Collaborating towards economic prosperity
Budget Memorandum 2016
We are pleased to present our 22nd annual Budget Memorandum entitled “Collaborating for economic prosperity” in response to the 2016 National Budget presented in Parliament by the Minister of Finance, the Honourable Colm Imbert on 5 October 2015.

Given the Minister’s declaration of an 8 billion dollar overdraft in the National Treasury, one can only agree with the Minister’s repetitive call for more “prudent fiscal management” to begin the road to recovery and economic stability.

Government’s clarion call to “Let’s do this together” hinges fundamentally on a collaborative approach to finding the solutions to our economic uncertainties. Economic and social theorists have consistently argued that the only way for economic success is for all sectors - private, public and labour - to ensure the efficient use of resources and investment. Without a sound framework for collaboration and prioritisation, we cannot truly reap the benefits of innovation and enterprise.

In our drive to improve the quality and utility of our annual Budget Memorandum, this year we have also addressed matters of the economy in addition to tax and public sector issues relevant to the Minister’s presentation.

As usual our team of tax, advisory and assurance professionals stand ready to discuss any of the matters raised and to assist you in navigating through your business issues.

We trust that you will find our publication enlightening and informative.

“In the spirit of togetherness

If everyone is moving forward together, then success takes care of itself.”

- Henry Ford

Colin Wharfe
Senior Partner
Our Tax Leader’s thoughts

“There are no problems we cannot solve together, and very few that we can solve by ourselves” - Lyndon B. Johnson

With the theme of “Restoring Confidence and Rebuilding Trust – Let’s do this Together”, the very recently appointed Minister of Finance, the Honourable Mr. Colm Imbert, delivered his inaugural National Budget presentation, the first for this new administration. Having painted a worrying picture of the state of the economy, the Minister then sought to:

• Educate the population regarding the state of affairs
• Instill confidence in the population that he and his team had a clear vision of what is required to turn things around and the capability to achieve the turn around
• Explain that an all hands on deck approach is imperative to national recovery and economic sustainability
• Commence the belt tightening process by taking some hard decisions, for example:
  - partial removal of the gas subsidy on super gasoline and diesel which will impact all of society either directly at the pumps and/by the roll on effect on transportation costs, food and other prices
  - tripling of the business levy and green fund levy rates
  - re-introduction of property tax
• Provide some relief to a wide section of the population by increasing the personal allowance and implementing the planned reduction of the VAT rate albeit accompanied by a broadening of the VAT net
• Address the growing budget deficit within reasonable time

Many of the initiatives announced by the Minister appear to be sound and consistent with the objectives of turning things around, attaining a balanced budget by 2018, promoting diversification to reduce the reliance on the energy sector and promoting the value for money approach to public spending. But we have heard much of this before.

Accordingly, if we are to rebuild trust in our elected Leadership such that we contribute collaboratively to our public fiscal management, it is imperative that the Government lives up to its promise to re-instill the values of honesty and integrity in public life, not only to ensure the success of the economic programme, but also to demonstrate to the next generation that these values, on which we were raised, continue to be critical to our way of life and who we are as a people.

As the Minister indicated, fiscal prudence is something which we all need to exercise, and it is hoped that the Government will set the tone at the top by clearly demonstrating such prudence.

We urge the Minister to ensure that his reference to widespread stakeholder consultation does not remain a platitude, but materializes in real and meaningful dialogue. We also hope that the plan to strengthen the tripartite engagement among Government, Labour and Business is embraced by all parties and approached from the perspective of a common desire to do what is necessary to engender economic recovery, stability and prosperity for all in the shortest possible time.

We fully endorse the Government’s position that we can only achieve success through a collaborative effort, but we must first acknowledge that many are wary, some are disillusioned and others are in a wait and see mode. It is therefore incumbent on the administration to forcefully lead the charge, first by itself trusting the other participants in the tripartite and stakeholder discussions and then by acting in a fair and responsible manner.

Allyson West
PwC Tax Partner
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Delivering the first National Budget of the newly installed People’s National Movement (PNM) government, Finance Minister, the Honourable Colm Imbert, sought to strike a balance between the realistic state of the country’s economy, setting a policy framework for the next five years and delivering on some manifesto promises, while refraining from making a political speech. Coming so soon after the election, this is an interim budget as the Honourable Minister promised a mid-year review by March 2016.

Under the theme “Restoring Confidence and Rebuilding Trust: Let’s Do This Together” the Honourable Minister issued a clarion call for collaboration by all sectors - labour, business, the citizenry and the government to enable recovery and fix our economy.

Minister Imbert committed the PNM government to fiscal prudence, macroeconomic stability, fiscal discipline and restoration of the country’s reputation internationally. The Honourable Minister also stated his government’s objective of a balanced budget by fiscal 2018 – a laudable objective indeed.

Any new government assuming office must assess the current state of the nation’s finances and the Honourable Minister indicated that his government conducted a “rigorous and unbiased assessment of the state of the economy.” The result of this assessment as set out by the Honourable Minister painted a rather dismal picture:

- The economy has remained stagnant for the past 5 years;
- Real output in the energy sector declined again in 2015, making this the fourth annual decline in the past five years;
- Activity in the non-energy sector has also weakened, with a loss of momentum in construction, distribution and manufacturing;
- Total energy exports are estimated at only US$7.5 billion in 2015, a significant decline (41%) when compared with an annual average of US$12.7 billion in the period 2010 to 2014;
- Balance of payments deficit and a loss in official foreign reserves of $720 million;
- Trade balance expected to be reduced by approximately 63% in 2015 compared to 2014;
- Reduction in government’s revenue from petroleum of approximately $8 billion in fiscal 2015;
- Ballooning of the fiscal deficit for 2015 to $7 billion (4.2% of GDP) compared to the budgeted deficit of $4.3 billion (2.7% of GDP).

The above realities may be exacerbated by commitments made in 2015 but due to the government’s cash accounting system are not reflected in the 2015 results, e.g. unpaid balances on public sector wage settlements and other state agencies commitments. The assessment of outstanding amounts is ongoing.
Budget overview

collective agreements “in the frenzied run-up to the 2015 election.” This has the impact of a net increase in budgeted expenditure of $1.2 billion for 2016 beyond the 2015 level. However, any delay or deferral in settlement of these arrears would no doubt end the new government’s honeymoon early and abruptly.

The severe challenges facing the energy sector from both price and production level perspectives were highlighted in the expected revenue collection in 2015 of $13 billion, a decrease of $8 billion compared to the estimate and the lowest for a number of years.

This was not the only decline in tax collections however, as taxes from the non-energy sector also decreased by $1 billion.

The 2015 numbers as set out by the Honourable Minister of Finance indicated the significant levels of transfers to CEPEP, URP, GATE and other social programmes, and the cost of the fuel subsidy, (which was reduced due to depressed petroleum prices).

For 2016 the Honourable Minister has predicated his budgeted revenue on a crude oil price of US$45/bbl (WTI) and a mix of gas prices of US$2.75/mmBtu (Henry Hubb) and US$8/mmBtu (Indonesia). These estimated prices appear practical based on the prices data in recent months from the US Energy Information Administration (EIA). The estimated crude price in particular contains a buffer based on the EIA’s 2016 projected prices.

Budgeted revenue is expected to be $41.6 billion and expenditure $63.1 billion, the latter being $1.3 billion higher than the previous “record” level in 2015. But the Honourable Minister attributed the increase in budgeted expenditure to the obligation to pay arrears of public sector salaries agreed to by the previous regime.

This results in a rather large pre-adjustment deficit of $21.4 billion which is expected to be closed by “mobilizing” additional revenue of $18.6 billion from:

• VAT and tax reform measures to enhance compliance and collections;
• increases in taxes e.g. business levy and green fund levy;
• phased reintroduction of the property tax;
• implementation of a tax regime for the gaming industry; and
• reduction of the fuel subsidy.

