September 2010

Dear Executive

On September 8, 2010, The Honourable Winston Dookeran, Minister of Finance presented to Parliament, and a very curious nation, the Budget for Fiscal year 2010/11, the first and much anticipated Budget of his Government. The theme of this year’s Budget is “Facing the issues, Turning the Economy Around”.

The Measures outlined in the Minister’s presentation are consistent with and begin to give meaning to some of the campaign promises. However, many of the measures are still being fleshed out and we await the relevant details. Whether the government can stay the course, display the necessary resolve and effect successful implementation of these measures will become evident in due course.

PricewaterhouseCoopers is pleased to provide this Newsletter which outlines a summary of the fiscal measures announced by the Honourable Minister, our interpretation of, and commentary on, those measures, and our initial thoughts on the potential impact of the Budget. This is not intended to be a comprehensive statement or formal interpretation of the fiscal provisions and therefore should not be acted upon without seeking professional advice.

Challenging times such as these, accompanied as they often are by complex fiscal and other measures, demand global knowledge and local expertise, characteristics that are integral to our practice. Our people can assist you in understanding, and maximizing the opportunities that these make available to you.

Sincerely

Leader, Taxation Services
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Budget Overview 2010/11

On the eve of the historic electoral victory of US President Barack Obama over Senator John McCain, it was obvious to the world that the American public had exceedingly high expectations for President Obama to “fix” all the economic and other issues that stymied the growth of the economy, collapse of the financial markets and increased unemployment rates and incidences of foreclosures on homes to unprecedented levels. History has shown that any economy facing major challenges will need time and strong (and often unpopular) policies to navigate and weather the storm to recuperate and reverse downward trends.

The four month old coalition Government of the Republic of Trinidad and Tobago-The Peoples Partnership, like the Obama Administration, enjoyed a landslide electoral victory and public expectations were also running high that the new administration would work its magic and deliver us from the economic downturn and the crime epidemic.

In the face of all the anticipation, the Honourable Minister delivered his first budget presentation in Parliament under the theme “Facing the issues, Turning the Economy Around”. It appears to be in keeping with the People’s Partnership manifesto, but whether it will achieve its objectives remain to be seen.

It was noted that the Government’s budget is premised on a seemingly conservative price of US$65 per barrel for oil and US$2.75 per mmbtu for gas. Inflation is projected to be at 7% and real GDP growth is expected to be 2%.

Several fiscal measures were announced which included axing of the property tax. While most property owners will breathe a sigh of relief, the fact remains that the property tax regime is archaic and outdated and desperately needs to be revamped. Time will tell whether this tax regime is reformed and if so, what shape it will take.

Given the new administration’s stated focus on entrepreneurship and innovation, for example, in the agriculture sector, and the high levels of intangible assets that such “new economy” industries produce in the form of patents, trademarks, know-how etc, it is surprising, that there was no provision in the Finance Minister’s presentation for the introduction of relief, such as wear and tear allowance, for such intangible assets. Even traditional industries such as heavy and light manufacturing are likely to get a significant competitive advantage by the introduction of a capital allowance regime for such assets.

The proposed allowances for manufacturers as well as to promote alternative energy, namely compressed natural gas, solar and wind energy are all welcome initiatives. However, we wait to see whether these initiatives will be embraced with enthusiasm by the populace. Additionally, Minister Dookeran noted that in order to bolster development in the downstream energy sector, pensions fund trustees will be allowed to invest pension proceeds in suitable “down stream” activity. However, this measure will require “real time” regulatory oversight in order to manage the potential risks associated with trading in the capital market.

It was interesting to note that the Government has sought to expand the free trade zone activity by removing the project cap of US$50M. While this may revitalize the struggling free trade zone regime, the issues regarding bi lateral trade relations continues to be exist and it will be interesting to see how the Government balances these two.

Incentives for agriculture and small businesses were also announced and while initiatives are necessary for these two areas that have been neglected for far too long, one wonders about whether these proposed measures will suffice to stimulate the much needed growth and development in the areas.

