending, the shortfall is not unexpected.

The Minister relied on the Central Statistical Office data for GDP figures, rather than on statistics available from the IMF, Central Bank and the Ministry of Finance. While there has been concern for some time about the reliability of statistics provided by the CSO, the Minister justified this move by reference to the transformation undergone by the unit in recent times, including the strengthening of its work force by the addition of staff from the Central Bank and elsewhere and through training provided by CARTAC and the IMF.

We continue to be concerned about the long-term impact of the sale of capital assets (\$9bn forecast) to finance short term obligations.

The Honourable Minister reiterated GORTT’s intention to introduce the following measures:

- Fixing tax administration and collection – the introduction of the Revenue Authority
- Addressing the issue of prices charged in transactions between related parties – Transfer Pricing legislation
- Having the optimal fiscal regime for the oil and gas sector – reform of oil and gas tax legislation
- Property Tax
- Regulation of the Gaming Industry

Most of these have been on the agenda for some considerable time and traction is required soon if GORTT is to achieve its overall objectives, which will require the

# Budget overview

increased revenues that these measures are intended to generate.

We are encouraged to hear that the IMF report on the reform of the fiscal regime for the energy sector has been submitted and the proposals address the burning issues including the Supplemental Petroleum Tax (SPT). We look forward to the fine-tuning and implementation of the proposals.

Trinidad and Tobago continues to be one of a few countries that is not collecting Property Tax which the Honourable Minister described as “the most equitable of taxes.” We are optimistic that full implementation will indeed take place in 2017 as this revenue, though a drop in the bucket, is much needed.

The phased removal of fuel subsidies continue and this year we see a 15% increase in diesel prices effective immediately, bringing it closer to an unsubsidised price. This is likely to have some impact on transportation and distribution costs with a likely roll on impact. However, we hope that, other business persons will emulate the example set earlier this year by one of the Maxi Taxi Associations which opted to absorb rather than push down the increased cost to the final consumer.

Increased taxation on alcohol and tobacco is proposed and while this will generate some revenue for the government, increases of this nature do not appear to be a significant deterrent to users of these products.

The Honourable Minister of Finance proposes the introduction of a second tier of taxation (30%) on individuals and companies with chargeable income/profits exceeding \$1m.

In his mid-year review the Honourable Minister introduced the concept of the 7% tax on online purchases. In his budget statement the proposed commencement date was announced as 20 October 2016 by which time one hopes all the mechanics of collecting and accounting for this tax will be in place.

What is a budget without some “goodies”, even in challenging times? The following measures are proposed to bring relief and stimulate the economy:

- \$100 exemption on electricity bills of persons whose bills are less than \$400. This is in effect a subsidy since the government will pay this \$100
- Tax exemption of all qualifying agro processing operations
- 50% tax relief and other fiscal incentives to businesses that can mobilise private sector funding to relieve the government from the sole provision of public infrastructure, facilities, amenities and services
- Entrepreneurial Talent Grant of \$1m each to the top five projects annually. This will be structured along the lines of several North American and local concepts.

The government has spent its first year trying to manage expenditure in the light of declining revenues. It has recognised like many others before it that continued dependence on the oil and gas sector is not sustainable or healthy for Trinidad and Tobago and that diversification is mandatory.

Save for a mention of the Sandals project in Tobago and of added incentives for agro-processing and yachting repairs, this year’s budget does not provide much detail on the roadmap for diversification – what are the other sectors targeted? Does the government still plan to target the seven sectors that was its focus pre-2010, namely yachting, fish and fish processing, merchant marine, music and entertainment, film, food and beverage and printing and packaging? What is the approach? What is the time frame? These are some critical issues which we believe need to be addressed particularly when the mantra is “all hands on deck.”

# Analysis of fiscal measures

## Value Added Tax (VAT) exemption on yacht repairs for non-residents

Prior to 1 February 2016, Items 25 and 26 of the VAT Act, zero-rated:

- The repair of yachts and pleasure craft
- Any service supplied to yachts and pleasure craft,

owned by persons who are neither citizens nor residents of Trinidad and Tobago (T&T).

This relief was removed in Legal Notice No-17 of 2016 when GORTT attempted to broaden the VAT base.

However, the Minister indicated that following representation from the yachting industry and in an effort to maintain the competitiveness of the maritime sector in T&T the measure will be reintroduced as an exempt service. Being reintroduced as an exempt service however will mean that service providers will not be able to recover as input tax any VAT incurred in providing the service. If it is accepted that this is an industry that should be developed and encouraged, we would recommend the services be reinstated as zero-rated, rather than exempt, which will allow the supplier to recover his input VAT and thereby reduce the cost of providing the service.

## Property Tax

The Minister announced that property tax will become applicable with effect from 2017 based on assessments to be published by the Board of Inland Revenue (BIR) in its assessment rolls and at the following rates:

Classification of Property	Rate of Tax %
Residential	3
Commercial	5
Industrial	6
Agricultural	1

On vacant land the rates applicable are as follows:

Classification of Property	Rate of Tax %
Residential	3.5
Commercial	5
Industrial	5
Agricultural	2

Tax under the 2009 Act is computed based on the annual taxable value which is the annual rental value less 10% to cater for periods when property is not rented or landlord does not collect rent.

Until we get a sense of the valuations that are being applied to properties, it is difficult to assess the reasonableness or otherwise of the tax. It is hoped that those valuations will be published shortly and that the mechanism to challenge those valuations will be available, easily accessible and efficient. However, the Honourable Minister did point out that the intention is to base the valuations on returns that are to be submitted by the property owners/occupiers and that there was an exemption/deferral under the Act for homeowners who could not afford the charge by reason of age, impaired health or other special circumstances.

## Increase in excise duty on alcohol and tobacco

The following duty increases are proposed:

- excise duty on locally manufactured tobacco products by 15% and alcohol by 20%
- customs duty on tobacco and alcohol products from Common Market origin by 15% and 20% respectively
- customs duty on tobacco and alcohol from extra CARICOM sources by 15% and 20% respectively

The effects of tobacco and alcohol consumption continue to be a burden on the health sector and ultimately the economy. The Minister noted that it costs the Government

# Analysis of fiscal measures

\$0.5m per year to treat one lung cancer patient. These measures were promoted as GORTT's attempt to reduce the level of consumption. However, since historically it is not proven that there is a correlation between an increase in the prices of these items and reduced consumption, it would be safe to conclude that this is a revenue raising measure in an area where GORTT would expect little backlash because of the negative impact of consumption.