If the Honourable Minister is successful with the above measures, a $2.8 billion deficit is projected.

The major revenue allocations were to the Ministries of National Security ($10.810 billion), Education ($9.763 billion) and Health ($6.088 billion) which are consistent with the importance of the security of the population, the development of our people and our wellbeing.

The Honourable Minister proposed an allocation of $2.772 billion for Tobago for 2016 representing 4.4% of the national budget and 48.88% of the Tobago House of Assembly’s expenditure budget of $5.67 billion.

Specific tax and other measures proposed by the Honourable Minister include:

• The increase of the personal allowance to $72,000 per annum which would mean persons earning up to $6,000 per month will be exempt from tax;
• Increase of the rate of Business Levy to 0.6% from 0.2%;
• Increase in the rate of Green Fund Levy to 0.3% up from 0.1%;
• Reduction of VAT rate to 12.5% coupled with a review and revision of the exempt and zero rated items with the view to removing from these lists non-essential and luxury items;
• Increase of the VAT registration threshold to $500,000;
• Phased reintroduction of the Property Tax on the original basis at the original rates with special provisions for the aged and “the indigent”; and
• Introduction of the Trinidad and Tobago Revenue Authority by the end of fiscal 2016;
Budget overview

- Immediate increases in the price of super gasoline to $3.11 per litre and diesel to $1.72 per litre;
- Adjustments to earnings classes and contribution rates in the National Insurance system;
- Increase of the cap of joint incomes received by retirees to $5,000 in respect of National Insurance and Old Age pensions;
- Free passports and driver’s permits to retirees over 60 years;
- 20 percent increase in the stipends paid to On the Job Trainees (OJT);
- Introduction of a Graduate Recruitment Programme that will employ 500 university graduates.

Like his predecessors, the Honorable Minister mentioned the need for a Transfer Pricing regime to stop the leak of revenue through related party transactions. It remains unclear when this will materialize.

The implementation of some manifesto promises has been proposed in this first budget and the Honorable Minister has called for all hands on deck as the country moves forward, promising widespread consultation and being open and honest about the state of the economy.

Overall this first budget of this PNM administration sets the tone for its objectives and initiatives for the country and as with all administrations the Honourable Minister of Finance has signaled that the party’s 2015 elections manifesto will be made government policy.

In that regard the Honourable Minister has set out his government’s medium term plan for various sectors including plans to address national transportation and financial autonomy for the judiciary.
Analysis and commentary of fiscal measures

**Income Tax**

**Increase in Personal Allowance for all individuals from $60,000 to $72,000**

With the exception of the 2015 increase of the personal allowance from 60,000 to 72,000 for persons over 60 years, there has been no movement in the personal allowance since 2006. With this proposed measure, persons earning less than $6000 per month will no longer be subject to income tax and others will enjoy additional disposable income of $250 per month. This initiative is likely to boost consumption and thus should contribute to the much needed economic growth.

**Business Levy**

**Increase in rate of business levy from 0.2% to 0.6% per quarter**

Business Levy (BL) was re-introduced for companies in 1993 (Section 23 of Act 6 of 1993) and individuals in 1994. The introductory rate was 0.25% per quarter. The rate has since been adjusted and the history is outlined below:

<table>
<thead>
<tr>
<th>Income Year</th>
<th>Rate</th>
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<tbody>
<tr>
<td>1993</td>
<td>0.25</td>
</tr>
<tr>
<td>1994</td>
<td>0.25</td>
</tr>
<tr>
<td>1995</td>
<td>0.5</td>
</tr>
<tr>
<td>1996</td>
<td>0.4</td>
</tr>
<tr>
<td>1997-1998</td>
<td>0.33</td>
</tr>
<tr>
<td>1999-2000</td>
<td>0.25</td>
</tr>
<tr>
<td>2001-2015</td>
<td>0.2</td>
</tr>
<tr>
<td>2016</td>
<td>0.6</td>
</tr>
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</table>

The rationale mentioned by the Honorable Minister for raising the rate to 0.6% effective January 1, 2016 is to allow “spreading the burden of adjustment across society”. This is one of the revenue generating mechanisms proposed by the Government and it is anticipated that this measure will increase revenue by $327.5M. As per the Ministry of Finance report Review of the Economy 2015, revenue from BL for the period 2009 to 2015 were as follows:

<table>
<thead>
<tr>
<th>Income Year</th>
<th>BL Revenue TT$Millions</th>
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</thead>
<tbody>
<tr>
<td>2010 (r)</td>
<td>205.7</td>
</tr>
<tr>
<td>2011 (r)</td>
<td>208.9</td>
</tr>
<tr>
<td>2012 (r)</td>
<td>293.6</td>
</tr>
<tr>
<td>2013 (r)</td>
<td>186.6</td>
</tr>
<tr>
<td>2014 (r)</td>
<td>210.2</td>
</tr>
<tr>
<td>2015 (p)</td>
<td>210.0</td>
</tr>
</tbody>
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(r) Revised  
(p) Provisional  
Source: Budget Division, Ministry of Finance

Historically, BL has not accounted for significant revenue, with an annual average of $219.2m (0.52%) of total tax revenue for the period 2010 to 2015.

The legislation requires a taxpayer to remit the higher of his/its Income/Corporation Tax or BL. The tax was introduced to allow for all corporations/sole traders to contribute to the public purse. The measure was particularly aimed at persons reporting losses and thus remitting no corporation tax/income tax. The proposed increase in the rate will therefore increase the tax liability of those persons making losses or with low profitability. In light of the current economic climate, characterised by falling revenue and profits, this additional tax burden is likely to meet disfavor within the business community and be seen as stymying the growth of small businesses, although this is intended to be that sector’s contribution to the recovery programme as we seek to collaborate towards recovery.

**Green Fund Levy**

**Increase in the rate of GFL from 0.1% to 0.3%**

Green Fund Levy (also called the Environmental levy) was introduced by the Finance Act 2000. The intended purpose was to provide financial assistance to community groups and organizations for activities related to reforestation, remediation, environmental...
Analysis and commentary of fiscal measures

education and public awareness of environmental issues and conservation of the environment. Since its introduction in 2001 there has been no adjustment to the rate of 0.1%.

The proposed increase to 0.3% effective January 1, 2016 is geared towards increasing revenue by $544.5 Million. For the period 2010 to 2015 the following revenue was reported from GFL:

<table>
<thead>
<tr>
<th>Income Year</th>
<th>GFL Revenue TT$Millions</th>
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<tbody>
<tr>
<td>2010 (r)</td>
<td>325.1</td>
</tr>
<tr>
<td>2011 (r)</td>
<td>365.7</td>
</tr>
<tr>
<td>2012 (r)</td>
<td>346.5</td>
</tr>
<tr>
<td>2013 (r)</td>
<td>369.7</td>
</tr>
<tr>
<td>2014 (r)</td>
<td>381.4</td>
</tr>
<tr>
<td>2015 (p)</td>
<td>340.0</td>
</tr>
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(r) Revised  
(p) Provisional

Source: Budget Division, Ministry of Finance

GFL accounted for an average of $354.7M (0.83%) of tax revenue for the period 2010 to 2015.

GFL applies to all companies and as such this measure will result in an increase in a tax burden for all companies.

Value Added Tax

Broadening the VAT base

VAT is generally accepted as a viable mechanism to increase revenue. The efficiency of the system however has been plagued with excessive exemptions and an expansive zero rating list which add distortions, and impose a significant burden on the tax administration. While there were not many changes to the exempt services schedule over the years, the zero rating schedule was significantly extended with an expansive list of food items in 2013.

The Honorable Minister has noted that the intention is to broaden the VAT base by removing non-essential or luxury items, a notion which is subjective, from the zero rated list. He has not however revealed what these items are. There is a need for further details to evaluate the likely effect of this measure on consumers.

