Budget Memorandum 2018

Growth through diversification – Bridging the Oil Gap

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October 2017
We are pleased to present our 24th annual Budget Memorandum entitled “Growth through diversification, Bridging the Oil Gap” in response to the presentation of the 2017/2018 National Budget by the Minister of Finance, the Honourable Colm Imbert on 2 October 2017.

The Honorable Minister stated that “Government has too often been slow in taking the difficult decisions rather than acquiescing in short term fixes. As an example, we have too often put off the type of public service reforms that are required to facilitate private sector activity and investment. Our present economic predicament provides us with yet another opportunity to get it right and we must seize and pursue it vigorously in order to protect our country’s future”.

In this the third year that the PNM Administration is holding the reigns of power there is an undeniable expectation that the Administration would begin to vigorously implement the measures needed to stabilise and transform our economy. This expectation to hasten the pace of transformation is heightened by the reality that for the foreseeable future high energy prices are likely rooted in the distant past. Further, the changes which have been taking place in the wider energy industry have made our twin island state an ever less attractive energy destination.

This year I will again begin by commending the Minister and the wider Administration for the initiatives that will further reduce the size of government intervention in the economy through measures such as the previously implemented means testing for the GATE program and the continued gradual removal of fuel subsidies announced in the budget presentation.

Beyond these measures however, instead of bold transformative measures the Honorable Minister instead has largely signaled what the future may hold for the remaining unacceptably high level of Government transfers and subsidies. In particular, the right sizing of manning levels at key government institutions and the reduction of other transfers appear to have been largely hinged to the result of a Public Expenditure Review to be undertaken by the World Bank. While we fully acknowledge that there is a real human cost that would come from material alteration to the level of such transfers and that targeted social safety net measures, at least in the short term, would undoubtedly be required, as the Honourable Minister has noted these changes must happen to protect our country’s future. We do not, in our view, have the luxury of time.

We have also noted a similarly less than decisive approach to our rate of currency exchange with the US dollar. In the face of persistent shortages and with a consequent true rate of exchange of the TT dollar to the US dollar that is possibly north of TT$8.00, the collective response from the Honourable Minister has been to reintroduce an export allowance, to establish the Export Import Bank of Trinidad and Tobago (EXIMBANK) as a foreign currency dealer with an initial allocation of US$100M and to signal that in the future that the TT$:US$ exchange rate will move more in step with demand and supply. As we have noted on previous occasions, we fully accept that any material change to the current exchange rate regime should not be taken lightly; however we remain of the view 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.

There are measures, not all of which we support (for example the increase in corporate tax rates), included within the Honourable Minister’s presentation which would likely sustainably increase revenues to facilitate a material reduction in our ever increasing budget deficit. Many of these measures however have been announced before. We collectively hope that as the Honourable Minister has urged, that the opportunity to change is seized to protect our country’s future.

Brian Hackett
Territory Senior Partner

“The time for Implementation of the transformative measures promised for many years is truly upon us”
In the third budget instalment of this administration the Honourable Minister of Finance Mr Colm Imbert delivered a package of measures that are meant to “change the paradigm.” In an environment of continuing decline of oil and gas production, low oil and gas prices and a “catastrophic” reduction in revenue from this critical sector, it definitely cannot be business as usual. In the days leading up to this budget social media was abuzz with the potential measures that would be implemented as the much talked about revenue shortfall and restricted expenditure created much speculation about potential revenue generating measures.

Economic diversification has been the mantra of many commentators and the Honourable Minister identified that this is necessary to help T&T to be less susceptible to the vagaries of the volatile oil and gas sector. Sadly this thrust to diversify the economy is most vocal when the oil and gas sector is “on the ropes” proverbially. The sectors identified – manufacturing for export, agriculture, financial services, sports tourism and Tobago tourism are the usual suspects but we nonetheless look forward to the implementation of the initiatives identified as the diversification of our economy requires urgent and immediate attention.

Many of the areas that one expected to hear details on and/or firm implementation dates were not addressed in any detail – Property Tax, Transfer Pricing and the Revenue Authority.

These areas along with the fiscal regime for the energy sector and regulation of the gaming industry have been recurring items.

While work has been going on behind the scenes on the new Fiscal Regime for the oil and gas sector, we look forward to the promised introduction of the legislation before the end of this year in the hope that it will materialise, since there are practical issues relating to the claims for capital allowances and exploration expenditure (available to these companies) to be addressed.

As acknowledged by the Honourable Minister “Petroleum companies attach high value to stability and predictability in terms of the fiscal regime they face.”

For some time The Petroleum Taxes Act has made provision for the appointment of a Petroleum Pricing Committee to advise on fair market values for oil and gas or processing fees. The Honourable Minister has indicated his intention to activate the committee in determining Royalties and it baffles how this creature of statute has been left idle for so long.

The continued removal of the fuel subsidy was expected since it is a process that has been ongoing for the past few years.

No doubt there will be much said about its potential impact on the cost of transportation as well as the plan to allow prices to fluctuate with the prices of oil and refined products in the future.

We are pleased to provide you with our views on the fiscal and other policies announced in the 2017/2018 National Budget.

Our team, as always, stands ready to provide you with further clarification on the issues explored within these pages and answer any questions you may have as we work with you to solve your important problems and deliver the value you require.
Budget Overview

The theme chosen for the 2018 National Budget Presentation “Changing the Paradigm” reflects well the unanimous view that Trinidad & Tobago is now at a critical junction and that swift measures need to be taken if our economy is to recover.

Revenue from taxation dropped from $51.6b in 2008 to $42.3b in 2015. This accounts for an alarming decrease of 90% in the last three years in revenue from the energy sector with 2017 revenue estimated at $2.8b. In 2008 when the price of oil was at US$145 a barrel and natural gas peaked at $13 per MMBtu, Government’s core revenue stood at $56.8b and the nation boasted a surplus of $3b, a far cry from the current expected deficit of $12.6b a gap which a 20% reduction in expenses between 2015 and 2017 was not sufficient to close. The balance of trade stood at a positive $567b versus the current negative $5.2b. With a decrease in Government’s energy revenue, comes a sharp decrease in availability of foreign exchange (annual inflows of foreign exchange from the energy sector dropped by 84% between 2011 and 2017) and its ripple effect of hoarding of the currency, the booming of a thriving black market, difficulties in financing imports with the overall increase in the price of imported goods. The Central Bank’s injection of US$7,5b over the last four years was not sufficient to curb this trend.

The Nation eagerly anticipated an announcement from government with respect to any measures to address the issue of the devaluation of the currency. While the Minister acknowledged that it would have allowed for a more competitive positioning for large exporters, the devaluation was avoided this time again despite widespread empirical evidence that the currency is currently grossly overvalued. No clear explanation was given by the Minister as to the reason for the decision. One has to surmise that some short or medium term improvements in the economic climate (e.g. oil discoveries) may have led the government to believe that economic recovery is not that far away.

The government anticipates that it will fall short of its 2017 budget. The shortfall of $10b in revenue was attributed to the halted sale of the CLF assets, the postponement of the property tax collection and low oil prices.

Needless to say that we are facing unprecedented times and that there is an urgent need to move away from the past heavy reliance on the energy sector.

Transformation however will not occur overnight and will require the cooperation of all the stakeholders. The Minister has acknowledged that the government anticipates that the medium term recovery will again be driven by the energy sector. This in itself is a source of concern: the way to diversification is a painful and slow process and despite the shock through which the energy sector has been, investors still channel their funds to areas of the economy that widen the foreign exchange gap rather than productive areas such as manufacturing and export. Does our nation need a wake-up call? A resounding “This is no longer business as usual” Will the needed wake-up call come through the series of austerity measures which the Budget laid out:

- harmonisation in the corporation tax rate from 25 to 30% to 35% for the commercial banks
- increased taxes in the gambling and gaming industry
- imposition of royalty rate to 12.5% across the board on the extraction of all gas, condensate and oil
- calculation of the royalty on the basis of fair market values as fixed by the Petroleum Pricing Committee
- further decrease of the fuel subsidy
- restructuring of the GATE system to make the disbursement of the funds subject to a means test
- removal of the concession on some hybrid vehicles
- increase in licence fees and penalties applicable to private hospitals
Budget Overview

Although we acknowledge that the level of revenue of the Government is unsustainable and that financing the deficit through the continued sale of assets will hurt the ability of the Government to generate future revenue from dividends, one may ask whether these austerity measures will not have the effect of contracting the economy at a point in time when it is in dire need of a boost. Some business people have warned the government that an increase of the Corporation Tax rate should not be contemplated at this time, especially since the last increase was so recent. Should the government have looked instead at taxes that are more neutral in terms of investment decisions such as consumption taxes? It is likely that these increases in Corporation Tax will have a direct effect on the prices of goods and services and therefore consumption. It may also impact the level of Foreign Direct Investments by making T&T a less attractive jurisdiction.

It is not clear whether (as obtained) for the 2016 increase, the long term insurance business will still be taxed under the old regime. A series of factors contributed to taxes from the energy sector plummeting: low production levels; the current level of energy prices coupled with tax carry forward losses and a very generous capital allowance regime for the sector (albeit in line with many jurisdictions.) This lead the government to announce the rationalisation of the royalty rate at 12.5% on all energy products. It is unclear to us however whether this will result in a significant increase of revenue since the legal hurdles to impose the tax on already negotiated contracts is yet to be determined. Further on Production Sharing Contracts where the Ministry of Energy is responsible for paying the taxes of the contractor, the measure is not likely to result in revenue increases unless the legislation or contracts can accommodate the re-categorisation of the royalty as a tax to be paid by the contractors.

Another area of concern is that the legislation already provides for the calculation of the royalty on the basis of market value but the Petroleum Pricing Committee was not functional. One would hope that measures have now been put in place to appoint the members and allow it to carry out its functions.

The shift in the trigger for Supplemental Petroleum Tax (SPT) payment is a measure which will from the time of implementation bear its fruits but only to the extent that the players do generate a “profit”. The Minister has not revealed whether this profit is to be a business or tax profit. The decrease in the fuel subsidy was a gradual process which has previously raised concerns in terms of the impact on the cost of transportation for both persons (maxi taxi) and goods since diesel is the primary fuel for this type of transportation. While the previous decrease of the subsidy may not have had the much feared impact, it is doubtful that the maxi taxi organization and retailers will absorb the increase in their costs this time around. The revision of the GATE system is on the other hand an unreservedly welcome initiative which has been in the making for a while. The program has allowed T&T to increase access to higher education but, as with all generalised hand-outs, it caused leakages by financing the education of wealthy and needy alike. This proposed change is a low-hanging fruit which should not negatively impact our economic outlook.

The removal of the concession on hybrid vehicles is also justified in our view since it had the unintended effect of allowing persons of means to import luxury vehicles at a lower cost (and perhaps continue fueling them with diesel rather than using the vehicles’ hybrid features) thus reducing the government’s revenue from import of vehicles.

The Minister alluded to the unsustainable level of subsidies to dysfunctional State Enterprises (including T&TEC, WASA, Petrotrin, Caribbean Airlines, the Port Authority), leading us to surmise that an upcoming budget will tackle these inefficiencies and that perhaps privatisation may be on the cards for some of these organisations.