## Increase in rate of tax for high income individuals and companies

Traditionally T&T had a progressive tax rate system that applied to individuals, with rates as high as 70%, while companies always paid a flat rate of tax. The flat rate of tax for individuals was introduced in 2006 with the applicable rate being 25%, which has remained unchanged for both individuals and companies, other than in special sectors.

The Honourable Minister announced that effective 1 January 2017 individuals and companies with chargeable income/profits in excess of \$1m will be subject to tax at the rate of 30%. The Minister during his presentation sought to explain that the 30% will be applicable on the incremental chargeable income over \$1m. This means that individuals and companies falling in this bracket will now be subject to a two-tier rate of tax as follows:

Chargeable Income \$	Rate of Tax %
1 to 1m	25
Over 1m	30

The Minister noted that this measure is expected to result in an increase in tax revenue of \$560m.

It is not certain the number of persons/companies to be affected by this measure. However, the reversion to a progressive rate of tax will give rise to a number of

challenges which in the past had plagued the system and was avoided by the simplification of the system to a single rate. These include: income splits between two or more persons and/or entities as well as under-reporting to avoid the uplift. It would take astute auditors to detect and address, to the extent that they can, such avoidance measures.

While we understand the rationale behind the measure, and trust that citizens will step up to contribute as their means allow and the legislation will require, we hope that it is a temporary one and that the Government reverts to a single rate system.

## Tax on online purchases

The Government first signaled its intention to impose a tax on online purchases during its mid-year budget presentation. This announcement stirred widespread debate and anxiety, with the key concern being how such a measure would be implemented, and how all-encompassing it would be.

Those concerns were addressed by the Minister in his 2017 Budget presentation. He clarified that it would only relate to goods brought into T&T through courier companies or air-freighted directly by the importer, and would be collected in the same way that customs duty and VAT are now collected on those items. In the circumstances, persons importing goods to T&T will now have to pay customs duties, VAT and the new online tax. This will result in a significant increase in the price that consumers pay on foreign goods and it is hoped that this will serve to curb the internet shopping craze that has now become common place in T&T, with, according to the Minister, 31 courier companies operating to fill the growing demand for imported goods.

Given that the tax is to come on stream on 20 October 2016, there is an urgent need for further clarification on the measures such as whether:

- there will be a threshold on the value of the goods for the imposition of the tax;
- the tax will be restricted to goods bought online or more broadly on all goods imported via couriers or air freight;

# Analysis of fiscal measures

- the tax will be imposed on goods from any source/country including CARICOM

And finally on what value will the tax be applied - the value for customs duty, which is the Cost Insurance and Freight (CIF) value or the value for VAT, which is the CIF value plus the duty? Or will it be some other value?

## Public Private Partnership (PPP) business tax relief

As the government continues to seek options to implement projects without significant GORTT outlay, it proposes to provide 50% tax relief to private investors who contribute capital through the PPP concept on:

- public infrastructure, services or amenities which are currently provided solely by government; and
- projects that increase productivity and create meaningful employment.

We have always endorsed the concept of implementing GORTT projects via PPPs for a variety of reasons, not least among them being that they are expected to reduce GORTT spending and bring private sector management and other skills to bear in the execution of large projects which potentially allow for a more efficient implementation of GORTT's PSIP projects. For various reasons, this initiative has not gotten off the ground in a meaningful way to date. However, it is hoped that this measure will encourage more private sector players to step up and participate.

## Pending Measures

Measures not mentioned by the Minister or which require further clarification include the following:

### 1. *The 2% restriction on the deduction of Management Charges*

While we await the introduction of the transfer pricing legislation, the due date for which remains unclear, it appears that persons receiving services from non-resident service providers, head office and parent companies will continue to be burdened by the very literal and onerous interpretation applied by the BIR to

the restriction placed on the deduction of "management charges." While the concept of the restriction is understandable and even justifiable, as it seeks to curtail the outflow of profits in a tax free manner, the very wide definition applied to "management charges" appears to be a knee-jerk reaction to the loss by the BIR of a few cases on that issue. This has resulted in the inability of companies to claim direct costs incurred in generating their income and in some cases places a significant burden on companies faced with the reality of being denied the deduction of costs that they must incur to do business.

### 2. *Taxation of Insurance Companies*

We continue to await discussion and clarification on the tax regime to be imposed on insurance companies via or as a result of the Insurance Bill.

### 3. *Fiscal Tax Regime Reform*

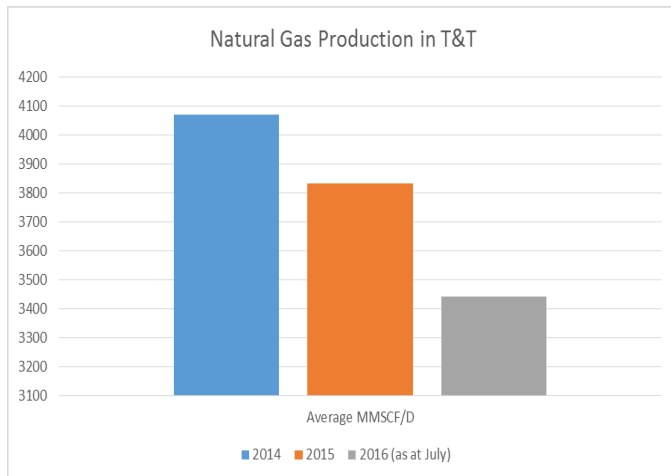
We await clarity on the nature of the proposed reform.



# Analysis of fiscal measures

## Energy Measures

The oil and gas sector, which has fuelled the T&T economy for many years, continues to be challenged by reduced prices, declining production of both crude oil and gas and a fiscal regime in need of strengthening in order to attract investment and at the same time provide sustainable economic rent to the Government.



For a number of years calls have been made for the overhauling of the fiscal regime for this sector but instead we have seen piecemeal changes. Calls have also been made for coordination between the Ministries of Energy and Finance to streamline the process of obtaining documents required to support a claim for a tax deduction or allowance.

We therefore welcome the reform of the regime being facilitated by the IMF. The Honourable Minister in his budget statement highlighted some of the advice and recommendations received from the IMF team. In particular the Supplemental Petroleum Tax (SPT) proposal would certainly be welcomed by the small and medium producers who have been calling for review of this regime to avoid in particular the spike in their tax burden once SPT kicks in at US\$50 a barrel.