Reduction of VAT Rate from 15% to 12.5%

In keeping with his party’s Manifesto promise, the Honourable Minister indicated the intention to reduce the VAT rate from 15% to 12.5%. This is the first adjustment in the VAT rate since its inception in 1990. This measure has to be analyzed in the context of the expansion of the tax base.

This measure will be welcomed by all consumers in Trinidad and Tobago. It is however to be seen whether the benefit will be passed on to consumers and whether the intended increase in VAT collection which can only be achieved through increased compliance and enforcement, will be achieved.

Increased Registration Threshold from $360,000 to $500,000

The Honorable Minister has signaled its intention to increase the VAT registration threshold from $360,000 to $500,000. The previous increase in the threshold was in 2013.

This measure is likely to be felt more by smaller businesses which wish to register for VAT to be able to claim any input tax suffered.

The impact of this measure will be an increase in the cost of doing business for small businesses which will no longer be able to recoup their input VAT through the VAT system and as such will increase the price of doing business. On the positive side it will relieve those persons of the burden of complying with the VAT legislation.

Others

Property Tax : Phased introduction of property tax

The Minister announced the proposed phased introduction of property tax effective January 1, 2016. It is proposed that the Property Tax Act 2009 will be implemented at the old levels and old rates (that is the pre 2009 rates). Prior to the 2009 Property Tax Act, the following rates applied:
Analysis and commentary of fiscal measures

Classification | Rate
--- | ---
Undeveloped Land | Between $10 and $20 per acre
Building | 7 ½ of annual taxable value (ATV)

Given the population’s strong resistance to the passing of the Property Tax Act 2009, it is not surprising that the implementation of the tax as announced by the Minister is not based on the new rates as contained in the 2009 Act. The Minister was careful to point out that the use of the old rates and old levels was the starting point and therefore it is expected that these rates will be reviewed and analyzed in the future, with the target date being September 2016. The successful reform of the property tax system hinges on several factors including a thorough assessment of the previous tax regime and its deficiencies from both a policy and an administrative standpoint. We have expanded on this in our pre-budget memorandum.

The reintroduction of property tax is a bold step by the Government and while it may be unpopular among the masses, it is a necessary move to increase revenue at this juncture.

Transfer Pricing: Introduction of Transfer Pricing Legislation

The Minister announced that it is the intention of the Government to introduce Transfer Pricing legislation to address the leakage in revenue from foreign branches and subsidiaries of multinational corporations operating in Trinidad and Tobago.

The proposed framework is the OECD rules which have been adopted by numerous countries globally.

The issue of transfer pricing has been mentioned in several budget presentations since 2006. However, to date no legislation has been passed to bring this into effect.

Agriculture Incentives: Exemption of taxes and duties on agricultural inputs

The Honorable Minister proposed to exempt from all duties and taxes on inputs into the agricultural sector, including approved chemicals, pest control, approved vehicles, approved fishing vessels and equipment. This measure will be effective from January 1, 2016.

This measure will be welcomed by farmers as well as those stakeholders that have been constantly petitioning respective Governments to diversify the economy by focusing on other sectors outside of energy.

It should be noted that a number of the proposed items are already zero rated under the VAT Act and as such the proposed exemption appears to be only in respect of customs duties for those items. It is hoped that this measure will assist in addressing the foreign exchange issue by reducing the need for massive food importations.

Infrastructure Incentives

The Minister indicated that the Government intends to introduce comprehensive and workable incentives to motivate private sector investment in the construction sector to replace the current incentives which he concluded were inadequate and are currently limited to the following:

- Exemption of premiums and rents on newly constructed houses costing under $1.5M
Analysis and commentary of fiscal measures

- Exemption from initial sale of houses costing under $1.5M
- Exemption of profit on sale of residential houses as part of land development project.
- Exemption of premiums or rents or profits from sale of newly constructed commercial buildings and multi-storey car parks.

One of the conditions to qualify for the exemption of rents and premiums is that the rent charged should not fall outside the range of $750 to $975. With no regulation of the rental market and the shortage of houses, the current ceiling on the rent to be charged is not realistic.

There are currently no incentives for recreational, sporting and community facilities.

Revenue Authority: Establishment of Revenue Authority

The announcement by the Honorable Minister of the intention of the GORTT to introduce the Revenue Authority is in keeping with the GORTT’s Manifesto promise to reform the administration of taxes in Trinidad and Tobago.

In our pre-budget newsletter we highlighted the deficiencies of the current institutional framework of revenue collection in Trinidad and Tobago and alluded to best practices in the tax administration system.
Who won and who didn’t

Some highlights include:

**Winners**

**Individual Income Earners**
- Increase in personal allowance (from $60,000 to $72,000) as of 1 January 2016

**Graduates**
- 20% increase in stipends to OJT Trainees as of 1 December 2015
- Recruitment Program for 500 graduates in all Ministries ($55 million).

**All Citizens**
- Removal of immigration form requirement at all ports of entry
- 10 year passports for persons over 18 years as of 1 January 2016
- Reduction in VAT rate (from 15% to 12.5%)
- Re-establishment of Trinidad and Tobago Revenue Authority by end of fiscal year 2016

**Agriculturalists**
- Exemptions on all duties and taxes on various inputs into the agricultural sector as of 1 January 2016

**Retirees**
- Discounts on utilities later in 2016
- Free passport and Driver Permits as of 1 January 2016
- Increase in the NIS qualification cap on joint income to $5,000 as of 1 December 2015

**Judiciary**
- Introduction of video conferencing facilities for minor offences to reduce the Magisterial administrative burden
- Financial Autonomy

**Losers**

**Employers**
- Increase in NIS contributions for employees as of 4 July 2016.
- Increase in insurable earning class limit from $12,000 to $13,600 as of 4 July 2016

**Property Owners**
- Reinstitution of Property Tax Act and reintroduction of old rates and taxes as of 1 January 2016

**All Citizens**
- 15% increase in super and diesel gas prices. Super from $2.7 p/l to $3.11 p/l. Diesel from $1.50 p/l to $1.72 p/l with immediate effect
- Adjusting of exemptions and zero rated items

**Businesses**
- Increase in Business Levy from 0.2% to 0.6% as of 1 January 2016
- Increase in Green Fund Levy from 0.1% to 0.3% as of 1 January 2016
- Increase in VAT Registration Threshold (from $360,000 to $500,000) as of 1 January 2016

*Note: The categorisations are based on the likely knee-jerk reaction to the measures but the true classification is dependant on one’s perspective.*
The Economist perspective

No wiggle room
by Dr Ronald Ramkissoon, PhD

Budget 2016 comes at a time when the government of this resource-based twin-island state faces, on yet another occasion, a major cut in Trinidad and Tobago’s energy sector revenues. This stems from the combination of significantly lower prices of natural gas and crude oil and stagnant output of these mineral resources. The challenge for the new Minister of Finance would not have been too serious if 2015 was the first year in which a deficit was incurred. The situation is that more serious, as expenditures have steadily increased and exceeded revenues in each of the last four years. Additionally, energy prices are not likely to soar anytime soon neither is growth in the global economy.

Notwithstanding much higher energy prices, over the last four years, economic growth was on average, only marginally positive, as the stimulus provided through fiscal injections into the non-energy sector barely offset energy sector contraction. As government expenditures expanded and energy income fell, uncertainty arose and so did the precautionary and other demands for foreign currency, thereby putting pressure on the exchange rate and forcing the Central Bank to increase supply of hard currency as it sought to defend the managed exchange rate.

It is against this backdrop that the new Minister of Finance will present his Budget on October 5th. His task would not only be to juggle the numbers in respect of revenue, expenditure and financing but more importantly to assure the population that the government has the capability to navigate the stormy waters which lie ahead. Actions of the Minister and Government must encourage faith and build confidence.