The Minister also hinted that increases of utility rates are to come. The Minister gave no details as to how he intends to address the public servants wage bill but presented the expense which increased from 15 to 31% of the core revenue of the government as an area of great concern.
The Government has engaged in consultation with the private sector to address as a matter of urgency the issues that plague our economy, including diversification. While we noted that some of the recommendations made by businesses and some of the organisations consulted made their way in the budget, many of the areas of focus have been repeatedly mentioned in previous budget presentations dating all the way back to pre-2010. It begs the question: will implementation now follow?

This time around however we did note that specific tax incentives were identified for some of the areas targeted for diversification. These sectors include:

1. **Agriculture**

   The proposed measures include a $100,000 grant to new and existing farmers without any restriction on the size of the land. The intention is to reduce the food import bill and possibly generate foreign exchange by the exportation of agro-processed products and high end cocoa.

2. **Business processing outsourcing**

   While it was identified as a booming sector in the global arena, no specific additional measure or incentives were announced in respect of this sector. The Government seems willing to rekindle the Trinidad & Tobago International Financial Center (TTIFC) initiative.

3. **Yatching**

4. **Creative industry**

5. **Tourism**

   The government proposes to increase existing reimbursement of expenditures on upgrade of hotel and guest rooms and mentioned on-going discussion with cruise lines to market our destination. While this measure may encourage the hoteliers, the health of the sector may be impacted by the crime situation which is now spiraling out of control.

6. **Housing construction**

   This appears to be a very appealing measure to address the overrun of HDC construction projects and the current loss of $500 to $700K incurred on each house. Under the current legislative framework, concessions are already in place in respect of the construction of houses. It appears however that there are issues with finding funding mechanisms for the program, namely an investor willing to bear the risk of holding the house between the end of construction and placement on the market. While the construct of the proposed new incentive (i.e. a grant of $100K per unit to build housing according to HDC specifications and a tax exemption on the sale proceeds), may appear promising, the issue for consideration is whether this will suffice to generate a profit at the price point (sale price around $750K) for the houses to be built. Time will tell whether the implementation of this measure will be more successful than the previous ones which were granted under the Income Tax Act.

Notably, while the Government reiterated its appeal to work hand in hand with the private sector, Public Private Partnerships are still experiencing implementation set-backs.
The shortage in foreign exchange remains one of the major hindrances to economic development in T&T. The Government has announced but two measures to directly boost exports in the short term: the reintroduction of the export allowance and access of foreign exchange for qualifying exporters from EXIMBANK. While we are welcoming both measures, one needs to be mindful of the potential undesired effect of some tax incentives. To the extent that, to survive the current economic crisis and source foreign exchange, some enterprises would have exported regardless of the introduction of the incentives, tax revenue is lost without the corresponding benefit to the economy. The effect of the incentive needs to be closely monitored to determine whether the measure creates enough of a shift in market strategy and sufficient new players avail themselves of the export market or whether it simply means a reduction in revenue for the government (albeit arguably possibly addressing the foreign exchange issue).

The Minister has also announced the impending introduction of the Trinidad & Tobago Revenue Authority (TTRA). We have previously advocated for this measure to aim at addressing the tax gap and bolster collection via hiring of well trained and adequately compensated staff, the sharing of information between Customs and the Inland Revenue and the addressing of corruption allegations. This implementation however is not expected to be without its challenges, one of them being for the process to be structured in a fashion that satisfies the Trade Unions.

Notwithstanding the challenges the government faces in terms of shifting the paradigm, there are some positive indicators pertaining to the state of the economy. They include low domestic inflation, a high level of Human Development, education attainment and a per capital income of US$17K.

Is this budget sending a clear signal that the paradigm is being shifted? The Minister has listed six main areas under the old paradigm, namely (1) an inefficient tax administration, (2) a proliferation of poorly targeted subsidies, (3) a highly staffed public sector, (4) inefficient capital expenditure management, (5) a tendency for wage increases to outpace productivity, (6) outdated institutions such as our procurement system. The introduction of the TTRA is targeted at addressing the tax administration issue and some headway was made in the area of the fuel subsidies as well as management of HDC funding and updating of the procurement legislative framework. The subsidy rationalisation seems to be handled on a phased basis and so this is expected to be an area of focus in subsequent budgets. We have however not seen any holistic measures in terms of the overstaffing of public servants, aligning productivity with wage increases and the more effective management of capital expenditure. The Government has certainly started to turn the wheel to shift the paradigm, however the implementation of some of the measures proposed as well as some of those yet to be considered would be critical in achieving this overriding objective.
1. Increase in corporation tax rate

The Minister announced that effective 1 January, 2018 there will be a harmonisation of the corporation tax rate to 30% applicable to all companies (excluding energy and commercial banks). The rate of 30% was introduced in 2016 and was applicable to companies (non-energy) with chargeable profits in excess of TT$1m. Currently, companies with chargeable profits less than TT$1m are subject to tax at the rate of 25%. With the harmonisation of the rate all non-energy companies (excluding commercial banks) will be subject to tax at the rate of 30%.

This new measure will therefore affect those companies that fall below the TT$1m chargeable profits bracket. An increase in the rate of tax is generally not viewed favourably by companies since tax is viewed as a cost to business. For Government, it is typically seen as a viable option to increase revenue. With the increase in rate, T&T has now moved from among the countries in the Caribbean with a low rate of tax to join those countries with a higher rate of corporation tax (see table below). In this regard, while in the short term this measure may increase revenue, it may potentially have a negative impact in attracting investments into T&T.

Given the current state of the economy and the quest to move away from the reliance on the oil and gas revenues, an increase in the rate of tax may be a disincentive to Government’s plan to develop other sectors including the International Financial Centre.

This impact may be further exacerbated by the fact that several Caribbean jurisdictions offer significantly lower tax rates or no tax through offshore regimes (e.g. Barbados, St Lucia, Nevis).

2. Introduction of new corporation tax rate for commercial banks

In the past, commercial banks enjoyed the same tax rate as manufacturing and other non-energy companies. However, the Minister announced the introduction of a new rate of 35% applicable to all commercial banks. The rationale offered by the Minister is to spread the burden of adjustment across all sectors. In T&T, banks are regulated by the Central Bank Trinidad & Tobago (CBTT) and the Financial Institution Act (FIA). Interestingly, the Minister has not indicated whether other institutions under the purview of the CBTT and FIA (such as insurance companies) will be affected by the introduction of the new tax rate.

It is expected that with the increase in rates applicable to banks, the likely fall back is that the costs will be passed on to customers resulting in an increase in banking fees and other related charges.
Analysis of fiscal measures

Additionally, since the Government’s objective is to promote T&T as an International Financial Centre with the intention of attracting foreign financial institutions to T&T, this measure can dissuade companies from investing in T&T. Government should therefore ensure that its revenue generating measures are consistent and not counterintuitive with its overall policies in promoting economic development and stimulating growth in the economy.

This move by the Government to introduce a separate rate of tax to commercial banks is unprecedented in T&T legislative history and the full impact will only be evaluated in the future. It is however not surprising that Government has singled out these institutions to impose a higher rate of tax since over the last few years the commercial banks have been declaring significant profits and as such are in a better position to make a deeper contribution to the national purse.

3. Reintroduction of export allowance/ Promoting Export

The Minister has signaled the intention to reintroduce export allowance to the manufacturing sector. The allowance has been on and off the legislative agenda spanning several decades.

The Minister indicated that the Government will establish a framework which will allow for a reduction on tax revenues generated from incremental exports to existing markets. The details of the measure will be provided in Finance Act 2018. However, it appears from the Minister’s assertion that the allowance will only apply to exports to existing markets. Further, we will trust that the proposed measure will be simplified and not be as cumbersome in its computation and application as under the old legislation.

This allowance was traditionally geared towards encouraging export of goods manufactured in T&T and local services and as a consequence generate foreign exchange within the economy. In the current economic climate where there is an acute shortage of foreign exchange due to the decline in oil and gas revenues this measure will be embraced by manufacturers and the population as a whole and will contribute to a positive balance of trade.

Additionally, the Minister announced the intention to establish a facility capitalised at US$100m to enable exporters to access foreign exchange. This measure will provide much needed foreign exchange to manufacturers and hopefully assist in the diversification effort and generate foreign exchange inflows. The manufacturing sector will no doubt applaud this measure.

4. Increase in taxes Gambling industry

The following measures were introduced:

- Increase in tax on all mechanical games of chance from 20% to 40%
- Introduction of 10% tax on all cash winnings administered by NLCB
- Flat device tax of TTD120,000 annually
- Increase in gaming tax under the Liquor License Act from TTD3,000 to 6,000 for amusement game
- Increase taxes on gaming tables and other devices by private members’ club
Analysis of fiscal measures

The Government continues to seek to increase its revenue collection from this industry which has traditionally been under-regulated and as such the need to address the associated tax leakages.

Moreover, the move to tax all cash winnings is consistent with the Government’s aim to spread the burden of adjustments to all persons/sectors. There are those who will posit that the increase / imposition of taxes on this sector is a positive move because of the social impact of gambling.

5. Incentive for local food production

To encourage farmers in the establishment of larger farms, the Minister announced Government’s intention to amend section 14 of the Income Tax Act to remove the restriction on agricultural acreage to include within the exemption from tax agricultural holdings in excess of 100 acres. This measure is to come into effect 1 January, 2018.

This measure will benefit farmers and encourage the development of larger farms which ultimately will boost the development of the agricultural sector. This measure may potentially result in the reduction of the food import bill and in local food prices. This is a welcomed measure as Government seeks to diversify the economy and stimulate economic growth. The Government is also proposing a grant of TTD100,000 to new and existing farmers. Whether these measures are sufficient to encourage agriculture is yet to be seen but is certainly a step in the right direction. Appropriate checks and balances need to be put in place to ensure that these grants are used for the intended purpose.

6. Exemption of taxes and duties on vehicles using clean / alternative fuel

The Minister has extended the waiver of all taxes and duties to CNG vehicles with engine size under 1599cc. The exemptions previously applicable to hybrid vehicles with engine size in excess of 1599cc has been removed.

The measure is geared towards closing the loophole and discouraging any abuse whereby luxury hybrid vehicles were imported taking advantage of this exemption.

In addition, the Minister announced an introduction of a 25% motor vehicle tax and customs duties on private passenger vehicles with engine size between 1599cc and 1999cc effective 20 October, 2017. A moratorium is granted up to 31 December for all qualifying vehicles already landed or in transit to T&T.