We however noted no mention of decommissioning costs – the timing of this deduction and carry back provisions.

There have been efforts in the past to incentivise the sector in order to stimulate production levels. Incentives offered include accelerated capital allowances, tax rate discounts and tax credits. The tax incentives currently available for mature fields is a 20% Investment Tax credit on qualifying capital expenditure incurred in respect of mature fields and the sustainability incentive of 20% discount of the SPT rate. Both incentives relate to the company's SPT liability and in times of low oil prices its impact would be limited or non-existent. Some other jurisdictions also offer incentives to produce stranded oil e.g. royalty exemption or a reduced royalty rate which may be used along with the SPT related incentives.

The Honourable Minister indicated that a special system of fiscal incentives for small and marginal fields and secondary recovery was being designed. We look forward to the details of these incentives.

In 2014 accelerated capital allowances (100% deduction of exploration costs) was introduced. This is not unusual for this industry. In other jurisdictions such as UK, Denmark, Netherlands, Italy, Ireland a similar 100% deduction is granted for exploration expenditure. This accelerated capital allowance was enacted at a time when oil prices were in the range of US\$90 – US\$100 per barrel (WTI). In this current time of declining prices this incentive has reduced taxes significantly. On the other hand however, the accelerated allowances have given the companies cash flow to enable them to finance operations.

We however agree that the current capital allowance regime should be re-examined at the end of 2017 when the incentive expires, particularly if oil prices remain at current levels.

The current low price environment is a challenge but it is also an opportunity to fix the things that need fixing in the sector making it equally attractive to investors and beneficial to the Government.

# Who won and who didn't

## Winners



### Low income households

**Utility Costs** – Effective 1 December 2016 households with electricity bills of no more than \$400 will receive a rebate of \$100.

**Housing** – In an attempt to increase the ability of the low income earner to afford housing, GORTT proposes to extend:

- the 2% borrowing facility for persons earning no more than \$10,000 per month to those earning up to \$14,000 per month and to increase the value of qualifying properties from \$850k to \$1m.
- the 5% borrowing facility for persons earning no more than \$14,001 to persons earning up to \$30,000 per month and to increase the value of qualifying properties in excess of \$1.0m to \$1.5m.

**Builders** – Builders of multi-family dwelling units will get tax relief on their earnings from this activity.

**Yacht owners** – VAT exemption on yacht repair services for non resident persons.

### All citizens

- Access to 3 to 7 year government savings bonds with yields ranging between 3% to 3.75%.
- \$1m grant to persons who can develop and implement innovative business ideas.
- Access to shares in The National Gas Company of Trinidad & Tobago Ltd and First Citizens Holdings Limited.
- Establishment of the Trinidad & Tobago Revenue Authority (TTRA) to reduce tax evasion.

- Recovery of up to \$1bn of monies paid to OAS for the incomplete Point Fortin Highway project

**Agro-Processors** – Approved Agro Processing operations will enjoy tax exemption from the 2nd quarter of 2017. (At least 75% of the processing must be done locally and 75% of the ingredients must be produced/harvested locally).

### Participators in Public Private Partnerships (PPPs)

50% tax relief will be provided from 2017:

- to persons who mobilise private sector funding on public infrastructure services or amenities which are currently provided solely by government;
- on projects that increase productivity and create meaningful employment.

## Losers



### High income earners

Persons earning in excess of \$1m per annum will pay an additional 5% income or corporation tax on amounts in excess of the \$1m

### All citizens

- 7% tax on purchases that arrive in T&T through courier companies or which are brought in directly by individuals via air freight.
- 15% increase in excise duty on tobacco products, 20% on alcohol w.e.f. 20 October 2016.
- 15% increase in diesel gas prices to \$2.30p/l from \$1.98p/l.

- GATE Funding to be reduced and a means test introduced with the relief being adjusted as follows:

- For students from households earning under \$10k per month - 100% funding
- For students from households earning between \$10k – 30k per month – 75% funding.
- For students from households earning over \$30k per month – 50% funding

- No funding will be provided for:

- students pursuing medical studies at St Georges University;
- persons over 50;
- persons pursuing an additional undergraduate or postgraduate degree.

- Students pursuing a postgraduate degree that is in alignment with the country's development needs will be funded

- Funding will only be provided for accredited institutions

- **Gaming industry** – Reintroduction of regulation to govern the betting and gaming industry in T&T

### Property owners

- Effective 2017 property owners/users will once again be subjected to taxes on their property at the rates prescribed in the Property Tax Act and as values to be determined/published.

# Voices of business leaders

*In the following pages, some of our industry leaders provide astute perspectives on measures to stimulate the economy, the best initiatives for foreign direct investment and the role of tax measures in arresting the current downturn.*



**Perspectives from Nigel Romano**  
**Managing Director/ Chief Executive Officer, JMMB Bank**

## ***Are there any potential counter balancing measures to stimulate the economy during this prevailing downturn?***

Given the difficult economic environment precipitated by the fall in oil and gas prices and the production declines the Government needs to seriously look at the expenditure side of the equation and execute initiatives to reduce the size of government expenditure. These initiatives should be targeted initially at continued reduction of state enterprises whose functions are more appropriately performed by the private sector. They should also look at divesting enterprises that can compete or are competing in the private sector through the stock exchange. This should provide some liquidity to the government while providing much needed investment opportunities for the citizens of Trinidad and Tobago.

The Government also has to take a serious look at Value for Money initiatives. The focus should be on what we get for the money spent instead of how much money is being spent. The focus must be on results – on outputs, not inputs. In that regard, we need to take a very hard look at Public Private Partnerships and how they can be used to deliver much needed results in the administration of justice, health and infrastructure (roads, drainage, water supply, real estate).

## ***Can you speak to any feasible initiatives that may encourage Foreign Direct Investment (FDI) in targeted sectors such as oil and gas?***

Investors are attracted to countries where they are welcomed and where it is easy to do business in an environment that is relatively free of corruption. Therefore, Government should make concerted efforts to move up the ranking in widely respected global benchmarks. One such benchmark is the World Bank's Ease of Doing Business Ranking which looks at factors such as starting a business, dealing with construction permits, getting electricity, registering property, getting credit and trading across borders. They should also look at our ranking on Transparency International's Corruption Perceptions Index.