Housing was also tackled through several initiatives such as the proposed creation of a holding company for the T&T Mortgage Company and Home Mortgage Bank which is to facilitate greater public participation in this area through listing on the Stock Exchange and the raising of finance through the use of derivatives.
We would advise caution as this initiative brings to mind the Fanny Mae and Freddy Mac debacles in the US and the widespread fall out caused by the abuse of mortgage backed derivative products.

Further, while the $18,000 mortgage interest allowance is a positive measure, the practical and legal permutations of “joint ownership” needs to be recognized and accommodated. Additionally, while the pension entitlements payments were increased to $3000 per month, there is still uncertainty regarding the minimum wage.

Crime continues to be a major priority and the Government proposes to introduce several measures such as increased community policing, youth mentoring and the introduction of computerized tools and specialized courts for narcotics, ammunition and kidnappings amongst other initiatives. While these measures are welcomed there is some skepticism as to whether these measures can adequately address the crime situation.

The proposed amendments to the employee share ownership plan provisions are welcomed. However, to limit the tax to the cost of the shares originally purchased, the Minister will need to consider the differing impact of a LIFO, FIFO or Weighted Average tracking scheme.

Minister Dookeran went on to indicate that future economic growth and development of the economy would be contingent on:

- Expanding the energy sector and more particularly alternative energy sources;
- Deepening downstream energy activity;
- Realigning the economy by encouraging entrepreneurship;
- Establishing a world outsourcing industry under which T&T will export its expertise in the energy services sector;
- Promoting and supporting art and culture including fashion, film and entertainment;
- Revitalizing the agricultural sector by revising incentives and introducing an ambitious infrastructure programme.

The Honourable Minister also announced Government’s intention to:

- Introduce an International Business Centre in place of the Trinidad and Tobago International Financial Centre (TTIFC). Other than noting that the IBC will be working with the State enterprises, E-teck and The Tourism Development Company as well as The Ministries of Trade and Industry and Finance, the vision for the IBC regime has not been communicated. We await further details on this initiative.

- Revitalise capital markets which have been under significant stress since transactions shrank from 34,946 in 2004 to 9,844 in 2009 and market value of shares traded shrank from 3 billion in 2004 to 1.4 billion in 2009. The steps for revitalization of the capital markets include restructuring National Enterprises Limited, offering a fiscal inducement for participation in the market, and listing Methanol Holdings Trinidad Limited on an International Stock Market with a cross listing on the Trinidad and Tobago Stock Exchange. Notably, no amendment to the Green Fund Levy provisions has been introduced to counteract the potential negative impact of green fund levy on financial market transactions such as Repos.

- Grow the economy by improving infrastructure, opening new economic space in certain specified areas in the country, implementing a growth and investment strategy, managing industrial estates, expanding and improving free trade zones and developing Tobago. These are all broadly outlined but again detailed measures will need to be provided in due course.

It is obvious that the reliance on the energy sector continues to exist and diversification of the economy continues to elude us and as such whether the non energy sector initiatives can actually be implemented and achieve the desired level of diversification remain to be seen.
As expected, the Honourable Minister identified those issues which he indicated his Government needs to address to ensure that it can start with a “clean slate and find solutions to the persistent problems that have great uncertainties on the national balance sheet”. The uncertainties identified and measures to address include the following:

a. **CLICO:**

The measures announced to address this are as follows:

- Insurance business will be separated from Short term investment and mutual funds business and the obligations to the policyholders will be honoured and backed by the Statutory Fund;

- The insurance businesses of CLICO and British American will be merged and divested.

- Depositors in the short term investment and mutual funds will receive an initial payment of a maximum of $75,000, with the balance of their entitlement being amortised over 20 years at 0% interest.

- CL Financial will be reviewed and its assets divested to recover public funds.

b. **Hindu Credit Union:**

A similar approach will be taken to provide relief to investors in the Hindu Credit Union.

c. **Alutrint and the Rapid Rail Projects:**

The Minister noted that notwithstanding significant Government expenditure to date on these projects, both projects have been shelved.