Finally, the Minister is encouraging the use of motor cycles by exempting from all duties and taxes all motor cycles with engine sizes under 300cc. This measure is to come into effect 20 October, 2017.
Who won and who didn’t

Who won

CNG Passenger Vehicles & Motorcycles

- Exemption of customs duties, motor vehicle tax and VAT on CNG passenger vehicles with engine sizes under 1599cc
- Exemption of customs duties and taxes on motorcycles with engines under 300cc

Transportation

- Removal of restrictions on banded Maxi Taxis

Tourism Sector

- Upgrade Programme for Hotel and Guest Rooms: increased reimbursement of expenditure on cost of work per room from 25% - 50%; maximum reimbursement limit increased from $750,000 - $1.5m
- Small Approved Tourism Properties Programme: increased reimbursement of expenditure on cost of work per room from 20% - 40%; maximum reimbursement limit increased from $75,000 - $150,000
- Loan Guarantee Programme: increased subsidization of interest on new and restructured loans from 2% to 5%
- Government Guaranteed Programme: extended maturity period for new loans and refinanced loans for tourism sector from seven years to 15 years

Exports

- Establishment of EXIMBANK facility to allow eligible exporters to access foreign exchange.
- Reintroduction of export allowance.

Agriculturalists

- Agricultural support financial programme: $100,000 grant for new and existing farmers
- Removal of 100 acre of land restriction for exemption from income tax on approved agricultural holdings.

Construction

- Housing construction cash incentive of up to $100,000 or free land to approved developers constructing housing units in accordance with Government specifications
Who won and who didn’t

Who didn’t

All citizens
- Removal of all incentives on passenger vehicles with engine sizes exceeding 1599cc
- Increase by 25% of motor vehicle tax and customs duty on private passenger vehicles with engine sizes exceeding 1599cc and not exceeding 1999cc
- Motor Vehicle Inspection - Increase in the inspection fee from $165 to $300
- Import Duty on Tyres - Custom duties on used tyres (except on buses and lorries) to be increased to 30%
- An environmental tax of $20.00 per tyre on all tyres imported into Trinidad and Tobago
- Fuel Subsidy - Increase in the price of Super Gasoline from $3.58 per litre to $3.97 per litre and the price of Diesel from $2.30 per litre to $3.41 per litre
- 10% tax on all cash winnings by the National Lotteries Control Board

Oil and Gas Exploration and Production Companies
- Rationalise the royalty regime applicable to the extraction of oil and gas. A 12.5% royalty rate now applicable across the board on the extraction of all gas, condensate and oil

Companies
- Corporation Tax rate increased to a flat rate of 30%

Commercial Banks
- 35% Corporation tax rate effective for all Commercial banks

Gaming Industry
- The existing rate of duty on all mechanical games of chance for gambling of 20% to be increased to 40%
- Electronic roulette devices operating in bars throughout the country, will attract a flat device tax of $120,000 annually
- The gaming tax which shall be payable annually under the Liquor Licence Act, Chap 84:10 will be increased from $3,000 to $6,000 in respect of each amusement game
- The taxes on gaming tables and other devices by private members’ clubs would be increased as follows:
  - For every Baccarat Table $100,000 per annum
  - For every Black Jack Table $120,000 per annum
  - For every Caribbean Stud Poker Table $150,000 per annum
  - For every Dice Table $70,000 per annum
  - For every Poker Table $60,000 per annum
  - For every Roulette Table $120,000 per annum
  - For every Electronic Roulette Device $120,000 per annum
  - For every Rum 32 Table $150,000 per annum
  - For every Sip Sam Table $150,000 per annum
  - For every Slot Machine $24,000 per annum
  - For every other table or device not mentioned above $60,000 per annum.

Health Care Section - Private Health Care – License Fee for Private Hospitals
- For institutions classified as Medical or Surgical Hospital, Medical, Surgical and Maternity Hospital or Maternity Hospital:
  - Less than 30 beds: $25,000 per year
  - 30 beds but less than 60 beds: $50,000 per year
  - 60 beds and over: $100,000 per year
The Economist perspective
Deficit and devaluation: solving for growth
by Marla Dukharan

What does the Fiscal Deficit really do for T&T?

Every economy has its challenges and weaknesses, but what is arguably most discouraging is the counterintuitive, and even perverse nature of some of our policies in response to (or perhaps, in spite of!) the threats to sustainable socio-economic stability (let alone growth). This could point to a genuine misunderstanding of how our economy actually works, or worse yet, a determination to pursue politically palatable but economically destructive policies. Let’s assume the former is true.

The formula to calculate Gross Domestic Product (GDP), or the size of the economy, is:

\[ C + I + G + (X - M) = GDP \]

Where:

- C = Consumption
- I = Investment
- G = Government Spending
- X = Exports
- M = Imports

The Keynesian school of thought holds that higher fiscal spending, ‘G’ stimulates growth. But governments are generally behaviourally predisposed to spending rather than saving anyway, supposedly to stimulate the economy, create jobs and improve living standards.

...but does deficit spending generate growth in T&T?

An Inter-American Development Bank (IDB) study found that almost 50% of the increase in fiscal spending between 2003-2008 was devoted to Transfers and Subsidies alone, and was found to reduce growth in the short run, as evidenced by a post-crisis growth average of near-zero.

The main reasons for this is that our economy is characterised by low fiscal multipliers (where a 1% increase in fiscal spending leads to only a 0.32% increase in growth) and high fiscal leakage (where roughly 80% of fiscal spending ‘leaks’ out in the form of imports, either directly via Goods and Services spending, or indirectly via the private consumption that fiscal spending creates through Wages and Salaries, and Transfers and Subsidies).

Touting higher fiscal spending and deficits as an avenue to grow the economy in T&T is misleading at best therefore, in addition, higher fiscal spending, and by extension higher consumption, drive higher levels of imports and outflows of USD.

Marla Dukharan, Chief Economist, Bitt Inc.

Marla Dukharan is recognised as a top economist and thought-leader in the Caribbean, well-known for her monthly Caribbean Economic Report, monitoring major economic developments in over 20 countries. Marla has established herself as a key point of reference for Caribbean issues on a global scale, leading discussions and publishing reports on the Caribbean implications of Brexit, US relations with Cuba, and changing US and Chinese policies, among other geopolitical developments. Marla has become a leading voice in the call to reduce gender and income inequality, promote new models for growth and to attract foreign investment, and to introduce fiscal responsibility frameworks.
The Economist perspective
Deficit and devaluation: solving for growth
by Marla Dukharan

largely driven by government spending ‘G’ it stands to reason that there are, in effect, negative signs in front our ‘C’ and ‘G’ leaving only exports ‘X’ and investment ‘I’ with (meaningful) positive signs.

How do we encourage exports and investment, in order to generate growth?

There is one fundamental issue that must be resolved in order to better facilitate and encourage exports and investment, and that is the Foreign Exchange (FX) Regime.

The Central Bank’s current approach to managing FX, both in terms of how it (unilaterally) sets the exchange rate, and how it manages the FX supply in the financial system, is damaging the non-energy sector, and has given rise to a black market for FX. Let me explain:

1. The International Monetary Fund (IMF) estimated in 2016 that the TTD was 21-50% overvalued, meaning that it should otherwise trade between TTD8-10:USD1. At cambios, the USD sell rate is usually between TTD8-9:USD1, suggesting that the IMF’s calculation is not unreasonable. In addition, a 2016 United Nations and Economic Commission for Latin America and the Caribbean (UN ECLAC) report listed the TTD as the single most overvalued currency in the Caribbean and Latin America.

By maintaining an overvalued currency, the CBTT is in effect subsidising imports, and making our exports more expensive.

This has negative implications for net FX inflows, economic diversification, and the overall performance of the non-energy sector.

2. FX rate expectations affect inflation expectations, private consumption and investment behaviour, import and export patterns, non-energy sector investment and activity, and overall economic performance as a result. Specifically, an overvalued currency could arguably create expectations of depreciation, causing consumption demand (of imported goods) to be brought forward, higher speculative and precautionary demand for USD, investment in TTD to be delayed, and a flight to quality / capital flight – all of which are not conducive to export and investment promotion.

3. The TTD has been depreciating since November 2015, at roughly 3.3% year-on-year (y/y) to August 2017. At this pace of depreciation, it will take until November 2021 to get to TTD8:USD1. A more effective approach would be to have a higher degree of flexibility and market determination in the FX rate, which once existed when there was an auction component to the Central Bank of Trinidad and Tobago’s (CBTT) FX injections.

The CBTT has stated its primary policy agenda is controlling inflation, which has been averaging below 3% since September 2015, despite the TTD depreciation, various tax and gasoline price increases. Clearly there is scope for more aggressive TTD depreciation, based on market influence, which could help to resolve some of the supply vs. demand imbalance.

4. The World Economic Forum’s Global Competitiveness Report 2016-17 cited “foreign currency regulation” as the fifth most problematic factor for doing business in T&T. This factor saw the biggest jump, becoming more problematic by the widest margin across all factors measured in last year’s index. In the 2017-18 index, “foreign currency regulation” moved up one spot, surpassing “crime and theft” to become our nation’s fourth most problematic factor in doing business.

So, FX is now deemed to be an even bigger problem than crime! This is not an exchange rate issue, but a FX supply issue. As the IMF’s 2016 staff report stated, “Queues (for FX) now appear to be of macroeconomic significance, due to the delays in obtaining foreign currency for current imports and for debt servicing.”

5. The total (CBTT injections plus public sales) supply of FX to authorised dealers, and therefore to the public, has been declining steadily on a 12-month rolling basis since October 2015, as the following chart shows. The level of reserves stood at roughly 10.1 months of imports at USD8.7b in August 2017 — down 15% year on year.
Contributing to this, is the fact that while the CBTT sold USD1.8b to authorised FX dealers in 2016 - 30% less than they injected in 2015 - there has been a 21% y/y increase in CBTT injections to August 2017, at USD1.275b. Notwithstanding this, the total supply of FX coming to authorised dealers to August 2017 has declined 12.4% y/y to USD3.452b, based on significantly lower sales to authorised dealers from the public (mainly the energy sector). Historically, about 75% of all FX sales to authorised dealers came from the public, but that number has now dropped to roughly 63%. FX sales to authorised dealers from the public dropped 24.5% y/y to USD2.2b to August 2017 – well below the average for the same period over the past five years, of USD3.3b.

6. Finally, the authorities’ de facto FX controls are in breach the IMF’s Article VIII, to which we are signatories. According to the IMF’s June 2016 report, T&T “maintains an exchange restriction and two multiple currency practices... The exchange restriction arises from the authorities’ restriction of the exchange rate (i.e., by restricting the maximum market buy and sell rates, and prohibiting FX transactions beyond the maximum rates), while not providing enough FX (i.e., through the CBTT’s FX interventions) to meet all demand for current transactions at that rate. The CBTT also limits sales of its FX intervention funds to meeting only “trade-related” demand, which do not include non-trade transactions that are, however, current international transactions as defined under Article XXX(d) of the IMF’s Articles of Agreement, and encourages authorised dealers to similarly prioritise sales of FX obtained from other sources. These actions result in undue delays in access to FX to make payments or transfers for current international transactions and external payment arrears.”

It stands to reason that there could be a positive relationship between the severity of the de facto FX controls (which are unpredictable), the demand for FX, and portion of that demand which is satisfied via the black market. Ultimately therefore, it appears that the authorities’ approach to managing FX is undermining and in effect devaluing the TTD in any event.