## ***What role can tax play in arresting and reversing the current downward trend?***

Taxation is a mechanism for funding the services provided by Government. We have done a very good job of simplifying the tax regime and making compliance easy. We should be very careful about going back to complicated regimes with many special provisions as these are difficult to enforce and increase the cost of administration. Also, we should not discourage initiative and entrepreneurship by raising taxes. As I noted previously we should focus on Value for Money and on making the public sector more efficient.

# Voices of business leaders



**Perspectives from Derek Hudson**  
**Vice President, Shell Trinidad and Tobago**

## ***Are there any potential counter balancing measures to stimulate the economy during this prevailing downturn?***

We have noted that the Government has begun to put mechanisms in place to address challenges and to move away from the strong dependence on the energy sector. It is also good to see that Government, like the oil and gas companies, is taking a hard look at revenue and expenditure and making some tough decisions such as reducing spend. Energy has been and will continue to be an important part of the Trinidad and Tobago economy. We therefore welcome the Government's consultation with industry to stimulate growth in crude oil and natural gas production. This is a key element in reversing economic stagnation and supporting diversification. These efforts may initially seem mutually exclusive, but in reality, growth and diversification in the energy sector can fuel downstream diversification within the non-energy sector. It is therefore necessary to promote a national dialogue to give citizens a better understanding of the strategies being employed to stimulate the economy. Some of the strengths of Trinidad and Tobago that we need to rely on and develop include a stable political system and a well-educated work-force, however, there is need to focus on developing creative thinking skills and embed innovation into our education system more broadly and deeply.

## ***Can you speak to any feasible initiatives that may encourage Foreign Direct Investment (FDI) in targeted sectors such as oil and gas?***

Shell is focused on increasing gas supply through utilising technology leadership and expertise, optimising and reducing costs where possible and accelerating development schedules. We are also working with Government to provide our perspective on the reform of the energy tax regime for the benefit of all stakeholders. In this regard, targeted policy recommendations which improve fiscal terms competitiveness and support project economics are critical to attracting investment. We believe a sharp focus on targeted measures can buttress increased energy FDI. For example, a shared infrastructure policy, improved data sharing, and local content development for small and medium enterprises, to name a few, are short term measures worthy of consideration. For the longer term, international investment can be encouraged through the simplified approval processes, identifying strategies to make profit sharing and fiscal terms more competitive, whilst also addressing legacy PSC matters. A key component is the fact that there is significant existing gas infrastructure in country that could act as catalyst for new developments.

## ***What role can tax play in arresting and reversing the current downward trend?***

We have noted comments on addressing tax leakage and improving tax administration. We believe that improved tax administration/tax regimes can play a key role in raising revenue, re-distributing income and managing investment. Shell looks forward to playing a leading role in unlocking Trinidad and Tobago's future oil and gas potential by building a stronger competitive position in the country and by participating both in upstream production as well as integrated gas (LNG) businesses. Shell believes Trinidad and Tobago holds remaining untapped potential in both shallow and deep water, and integrated gas (LNG) businesses.

# Voices of business leaders

*Perspectives from Ms Karen Darbasie  
Group Chief Executive Officer, First Citizens Bank*



## *Are there any potential counter balancing measures to stimulate the economy during this prevailing downturn?*

In the prevailing downturn the Government of Trinidad and Tobago (GORTT) could adopt judicious measures which can provide sufficient short term programmes to stimulate the economy while balancing with measures to promote the medium to long term growth and sustainability of the T&T economy.

In this context, in the short term, boosting activity in the following non-energy sectors: construction, manufacturing and agriculture can assist in providing some immediate stimulus to the economy. The immediate resumption of projects, as well as, follow through with the discussions about public/private partnerships in the resumption of works in housing, highways and hospitals could ease some of the difficulty being faced by the lower and middle class in society.

In the medium term, focus on measures to aid the private sector's push in the exportation of agricultural goods that this country has a competitive advantage in, for example cocoa and peppers - using state entities such as the Cocoa Development Board to work with the private sector to secure international buyers for local products. Furthermore, a viable agro processing strategy could complement the primary agricultural production by focusing on partnerships with manufacturers for value added input using world class agricultural products. This strategy would foster further diversification of the economy bringing much needed mechanisation to the sector, increased foreign exchange income and improved contribution to GDP.

In recognising that the economy remains heavily dependent on the energy sector, incentives to promote exploration activities are expected to start yielding positive results on production in the short term. These incentives need to be reviewed with a view to continuation of exploration activities in the medium term. The energy sector is populated with nationals with world class standard skills. This asset is one which can be exploited for spawning additional foreign exchange earnings by exportation of our energy service skills into the wider global environment. The National Gas Company is uniquely poised to lead this country's initiatives in this area.

# Voices of business leaders

**Perspectives from Ms Karen Darbasie**  
**Group Chief Executive Officer, First Citizens Bank**

## ***Can you speak to any feasible initiatives that may encourage Foreign Direct Investment (FDI) in targeted sectors such as oil and gas?***

The announcement of the development of the road infrastructure on the North Coast as well as the potential expansion of the Tobago Airport Terminal are clearly projects targeted at boosting FDI in the area of tourism. These development projects will form the backbone infrastructure to stimulate FDI within the tourism space in particular on the North Coast and Tobago. Cultural tourism marketed in conjunction with Eco tourism and/or Sports tourism (in light of recently completed sporting complexes) can be areas of future focus given our natural resources and unique advantages in these segments.

The local financial services sector has continued to increase its contribution to the GDP of the country. The work of the International Financial Centre is key to the attraction of further FDI in this sector. A key area of focus to facilitate developments in this sector will be the advancing of double taxation agreements with other jurisdictions.

## ***What role can tax play in arresting and reversing the current downward trend?***

The application of a taxation regime which is transparent and equitable is key in ensuring the efficiency and effectiveness of our taxation system. In this regard, the establishment of the T&T Revenue Authority should be a primary focus in the short term. An efficient tax collection system will reduce the requirement for substantial increases in tax rates by ensuring that the tax net captures all sources of taxable income.

While in the immediate term increases in taxes may be required to supplement falling revenues from the energy sector, we need to be extremely careful that such increases do not counteract the long term growth and development of the economy by curtailing further investments by the private sector.

The announcement by the Prime Minister that Government is planning to work with the US Government to help improve the efficiency of the Customs and Excise Division is very assuring as we anticipate this will improve collection of duties and taxes which will contribute further to the revenue line.