Overall, the budget is in keeping with the Government’s manifesto and many of the measures identified are at a high level. It will therefore be interesting to see the Government’s detailed action plan. Further, the Government’s move to introduce allowances is promising. However, its metal will be tested and its resolve and effectiveness will be by how it navigates the tumultuous economic times and weather the storm.
The Budget Revenue & Expenditure for 2010/11

Fiscal Deficit

The Honourable Minister indicated that the GORTT projects another deficit for fiscal year 2010/2011 of $7.7 billion amounting to 5.48% of GDP. This results from projected revenues of $41.3 billion and expenditures of $49 billion.

The pie charts below reflect revenues of $40.223 billion and expenditures of $52.147 billion as contained in the Draft Estimates of Revenue and Expenditure document.

Of the $40.223 billion revenue, $13.3 billion is projected to be received from Oil companies as compared to $8.9 billion in 2010 and $11.7 billion in 2009, an increase of 13.7% from 2009.
Summary of Fiscal Measures for 2010/11

Petroleum Profits Tax
Rate of PPT reduced from 50% to 35% for deep water blocks. No change of rate for land and shallow acreage.

Unemployment Levy
Current rate is 5% and no legislative changes proposed.

Supplemental Petroleum Tax
- Revision of SPT base and rates mentioned but no details provided;
- 20% reduction in SPT rates as a sustainability incentive for mature and small marine oil fields;
- Investment Tax Credit of 20% of qualifying capital expenditure in respect of mature land and marine fields for SPT purposes.

New Competitive Bid Round
Under the new bid round which closed on September 8, 2010, the 1995/96 PSC model will be used with the MOE paying all taxes except Withholding Tax and Stamp Duty out of its share of production. A total of six bids were received and the next stage is evaluation and negotiation.

Corporation Tax
- No change in rates of tax of 25% and 35% for Petrochemical Companies;
- Exemption – no change proposed;
- Allowances:
  - Increase in minimum wear and tear allowance from 10% to 25% for manufacturer’s on assets other than buildings;
  - Increase maximum arts and culture allowance from $1million to $2million;
  - Deduction of contribution to Children’s Life Fund up to 15% of total income per income year;
  - 130% Wear and Tear Allowance on acquisition cost of plant and machinery used for construction of CNG conversion centre;
  - 130% wear and tear allowance on cost of CNG kits and cylinders used in conversion of vehicles of fleet operators;
  - 150% wear and tear on acquisition of wind turbines;
  - 75% accelerated depreciation on capital expenditure of smart energy efficient systems.
  - 150% allowance on energy audit costs;

Customs & Excise Duty
- No change in applicable rates;
- Reliefs:
  - Removal of customs duty on CNG conversion kits and cylinders;
  - 0% for 5 years on motor vehicle tax on imports for CNG vehicles up to 2 years old;
  - 0% import duty on imports of solar water heaters;
  - 0% import duty on wind turbines and equipment.

Withholding Tax
General rate of 15% retained.
Income Tax
- The rate of tax of 25% retained;
- Allowances:
  - $1,000 tax free special duty allowance to police officers;
  - $18,000 mortgage interest allowance per household for first time homeowners for first 5 years;
  - Deduction of contribution to Children’s Life Fund up to 15% of total income;
  - Tax on proceeds of transfer of shares under ESOPs limited to initial investment;
  - Threshold for annual bonus distribution under ESOPs reduced from 40% to 25%;
  - Employees of subsidiaries within a Group to be allowed to participate in ESOP of parent company;
  - 25% tax credit to individuals on CNG kits and cylinders up to value of $10,000;
  - 25% allowance up to $25,000 on solar heating equipment.

Value Added Tax
- No change to the 15% standard rate of tax;
- Reliefs:
  - 0% VAT on imports for CNG vehicles up to 2 years old;
  - 0% VAT of solar water heating equipment;
  - 0% VAT on wind turbines.

Property Taxes
- Property Tax Act 2009 to be repealed and rates and values under current Land and Building Taxes Act will apply. A waiver of all Land and Building taxes for the year 2010 has been granted.

Small and Micro Enterprises
- The establishment of a $10 million Innovation Financing facility via Commercial banks has been announced.

Agricultural Incentives
- Loan Default Fund to be established;
- Reduction of interest rates from 6%-8% to 3%-5%;
- Allocation of $75-150 million for 2011 to the Agricultural Development Bank;
- $20 million to be designated for lending by the Agricultural Development Bank for Greenhouse and other similar technologically driven agricultural projects.