Perhaps a meaningful TTD depreciation could reduce the USD supply vs demand mismatch – certainly for speculative and discretionary demand. A depreciation to a more-realistic exchange rate could improve the price competitiveness of our exports, once the import component is not high. This, of course, excludes Petrotrin - and perhaps herein lies the dilemma.

The latest trade data from the CBTT for Q1 2017 show energy imports increasing (mainly crude oil, which is our nation’s number one import while non-energy imports are declining (consistent with an economic contraction). We need to address the extent to which we are subsidising imports (and Petrotrin) by maintaining an overvalued currency.

Perhaps the reluctance of the authorities to depreciate the TTD has more to do with this dilemma than economic policy. There is no better time than the present to implement the necessary adjustment, as we already know that higher fiscal spending does not create sustained growth in T&T.
Energy sector perspectives
....on factors that impact diversification

Derek Hudson
Vice President and Country Chair of Shell T&T

Derek Hudson is a geologist by profession and has worked in the oil and gas industry for almost three decades. With the merger of Royal Dutch Shell and BG Group operations in February, 2016, Derek served as Shell’s Vice President Tanzania, followed by his current post in Trinidad & Tobago.

Derek also currently sits on the Board of Scotiabank T & T Ltd

What opportunities are there for financing to grow new initiatives and new businesses?

Necessity is the mother of invention. I use that apt cliché as the conversation around diversifying the economy away from its primary reliance on the energy sector is not a new one. Innovative adaptions to existing businesses and creating new enterprises in the Information Technology/Tourism/Financial and other sectors have the powerful potential to drive our economy when returns from the energy sector are lower than previous years. The Central Statistical Office (CSO) estimates that Small and Medium Enterprises (SMEs) make up 85% of all registered businesses in Trinidad and Tobago, but that only 11% use start-up funding from formal financial institutions. That must tell us something.

Circumstances now demand that we infuse innovation and collaboration into the way we operate. This includes the tailoring of specialised financial services to support growth, this means developing the expertise of the leaders of both large corporations and SMEs to take advantage of financial options and perhaps most importantly, this means that the right national environment be developed where new initiatives and business are encouraged to grow and expand. Some of these are being done – but from my perspective – they are being done in silos and (with a) subjective agenda and we can no longer afford to work like this.

In other words, while the creation, the tailoring and the marketing of relevant financing options are a critical aspect of the development of new businesses, it is just one component, and we will fail if all the pieces of the puzzle – development of leadership and entrepreneurship capabilities, the support and encouragement of innovative business practices, through mentorship programmes for example; the creation of a national environment that inspires innovation and risk taking are not also taken into consideration.

To do business well, and to do it competitively, we need Research and Development; where is the Research and Development coming from to spur on diversification?

How can we encourage companies with relatively little capital and perceived limited options for financing to invest in Research and Development (R&D)? As a country, I believe that we have not effectively encouraged a national R&D environment which gives both the public and private sectors the motivation or confidence to invest appropriately in R&D for economic growth.
Energy sector perspectives
....on factors that impact diversification

The answer I believe, lies again in creating an operational framework where all stakeholders – private business owners; financial institutions, the state, our universities, define our roles and responsibilities in reshaping a national diversification strategy that is relevant in the global space. And just as importantly, all stakeholders have to play an active part in devising an implementation plan with specific and concrete milestones that are shared with wider society. The learnings from the creation of Vision 2020 can be rehashed in the establishment of this objective.

Can a taxation system be a way out; can it be a catalyst or a hindrance in arresting and reversing the current downward trend?

Fiscal systems when properly structured, implemented and managed can go a long way in incentivising new, incremental and returning investment into an industry. Similarly, poor systems can inhibit and dissuade new and existing players from investing.

From an oil and gas perspective, a well-structured system will consider the maturity of the hydrocarbon plays, infrastructure, life cycle of current fiscal systems and its adaptability to new developments and the makeup and amalgamation of the players involved in the industry. Fiscal systems should aim at rewarding risk takers with an appropriate share of the rent and incentivise existing players to positively go after incremental investments and marginal developments.

To agree that fiscal incentives can address the current short term decline is to agree that there exists on-block potential that for sound economic reasons are not being developed at present, although at a glance that is not the only reason.

Some existing Production Sharing Contracts heavily penalise incremental developments through reduced levels of cost recovery and reducing share of whatever profits if any are envisaged.

Investors will require sufficient returns on every dollar spent to attract investment capital to this region, they must work together with tax planners to improve the optimisation of these incremental and marginal developments through either ring-fencing or a full reset of the fiscal clock. Holders of tax royalty agreements can also benefit from sliding scale taxes on both gas and liquids allowing flexibility around changing economic conditions.

Continued collaboration between the state and energy companies to address this issue is necessary as we seek to stabilise and then eventually grow the local energy sector into the next decade.
The T&T economy continues to be faced with economic contraction, resulting from reduced oil and gas production and depressed energy prices. The Central Bank Draft Monetary Policy Report as at May 2017 projected that the fiscal deficit for 2016/17 would be TT$5.9 Billion which represents 3.6% of GDP. According to the Economic Intelligence Unit (EIU), real GDP is forecast to grow by only 0.8% in 2017 and by an annual average of only 1.6% from 2018-21. This means that it will take until 2021 for the country to recover the output levels experienced before the 2015-16 recession.

Source: Review of the Economy 2016

Statistics from the Ministry of Energy and Energy Affairs (MEEA) shows for the 7-month period Jan to Jul 2017 crude oil and condensate production (BOPD) declined by 3.5%. For that same period, natural gas (MMSCF/D) had a marginal increase of 4.8% with a 3.9% increase in utilization. Given the current state of the oil and gas sector and OPEC’s efforts to increase prices by cutting production being counteracted by the US shale production, the likelihood of oil prices reaching anywhere close to US$100 per barrel in the near future would be overly optimistic. The average spot prices for WTI and Henry Hub for the period Oct 2016 to Mar 2017 was US$50.45 per barrel and US$3.025 per million Btu respectively. The Honorable Minister of Finance advised that the budgeted revenue for 2018 will be predicated on an oil price of US$52.00 and a gas price of $2.75 per MMBtu which is below the forecast from the International Monetary Fund, World Bank, United States Energy Information Administration and International Energy Agency.

Source: MEEI

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**Bridging the gap in energy wealth**
Oil prices have dropped dramatically since mid-2014 and going forward, oil prices are expected to remain low, increasing only modestly over the medium term forcing energy companies to cut capital expenditure and revamp their value chain activities for cost cutting measures. T&T being heavily dependent on the revenue from the oil and gas sector has seen a significant reduction in the energy revenue over the last year. As indicated by the Minister there has been a catastrophic reduction in revenues from petroleum over the last 3 years of approximately 90%, from TT$20.9 billion in 2014 to TT$2.8 billion in 2017. Based on the CBTT Monetary Policy Report, energy revenue for the period Oct 2016 to Mar 2017 was TT$4.0 billion lower than the corresponding period in the prior year. The decline in revenue from the energy sector has also adversely impacted foreign exchange inflows and foreign reserves. The Minister indicated that annual inflows of foreign exchange from the energy sector have decreased from US$3.2 billion in 2011 to US$500 million in 2017 which represents an 84% reduction in foreign exchange inflows which has caused a loss to the country of US$2.7 billion per year in foreign currency.

As T&T continues to undergo severe revenue shortfalls, the government utilized foreign and domestic borrowings and withdrawals from the Heritage and Stabilisation Fund (HSF) as mechanisms to bridge the gap between budgeted expenditure and revenue. In summary, the HSF is to be used during periods of revenue downturn (e.g. due to fall in prices of crude oil or natural gas), to support public expenditure capacity as a result of revenue downturn and to provide a heritage for future generations. Since inception of the HSF in 2007, the Government has made two withdrawals in the space of less than a year. The first was in May 2016 and second in March 2017 of US$375.05 million and US$252.55 million respectively. The value of the HSF as at June 30 2017 was US$5.6 Billion. In comparison, Norway which has the largest sovereign wealth fund in the world made its first withdrawal from their “oil fund” in 2016 to cover similarly, budget deficits.

Diversification as echoed throughout the current and successive national budgets should play a pivotal role in decreasing our dependency on revenue from the energy sector to finance Government spending. As the economy strives to recover from the recession, low oil prices and depleting natural resources, the Government must ensure we remain competitive as a country and therefore be able to
Bridging the gap in energy wealth

attract Foreign Direct Investment (FDI) for the non-energy sector. Pursuing renewable energy initiatives by supporting clean energy such as wind, solar, hydropower and geothermal energy, thereby moving away from fossil fuels would assist in the diversification the economy and doing our part in the fight against global climate change.

Building a strong, sustainable economy requires building a diversified economy, one that is not overly dependent on a single commodity thereby, reducing the country’s economic volatility. The road to a more diverse economy will depend on the diversification strategy chosen, whether it will be horizontal or vertical. Vertical diversification would focus on sectors where T&T has an immediate comparative advantage. For example our natural gas production is used to manufacture petrochemicals, LNG and power generation however, due to the local consumption of natural gas for use in the electricity sector natural gas that would otherwise be available to manufacture petrochemicals and LNG for exports is used for electricity consumption consequently limiting our US dollar earning capacity. The use of alternative energy would promote a greener environment in T&T while making available natural gas for manufacture of petrochemicals and LNG for export. The removal of the electricity subsidy which amounts to about $750 million annually can assist in pushing the economy towards alternative energy and consequently, the increased electricity prices would generate additional revenue for T&TEC. Such strategy could stimulate economic growth and employment however, it would not help significantly reduce the dependence on energy sector.

Horizontal diversification strategies would consist of expanding activities beyond the energy sectors. The potential for horizontal diversification in T&T is copious. Areas such as the agribusiness sector, tourism and manufacturing are presumably areas of untapped potential. However, there must be policies that reduces start up and production costs in new sectors and raises their efficiency, as it would encourage the entry of investors with new capabilities and knowledge. According to the World Investment Report 2016 which was published by United Nations Conference on Trade And Development (UNCTAD) T&T is the largest recipient of FDI in the Caribbean. However in 2015 there was a 35% decline in inflows of FDI to T&T which was due to the slowdown of energy activities. This contributed to a 35% contraction in FDI flows to T&T, where more than 80% of FDI stock is held in mining, quarrying and petroleum. Whereas our neighbor Jamaica had a 24% growth in FDI, making it the second largest FDI host economy in the Caribbean. Unlike T&T, Jamaica’s FDI portfolio is more diversified and depends more on the services sector, and the growing tourism industry helped attract more foreign capital not only in tourism but also in other industries.

Attracting foreign direct investment for the non-energy sector will be crucial to be able to realise the dream of a diversified economy. Jamaica has demonstrated that having a diversified portfolio helps attract more foreign capital and therefore, will ultimately help achieve a strong and sustainable economy.