# The economist perspective

## Budget 2017 – a real balancing act

by Dr Marlene Attz (PhD)

The good thing about the current state of economic affairs in Trinidad and Tobago is that every Trinbagonian – from captain to cook; from prince to pauper; from academic to those in the University of Woodford Square – have an opinion on what should or should not be reflected in Budget 2017.

It is no secret that the budget will require a great deal of balancing, both on the part of the Government and also on the part of the citizens. It is the hope, that some equilibrium can be found in the measures to be proposed and that the pendulum does not only swing more in favour of those who can better withstand the obviously required austerity measures and less in favour of those who already are challenged given the current economic circumstances. I submit, that a balancing act will be required at several levels.

The first aspect of the balancing act, that is no secret, is with respect to getting some alignment with the revenue and expenditure numbers. *Fiscal consolidation over the next year will, recognisably be a challenge but with the right institutional and governance arrangements, is not impossible*. In its Monetary Report (as at 16 September 2016), The Central Bank of Trinidad and Tobago (CBTT) reported contractions in the economy in the first quarter of 2016 primarily as a result of declines in the energy and non-energy sectors of 9.1% and 2.8% respectively. That first quarter performance no doubt has either not rebounded or if at all, not significantly enough to affect the revenue fortunes for the Government.

To meet its shortfalls in revenue the Government resorted to, among other things, drawing down on its overdraft facility with the CBTT and withdrawing US\$375m or TT\$2.5bn from the Heritage and Stabilisation Fund (out of the legally permissible TT\$4.5bn). However, that is but one side of the revenue/expenditure conundrum. In 2017, Government has to cut expenditure and also capture more of outstanding revenue. Where will the expenditure cuts come from? That is a billion dollar question! Presumably Public Sector Investment Programme Projects will take a hit as will other discretionary funding. With respect to revenues, the Gaming Industry, and those who use the inefficiencies and bureaucracies of the existing taxation



system to avoid contributing their fair share to the national coffers should be held to account – literally and figuratively. An integral part of the fiscal consolidation will include the promised reforms to the Board of Inland Revenue (BIR) in relation to its ability to capture outstanding taxes and provide a more efficient taxation framework.

Another dimension of the 2017 balancing act should look at the foreign exchange debacle. There is a view, one to which I subscribe, that the currency is overvalued and in the current economic circumstances a depreciation presents a viable economic solution. I am even more convinced that the depreciation is necessary when one reads, again from the CBTT, that “... *Credit to consumers rose by 9.3 per cent year-on- year in June 2016, compared with an increase of 8.7 per cent in January 2016. Within the Consumer Credit sector, loans for motor vehicles continued to record double-digit growth of 14.3 per cent in the second quarter of 2016, with loans for new private cars accounting for most of the increase (17.6 per cent)...*”. The message that foreign exchange earnings are down and scarce due to the challenges in oil and gas, our primary export, seem not to have had resonance with the “credit for new-car-buying” populace.

# *The economist perspective*

## Budget 2017 – a real balancing act

There also is the proliferation of companies that facilitate online purchases and almost every supermarket has a wide array of foreign goods and services – some places even specialise in foreign merchandise. All of these come at a cost, that being the exchange rate.

While I think the message regarding consumption of scarce foreign exchange must be strong, a balance must be struck between implementation of exchange rate policy and ensuring attendant safeguards for the population at large are put in place. That said, a depreciation will make imported goods more expensive than locally produced goods. It also could act as a fillip for local manufacturers to boost exports – look how quickly the response to Venezuela came, clearly there is the capacity to export. The challenge – about which I do not hesitate to sound the alarm bells – is that the cost of living is also likely to go up including the cost of much needed medical supplies and other necessities. Then there are the bread and butter issues – literally.

Inputs into locally produced staples are imported so they will attract higher prices. The reduction in VAT to 12.5% brought not only confusion for consumers but also higher prices as many suppliers used the coincidental shortage of foreign exchange as a reason to hike prices – VAT reduction notwithstanding.

The balancing act also has to take full cognisance of the average citizen. There are several elements to this. The vulnerable in the society – those living on fixed incomes (pensioners and the like), as well as the working poor – can no longer afford to be ignored. Apart from those specific groups, we the people, need to feel a sense of security not just in terms of economic management but in terms of the crime scourge. Allocating the lion's share of the national budget to the Ministry of National Security doesn't quite cut it. There needs to be effective metrics on how this expenditure is yielding the results the country collectively is wishing for, that is, higher crime detection and prosecution, leading ultimately to a relatively safer space within which we can co-exist.

There also is the question of the Community-based Environmental Protection and Enhancement Programme

(CEPEP) which some (quite) unfortunately continue to describe as “...make-work programs ...”. My contention always has been that every citizen in this country ought to have the opportunity to contribute productively, according to their skillsets, to this society. My words have been carefully chosen. CEPEP was intended to be an incubator project for persons that fit a particular socio-economic and demographic profile. The programme should be returned, as a matter of urgency, to its original mandate and what better time than now? One wonders though, if only the CEPEP workers should be found guilty of being non-productive?

***Productivity is a scourge on the economy and with declining inflows of foreign exchange, mechanisms must be found to increase labour productivity on all fronts.***

There are many other items that ought to be components of the balancing equation on budget day. It is my hope that at the end of his presentation on 30 September, the Minister of Finance would have advanced some solutions that take the entire country forward in a way that is more reflective of the challenging economic times. It also is my hope that we, the people, rise to the challenge as the occasion very clearly requires.



## *Beyond the FATCA fiasco...*

Not many issues have resulted in intense reactions amongst the global financial community quite like Foreign Account Tax Compliance Act (FATCA). Since its enactment into US law in 2010 and subsequent final regulations in 2013, those impacted have traversed the stages of denial, anger, bargaining, depression and acceptance at varying paces. By and large, the global community has embraced FATCA (much like they embrace an unknown distant relative) and have put measures in place to comply and even clone its requirements at a global level.

The US authorities have estimated that more than US\$100bn was being lost annually in tax revenue due to non-reporting of income by US persons - income which is being held in accounts outside of the US. The global community tallied their own estimated losses and have since signed on to a system of reciprocity, via Inter-Governmental Agreements (IGAs) with the US, to obtain data on their own nationals holding income in the US. Transparency of the flow of funds to mitigate illegal activities is also a much welcomed benefit.

Greater global tax information exchange efforts have been borne out of FATCA. The Common Reporting Standard (CRS), developed in response to the G20 request and approved by the Organisation for Economic Co-operation and Development (OECD) Council on 15 July 2014, calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions.