Fortunately, the Minister will have some positive indicators with which to work. The country’s foreign exchange reserves are still high at some twelve months of import cover and savings in the Heritage and Stabilisation Fund is just over US$5.0 billion. Tax incentives over the last few years have led to substantial investments in seismic and exploration work by the large and small players in the energy sector. The unemployment rate is under is under 4.0 percent and headline inflation is at 4.0 percent, year-on-year to August 2015.

So what can one expect when the Minister of Finance presents his Government’s first budget of the 11th Parliament? First, the new Government can be expected to present a provisional budget, having been in office for just about one month. This should be followed by a supplementary and more comprehensive budget when the Minister would have had sufficient time to evaluate the state of the nation’s finances and to put his Government’s stamp on the document in respect of its Manifesto promises, all of which need not and cannot be delivered in the first year of its five-year term.

Second, whatever the provisional findings in respect of the current fiscal situation in 2015, the Minister will want to ensure that he puts a stop to any further widening of the deficit in the 2016 Budget. To do this the first call would be to halt increases in expenditure especially in subsidies and transfers. In doing this the Minister must be strategic in respect of existing contracts, promoting growth and in critical areas of social support. To close the deficit immediately might be ideal but may not be realistic for at least two reasons: (i) recurrent and even capital expenditures are difficult to reverse, especially in the short run and (ii) some level of fiscal injections is necessary to keep the wheels of the economy turning.
Third, in order to close the deficit the Minister must urgently seek to reform revenue administration in order to increase collection from all those who have not been meeting their fiscal responsibilities. Attention to the major players in the first instance may very well be worth the effort. A fair, transparent and efficient property tax is relevant in this effort at revenue generation.

Fourth, the budgetary process is a crucial aspect of fiscal policy but fiscal policy is only one of several dimensions of macro-economic management. There are monetary policy, trade policy and incomes policy to name a few. Fiscal policy affects and is affected by other policies. The Minister of Finance must ensure that the 2016 Budget takes into account these other dimensions of the macro-economic environment so that there is no conflict in policy application as he seeks to promote growth, equity, environmental sustainability and social harmony.

Fifth, some growth should be engineered in 2016, even if marginal. Any cluster or activity that has even minimal prospect for growth should be supported, whether in energy, tourism or wherever else. If energy prices are stagnant then it is increased output which will generate growth. Adjustment in the energy tax regime then might stimulate an increase in production as well as in the absolute tax take from this sector. Also, the major bureaucratic and other constraints to doing business must be addressed urgently if the private sector is to be activated as it should be, and a strong push for economic diversification is to take hold. Increases in productivity will also generate growth but has not been frontally addressed.

Sixth, some level of targeted social support must also be an integral part of the package. The poor must be supported and motivated through training etc. towards self reliance. It should be clear by now that handouts and the promotion of political patronage from the public purse do not produce the desired outcome or are wasteful. Instead, undeserved handouts and patronage seems to have played a major part in the promotion of criminal activity for too long.

Undoubtedly, the Minister of Finance will be challenged to produce a Budget which reflects prudence, balance and hope. Budget 2016, even if provisional as far as the fiscal year is concerned, must seek to stabilize revenues, hold expenditures, promote economic growth while cushioning the poor from the harshest elements of any necessary adjustment measures. By any yardstick this is a tall order indeed. Is the Minister up to the task?

Dr. Ronald Ramkissoon is a senior Economist who has written and published on several subjects, mainly in monetary and trade matters; he is a frequent commentator on economic issues.
October 2015

5 Growth stimulation… through VAT reform

Growth stimulation... through VAT reform
by Fanny Ursulet-Headley

VAT profile of T&T

Value Added Tax (VAT) is a relatively young tax. It made its global debut in France some 50 years ago and was introduced in T&T in 1989 with the decline of income from oil. The initiative, which was launched as a mechanism to boost revenue collection, included the elimination of several taxes.

At the time of its introduction VAT was intended to yield 25% of the total revenue collected by GORTT. However, the Ministry of Finance estimates indicate that for the period 2005 to 2011, it yielded an average of 12% of the revenue collected by GORTT. Interestingly enough, based on 2012 statistics collated by Joseph Jason Cotton, research economist at the Central Bank, VAT collections have not increased proportionally with the significant increases in consumption expenditure. Rather, they have remained relatively stable (at an average of 6.3% of Non-oil GDP) since the introduction of VAT.

Therefore, is VAT a suitable tool in terms of revenue-collection and fiscal policy? If so, what are the available options to efficiently raise revenue and reform the regime?

In a context where revenue from oil has moved from 50.8% of GDP in 2008 to 37.2% in 2014 and with the treasury at a staggering negative $8.5 billion mid-September 2015, the answer to these questions is an absolute priority.

Economic impact of VAT

2011 statistics show that globally VAT is third in importance after personal income taxes and social security distributions. In recent years the importance of VAT has significantly increased in the budget of most nations.

Part of the rationale for this is that, in a context of crisis or economic slow-down, VAT positions itself as an excellent contender in terms of revenue-raising due to various attributes. Chief on the list is that it is a growth-oriented tax. Since VAT is a tax on consumption, it does not negatively impact economic decisions in terms of savings and investments.

In June 2009, OECD ministers stated that “Growth-oriented tax reforms would generally involve shifting revenue from corporate and personal taxation onto consumption and property taxes.

When increases in revenue collection from VAT have been coupled with decreases in income taxes, this has tended to appear as more politically acceptable and create a more stable fiscal environment.

An efficient VAT system- the theory

VAT is a broad-based tax imposed at each stage of the production on an incremental basis (hence its name of “Value Added Tax”). A VAT registered person computes his VAT liability by offsetting output tax (raised) against input tax (suffered), which results in VAT being collected on the markup at each stage of the production and distribution. The existence of VAT exemptions however prevents the recovery of input VAT and therefore increases the cost of supply.
Experts concur that:

to be efficient VAT needs to be consumption-type, broad-based and applied through to the retail stage. In particular “excessive exemptions and numerous zero ratings are detrimental to the efficiency of the whole VAT system, add unintended distortions, and impose greater burden on the tax administration.” (Tuan, 2003, p.43)

“multiple exemptions and zero rates inevitably reduce the VAT productivity- this would eventually dry up the funds needed to support the poor, drive government to make ad hoc changes in policy, and create more uncertainty in the business” (Tuan, 2003, p.43)

In fact, a 1991 study conducted by Professor Alan Tait (an IMF Economist and VAT specialist) suggests that zero rating food alone may reduce the VAT base by up to 40%.

International practice- options to raise revenue from VAT

The three (3) main options employed to increase VAT revenue are:

• Raising the standard rate- this is the most obvious but not necessarily the most desirable in a contracting economy and tends to discourage compliance.

• Reducing (possibly temporarily) the standard rate to support aggregate demand in time of crisis and broaden the tax base in the medium term. This measure is generally coupled with increased enforcement measures with respect to collection. The reduction in rate encourages compliance and can contribute to the increase in revenue in T&T.

• Gradually removing zero rated items- this option has an impact on the purse of the under-privileged in society and tends to raise political concerns.

• The proliferation of zero rated items in the T&T VAT legislation (such as medication and foods) is a testimony to the fact that social considerations, despite their detrimental effect on the efficiency of VAT, are a key factor in configuration of the tax. T&T is one of the many jurisdictions which have used zero-rating to address equity issues in society. Experts however discourage that approach and promote instead the following alternatives which address equity without bringing about distortions in the VAT system:

  • a shift of revenue collection from income tax to VAT
  • prudent pro-under-privileged expenditure

The significant expansion of the list of zero-rated food items in 2013 has demonstrated the limited effectiveness of the measure. In the absence of a strict monitoring of prices the evidence suggests that merchants have generally not passed on to the customers the savings made through the reduction on VAT on those items.