While diversification was one of the topics in the National Budget, it is clear that strong reliance is still being placed on the energy sector. The Minister indicated that they have started a review of the energy tax regime with the main objective to reform the regime to encourage investment in the energy sector and to raise the Government’s revenue-take. Areas under review are:

• making the Supplemental Petroleum Tax (SPT) responsive not to price but to underlying profitability;

This measure will be especially welcomed by producers operating under farmouts and leasehold operatorship agreements as they have continuously voiced their dissatisfaction over the current SPT system. By moving to a profit based system the cost of the producers operations will not automatically increased once oil prices reaches US$50. However, this measure will reduce government’s revenue from taxation.
Bridging the gap in energy wealth

- **extending the SPT to gas, which is now the country’s main petroleum product;**
  
  This measure would most certainly generate additional energy revenue for the government. However, it may not be too welcoming by energy companies as this will add an additional layer of cost on their operations. We assume the system will be similar to SPT on crude oil i.e. SPT paid will be allowed as a deduction when computing PPT as this will help in easing the additional (SPT) burden now faced by the gas producers.

- **reconciling and simplifying of the fiscal regimes applicable to the exploration and production and production sharing systems;**
  
  This will be welcomed as there is a myriad of tax deductions, allowances and credits available to petroleum companies under the Petroleum Taxes Act and the simplification will definitely reduce the administrative cost and time in calculating the company’s tax liability. Any removal of tax deductions, allowances and credits available must be adequately replaced to avoid the petroleum company being in a worse off position after simplifying the fiscal regime.

- **standardizing and uniformly applying appropriate royalty rates to all crude oil, condensate and gas.**
  
  This measure should eliminate any bias on royalty rates across the commodities. However, any increase to the royalty rate would concurrently increase the petroleum company’s cost of production which will impact smaller producers’ business viability.

One of the Minister’s concerns is that energy companies are paying no Petroleum Profits Taxes (PPT) which he anticipates will extend to the next 7 years due to the current fiscal regime allowing 100% write off of exploration cost in the financial year incurred and the accelerated capital allowances (3 year write off). The current fiscal regime pertaining to capital expenditure (exploration, development and production cost) will expire on 31 December 2017 therefore, a new fiscal regime is needed which must be competitive enough to encourage investment in the energy sector. In keeping with global tax depreciation rates, a 5 year straight line write off all capital expenditure incurred may be considered. However, this should be communicated as soon as possible to allow energy companies sufficient time plan/forecast their 2018 capital expenditure on which the tax impact will play a vital role.

To alleviate this issue of no PPT the Minister proposes to impose effective December 1st 2017 a 12.5% royalty on the extraction of gas, condensate and oil which is to be calculated on the fair market values fixed by the Petroleum Pricing Committee.
Guyana and Trinidad and Tobago (T&T) have been on different paths in their economic trajectories over the last two or more years. Over the period T&T’s economy has contracted while Guyana’s economy was projected to grow by 4% by the end of 2016. This can be attributed to several factors relating to both economies including the dramatic decline in oil and gas prices in the case of T&T and the expansion of the mining and services sectors in Guyana.

According to the International Monetary Fund (IMF) World Economic Outlook 2016 Guyana is listed as one of the Caribbean economies that expected positive results for 2016. Meanwhile in T&T the Central Bank of T&T reports in its Economic Bulletin – March 2017 that production indicators of real economic activity suggest weaker performances in both the energy and non-energy sectors in the latter half of 2016. The report further discloses that the fourth quarter of 2016 the energy sector showed year-on-year declines in the production of crude oil (4.2%) and natural gas (10.8%). The recent report from the Central Bank also discloses that for the first half of 2017 crude oil production remained relatively unchanged from the previous year. The downstream sector suffered a similar fate owing in large part to the setbacks in the upstream sector.

Against this backdrop the Government is forced to find or embrace creative alternatives to stimulate economic development. Attention is therefore being turned not only to the traditional sectors such as tourism, agriculture and manufacturing but also to emerging sectors within the wider oil and gas industry.

T&T has been in this sector for over 100 years and has a rich history in the oil and gas space. As a result, it has developed sound expertise in all aspects of oil and gas operations from exploration and production to supply chain management. It is therefore prudent for the country to leverage on its experience and competence in the oil and gas sector as one of the viable alternatives to stimulate economic growth.

In this regard, the concept of “shorebase” is therefore swiftly emerging as a relatively new economic activity in T&T that presents a sound framework for the diversification of the T&T economy and ultimately a critical contributor to the growth and development of the economy.

The importance of the shorebase model is amplified by the infrastructural challenges within the oil and gas sector in Guyana (and Suriname). In Guyana as a result of the discovery of oil in commercial quantities by Exxon Mobil and the increasing demand for related services such as drilling and other oil field services, there has been an unprecedented demand for certain infrastructural facilities such as a reliable port and storage facilities. The notable absence of these have led companies to turn to T&T for such support.

What is a shorebase?

A shorebase is a physical location through which resources and other logistics are managed and coordinated. The shorebase model entails multinational companies in particular upstream companies investing in Guyana, leasing a physical location in T&T usually in the Chaguaramas area to coordinate its logistics in relation to its Guyana or Suriname drilling or other operations. Generally, the following are the salient features of the shorebase model/structure:

i. The foreign company generally does not trade in T&T and therefore earns no income in T&T;

ii. The facility is used for storage of goods and equipment to be used in the overseas operations;

iii. Goods and equipment are transported from the shorebase location to the operations site;

iv. Typically, the facility is managed by expatriate personnel of the company who are based in T&T for the duration of the project or activity overseas.

While the shorebase structure presents a viable alternative for government to diversify and stimulate the economy, the potential of the model as an economic stimulus has not to date been fully appreciated / leveraged by the authorities. For instance, there is no separate regime to regulate these companies and to ensure that the economic benefits received from the overseas activities at the very least redound to some benefit to the T&T economy and population.
The shorebase connections

The anomaly is that the local system has not been configured to encourage and promote investment through this structure. Companies are increasingly faced with challenges in obtaining work permits for their expatriate employees as well as undue delay in some cases in the importation of goods and equipment to be used to support the shorebase companies’ activities. The tax authorities have not provided any clarity on establishing taxable presence in a non-treaty context as well as the challenge of obtaining VAT registration where a company is not registered for corporation tax.

Nevertheless, the model presents attractive opportunities including the following:

- Employment for locals
- Increased business for certain companies e.g. waste management, shipping, transportation, fuel distribution, brokerage
- Increase in revenue for Government through work permits, visas and other regulatory fees
- Increase in revenue through possible taxation of the companies.

As the Government continues to evaluate its fiscal policies and legislative agenda for the next fiscal year, it is hoped that this area will be a key focus and that the appropriate legislation and policies will be implemented in the near future that will encourage and promote this type of model. Among the areas for consideration are as follows:

1. Legislation prescribing a separate regime in respect of the taxation of these entities/operations. The legislation should provide clarity on the tax treatment of these entities. It is suggested that an offshore taxation structure similar to the International Business Company (IBC) configuration available in several Caribbean territories be considered. Under this structure consideration can be given for these companies to be subjected to a less onerous tax regime provided that no further economic activity is pursued by the company in T&T other than the shorebase.

2. A simplified process for expatriate personnel to be employed at these shorebases where work permits, visa or similar documents can be easily obtained to allow these persons to exercise employment in T&T;

3. Appropriate local content legislation that ultimately seeks to maximise the utilisation of the talent pool available in T&T;

4. A mandatory fund established similar to the Green Fund Levy mechanism where these companies are required to contribute to the social development of T&T.

The above suggestions are not intended to be exhaustive but merely to set the tone for an holistic and comprehensive review of the model that will find a balance between promoting investment in T&T and at the same time encourage those companies preparing to launch into Guyana in this new wave of economic activities in the latter country.
VAT Refunds
...the waiting game

Business impact of VAT refunds

VAT was designed to ultimately be collected from the final consumer with the collection of the tax being spread through the supply chain: the various agents (buyers, suppliers and consumers) contribute VAT only on the incremental value they have provided along the chain. As a general principal (subject to a few exceptions) VAT ought to be recoverable by VAT registered businesses via offset of output VAT (on sales) against input VAT (on purchases).

This principle underpins the neutrality of the VAT system, a feature which makes it an attractive tax for governments seeking to raise additional revenue via taxes since it is not seen to impact a business’s investing decisions (unlike Corporation Tax for instance). However, from the moment that the excess input VAT over the output VAT is not refunded at all or that there are significant delays in the release of these funds by the tax authorities, VAT becomes de facto a cost of doing business and a tax on production. Our economy currently falls squarely within this scenario. The potential impact is a distortionary effect on market prices and competition and consequently on economic growth. Additionally, it may very likely lead to non-compliance - this latter effect cannot be condoned by any means.

Global Statistics

As part of the Doing Business project, the World Bank Group conducted with PwC’s collaboration, the publication “Paying Taxes 2017” was released. It is a study conducted on a global scale which aims at comparing the tax obligations and administrative burden of complying with same. The illustrative case study used to conduct the comparative analysis features a 100% locally owned company which performs general industrial or commercial activities and incurred in the month of June 2015 an excess of input VAT due mainly to the purchase of machinery.

We have outlined below some of the salient findings of the study as it relates to the area of VAT refund with a particular focus on the following two notions:

(1) Time to comply with a VAT refund - defined as being made up of the following two elements:

- Number of hours relating to the process of claiming a VAT refund: gathering VAT information from internal sources; any additional analysis of accounting source; calculating the VAT refund amount; preparing the VAT refund claim; preparing any additional documents needed to substantiate the VAT refund claim; making representations at the tax office if required; completing any other mandatory activities or tasks associated with VAT refunds.

- Number of hours relating to the process of an audit where triggered, namely gathering and preparing information and any documents (receipts, financial statements, pay stubs) required by the tax auditor and submitting same.

(2) Time to obtain a VAT refund (in weeks) defined as total waiting time to receive a VAT refund from the moment the request has been submitted. It includes the average waiting time to submit the refund claim, any mandatory carry forward time before a cash refund can be paid (not applicable in T&T) and where the case study scenario triggered an audit, the time spent interacting with the auditor from the beginning of the audit, the time waiting for the final assessment once all information and documents were supplied to the auditor and that the interactions have stopped.
VAT Refunds
...the waiting game

Post-filing index and components

<table>
<thead>
<tr>
<th>Post-filing index (Note 1)</th>
<th>Time to comply with VAT refund (hours)</th>
<th>Time to obtain VAT refund (weeks)</th>
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<tr>
<td>Antigua &amp; Barbuda</td>
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Post-filing index and components

While VAT refunds are an integral component of a modern VAT system, the study shows that there are significant discrepancies across the various territories reviewed in the time spent to comply with a VAT refund and the time to obtain a refund and thus in the general performance of the VAT systems in these regions.

(i) Efficient VAT refund systems

Based on the case study scenario, the OECD high income economies process VAT refunds most efficiently with an average of 14.4 weeks to reimburse a VAT refund (including some economies where an audit is likely to be conducted.) Economies in Europe and Central Asia take an average of 16 weeks. This implies that those economies provide refunds in a manner that is less likely to expose businesses to unnecessary administrative costs and detrimental cash flow impacts.