Reporting under CRS is set to commence in 2017 and significant work has been undertaken to align its requirements to FATCA, including the timing and technology solution for exchange of information.

### ***How have T&T Financial Institutions endured?***

The approach that has generally been taken by our local financial sector has NOT been one of wait and see. Our

progressive financial sector, was proactive in seeking advice where needed and complying with the myriad of deadlines and requirements that FATCA imposes (initially sans IGA and enabling legislation). Starting with registration with the US Internal Revenue Service (IRS), then updating of their customer on-boarding processes effective 1 July 2014, and conducting due diligence - our financial institutions have endured and have demonstrated good efforts towards complying with FATCA. The looming deadline for the first reporting on US account holders however required some guidance by local authorities on how to proceed, largely in respect of who to report to.



### ***Complying with FATCA reporting***

Reporting under the final FATCA regulations versus under an IGA (and enabling legislation) differs whereby the recipient of the information changes when enabling legislation is passed (the deadlines are also different). Under an IGA, foreign financial institutions will report to the appointed Competent Authority (anticipated to be the Board of Inland Revenue (BIR) for T&T) in the format as stipulated by that Competent Authority. The Competent Authority acts as an intermediary to the US IRS and consolidates and submits information received from T&T financial institutions to the US IRS.

## *Beyond the FATCA fiasco...*

Under the Final Regulations, foreign financial institutions are to be guided by (or more aptly confounded by) the International Data Exchange Service (IDES) which sets out the process by which foreign financial institutions can report directly to the US IRS.

It is perhaps unanimous, among the key stakeholders (US IRS, Foreign Financial Institutions (FFIs) and the T&T Government), that reporting via the local Competent Authority is preferred and the passing of enabling legislation to address same is eagerly awaited.



### **Avoiding withholding (30% on US source income)**

Unlike CRS, non-compliance with FATCA would result in a significant penalty whereby US source income (e.g. dividends from a US investment) transmitted through a non-compliant FFI will be taxed at 30%. To date, from the onset of FATCA, the US IRS has shifted deadlines and have issued assurances to FFIs and countries like T&T that struggle to meet the timelines; demonstration of good efforts to comply will be taken into account in respect of their

determination of whether an FFI is non-compliant. Accordingly, we trust that the good efforts of our Government and FFIs would be duly considered (which has already been demonstrated by the US granting of a further extension of February 2017 for passing of our enabling legislation).

### **Meeting deadlines**

The challenges faced regarding meeting deadlines are not unique to enabling FATCA legislation but a national one. Some of the root causes perhaps lie in one of capacity and the maturity of our 54 year old society. There are many areas in our financial and public sectors that require strengthening and support, which include but are not limited to regulatory compliance matters. We must continue to seek solutions and implement them as proactively and practically as possible.

While we work through the issues of enacting FATCA and CRS, the ongoing efforts to comply with the global tax information exchange bring the added benefit of strengthening the capabilities and capacity of our BIR, as they increase collaboration with financial institutions and the global tax enforcement community. We are aware however that major strides have occurred at BIR due to the pending requirements of FATCA.

### **What next?**

In the face of challenging fiscal times, the potential for increased tax revenue via strengthened institutions, and transparency regarding the sources and flow of funds, is one we must all support. Enabling FATCA legislation will likely be passed in urgent due course and enabling CRS legislation will need to be tabled and addressed soon thereafter.

However, even with enabling legislation, there is still much work to be done by the T&T authorities and financial institutions to meet the demands of global tax information exchange. We should all utilise the FATCA experience as a trigger for change and relevant institutional strengthening regarding planning, consultation, communication, technology advancement, and execution – in deadline driven scenarios and otherwise.

# Tax facts

		2017		2016	
<b>Income Tax</b>					
<b>Allowances/ Deductions</b>					
Tax Rate (Chargeable Income < \$1m)		25%	(1)	25%	(1)
Tax Rate (Chargeable Income > \$1m)		30%	(1)	25%	(1)
Personal Allowance	✔	\$72,000	(2) ✔	\$72,000	(2)
Tertiary Education Allowance	✔	\$60,000	(3) ✔	\$60,000	(3)
Pension/Deferred Annuity	✔	\$50,000	(4) ✔	\$50,000	(3)
National Insurance		70%	(4)	70%	(4)
First Time Homeowner allowance	✔	\$25,000	(5) ✔	\$25,000	(5)
Contributions under a Deed of Covenant		15% of Total Income	(6)	15% of Total Income	(6)
Venture Capital Tax Credit		25% of Investment	(7)	25% of Investment	(7)
CNG Kit and Cylinder Tax credit		25% of total cost	(7)	25% of total cost	(7)
Solar Water Heating Equipment Tax credit		25% of total cost	(7)	25% of total cost	(7)
Tax credits on Bonds		25% of \$5,000	(8)	25% of \$5,000	(8)
Severance Pay exemption limit	✔	\$300,000	✔	\$300,000	
Alimony paid		No Limit		No Limit	
Guest house approved capital expenditure deduction		No Limit		No Limit	

(1) Chargeable Income under \$1m taxed at 25%/ Chargeable Income over \$1m taxed at 30% for 2017.

(2) Personal allowance of \$72,000 available to all resident individuals from 2016.

(3) For attendance at foreign universities not GORTT Funded. Claim limited to \$60,000 per year.

(4) Maximum claim of \$50,000 from 2015.

(5) First-time homeowners deduction for five years for properties purchased/constructed after January 1, 2011. and/or The Children's Life Fund.

(6) Contributions under a Deed of Covenant include donations to approved sporting bodies, charitable organisations

(7) Aggregate of Tax credits limited to \$10,000.

(8) Purchase of GORTT bonds. Tax credit restricted to a maximum of \$1,250 per year. Unrelieved tax credits can be set off against future tax liabilities.