We therefore welcome the Minister undertaking to:

• reduce the rate to 12.5%

• broaden the tax base, i.e. excluding from the list of exemption and zero rated items those which are associated with non-essential or luxury items; and

• improve the tax administration via the introduction of the Revenue Authority.

The Minister also plans to increase the VAT registration threshold from $360K to $500K.

Refunds - the Achilles heel of the VAT system

The T&T VAT system has been plagued by delays in refunds for a number of years, although there was some improvement over the last year or two. However, this remains an area of concern to tax payers.

The reasons for this are multiple, including concerns regarding fraudulent claims, VAT return and refund processing, and budgetary allocations. However, justifiable the reasons for the delays, they increase the cost of doing business in T&T and therefore stymie economic growth and investment, forcing businesses to maintain additional cash...
VAT is recognized to play a role in economic recovery because it is a growth oriented tax. However its efficiency is being jeopardized by an inordinately long list of zero rated items which has significantly eroded the VAT base over the years. This issue should be addressed at least in part by the proposed adjustments announced by the Minister. However, we would recommend a more comprehensive review of the list of zero-rated items with a view to limiting it to ‘essential” items and providing relief to the underprivileged in a more direct and targeted manner, rather than through the tax system.

Processing of refunds needs to be addressed to reduce the cost of doing business.

The Minister has made an appeal for collaboration via stakeholders consultation, which we are looking forward to joining. However, we are of the view that this must translate to collaboration in the broadest sense, including compliance by all citizens with the tax regime accompanied by a reasonable approach to tax administration.

**Fanny Ursulet-Headley is a Director in our Tax Services specializing in taxation of financial services.**

**Bibliography**


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All eyes on the barrel
Looking beyond the oil price
by Keith Robinson

Among the issues that have most significantly impacted the Energy Sector in T&T over the past year have undoubtedly been the continuing gas shortages being experienced by the downstream energy sector and the fall in prices which ultimately led to a revision of the basis on which last year’s budget was premised. Since the presentation of the 2015 National Budget we have seen oil prices tumble from US$93.21 (WTI spot) in September 2014 to US$42.87 (WTI spot at August 2015) and gas from US$3.921 (Henry Hub) to US$2.753 (Henry Hub) in the same period.

On average the energy sector contributes 40% of this country’s GDP and has been on a steady decline reaching a low of 37.2% in 2014 compared to a high of 50.8% in 2008. The reduction in oil and gas production and lower energy prices has been identified by the Honourable Minister of Finance as the main factors responsible for the decline.

This fall in prices is not unprecedented for this sector as many of us can remember the sharp declines which occurred in 1986 and 2008. **The questions on everyone’s lips and on their minds are how much more will it drop and when will it rebound. However, predicting answers to these questions is not an easy task.**

In 2008, when the foundations of the economic system were being severely tested and in turn impacted oil prices, what helped the oil price to rebound at that time was demand for oil from booming emerging markets, coupled with a supply response from OPEC.

However in the current situation the same solution may not be in the offing as China, for example, is experiencing a slowing growth rate while at the same time moving away from oil consuming industries, such as steel making, towards services and higher end manufacturing.

As positive as it is, technological progress and engineering innovation has contributed to this oil price crisis, as it has enabled the US to tap into unconventional sources such as shale, thereby increasing its domestic oil production significantly. Shale oil production in the US requires a short exploration time, of approximately three months, and average production duration of 12-18 months. This additional supply readily offset production challenges emanating in the Middle East. Add to this OPEC’s inability to get its members to cut production despite clear indications of surplus supply in the market and the result is this lengthy period of depressed prices.

According to OPEC’s 2015 Annual Statistical Bulletin, in 2014 world crude oil production averaged at 73.4 million bbl/day, increasing by 0.7 per cent, over 2013. Noticeable increases originated in North America, particularly the US, as well as in Western Europe, more specifically Norway. Crude oil production declined year-on-year in Africa and the Middle East, and remained relatively flat in other regions.

The report also showed that natural gas production among OPEC members totaled 1045.0 thousand standard cu/m, an increase of 2.5% over 2013.

In our case over the period 2012 to 2014 crude oil production was flat at approximately 81,000 bbl/day, this in spite of the fiscal measures introduced to help increase production.
All eyes on the barrel
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Unlike the situation with OPEC members, however, our natural gas production showed a small increase of 0.6% in 2013 over 2012 and a decrease of 1.83% in 2014 compared to 2013.

The Honourable Minister of Finance commented that no specific incentives were given to promote the development of small and marginal gas fields. The last incentive for small fields related strictly to marine oil fields and were given to ease the burden of SPT payable on those fields.

With decreasing natural gas production, which coincides with a decline in revenue, it is imperative that we increase the natural gas production to both meet demand increase revenue.

The Honourable Minister may wish to consider options like a reduced rate of tax on the gas produced from small marine fields or even an uplift of expenditure incurred on producing gas from these fields.

In this scenario of reduced prices companies are faced with reduced income, uneconomic incremental investments and impending decommissioning costs. This combination of factors has led to cost reduction measures which have already started by way of reductions in capital expenditure and oilfield services / contractor spend, outsourcing or back office rationalization and headcount reviews, among other measures.

So the issue is can these businesses survive sub-US$50 prices for a sustained period. Cash flow management becomes even more critical in the current environment and therefore the threshold price for the imposition of the Supplemental Petroleum Tax (SPT) requires review and the Honourable Minister has promised consultation on this area. The smaller producers who will have this liability once the price crosses US$50 will have an SPT liability which will reduce the cash available to reinvest. In this scenario the SPT may be a disincentive to further investment.

Another cash flow issue that impacts the sector is the delayed payment of VAT refunds. While there has been some improvement in this area there continues to be a long time lag which is unhealthy in the current environment.

This issue was challenging enough when prices were higher and there was tinkering with the tax regime for the sector in order to encourage investment and exploration activity with the ultimate objective of increasing production. There remain concerns about the piecemeal amendments and therefore a comprehensive review of the tax regime should be undertaken. In the current environment it is likely that more fields will become marginal or uneconomic with the consequential impact on production. A marginal reduction in the rate of tax may not necessarily make up for the impact on profitability of lower oil prices. However, a tax regime that is synchronized with the industry may be worthwhile.

We need to continue to work on improving our
**All eyes on the barrel**

Looking beyond the oil price

competitiveness in order to attract whatever foreign direct investment is available. The recently released Global Competitiveness Report 2014-2015 showed that there was no movement in our competitiveness rating. The challenge therefore is to use the guidance provided in that report to focus on areas for improvement.

There has been word that deep water investment commitments and work programs locally will not be affected by the current low price environment and this is commendable if it is in fact so, but in the context of a tax regime that responds to changes in the sector consultation with all stakeholders will be necessary.

Oil price volatility is an integral part of this industry and therefore cost efficiency is critical to a company’s ability to survive sub-US$50 prices.

Renewable energy talks are back on the table and were classified as high on the Government’s agenda. The Honourable Minister stated that energy efficiency/conservation is key in extending the life of our oil and gas resources and helping in reducing the T&T’s carbon footprint (refer to our pre-budget newsletter article on Trinidad and Tobago’s Carbon Footprint). He noted that the government’s target by the year 2021 is for at least 10% of the energy generated from T&T to be from renewable energy.

We look forward to day that wind farms and solar power can be used as an alternative source to generate Trinidad and Tobago’s domestic energy requirement while simultaneously allowing for increased export sales of oil and gas with the added benefit of a cleaner environment. These projects involve high capital expenditure and will require the government’s commitment to renewable energy in spite of being an oil and gas based economy.

The removal/reduction of fuel subsidies has been a very topical issue locally and internationally because of its impact on the efficiency with which individuals use subsidized fuel and the related environmental impact. The partial removal of the fuel subsidy will translate into a 15% increase in the price at the pump of Super and Diesel gasoline. This measure may be timely in the current climate of declining revenue and, with the intention of reducing T&T’s carbon footprint, will hopefully persuade the driving population to convert to CNG. This measure may be the least popular as an increase at the pump will usually have a negative impact on the cost of living since increases in transportation cost will very likely follow.