From the moment a taxpayer submits the case study VAT refund claim in Austria, it takes only one week for the tax authority to issue a refund; and it is unlikely that the request would trigger an audit. The refund is processed electronically through online banking. In Estonia, despite the fact that the claim for a VAT refund per the case scenario is highly likely to trigger a correspondence audit, the process is efficient. The VAT refund is reimbursed in 1.7 weeks on average assuming the refund is approved. This includes the time spent by the taxpayer engaging with the auditor and the time waiting until the final tax assessment is issued.

(ii) Poor VAT refund systems

By contrast, obtaining a VAT refund in Latin America & the Caribbean (9 economies in the Caribbean) takes on average 35 weeks. In the Middle East & North Africa and Sub-Saharan Africa, it takes on average 28.8 and 27.5 weeks, respectively. In Sub-Saharan Africa, the refund waiting time is longer because in most of the economies in the region where cash refund is allowed, taxpayers are likely to be audited before the refund is approved.
VAT Refunds
...the waiting game

(iii) Taxpayers’ rights

According to the VAT legislation, VAT refunds are to be paid within six months failing which the taxpayer is entitled to interest. Needless to say the provision is not enforced. However, statistics show that it seems to be a global issue.

It is noteworthy that in 68 of the 93 economies that allow for VAT cash refunds the legal framework includes a time limit to repay the VAT refund starting from the moment the refund was requested. These time limits are always complied with in practice in only 29 economies (21 of which are high-income economies). The law provides for interest to be paid on late VAT refunds by tax authorities in 70 economies covered by Doing Business. However, the payment of interest always applied in practice in only 32 economies. The prescribed interest period typically begins when the tax authority fails to refund VAT within the prescribed statutory deadlines.

Conclusion – Recommendations

The time frame to obtain a VAT refund is a notoriously-bandied-about weakness of the local VAT system. While the current economic climate is a definite contributor to the delay in the Board of Inland Revenue (BIR) releasing VAT refunds, much can be learnt from looking into the features of some of the most efficient VAT refund systems around the world. We have listed below our recommendations, in keeping with best practice, to address this perennial weakness of our VAT system.

1. Enforced regulatory frameworks - OECD and European economies for instance are among the top scorers for the efficiency of the VAT refund system. This success was imputed to the commitment of OECD countries to apply the OECD International VAT guidelines and to the binding nature of the 2010 European Union Directives on VAT implementation. There is the need for a formal mechanism to enforce Section 35(3) which deals with the imposition of interest on refunds outstanding for more than six months. This is an item we suggest be put on the agenda of the proposed Revenue Authority.

2. Effective VAT audit programs - A notable source of delay in releasing refunds is the VAT audit process. Audits are an essential part of a functional VAT system since they contribute to taxpayers meeting their compliance obligations and help tackle fraud. However, successful jurisdictions are those able to strike a balance between the need for audits as a monitoring tool and the extent and nature of the audit. With the objective of using the limited resources available to them efficiently, these jurisdictions factor the quantum of potentially underpaid tax to isolate high risk transactions. Further, some tax authorities conduct limited scope audits with a narrow focus restricted to specific issues in the VAT return or can even be limited to a single item in the return. In the case of Hungary for example, the VAT refund claim as per our scenario, is likely to trigger an audit but it only takes just under 14 weeks to obtain the refund. This is shorter than the overall average for high income economies. We highly recommend the isolation of high risk clients and limited scope audits to ease the refund process.

3. Good electronic systems - Electronic systems provide vast amounts of data which tax authorities can analyse and correlate with other data sets to identify unusual transactions and patterns of behaviors and so assess the level of risk represented by individual companies.

4. Austria has the most efficient VAT refund system. The likelihood of an audit is low for our case study, and time frame to receive a refund is the shortest across all countries (approximately 3.2 weeks). This may be due to the Austrian Ministry of Finance being one of first tax authorities to use a standard audit file format (Standard Audit File for Tax) for the electronic exchange of reliable accounting data from organisations to a national tax authority.

5. The integration of Customs and Inland Revenue systems can also offer a data sharing platform. So can exchanges with financial institutions for instance and service providers. A solid legal framework would need to be put in place to facilitate those exchanges. More importantly, a data analytics team would need to be associated with
VAT Refunds
...the waiting game

setting up the reporting facilities so that the valuable information gathered do not go to waste local offsetting rules. While this did not feature in the study as a necessary feature of a good VAT system, it is noteworthy that local companies have in more recent times faced untold difficulties in obtaining the agreement of the Board of Inland of Revenue (BIR) to offset their refunds against future liabilities. The BIR however unilaterally uses this avenue to offset penalty and interest due as well as assessed VAT liabilities.

Section 35(2) of the VAT Act provides as follows:
Where, in a return furnished to the BIR on accordance with section 31, a refund of any amount is specified as being due, the BIR shall satisfy the amount -

a) by paying the amount, or any of it, to the person to whom the refund is due; or
b) by applying the amount, or any of it, to the payment of any outstanding tax, interest or penalty payable under this Act or any other Act administered by the BIR by the person to whom the refund is due.

We were reliably informed that the BIR is currently of the opinion that this Section allows it, at its discretion, to apply offsets, but is not worded in such a way as to constitute a right of offset at the taxpayer’s request. The Section does not debar the BIR from accepting a taxpayer’s request for offset (and this is illustrated by the fact that the BIR in the past entertained those requests). In recent times however, the BIR has been reluctant to grant such requests. While we understand the cash flow issues faced with the BIR at this time, we suggest more equity in the application of Section 35(2)(b). Consideration can also be given to applying the offset of VAT refunds across different types of taxes.

Source: Paying Taxes 2017. World Bank Group with the collaboration of PwC
Leadership in a VUCA World

by Maxine Atong

System theorists have proven that external societal impacts affect organisational systems. When we map the correlation between societal stress levels caused by an increasing crime rate, and infrastructural deficiencies, to reduced productivity levels; we can attest that our organisations are a microcosm of the larger society. What if we can reverse this? What if our leadership can deliberately impact on the larger T&T society?

We live in the VUCA (volatile, uncertain, complex and ambiguous) world, in which the butterfly effect is our new reality.

Change on the world stage is felt faster and in larger proportions, leaving us with little time to react. The drastic reduction in oil and gas prices and the trickle down effects have affected all that we considered normal - access to foreign exchange, spending patterns, job stability and economic recovery. When we consider the sobering effects of climate change that have left our Caribbean neighbours devastated and the viability of social media as a platform for leadership can make a redounding difference to the wider T&T. The maximum leader who thrived in an environment devoid of social media, without knowledge of international trends or no millennials needs to make way for an embrace to the collective. As the world’s volatility increases, and we grapple with changing international policies (Brexit, Trump administration) there is need for more collaboration in the workplace.

In 2013/4 when tax revenues were at $57.2b, we could isolate ourselves from world trends, but in 2017 when tax revenues are estimated at $38.7b (a 31% reduction) we are forced to pay attention.

Our economy has flattened and the government’s capacity for projects has diminished. What is the role of each of us in this new scenario? If we accept Hind’s argument that, “on the political and governance front, we are seeing the near collapse of almost every institution of governance and service delivery by the State”* we also accept that leadership needs to emanate from the non-government enterprises that constitute the business community in T&T.

An unemployment rate of 4.4% (2016 Central Statistical Office means that most of our citizens are employed in establishments where we interact and interrelate with internal and external stakeholders. We belong simultaneously to families, communities, to work teams, and leadership teams within various industries all nested in T&T. We are part of multiple systems that create harmony or tensions within the workplace. Beisser’s 1970 essay, Paradoxical Theory of Change shares, “change does not take place through a coercive attempt by the individual or by another person to change him, but it does take place if one takes the time and effort to be what he is …”. No longer can we wait for the government, there is a need for a new remit from all who consider ourselves leaders.

The experiential learning experience of systems is important for our leaders to understand the possible far reaching impacts of his/her leadership. We need to be aware of the wholeness of “each part (of our organisations), the dynamic relationships between the parts, the whole (higher-level) entity they form together, and the interdependence among the parts and the whole” Stevenson (1970, p.114)*.

When we deal with a team member we become conscious that we dealing with more than an individual, we are dealing with his family and his community. Therefore our leadership can make a redounding difference to the wider T&T. The maximum leader who thrived in an environment devoid of social media, without knowledge of international trends or no millennials needs to make way for an embrace of the collective. As the world’s volatility increases, and we grapple with changing international policies (Brexit, Trump administration) there is need for more collaboration in the co-sensing of our next move. The leader who makes decisions on his own or with only his leadership team does this from a position that only considers the impacts his/her system, with many assumptions about the collective impacts on families, communities and the wider T&T.

More than ever, the call is for leadership to harness the creativity and intelligence of the people with whom we work, so that we can positively impact on the wider T&T. We can no longer wait on a better economy, or a recovery of oil and gas prices, or for the discovery/ development of new gas/oil reserves. The call is urgent and the response must now. Our economic situation has changed and our world has shrunk.

*Ronald Hinds address T&T Chamber of Commerce & Industry address - Sept 2017

Data – Are you maximising one of your greatest assets?

The ‘big reveals’ in your data can help you make ‘big decisions’

A recent IMF press release stated “the economy may be starting to turn a corner as a result of a projected recovery in gas output” and that while slow, this growth may continue to the medium term, however many companies continue to face challenges in the current economic environment.

A subdued investment climate, rising prices and grave difficulty accessing foreign exchange have kept most businesses busy with addressing operational concerns. In spite of today’s economic challenges, decision-makers are faced with the continuous demand for growth, while also facing an ever-evolving inventory of risks. It is more critical than ever for business leaders to leverage data in a meaningful way to provide valuable insights that can support strategy execution. In some instances, regulators e.g. International Financial Reporting Standard 9 – Financial Instruments, have mandated leveraging data to quantify and report risks.

The need for effective use of data has never been greater

Because of the ever-increasing influx of data, executives can know radically more about their businesses, their customers, their employees, markets and even complex economic dynamics. However, most business leaders only tap into a fraction of the data available to them to gain new insights and inform strategic decision-making. Breakthroughs will come to those who master the full potential of data and analytics to unlock the opportunities our connected world provides.

The results of the PwC 20th Annual Global CEO survey confirm that CEOs are ploughing investment into innovation – and are focusing on boosting talent in the digital and technology space to capitalise on new opportunities. Companies in all sectors are seeking consistent, credible and trustworthy data to make faster and well-informed decisions. The demands of big data and data analytics are creating a world where data needs to be shared in new ways.

Benefits of data driven results

- Closing the gap between ideas and results - Solving complex, ambiguous, non-linear problems with data and analytics, from strategy through execution.
- Faster to market - Using data and analytics for speedier insights
- Practical, executable recommendations - Tight alignment between business objectives and analytical findings
- Greater resilience - Gaining agility in the face of dynamic market forces by using data and analytics intelligently and efficiently.
- Improved performance - Upgrading essential capabilities by building the systems and tools needed to support data analytics and integrate with existing technologies throughout the organisation.
- Intelligence in the moment and a stronger capability for predicting the future - A data and analytics strategy at the core of your operations

As a result, data is one of the most valuable assets a company possesses. Yet many companies fail to unlock the full value of their data because they manage it in a fragmented fashion. Often, organisations lack a standardised and coordinated approach to data governance, management and analytics.