# Tax facts

	2017		2016	
<b>Corporation Tax</b>				
Corporation Tax Rates (Petrochemicals)	35%		35%	
Corporation Tax Rates (Other - Chargeable Income < \$1M)	25%	(1)	25%	(1)
Corporation Tax Rates (Other - Chargeable Income >\$1M)	30%	(2)	25%	(2)
Small and Medium Size (SME)	10%	(3)	10%	(3)
Business Levy (On Gross Sales & Receipts)	0.6%	(4)	0.6%	(4)
Green Fund Levy (On Gross Sales & Receipts)	0.3%	(4)	0.3%	(4)
Initial Allowance (Manufacturing Companies)	90%		90%	
Art and Culture/ Sportsmen/Sporting Activities	Expense incurred	(5)	Expense incurred	(5)
Audio / Visual / Video Production allowance	150% uplift	(5)	150% uplift	(5)
Fashion Allowance	150% uplift	(5)	150% uplift	(5)
Production Company Allowance	150% uplift	(5 & 6)	150% uplift	(5 & 6)
Covenanted donations to charity	15% of total income	(7)	15% of total income	(7)
Employees training / retraining	150% uplift	(8)	150% uplift	(8)

(1) Chargeable profits (\$0 - \$1m) a tax rate of 25% would apply in 2017.

(2) Chargeable profits (exceeding \$1m) a proposed tax rate of 30% would apply in 2017.

(3) A tax rate of 10% rate would apply for the first five years from listing on the T&T Stock Exchange.

(4) Effective 21 January 2016, the Business Levy and Green Fund Levy rates increased to 0.6% and 0.3% respectively.

(5) Tax deduction up to a maximum of \$3m. Aggregate of all claims restricted to \$3m.

(6) Allowance only available to production companies. \$3m limit

(7) Covenanted donations to charity include approved sporting bodies, charitable organisations and/or The Children's Life Fund.

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

## Investment Income

Local distributions (dividends, mutual fund income, etc)	Exempt		Exempt	
Interest (individuals)	Exempt	(1)	Exempt	(1)
Gains or Profits from sale of residential house sites	Exempt	(2)	Exempt	(2)
Sale / Rental income from commercial buildings/multi-storey car parks	Exempt	(3)	Exempt	(3)
Premiums and rents from letting of newly constructed multi-family dwelling	Exempt	(4)	Exempt	(4)
Gains or Profits from the initial sale of newly constructed multi-family dwelling	Exempt	(5)	Exempt	(5)

(1) Certain interest income as per Section 8 of the Income Tax Act.

(2) Construction must have commenced on or after 1st October 2012 and relates to persons in the business of property development. Profits exempt until December 31, 2025.

(3) Construction must have commenced on or after 1st October 2012. Profits exempt until December 31, 2025.

(4) Construction must have commenced on or after 1st July 2016. Profits exempt until December 31, 2025.

(5) Construction must have commenced on or after 1st July 2016. Profits exempt until December 31, 2025.

# Tax facts

	2017		2016	
<b>Alternative Energy Incentives</b>				
Wear and Tear Allowance (CNG)	130%	(1)	130%	(1)
Wear and Tear Allowance (Solar & Wind)	150%	(2)	150%	(2)
Motor Vehicle Import Duty Relief (CNG vehicles)	50%		50%	
Hybrid and Electric powered Vehicles	VAT & MV Tax Exemption	(3)	VAT & MV Tax Exemption	(3)

(1) 130% of cost of acquiring plant, 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

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

(3) Exemption from VAT and Motor vehicle tax for new and used vehicles (not older than four years from the year of manufacture), imported for private or commercial use. Exemptions apply from 1 January 2015 to 31 December 2019.

## Petroleum Taxes

### Petroleum Profits Tax

- Shallow water (shelf/block)	50%		50%	
- Deep water block	35%		35%	
Unemployment Levy	5%		5%	
Supplemental Petroleum Tax	Base & sliding scale		Base & sliding scale	

## Value Added Tax

VAT Rate	12.5%	(1)	12.5%	(1)
Registration Threshold	\$500,000	(2)	\$500,000	(2)
VAT Exemptions on foreign yacht repair services	Yes		No	

(1) Effective 1 February 2016, the VAT rate is 12.5%.

(2) Increased threshold effective from 1 January 2016.

# Tax facts

## Corporation Tax Computations

### Company engaged in manufacturing activity

TT\$ in 000s	2017	2016
Profit as per Financial Statements	40,000	40,000
<b>Add:</b>		
Depreciation	6,500	6,500
Donations not under Deed of Covenant	100	100
Arts and Culture, Audio Visual, Sporting and fashion donations	2,000	2,000
Staff training	100	100
	<b>8,700</b>	<b>8,700</b>
<b>Less:</b>		
Arts and Culture, Audio Visual, Sporting & Fashion Allowance	3,000	3,000
Wear and Tear Allowance	5,000	5,000
Initial Allowance (90%)	3,500	3,500
Profit on Sale of Asset	175	175
Staff training (150% uplift)	150	150
	<b>11,825</b>	<b>11,825</b>
<b>Chargeable Profits</b>	<b>36,875</b>	<b>36,875</b>
<b>Corporation Tax @ 25%</b>	<b>-</b>	<b>9,219</b>
<b>Progressive tax effective 2017 *</b>		
<b>Corporation Tax @ 25%(\$0 - \$1m)</b>	<b>250</b>	<b>N/A</b>
<b>Corporation Tax @ 30%(&gt;\$1m)</b>	<b>10,763</b>	<b>N/A</b>
<b>Total Corporation Tax</b>	<b>11,013</b>	<b>9,219</b>
Effective Tax Rates	27.5%	23.0%
<b>Business Levy</b>		
Gross Sales/ Receipts	500,000	500,000
<b>Business Levy @ 0.6%</b>	<b>3,000</b>	<b>2,833 (**)</b>
<b>Green Fund Levy</b>		
Gross Sales/Receipts	500,000	500,000
<b>Green Fund Levy @ 0.3%</b>	<b>1,500</b>	<b>1,417 (**)</b>

#### Assumptions :

Company is not engaged in the production of petrochemicals  
 Company engaged in manufacturing activity  
 Company is not engaged in local audio, visual or video production

\* The position expressed by the MoF is that the tax will be progressive  
 i.e 25% on the first \$1m earned and 30% on any excess over \$1m.