The Honourable Minister indicated that this measure will reduce the annual fuel subsidy by $340M and increase the prices of Super and Diesel gasoline to $3.11 and $1.72 per liter respectively. Many countries have used oil and gas subsidies as a mechanism to transfer oil wealth to citizens. However in times of depressed oil prices many oil producing countries have opted to remove the fuel subsidy, most recently United Arab Emirates removed its fuel subsidy thereby linking gasoline and diesel prices to global oil markets.

The restructuring of the Public Transport Service Corporation with its fleet of CNG buses should therefore follow immediately with improved schedules and on time and reliable public transport to buffer the impact of the higher gas prices.

*Keith Robinson is a Director in our Tax Services specializing in tax matters for the energy sector.*
Strengthening the governance architecture
by Lenny Abrahams

“In summary, we in the PNM envision a society where integrity and morality in public life is of the highest priority and the Government serves the public good above all else, and where decisions are made and actions taken by the Government in the best interest of all concerned.

Our approach to governance in our next term will be data based, scientific, holistic and evidence driven, paying due attention at all times to the need for compassion, sensitivity and the respect for the rights and freedoms of all citizens in all matters of state.” – Message from The Political Leader, Dr. the Honourable Keith Rowley: People’s National Movement Manifesto 2015.

The aforementioned comments by the leader of the ruling party are progressive and encouraging, and should be commended. Citizens would no doubt be hoping that the word “governance” is all-encompassing and includes clear actions toward strengthening the overall “corporate” governance environment within the public sector as a first port of call, while the private sector also does its part.

Strengthening the governance architecture

Given the current challenging economic environment, government must maintain tight controls over expenditure and ensure checks and balances to foster Value for Money are properly designed, operating effectively, and not abused for personal gain.

In order to truly foster the necessary change in behaviors and processes, consideration should be given to exercises such as diagnostic assessments to evaluate the “as is” state of several state enterprises where focus can be placed on the finance function (particularly with an eye to new procurement requirements on the horizon); the effectiveness in the public domain, would be to also conduct fraud risk assessments. Forensic audits are also key towards fostering accountability and identifying the root cause and persons responsible for wrong doings – once they result in appropriate and decisive corrective action. However, fraud risk assessments and overall internal controls strengthening are more proactive and preventive in nature. Assessments of this nature will enable government to identify existing fraud schemes, likely avenues for misuse of public funds, and strengthen procedures to combat these frauds.

All of the above becomes even more critical during periods of fiscal deficits.

One of the means by which government could ensure that they “do better with less” would be to conduct continuous Value for Money (VfM) audits on procurement of larger scale goods and services. The very idea that State expenditure will be subject to proper VfM audits will result in savings over the longer term. Hence the urgent need for strengthening of the capacity, structures, tools, and capabilities of the internal audit functions throughout the public sector, including at several State enterprises. Partnering with accounting firms on a co-sourced basis regarding internal auditing in a more structured manner is also an option, which is already in effect at various public and private companies.

While we await further details regarding the planned General Accounting Office, we at PwC, and the rest of the accounting and auditing profession, stand ready to assist and play our part with the strengthening of governance, institutional strengthening, and overall Value for Money at this critical juncture in our nation’s development.

Lenny Abrahams, Senior Manager in our Forensics unit, Advisory.
State Owned Enterprises (SOEs) and the procurement of large scale infrastructure funded directly by the State will remain important instruments in GoRTT’s toolbox for societal and public value creation given the right context. Governments have created and invested in SOEs because markets were imperfect or unable to accomplish societal needs such as effectively mobilizing capital or building enabling infrastructure for economic development e.g. Trinidad and Tobago Electricity Commission (T&TEC), Water and Sewerage Authority (WASA). Once SOEs have fulfilled their initial purpose and the sector or market has matured, a burning question arises: what is their new purpose? For those that have not fulfilled their objectives, how will they secure the required financing and technological or service innovations to deliver evolving users’ needs within constrained budgets (i.e. doing “better for less”) so as to achieve desired outcomes from both economic and social perspectives.

For the past several years, our national budgets have been running at persistent fiscal deficits. Our country is heavily dependent on revenues generated by our energy sector, which is itself faced by the following sobering trends:

- Tempered commodity prices in the short to medium term: recently we’ve seen oil price ranging between lows of US$35 - US$45;
- Limited reserves of natural gas and the proliferation of competing sources of supply (shale gas).

Given this reality, the time is arguably right for GoRTT to engage the private sector as a key driving force for required investments in targeted sectors.

Depending on the motivation, which often impacts the desired level of government control, we have observed that there is a continuum of models of control which span the public-private interface. These provide different degrees of state ownership and influence and also a range of models which governments might choose on the path to private ownership:

Privatization, whether it is conducted via ownership, management control models or a combination of both, has often proved to be an efficient mechanism to introduce the private sector as a catalyst for public value creation, providing benefits such as continued capital market development and increasing the wealth and savings of nationals of Trinidad and Tobago. The funds raised by privatization could be used for either the development of the economy through the redeployment of capital or diversification through the injection of ‘fresh’ capital in strategic sectors which would be determined based on GoRTT’s policy for economic development.

The factors which should be considered in determining which state assets (if any) should be divested include (1) the maturity of the industry sector, (2) the likelihood that privatization would stimulate continued development both of the sector and indeed the SOEs operating within the sector, and (3) impact: the likely finance to be raised by the privatization. On this basis, we believe there possibly are a number of SOEs that are good candidates for divestiture (either full or partial) or where a strategic partner should be introduced.

For the purpose of this article, we will adopt the Organisation for Economic Co-Operation and Development (OECD) the definition of SOEs, i.e. enterprises where the state has significant control through full, majority, or significant minority ownership.
Private Sector Capital as a Catalyst for Public Value Creation

Another potentially effective mechanism which GORTT can employ to significantly increase the quantum of private sector capital with which to procure large infrastructure projects are Public Private Partnerships (PPPs). Specifically, in light of measures such as new procurement legislation, establishment of a dedicated PPP Unit, the drafting of national PPP guidelines, pilot PPP projects having been undertaken – all in an environment of falling energy prices and declining government capacity to fund infrastructure projects – there is arguably a compelling case for the use of PPPs to expand the pool of capital and procurement options to deliver public projects.

PPPs have been recognized locally and globally as a valuable and adaptable mechanism to deliver mutual benefits to people, government and business. If appropriately assessed and applied, the use of PPPs has the potential to attract a greater quantum of capital as well as provide a higher level of transparency and accountability to procurement initiatives in the local economy. PPPs also provide a valuable opportunity to leverage the capacity and capability of the local and international private sector toward delivering better infrastructure and services while ensuring value for money for the citizens of T&T.

The PPP mechanism is certainly not a panacea for delivery of all major capital projects and public services. There will continue to be a strong case for the use of other methods of procurement such as traditional financing or privatizations. PPPs are complex long term arrangements in which the private sector potentially finances, builds, operates or maintains infrastructure and services for governments. These partnerships require a clear understanding of the scope of the project, risk allocation between the public and private sectors (and often users) as well as a clear definition of the output and performance specifications that are required for the project.

Further, GoRTT should carefully screen projects to assess the suitability of PPPs. This screening would take into account the size of the project, the capability and capacity of the public sector, the funding sources among other factors and also the potential for the project(s) to build confidence in and momentum for, PPPs as an important procurement alternative for infrastructure projects. In all instances, a clear business case should first be developed that demonstrates the Value for Money to be generated by using PPPs.