Advancing Data Maturity – What’s your next move?

Many companies are getting into the action on Big Data with existing resources and are making the investments in technological platforms, business intelligence, data mining and others. However, the essential first step is to think about the critical business issues first. (For example, is the goal to improve product profitability, customer segmentation/analysis, supply chain optimisation, financial performance management, workforce performance and alignment, or for regulatory compliance?). You also need to be very clear as to what data you already obtain and possess but do not adequately utilise.
Data – Are you maximising one of your greatest assets?

Whilst Big Data means different things to different people in a company, the focus of big data should be all about making faster, smarter and more confident business decisions. There is an infinite amount of data out there, but organisations often suffer from limited time and resources to perform comprehensive data analytics. Therefore, once the executive team agrees on the critical business issues, then – and only then – should they consider and analyse the data sources that will be most appropriate to help them solve these key issues. This focused approach to data analytics should help to get better actionable insights.

The PwC Trinidad and Tobago Advisory team works closely with our PwC Global Network Data Analytics experts to support local clients to unlock their data and build their existing capabilities in data governance. While local organisations are at varying stages of data maturity, many have challenges with using data to articulate what is happening in their business, why it is happening, and how they can make decisions supported by predictive analysis.

We have noted some consistent challenges that exist locally with unlocking data:

Key observations in local market

- Getting started with imperfect data – Getting started is typically 50% of the challenge of any implementation exercise. Many local organisations are aware of the issues that exist with their data, which can lead to some level of doubt as to whether advancing data projects should wait until they have ‘better data’. The need for agreement across the organisation (see point above) that the organisation is sitting on a data ‘gold mine’ which may need to be initially sorted and cleansed, but can be immediately leveraged.

- Need to address the Change Management Aspect of Data Maturity – Strengthening capabilities in data and analytics will have organisational wide impacts. Changes to the company’s culture should be understood at an early stage and proper change management plans developed and implemented to ensure alignment across all levels of the organisation.

- Cross Functional Teams are required - Data users (i.e. Boards, Chief Executive Officers, Chief Financial Officers etc.) and Chief Technology Officers and Chief Information Officers need to work closely together. Proper Data Governance requires collaboration across the organisation in order to unlock data. Data Users must work seamlessly with technology teams to ensure success.

- Keen focus on historical mandatory financial reporting and not strategic predictive data insights – a number of organisations are keenly focused on meeting financial reporting requirements and deadlines and have not advanced their data maturity levels to facilitate a similar accuracy in commercial data insights. Therefore, data gaps exists in both values and capabilities, which need to be addressed.

PwC can help you achieve the data driven results you are seeking

Data and Analytics is at the core of everything we do at PwC. We have helped clients locally and globally to enhance the value of data and analytics by integrating strategy and business analytics expertise across industries, geographies, and functional competencies. We can support you with gaining initial insights and advising on how to strengthen your organisation’s capability for sustained insights and performance.

We’d love to speak to you about how you could extract greater value from data and analytics and achieve the benefits you are seeking. For more information please get in touch with our local team members.
Impact of New Accounting Standards

Effective 1 January 2018, two International Financial Reporting Standards (IFRS) come into effect, both of which will have significant impact on financial reporting and taxation. They are:

a) IFRS 15 – Revenue from Contracts with Customers

b) IFRS 9 – Financial Instruments

IFRS 15 will impact mainly entities whose goods and services are bundled, such as entities involved in telecommunications, information technology, construction, automotive dealerships and those engaged in the provision of both goods and services. It applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, and financial instruments. Revenue is recognised when (or as) performance obligations are satisfied. Where a performance obligation is satisfied over time, the related revenue is also recognised over time. IFRS 15 is generally more conservative than its predecessor standard, International Accounting Standard (IAS) 18 - Revenue Recognition and will have a fundamental effect on the manner in which revenue is recognised, primarily its timing. It will likely mean that reduced revenue is recognised in the earlier stages of revenue generating contracts, but higher revenues in the latter stages. As a result there could be reduced accounting profits in the earlier years which ‘catch-up’ in later years. This has a knock on tax effect, potentially spreading tax charges over a longer period.

IFRS 9 will impact mainly financial institutions. Unlike its predecessor standard, IAS 39 - Financial Instruments, IFRS 9 takes a business model approach to determine the classification and measurement (valuation) of financial instruments. The classification of a financial asset (debt and equity instruments) depends on the business model's objective in terms of holding and or selling the financial asset. For debt instruments there are three categories based on the business model and contractual cash flows. These are Amortised Cost, Fair Value Through Other Comprehensive Income (FVOCI) and Fair Value Through Profit or Loss (FVPL) which is the residual category. Debt instruments fall into the Amortised Cost measurement category if the objective of the entity's business model is to hold the asset to collect contractual cash flows and the contractual cash flows represent solely payments of principal and interest. If the business model’s objective is achieved by both collecting contractual cash flows and selling financial assets and the cash flows are solely payments of principal and interest, the financial asset falls in the FVOCI measurement category. If an equity instrument is held for trading then it must be measured at FVPL. If not then an entity has a free choice to designate their equity investments at FVPL or FVOCI. The tax treatment of the above items in terms of whether tax deductible or subject to tax, requires careful consideration.

IFRS 9 also deals with how reporting entities account for impairment of their financial assets. Expected credit losses on an entity's financial instruments need to be estimated based on a robust risk assessment process. In general, it will result in higher impairment charges / provisions which will mean reduced accounting profits. The resulting impairment provisions are what is considered to be general as opposed to specific. Impairment provisions have important tax implications because they impact an entity's tax liabilities.

The Board of Inland Revenue (BIR) has not commented on the effect of these two standards on Corporation Tax, Petroleum Profits Tax and Value Added Tax. The BIR's position in respect of the impact of the new standards would be welcomed by the business community.

Further on the horizon, IFRS 16 - Leases, comes into effect for financial reporting periods commencing on or after 1 January 2019. This standard will dramatically change the appearance of financial statements with leased assets appearing on balance sheets as right-of-use assets matched by corresponding lease liabilities. The statement of comprehensive income will include depreciation charges on the right-of-use assets and interest costs on the lease liabilities. There are certain limited exceptions. Key performance measures will be impacted by IFRS 16 which will affect a range of users such as shareholders, bankers and investors. This standard will not impact government's tax revenues, but will affect the reconciling items that appear on Corporation Tax and Petroleum Profits Tax returns, which both preparers of tax returns and BIR personnel need to understand.
## Tax facts

### Income Tax

<table>
<thead>
<tr>
<th>Allowances/ Deductions</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Rate (Chargeable Income &lt; $1m)</td>
<td>25%</td>
<td>(1) 25%</td>
</tr>
<tr>
<td>Tax Rate (Chargeable Income &gt; $1m)</td>
<td>30%</td>
<td>(1) 30%</td>
</tr>
<tr>
<td>Personal Allowance</td>
<td>$72,000</td>
<td>(2) $72,000</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>$60,000</td>
<td>(3) $60,000</td>
</tr>
<tr>
<td>Pension/Deferred Annuity</td>
<td>$50,000</td>
<td>(4) $50,000</td>
</tr>
<tr>
<td>National Insurance</td>
<td>70%</td>
<td>(4) 70%</td>
</tr>
<tr>
<td>First Time Homeowner Allowance</td>
<td>$25,000</td>
<td>(5) $25,000</td>
</tr>
<tr>
<td>Contributions under a Deed of Covenant</td>
<td>15% of Total Income</td>
<td>(6) 15% of Total Income</td>
</tr>
<tr>
<td>Venture Capital Tax Credit</td>
<td>30% of Investment</td>
<td>(7) 30% of Investment</td>
</tr>
<tr>
<td>CNG Kit and Cylinder Tax Credit</td>
<td>25% of total cost</td>
<td>(7) 25% of total cost</td>
</tr>
<tr>
<td>Solar Water Heating Equipment Tax Credit</td>
<td>25% of total cost</td>
<td>(7) 25% of total cost</td>
</tr>
<tr>
<td>Tax credits on National Tax Free Savings Bonds</td>
<td>25% of $5,000</td>
<td>(8) 25% of $5,000</td>
</tr>
<tr>
<td>Severance Pay exemption limit</td>
<td>$300,000</td>
<td>$300,000</td>
</tr>
<tr>
<td>Alimony paid</td>
<td>No Limit</td>
<td>No Limit</td>
</tr>
<tr>
<td>Guesthouse approved capital expenditure deduction</td>
<td>No Limit</td>
<td>No Limit</td>
</tr>
</tbody>
</table>

(1) Chargeable income under $1m taxed at 25% / Chargeable income over $1m taxed at 30% from 2017.

(2) Personal allowance of $72,000 available to all resident individuals and non-resident individuals receiving pension income accruing in or derived from T&T.

(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 (5) years for properties purchased/constructed after January 1, 2011.

(6) Contributions under a Deed of Covenant include donations to approved sporting bodies, charitable organisations and/or The Children’s Life Fund.

(7) Tax credits limited to $10,000 for each. Any unrelieved credit on the Venture Capital Investments can be carried forward if unrelieved in the first year.

(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**

<table>
<thead>
<tr>
<th>Corporation Tax</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation Tax Rates (Petrochemicals)</td>
<td>35%</td>
<td>35%</td>
</tr>
<tr>
<td>Corporation Tax Rates (Other - Chargeable Income &lt; $1M)</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Corporation Tax Rates (Other - Chargeable Income &gt; $1M)</td>
<td>35%</td>
<td>30%</td>
</tr>
<tr>
<td>Corporation Tax Rates (Commercial Banks)</td>
<td>30%</td>
<td>25%</td>
</tr>
<tr>
<td>Small and Medium Size (SME)</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Business Levy (On Gross Sales &amp; Receipts)</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Green Fund Levy (On Gross Sales &amp; Receipts)</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Initial Allowance (Manufacturing Companies)</td>
<td>90%</td>
<td>90%</td>
</tr>
</tbody>
</table>

### Notes

1. Chargeable profits ($0 - $1m) a tax rate of 25% would apply for income year 2017. Including Commercial Banks
2. Chargeable profits (exceeding $1m) a tax rate of 30% would apply for income year 2017.
   - a) A rate of 30% will apply on all profits for income year 2018
   - b) A rate of 35% will apply to Commercial Banks for income year 2018
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

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local distributions (dividends, mutual fund income, etc)</td>
<td>Exempt</td>
<td>Exempt</td>
</tr>
<tr>
<td>Interest (individuals)</td>
<td>Exempt (1)</td>
<td>Exempt (1)</td>
</tr>
<tr>
<td>Gains or Profits from sale of residential house sites</td>
<td>Exempt (2)</td>
<td>Exempt (2)</td>
</tr>
<tr>
<td>Sale / Rental income from commercial buildings/multi-storey car parks</td>
<td>Exempt (3)</td>
<td>Exempt (3)</td>
</tr>
<tr>
<td>Premiums and rents from letting of newly constructed multi-family dwelling</td>
<td>Exempt (4)</td>
<td>Exempt (4)</td>
</tr>
<tr>
<td>Gains or Profits from the initial sale of newly constructed multi-family dwelling</td>
<td>Exempt (5)</td>
<td>Exempt (5)</td>
</tr>
</tbody>
</table>