Environment
- NGO’s to access Green Fund;
- Green Fund legislation to allow for remediation, reforestation and conservation of the environment.

Litter Act
100% Increase in penalties imposed under the Litter Act, 1973.

Research and Development
- Expansion of sales turnover criteria for accessing the Research and Development facility offered by the Business Development Company Limited from its maximum of $5 million to $25 million;
- Increase in grants for single projects from $100,000 to $500,000 and for alliance projects from $200,000 to $1 million.

Stamp Duty
- No change to the applicable rates.
Motor Vehicle Transfer Tax
No change

Motor Vehicle Penalties and Fees
No change

Tax Amnesty
An amnesty to be granted on outstanding penalties and interest up to income year 2009 for late filing of returns and late payment of income tax, corporation tax, business levy, green fund levy, VAT and lands and building taxes. This amnesty expires on May 31, 2011.

Commentary on Fiscal Measures for 2010/11
In a departure from the practice of past administrations, the Peoples Partnership Government had provided us with a few hints over the recent past as to what we could expect from its Budget. The Honourable Prime Minister was quoted or paraphrased as saying “Read my lips, no new taxes”, cribbed from the infamous broken promise of the then US President George W Bush, while the Honourable Minister of Finance stated that there would be “no magic” in his Budget, indicating, one assumes, that there would be no quick fix to our economic woes. The Budget presentation reflected the veracity, at least to date, of both statements. There were no taxes introduced, and no magic solutions proposed to the challenges currently being experienced in the economy. However, several fiscal measures were proposed to stimulate the economy, promote certain government initiatives and/or provide relief. They were as follows:

Petroleum Tax
Decreasing annual crude oil production and the sustainability of the level of hydrocarbon reserves requires measures to stimulate this vital sector and encourage investment.

The much anticipated new fiscal regime for the energy sector has manifested itself in proposed changes to the rates of PPT and SPT and the introduction of an Investment Tax Credit (ITC) for SPT purposes.

The change in the rate of PPT from 50% to 35% applicable to Deep Water exploration is intended to make the upcoming bid round for deep water blocks more attractive to investors.

The details of the workings of the ITC, which is to apply to mature oil fields, will have to be assessed once they have been announced to determine its effectiveness as an incentive to increase production.

The details of the proposed general revision of the SPT base and rates have not been provided and therefore we await these in order to assess their effectiveness as a stimulus to the constantly declining oil production.

The adequacy of these proposals to serve as stimulation for this very important sector of our economy and to establish / enhance T&T as a competitive business environment must be evaluated. Given the very significant cost of deep water exploration, which we must pursue if we are to stimulate and increase production, we are uncertain as to whether the industry players will regard the proposed rate reduction on its own as sufficient incentive.

Corporation Tax
1. Initial Allowance:

In the last Budget, the then Government promised an increase of the initial allowance that may be claimed by persons involved in a manufacturing trade from 75% to 90% of the cost of acquisition of plant or machinery acquired and used in the trade. We had pointed out at that time that the intent of that proposed amendment was uncertain since it was unclear whether it was intended that such persons would be allowed to claim more than 100% of the cost of acquisition and installation of their plant and machinery which would arise if they claimed 90% initial allowance and 25% wear and tear allowance on such assets. We were awaiting publication of the draft amendment to determine whether it would answer our questions. However, this legislation has not so far been presented to Parliament, so the uncertainty remains.
The Minister today indicated that this special incentive, i.e., the 90% initial allowance, would be extended to persons engaged in ship building and recycling. In our view, it would appear that any person engaged in such activity would already be entitled to the benefit having regard to the fact that the relevant legislation, the Income Tax (In Aid of Industry) Act, was amended in 2002 to extend the benefits available under that Act, most especially the initial allowance, to all manufacturing trades, and for this purpose defined “manufacturing trade” to include any activity involving the physical, mechanical or chemical transformation of materials into new products. This would seem to encompass shipbuilding and recycling as we understand those terms. So again we wait to see what the draft amendment reveals in terms of the increase in the initial allowance and the proposed expansion of the benefits to these “new industries”