When appropriately applied, PPPs present several potential advantages over a government undertaking infrastructure projects alone. These include:

- Additional source of capital in the face of limited funding options
- More efficient project implementation
- Capacity building at government and private sector levels
- Development of the local capital markets
- Cost savings (and value for money)
- Risk sharing – allowing those best suited to manage certain risks

Improved levels of service through performance criteria and robust compliance monitoring

While the stage is arguably set for PPPs, there is much that needs to be done to drive success, including the development and enacting of PPP legislation, continued PPP training for Government Ministries and Agencies (particularly in the conduct of project screening and the development of business cases) and the need for local banks and equity providers to develop their capability and capacity to assess and manage the risks associated with long term PPP arrangements.

Zia Paton is Director in the Consulting unit, Advisory Services
**Income Tax**

**Personal Allowance**
- 2016: $72,000
- 2015: $60,000
- 2014: $60,000

**Tertiary Education Allowance**
- 2016: $60,000
- 2015: $60,000
- 2014: $60,000

**Pension/Deferred Annuity**
- 2016: $50,000
- 2015: $50,000
- 2014: $30,000

**National Insurance**
- 2016: 70%
- 2015: 70%
- 2014: 70%

**First Time Homeowner allowance**
- 2016: $25,000
- 2015: $25,000
- 2014: $18,000

**Covenanted donations to charity**
- 2016: 15% of Total Income
- 2015: 15% of Total Income
- 2014: 15% of Total Income

**Corporate Tax**

**Corporation Tax Rates (Petrochemicals)**
- 2016: 35%
- 2015: 35%
- 2014: 35%

**Corporation Tax Rates (Other)**
- 2016: 25%
- 2015: 25%
- 2014: 25%

**Small and Medium Size (SME)**
- 2016: 10% (8)
- 2015: 10% (8)
- 2014: 10% (8)

**Business Levy (On Gross Sales & Receipts)**
- 2016: 0.6%
- 2015: 0.2%
- 2014: 0.2%

**Green Fund Levy (On Gross Sales & Receipts)**
- 2016: 0.3%
- 2015: 0.1%
- 2014: 0.1%

**Initial Allowance**
- 2016: 90%
- 2015: 90%
- 2014: 90%

**Art and Culture/ Sportsmen/Sporting Activities**
- 2016: Expense incurred (9)
- 2015: Expense incurred (9)
- 2014: Expense incurred (9)

**Fashion Allowance**
- 2016: 150% uplift (9)
- 2015: 150% uplift (9)
- 2014: 150% uplift (9)

**Production Company Allowance**
- 2016: 150% uplift (9 & 10)
- 2015: 150% uplift (9 & 10)
- 2014: 150% uplift (9 & 10)

**Employees training / retraining**
- 2016: 150% uplift (11)
- 2015: 150% uplift (11)
- 2014: 150% uplift (11)

**Petroleum Taxes**

**Petroleum Profits Tax**
- Shallow water (shelf/block): 50%
- Deep water block: 35%
- Unemployment Levy: 5%

**Supplemental Petroleum Tax**
- Base & sliding scale

**Investment Income**

**Local Dividends**
- Exempt

**Interest (individuals)**
- Exempt (12)

**Gains or Profits from sale of residential house sites**
- Exempt (13)

**Sale / Rental income from commercial buildings/multi-storey car parks**
- Exempt (14)

**Value Added Tax**

**VAT Rate**
- 2016: 12.5% (15)
- 2015: 15% (18)
- 2014: 15% (15)

**Registration Threshold**
- $500,000 (16)
- $360,000 (16)
- $360,000 (16)

**VAT Exemptions on Offshore Equipment**
- Yes (17)
- Yes (17)
- Yes (17)

**Alternative Energy Incentives**

**Wear and Tear Allowance (CNG)**
- 130% (18)

**Wear and Tear Allowance (Solar & Wind)**
- 150% (19)

**Motor Vehicle Import Duty Relief (CNG vehicles)**
- 50% (20)

**Hybrid and Electric powered Vehicles**
- VAT & Tax Exemption (20)

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**October 2015**
**Tax facts**

**Notes**

1. $72,000 personal allowance available to all resident individuals from 2016
2. For attendance at foreign Universities not GORTT Funded. Claim limited to $60,000 per year
3. Maximum claim $50,000 from 2015
4. First-time homeowners deduction for five years for properties purchased/constructed after January 1, 2011
5. Covenanted donations to charity include an approved sporting body, charitable organisation and/or The Children’s Life Fund
6. Aggregate of Tax credits limited to $10,000
7. 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
8. 10% rate would apply for the first five years from listing on the T&T Stock Exchange
9. Tax deduction up to a maximum of $3M. Aggregate of all claims restricted to $3M
10. Allowance only available to production companies
11. Effective 1 January 2013, 150% uplift of expenses reasonably incurred in the training and retraining of employees of the company
12. Certain interest income as per section 8 of the Income Tax Act
13. 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, 2018 Revision to incentive announced in the budget.
14. Construction must have commenced on or after 1st October 2012. Profits exempt until December 31, 2017. Revision to incentive announced in the budget
15. New rate to be effective from 1 January 2016
16. Increased threshold to be effective from 1 January 2016
17. Offshore Equipment relates to offshore drilling rigs, drilling ships and other vessels associated with offshore activity in the Energy Sector
18. 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
19. Effective 1 January 2011, allowance based on plant and machinery, parts and materials for manufacture of solar water heaters/ wind turbines/ solar photovoltaic systems
20. Exemption from VAT and Motor vehicle tax for new and used vehicles (not older than four years from the year of manufacture), imported for private or commercial use. Exemptions apply from 1 January 2015 to 31 December 2019
## Tax computation

### Corporation Tax Computations

**Company Engaged in manufacturing activity**

<table>
<thead>
<tr>
<th>TTS in 000s</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit as per Financial Statements</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Add:</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>
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<tr>
<td>Arts and Culture, Audio Visual, Sporting and fashion donations</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Staff training</td>
<td>100</td>
<td>100</td>
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<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arts and Culture, Audio Visual, Sporting &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></td>
<td></td>
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</tr>
<tr>
<td>Chargeable Profit</td>
<td>36,875</td>
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<tr>
<td>Corporation Tax @ 25%</td>
<td>9,219</td>
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</tr>
<tr>
<td>Effective Tax Rates</td>
<td>23.0%</td>
<td>23.0%</td>
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</table>

### Business Levy

<table>
<thead>
<tr>
<th></th>
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<th>2015</th>
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<tbody>
<tr>
<td>Gross Sales/ Receipts</td>
<td>500,000</td>
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</tr>
<tr>
<td>Business Levy</td>
<td>3,000</td>
<td>1,000</td>
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### Green Fund Levy

<table>
<thead>
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<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Sales/Receipts</td>
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<td>500,000</td>
</tr>
<tr>
<td>Green Fund Levy</td>
<td>1,500</td>
<td>500</td>
</tr>
</tbody>
</table>

**Assumptions:**

- Company is not engaged in the production of petrochemicals
- Company is not engaged in local audio, visual or video production
- Business Levy rate for 2015 and 2016 is 0.2% and 0.6% respectively
- Green fund Levy rate for 2015 and 2016 is 0.1% and 0.3% respectively
**SME Tax computation**

**Small and Medium Enterprises**  
**Corporation Tax Computation**

<table>
<thead>
<tr>
<th>TT$ in 000s</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit as per Financial Statements</td>
<td>250.0</td>
<td>250.0</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>40.0</td>
<td>40.0</td>
</tr>
<tr>
<td>Donations not under Deed of Covenant</td>
<td>6.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arts and Culture, Audio Visual, Sporting Allowance</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Wear and Tear Allowance</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td></td>
<td>30.0</td>
<td>30.0</td>
</tr>
<tr>
<td>Chargeable Profit</td>
<td>220.0</td>
<td>220.0</td>
</tr>
<tr>
<td>Corporation Tax @ 10%</td>
<td>22.0</td>
<td>22.0</td>
</tr>
</tbody>
</table>