### Notes

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/Rental Income exempt until December 31, 2025.
4. Construction must have commenced on or after 1st July 2016. Income exempt until December 31, 2025.
5. Construction must have commenced on or after 1st July 2016. Profits exempt until December 31, 2025.
**Tax facts**

### Alternative Energy Incentives

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Wear and Tear Allowance (CNG)</strong></td>
<td>130%</td>
<td>(1) 130%</td>
</tr>
<tr>
<td><strong>Wear and Tear Allowance (Solar &amp; Wind)</strong></td>
<td>150%</td>
<td>(2) 150%</td>
</tr>
<tr>
<td>New and Used electric private &amp; commercial vehicles (not older than 4 yrs)</td>
<td>Duty, Motor Vehicle Tax exempt - VAT 0%</td>
<td>Duty, Motor Vehicle Tax exempt - VAT 0%</td>
</tr>
<tr>
<td>Engine size 179kw</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New and Used Hybrid Private &amp; Commercial Vehicles (not older than 4 yrs)</td>
<td>Duties and Motor Vehicle Tax Exempt.</td>
<td>VAT - 0%</td>
</tr>
<tr>
<td>Engine size &lt;1999cc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New and Used Hybrid Private &amp; Commercial Vehicles (not older than 4 yrs)</td>
<td>Duties, Motor Vehicle Tax Exempt and VAT - 0%</td>
<td>Motor Vehicle Tax Exempt and VAT - 0%; Import Duties 50%</td>
</tr>
<tr>
<td>Engine size &lt;1799cc.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New and Used Hybrid Private &amp; Commercial Vehicles (not older than 4 yrs)</td>
<td>Duties, Motor Vehicle Tax Exempt and VAT - 0%</td>
<td></td>
</tr>
<tr>
<td>Engine size &lt;1599cc.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| All New and Used CNG Private & Commercial Vehicles (not older than 4 yrs)    | Increase MV Tax and Duties by 25% | 1599 to 1799 cc - $8/cc
| Engine size >1599cc but <1999cc                                            |            | 1799 to 1999cc - $15/cc |
| Private passenger vehicles - Engine size >1599cc but <1999cc                | Duties & taxes exempt | Duties & taxes applicable |
| Motorcycles - Engine size - 300cc                                           |            |            |

(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.

### 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

<table>
<thead>
<tr>
<th>Description</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>VAT Rate</td>
<td>12.5%</td>
<td>(1) 12.5%</td>
</tr>
<tr>
<td>Registration Threshold</td>
<td>$500,000</td>
<td>(2) $500,000</td>
</tr>
</tbody>
</table>

(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**

<table>
<thead>
<tr>
<th>TT$ in 000s</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit as per Financial Statements</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td><strong>Add:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,500</td>
<td>6,500</td>
</tr>
<tr>
<td>Donations not under Deed of Covenant</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Audio Visual and Fashion donations</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Staff training</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audio Visual &amp; Fashion Allowance</td>
<td>3,000</td>
<td>3,000</td>
</tr>
<tr>
<td>Wear and Tear Allowance</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Initial Allowance (90%)</td>
<td>3,500</td>
<td>3,500</td>
</tr>
<tr>
<td>Profit on Sale of Asset</td>
<td>175</td>
<td>175</td>
</tr>
<tr>
<td>Staff training (150% uplift)</td>
<td>150</td>
<td>150</td>
</tr>
<tr>
<td><strong>Chargeable Profits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>11,825</td>
<td>11,825</td>
</tr>
<tr>
<td><strong>Corporation Tax @ 25% ($0 - $1m)</strong></td>
<td></td>
<td>250</td>
</tr>
<tr>
<td><strong>Corporation Tax @ 30% (&gt; $1m)</strong></td>
<td></td>
<td>10,763</td>
</tr>
<tr>
<td><strong>Corporation Tax @ 30% (</strong>*))**</td>
<td>11,063</td>
<td></td>
</tr>
<tr>
<td><strong>Total Corporation Tax</strong></td>
<td>11,063</td>
<td>11,013</td>
</tr>
<tr>
<td><strong>Effective Tax Rates</strong></td>
<td>27.7%</td>
<td>27.5%</td>
</tr>
</tbody>
</table>

### Business Levy

| Gross Sales/Receipts | 500,000 | 500,000 |
| **Business Levy @ 0.6%** | 3,000 | 3,000 (**) |

### Green Fund Levy

| Gross Sales/Receipts | 500,000 | 500,000 |
| **Green Fund Levy @ 0.3%** | 1,500 | 1,500 (**) |

**Assumptions:**

Company is not engaged in the production of petrochemicals  
Company engaged in manufacturing activity  
Company is not a video production company.

**Notes:**

- **The rate change was effective from February 1, 2016**
- ***The rate change will be effective from January 1, 2018***
## Small and Medium Enterprises

**Corporation Tax Computation**

<table>
<thead>
<tr>
<th>TT$ in 000s</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit as per Financial Statements</strong></td>
<td>250.0</td>
<td>250.0</td>
</tr>
<tr>
<td><strong>Add:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Audio Visual and fashion donations</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Donations not under Deed of Covenant</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td><strong>Total Additions</strong></td>
<td>56.0</td>
<td>56.0</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Audio Visual &amp; Fashion Allowance</td>
<td>15.0</td>
<td>15.0</td>
</tr>
<tr>
<td>Wear and Tear Allowance</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td><strong>Total Deductions</strong></td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td><strong>Chargeable Profit</strong></td>
<td>266.0</td>
<td>266.0</td>
</tr>
<tr>
<td><strong>Corporation Tax @ 10%</strong></td>
<td>26.6</td>
<td>26.6</td>
</tr>
<tr>
<td><strong>Effective Tax Rates</strong></td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>Business Levy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Sales/ Receipts</td>
<td>4,000.0</td>
<td>4,000.0</td>
</tr>
<tr>
<td>Business Levy @0.6%</td>
<td>24.0</td>
<td>24.0 (**)</td>
</tr>
<tr>
<td><strong>Green Fund Levy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Sales/Receipts</td>
<td>4,000.0</td>
<td>4,000.0</td>
</tr>
<tr>
<td>Green Fund Levy @0.3%</td>
<td>12.0</td>
<td>12.0 (**)</td>
</tr>
</tbody>
</table>

**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
## Individual Tax Computation

### Middle Income Person

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>400,000</td>
<td>400,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal allowance</td>
<td>72,000</td>
<td>72,000</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Pensions/ Annuity/ NIS contributions</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>First time homeowner</td>
<td>25,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Contributions under a Deed of Covenant</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Total Deductions</td>
<td>237,000</td>
<td>237,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>163,000</td>
<td>163,000</td>
</tr>
<tr>
<td>Income Tax Liability</td>
<td>40,750</td>
<td>40,750</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>10.2%</td>
<td>10.2%</td>
</tr>
</tbody>
</table>

### High Income Person

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income</td>
<td>2,400,000</td>
<td>2,400,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Allowance</td>
<td>72,000</td>
<td>72,000</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Pensions/ Annuity/ NIS contributions</td>
<td>50,000</td>
<td>50,000</td>
</tr>
<tr>
<td>Contributions under a Deed of Covenant</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Total Deductions</td>
<td>282,000</td>
<td>282,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>2,118,000</td>
<td>2,118,000</td>
</tr>
<tr>
<td>Tax @ 25% ($0 - $1m)</td>
<td>250,000</td>
<td>250,000</td>
</tr>
<tr>
<td>Tax @ 30% (&gt; $1m)</td>
<td>335,400</td>
<td>335,400</td>
</tr>
<tr>
<td>Total Tax Liability</td>
<td>585,400</td>
<td>585,400</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>24.4%</td>
<td>24.4%</td>
</tr>
</tbody>
</table>

(1) Personal allowance of $72,000 available to all resident individuals and non resident individuals receiving pension income accruing in or derived from T&T.
(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) First time home owner means *(a) the purchase for the first time of a completed house or any share therein on or after 1st January 2011; or (b) the construction for the first time of a house completed on or after 1st January 2011.*
### Corporation Tax Computations
#### Commercial Banks

<table>
<thead>
<tr>
<th>TT$ in 000s</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit as per Financial Statements</td>
<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Add:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>3,600</td>
<td>3,600</td>
</tr>
<tr>
<td>Donations not under Deed of Covenant</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Amortised premiums on investment</td>
<td>6,400</td>
<td>6,400</td>
</tr>
<tr>
<td>Staff training</td>
<td>400</td>
<td>400</td>
</tr>
<tr>
<td><strong>Total Add:</strong></td>
<td>10,600</td>
<td>10,600</td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wear and Tear Allowance</td>
<td>7,000</td>
<td>7,000</td>
</tr>
<tr>
<td>Tax Exempt Income</td>
<td>1,000</td>
<td>1,000</td>
</tr>
<tr>
<td>Staff training (150% uplift)</td>
<td>600</td>
<td>600</td>
</tr>
<tr>
<td><strong>Total Less:</strong></td>
<td>8,600</td>
<td>8,600</td>
</tr>
<tr>
<td><strong>Chargeable Profits</strong></td>
<td>302,000</td>
<td>302,000</td>
</tr>
<tr>
<td>**Corporation Tax @ 25% ($0 - $1m) ****</td>
<td>250</td>
<td></td>
</tr>
<tr>
<td>**Corporation Tax @ 30% (&gt; $1m) ****</td>
<td>90,300</td>
<td></td>
</tr>
<tr>
<td><strong>Corporation Tax @ 35% (</strong>* )**</td>
<td>105,700</td>
<td></td>
</tr>
<tr>
<td><strong>Total Corporation Tax</strong></td>
<td>105,700</td>
<td>90,550</td>
</tr>
<tr>
<td>Effective Tax Rates</td>
<td>35.2%</td>
<td>30.2%</td>
</tr>
</tbody>
</table>

#### Business Levy

<table>
<thead>
<tr>
<th>Gross Sales/Receipts</th>
<th>499,000</th>
<th>499,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Levy @ 0.6%</strong></td>
<td>2,994</td>
<td>2,994 (*)</td>
</tr>
</tbody>
</table>

#### Green Fund Levy

<table>
<thead>
<tr>
<th>Gross Sales/Receipts</th>
<th>500,000</th>
<th>500,000</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Green Fund Levy @ 0.3%</strong></td>
<td>1,500</td>
<td>1,500 (*)</td>
</tr>
</tbody>
</table>

* The rate change was effective from February 1, 2016
** The rate change was effective from January 1, 2017
*** The rate change will be effective from January 1, 2018
PwC Tax & Legal Services

**Tax Consulting Services**

Our consulting services include advice related to executive and employee compensation; withholding and various other 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
- Doing business in Guyana and other Regional territories

**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 Inland Revenue Department (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 (VAT)
- Pay As You Earn (PAYE)
- Corporation Tax Returns

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.
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
PwC has prepared this budget memorandum on the principal changes in the 2018 National Budget read on 02 October 2017.