2. Wear and Tear Allowance:

a. As a further incentive to the Manufacturing Sector, The Honourable Minister also proposes to increase the minimum rate of allowances on all plant and machinery from 10% per annum, which currently applies to assets which fall within Category A of the Seventh Schedule of the Income Tax Act, to 25% per annum. This increase will not apply to buildings which will continue to attract wear and tear at the rate of 10%. The manufacturers will certainly welcome this initiative as it will in effect allow them to write off or deduct the cost of all their assets in the year that they are first put into use. However, it will introduce some complexity for non-manufacturers, their tax return preparers and the tax administrators as it will introduce a two tier wear and tear system with some persons retaining their four categories of assets which attract wear and tear at the rates of 10%, 25%, 33% and 40%, while others move to a system where only three categories of assets exist attracting wear and tear at the rates of 25%, 33% and 40%.

This measure is to take effect from January 1, 2011.

b. GORTT proposes to grant certain enhanced wear and tear allowances as follows:

- 130% of the cost incurred in the acquisition and installation of plant and machinery for construction of a compressed natural gas conversion centre. The speech mentioned “the conversion centre” in the singular so it would appear that it is intended that only one such centre will exist. If that is correct there is no indication to date as to which entity will own the facility and therefore benefit from the allowance;

- 130% of the cost of acquisition of CNG kits and cylinders for vehicles of fleet operators. We await clarification of whether fleet operators encompasses any business entity that owns/operates a fleet of vehicles including fast food delivery vehicles, people or goods transportation companies and companies that supply their senior staff with transportation either to perform their employment duties or as part of their incentive package;

- 150% of the cost of solar heating equipment acquired by commercial enterprises;

- 150% of the cost of acquiring wind turbines;

- 75% of the cost of acquiring smart energy efficient systems.
These initiatives are intended to encourage the use of more environmentally friendly energy resources and in the case of the CNG plant to reduce the subsidy that GORTT currently incurs to subsidise the gasoline prices borne by consumers of these products by encouraging those consumers to switch to cheaper CNG. While the objective is commendable, the focus seems to be on the importation and installation of equipment manufactured / produced outside of T&T. We wonder whether GORTT has given any thought to encouraging the establishment of a local industry for the production of the CNG kits, or solar or wind turbine equipment.

It is also noted that the incentive in respect of the smart energy efficient system is to be granted in the year of acquisition, which is contrary to the current approach adopted for such allowances granted to manufacturers, who now have to defer their claim for accelerated depreciation to the year that the equipment is first put into use.

3. The Free Zone legislation is to be amended to increase the limit of the maximum investment that may be made by an investor in the free zone from TT$50M. The Minister did not indicate whether a higher limit would be imposed or if it would be left open ended. We await the draft amendment for clarity on this issue. This proposed measure appears to signal this Government’s intention to reactivate the free zone which had been “mothballed” by the previous administration in recognition of its commitment under the World Trade Organisation agreement to cease unfair trade practices such as granting special tax incentives to local industries that were not available to all persons. It would be interesting to get this Government’s perspective on that issue.

4. There is to be an increase in the Art and Culture Allowance from $1M to $2M. This allowance is available to companies making contributions to local artists through the acquisition of their works or sponsoring of their productions. As stated above, the current maximum deduction that can be claimed in respect of such allowance is $1M, but this maximum applies in respect of the combined art and culture allowance, the sporting allowance and the video production allowance. It is strange that the increase was not also extended to the sporting allowance and it is unclear how the maximum allowance will now be applied. Is it that the first $1M of the allowance will continue to apply to the aggregate of expenditure incurred in the three areas mentioned above, while any claim above the $1M must be in relation to art and culture only, up to the maximum of $2M?

5. GORTT also proposes to amend the tax legislation to grant an allowance for contributions made to the Children’s Life Fund up to a maximum of 15% of the company’s total income. Does this mean that this will be subjected to the same conditions and “approval” process as contributions to approved charities under deeds of covenant, and will the aggregate of all such contributions, including those to the life fund, be subject to the 15% restriction? Will this mean increased competition for a finite amount of donation dollars from the private sector?