Effective Tax Rates  
9%  
9%

**Business Levy**

| Gross Sales/ Receipts | 4,000.0 | 4,000.0 |
| Business Levy | 24.0 | 8.0 |

**Green Fund Levy**

| Gross Sales/Receipts | 4,000.0 | 4,000.0 |
| Green Fund Levy | 12.0 | 4.0 |

**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
- Business Levy rate for 2015 and 2016 is 0.2% and 0.6% respectively
- Green fund Levy rate for 2015 and 2016 is 0.1% and 0.3% respectively

**October 2015**
# Income Tax computation

## Individual Tax Computation

### Middle Income Person

<table>
<thead>
<tr>
<th></th>
<th>TT$</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Income</strong></td>
<td>400,000</td>
<td>400,000</td>
<td></td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal allowance</td>
<td>72,000</td>
<td>60,000</td>
<td>(1)</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>60,000</td>
<td>60,000</td>
<td>(2)</td>
</tr>
<tr>
<td>Pensions/ Annuity/ 70% NIS contributions</td>
<td>50,000</td>
<td>50,000</td>
<td>(3)</td>
</tr>
<tr>
<td>First time homeowner</td>
<td>25,000</td>
<td>25,000</td>
<td>(4)</td>
</tr>
<tr>
<td>Donations to charity under a Deed of Covenant</td>
<td>40,000</td>
<td>40,000</td>
<td>(5)</td>
</tr>
<tr>
<td><strong>Taxable Income</strong></td>
<td>153,000</td>
<td>165,000</td>
<td></td>
</tr>
<tr>
<td><strong>Income Tax @ 25%</strong></td>
<td>38,250</td>
<td>41,250</td>
<td></td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CNG Kit and Cylinder/ Venture Capital/ Solar Water Heating</td>
<td>10,000</td>
<td>10,000</td>
<td>(6)</td>
</tr>
<tr>
<td>GORTT bonds</td>
<td>1,250</td>
<td>1,250</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Income Tax Liability</strong></td>
<td>27,000</td>
<td>30,000</td>
<td></td>
</tr>
<tr>
<td><strong>Effective Tax Rate</strong></td>
<td>6.8%</td>
<td>7.5%</td>
<td></td>
</tr>
</tbody>
</table>

### High Income Person

<table>
<thead>
<tr>
<th></th>
<th>TT$</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Income</strong></td>
<td>1,000,000</td>
<td>1,000,000</td>
<td></td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal allowance</td>
<td>72,000</td>
<td>60,000</td>
<td>(1)</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>60,000</td>
<td>60,000</td>
<td>(2)</td>
</tr>
<tr>
<td>Pensions/ Annuity/ NIS contributions</td>
<td>50,000</td>
<td>50,000</td>
<td>(3)</td>
</tr>
<tr>
<td>First time homeowner</td>
<td>25,000</td>
<td>25,000</td>
<td>(4)</td>
</tr>
<tr>
<td>Donations to charity under a Deed of Covenant</td>
<td>100,000</td>
<td>100,000</td>
<td>(5)</td>
</tr>
<tr>
<td><strong>Taxable Income</strong></td>
<td>693,000</td>
<td>705,000</td>
<td></td>
</tr>
<tr>
<td><strong>Income Tax @ 25%</strong></td>
<td>173,250</td>
<td>176,250</td>
<td></td>
</tr>
<tr>
<td><strong>Less:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CNG Kit and Cylinder/ Venture Capital/ Solar Water Heating</td>
<td>10,000</td>
<td>10,000</td>
<td>(6)</td>
</tr>
<tr>
<td>GORTT bonds</td>
<td>1,250</td>
<td>1,250</td>
<td>(7)</td>
</tr>
<tr>
<td><strong>Income Tax Liability</strong></td>
<td>162,000</td>
<td>165,000</td>
<td></td>
</tr>
<tr>
<td><strong>Effective Tax Rate</strong></td>
<td>16.2%</td>
<td>16.5%</td>
<td></td>
</tr>
</tbody>
</table>

(1) Personal allowance of $72,000 applies to all T&T residents for 2016.
(2) Maximum claim between spouses restricted to $60,000.
(3) Aggregate of claims is restricted to $50,000
(4) House must be purchased/ constructed after January 1, 2011.
(5) Restricted to 15% of total income
(6) Aggregate of claims is restricted to the tax credit of $10,000
(7) Restricted to 1,250 per year
## Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition/meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>bbl</td>
<td>An oil barrel. A unit of volume</td>
</tr>
<tr>
<td>bpd</td>
<td>Barrels per day. Daily output of oil production</td>
</tr>
<tr>
<td>BIR</td>
<td>Board of Inland Revenue</td>
</tr>
<tr>
<td>BTU</td>
<td>British Thermal Unit. Used in the measure of natural gas</td>
</tr>
<tr>
<td>cc</td>
<td>Cubic centimeter. A unit of volume</td>
</tr>
<tr>
<td>CNG</td>
<td>Compressed Natural Gas</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product. A primary indicator used to measure the health of a country</td>
</tr>
<tr>
<td>FY (XX)</td>
<td>Financial year ending (…)</td>
</tr>
<tr>
<td>GATE</td>
<td>Government Assistance for Tuition Expenses</td>
</tr>
<tr>
<td>GORTT</td>
<td>Government of the Republic of Trinidad and Tobago</td>
</tr>
<tr>
<td>H1/H2</td>
<td>Half year periods ending (1st half year ending date) and (2nd half year ending date), respectively</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>KPI</td>
<td>Key performance indicator</td>
</tr>
<tr>
<td>LNG</td>
<td>Liquefied Natural Gas</td>
</tr>
<tr>
<td>LTM</td>
<td>Last twelve months</td>
</tr>
<tr>
<td>MMBtu</td>
<td>One million BTU. Often used in the measure of natural gas</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OPEC</td>
<td>Organisation of the Petroleum Exporting Countries</td>
</tr>
<tr>
<td>p.a.</td>
<td>Per annum</td>
</tr>
<tr>
<td>p/l</td>
<td>Per litre</td>
</tr>
<tr>
<td>p/m</td>
<td>Per month</td>
</tr>
<tr>
<td>ppt</td>
<td>Percentage point</td>
</tr>
<tr>
<td>Q1,2/3/4</td>
<td>Quarters ending (Q1 end date), (Q2 end date), (Q3 end date), respectively</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small and Medium sized enterprises</td>
</tr>
<tr>
<td>SPT</td>
<td>Supplementary Petroleum Tax</td>
</tr>
<tr>
<td>VAT</td>
<td>Value added tax</td>
</tr>
<tr>
<td>WTI</td>
<td>West Texas Intermediate</td>
</tr>
<tr>
<td>YTD (XX)</td>
<td>Year to date (Month)(20xx)</td>
</tr>
</tbody>
</table>
**PwC Tax & Legal Services**

**Tax Consulting Services**

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

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

**Compliance Services**

**Corporate Tax Returns**

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

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

**Quarterly Installments** – Notification of quarterly tax installments due and payable where applicable we make applications to the tax authorities for adjustment of these installments.

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

**Tax Audit and Dispute Resolution**

**Objections/Appeals**

Assistance, advice and support throughout the Audit, Objections and Appeal Stages.

**Maintain Tax Accounting and Payroll Accounting.**

**Corporate Audit / Health Check**

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

**Legal Services /Corporate Secretarial Services**

**Incorporation of Companies**

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

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

**Tax Registration** – Facilitation of the tax and social security registrations for both external and local companies.

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

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

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

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

**Liquidation and Dissolution** – Advise on clients on tax implications of liquidation versus dissolution; and facilitate and implement the mode chosen by the company.
Our PwC Tax Team

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

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We start together, We finish together. No one left behind - Anonymous
PwC has prepared this budget memorandum on the principal changes in the 2016 National Budget on 5 September 2015.