\*\* The rate change was effective from February 1, 2016

# Tax facts

## Small and Medium Enterprises Corporation Tax Computation

TT\$ in 000s	2017	2016
Profit as per Financial Statements	250.0	250.0
<b>Add:</b>		
Depreciation	40.0	40.0
Donations not under Deed of Covenant	6.0	6.0
	<b>46.0</b>	<b>46.0</b>
<b>Less:</b>		
Arts and Culture, Audio Visual, Sporting Allowance	5.0	5.0
Wear and Tear Allowance	25.0	25.0
	<b>30.0</b>	<b>30.0</b>
<b>Chargeable Profit</b>	<b>266.0</b>	<b>266.0</b>
<b>Corporation Tax @ 10%</b>	<b>26.6</b>	<b>26.6</b>
Effective Tax Rates	11%	11%
<b>Business Levy</b>		
Gross Sales/ Receipts	4,000.0	4,000.0
Business Levy @0.6%	24.0	22.7
<b>Green Fund Levy</b>		
Gross Sales/Receipts	4,000.0	4,000.0
Green Fund Levy @0.3%	12.0	11.3

### Assumptions :

Company is not engaged in the production of petrochemicals

Company is an SME listed company and is operating within the first five years of being listed

\*\* The rate change was effective from February 1, 2016

# Tax facts

Individual Tax Computation			
<b>Middle Income Person</b>			
<b>TT\$</b>	<b>2017</b>	<b>2016</b>	
Total Income	400,000	400,000	
<b>Less:</b>			
Personal allowance	72,000	72,000	(1)
Tertiary Education Allowance	60,000	60,000	(2)
Pensions/ Annuity/ NIS contributions	50,000	50,000	(3)
First time homeowner	25,000	25,000	
Contributions under a Deed of Covenant	30,000	30,000	(4)
<b>Taxable Income</b>	<b>163,000</b>	<b>163,000</b>	
<b>Income Tax Liability</b>	<b>40,750</b>	<b>40,750</b>	
Effective Tax Rate	10.2%	10.2%	
<b>High Income Person</b>			
<b>TT\$</b>	<b>2017</b>	<b>2016</b>	
Total Income	2,400,000	2,400,000	
<b>Less:</b>			
Personal Allowance	72,000	72,000	(1)
Tertiary Education Allowance	60,000	60,000	(2)
Pensions/ Annuity/ NIS contributions	50,000	50,000	(3)
Contributions under a Deed of Covenant	100,000	100,000	(4)
<b>Taxable Income</b>	<b>2,118,000</b>	<b>2,118,000</b>	
<b>Tax @ 25%</b>		529,500	
<b>Progressive tax rate</b>			(5)
<b>Tax @ 25%(\$0 - \$1m)</b>	250,000		
<b>Tax @ 30%(&gt; \$1m)</b>	335,400		
<b>Total Tax Liability</b>	<b>585,400</b>	529,500	
Effective Tax Rate	24.4%	22.1%	
(1) \$72,000 personal allowance available to all resident individuals from 2016.			
(2) Maximum claim between spouses restricted to \$60,000			
(3) Limited to \$50,000			
(4) Restricted to 15% of total income.			
Contributions under a Deed of Covenant include donations to approved sporting bodies, charitable organisations and/or The Children's Life Fund.			
(5) The position expressed by the MoF is that the tax will be progressive i.e 25% on the first \$1m earned and 30% on any excess over \$1m.			

# Glossary

Term	Definition/Meaning	Term	Definition/Meaning
bbl	An oil barrel. A unit of volume	KPI	Key performance indicator
bpd	barrels per day. Daily output of oil production	LNG	Liquefied Natural Gas
BTU	British Thermal Unit. Used in the measure of natural gas	LTM	Last twelve months
CARTAC	The Caribbean Regional Technical Assistance Centre	MEEA	Ministry of Energy and Energy Affairs
cc	Cubic centimetre - A unit of volume	mmbtu	One million BTU. Often used in the measure of natural gas
CNG	Compressed Natural Gas	OECD	Organisation for Economic Co-operation and Development
GDP	Gross Domestic Product. A primary indicator used to measure the health of a country	p.a.	Per annum
EBIT	Earnings before interest and tax	p/l	Per litre
EBITDA	Earnings before interest, tax, depreciation and amortization	PPT	Petroleum Profits Tax
FATCA	Foreign Account Tax Compliance Act	ppt	Percentage point
FY (XX)	Financial year ending (...)	Q1,2/3/4	Quarters ending (Q1 end date), (Q2 end date), (Q3 end date), respectively
GATE	Government Assistance for Tuition Expenses	SMEs	Small and Medium sized enterprises
GORTT	Government of the Republic of Trinidad and Tobago	SPA	Sale and Purchase Agreement
H1/H2	Half year periods ending (1 <sup>st</sup> half year ending date) and (2 <sup>nd</sup> half year ending date), respectively	SPT	Supplementary Petroleum Tax
IEA	International Energy Agency	USEIA	US Energy Information Administration
IMF	International Monetary Fund	VAT	Value added tax
		YTD	Year to date

# PwC Tax & Legal Services

## Tax Consulting Services

Consulting services include advice related to executive and employee compensation; withholding and various taxes and double tax treaty implications of client's business operations.

Additionally, our team of tax specialists may advise on special areas such as:

- Corporate finance and funding arrangements
- Tax implications of Acquisitions and Mergers
- 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.
- Tax Planning for tax efficient operations
- Property Tax

## 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 follow up on associated refund claims if required. Maintenance of a VAT refund monitoring programme for our clients geared towards expediting the receipt of refunds by identifying and clearing up any queries by the IRD 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 and / or resident personnel.

## Tax Audit and Dispute Resolution

### Audits/Objections/Appeals

We provide assistance, advice and support throughout the Audit, Objections and Appeal Stages. We are prepared to approach the BIR's attorneys to engage in dispute resolution in tax appeal cases.

## Seminars and Workshops – Designed to suit your firms' needs

### Maintain Tax Accounting and Payroll Accounting Corporate Audit / Health Check

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

- Companies Registry
- Value Added Tax
- Pay As You Earn
- Corporation Tax Returns

to ensure compliance with the BIR's obligations.

Health Checks can also be conducted in respect of Withholding Tax or Transfer pricing compliance.

### Legal Services /Corporate Secretarial Services

**Incorporation** of both external and local companies. Provide advice to clients 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 (National Insurance) registrations

**Maintenance of Company portfolio** – We prepare and file Annual Returns on behalf of the Company and liaise with the Registrar of Companies to address queries relating to corporate documents filed by the company.

**Amalgamations** – Preparation and filing of the necessary documents with the government authorities to effect a required amalgamation.

**Work Permits/Renewals** –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

*See our Corporate Services Brochure for further details*

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Tell us what matters to you and find out more by visiting us at [www.pwc.com/tt](http://www.pwc.com/tt)

## Our PwC Tax Team

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PwC has prepared this budget memorandum on the principal changes in the 2017 National Budget read on 30 September 2016.