Income Tax

1. First time home owners will continue to receive relief in respect of the acquisition of their residential properties. The relief will be in the sum of $18,000 per household of mortgage interest paid in the year of income and will be available for five years from the date of acquisition. What is unclear is whether the relief will take the form of a tax allowance, i.e. a deduction against chargeable income, or a tax credit, an offset against tax liability, since both terms were used in the document. For the purposes of our sample tax computations on page16 of this document we have assumed the former.
What is also unclear is whether the relief will only apply to homeowners who acquire their property after the introduction of the amendment or whether it will be available to anyone in their first five years of ownership whether their acquisition occurred before or after the amendment is introduced.

One assumes that the house the joint home owners will be free to decide on how, i.e. in what percentages, they will share the relief.

2. Individuals who convert their vehicles to CNG will be granted a tax credit of 25% of the cost of conversion up to a maximum expense of $10,000. While the language used in respect of this incentive is unambiguous, we are still uncertain as to whether the intention is to grant a deduction against income, or an offset against taxes. We note that the last attempt by the then Administration to encourage large scale conversion to CNG failed for several reasons including:

- The cost of conversion which the incentives should help to alleviate;
- The inconvenience of filling up at the few filling stations that supplied CNG, which the Honourable Minister of Energy and Energy Affairs, Mrs Caroline Seepersad Bachan indicated would be addressed on this occasion; and
- The inconvenience of locating the fairly large cylinder in the vehicle which will continue to be a concern.

Even with the incentives, however, we would not expect to have a significant amount of conversions unless GORTT signals an intention to withdraw the gasoline subsidy. While we “Trinis” enjoy the carrot we often need the big stick to prod us into action.

3. Individuals are also to be granted a tax allowance of 25% of the value (we would assume the cost) of solar water heating equipment to a maximum value of $10,000 for use by the household. We trust that the size of the allowance is in keeping with what a householder could reasonably be expected to expend on acquiring and installing such equipment, but even with that incentive, the very reasonable price that we currently pay for electricity, despite the recent increases, may cause us to be slow in taking advantage of this incentive.

- GORTT is also to amend the Employee Share Ownership Provisions to make such plans more attractive to employees. The ESOP is a plan that allows employees to acquire, in a tax efficient manner, shares in the company by which they are employed. We are heartened to learn that GORTT intends to amend the ESOP legislation to remove tax on any capital gain realized on the disposal of such shares before retirement. Any such gains are now taxable at 25%. However, clear rules will have to be devised to prescribe how the original value of a share is to be determined for the purpose of computing the tax on withdrawal.

The legislation is also to be amended to reduce the amount of the employee’s annual bonus that is required to be placed into the ESOP from 40% to 25%. Again, a welcome measure, we would therefore expect to see a renewed interest in such plans.

While the Minister indicated that subsidiary companies will be allowed to participate in an ESOP offered by a member of a group of companies, this is currently possible, though not expressly permitted, under the current legislation.

- Individuals are also to be allowed to deduct contributions made to the Children’s Life Fund up to a maximum of 15% of their total income.

Business Levy

There are no proposed amendments to this levy.

Green Fund Levy

There are no proposed amendments to this levy.
Withholding Tax

There are no proposed amendments to this tax and none were expected. However, we do note GORTT’s intention to increase the number of double taxation treaties to which T&T is a party and we look forward to renewed activity in this area.

Value Added Tax

The Honourable Minister indicated the intention to zero-rate:

a. Imports of factory outfitted private and commercial CNG motor vehicles that are no more than two years old. This measure is to apply for five years, and

b. Solar water heating equipment and wind turbines. Based on the debates that have arisen from a similarly worded relief provision, we would urge GORTT to make it clear in the legislation whether it intends the zero-rating to apply to imports, sale and/or leasing of such equipment.

We applaud the fact that GORTT acknowledges that attention needs to be given to addressing the issue of the delay in paying VAT refunds and we trust that in the not too distant future, it will issue and adhere to a commitment to issue refunds within an acceptable period to be identified.

Property Tax

The Minister stuck with his Regime’s commitment to “axe the tax” which will come as a welcome relief to many who feared significant increased liabilities under the proposed system. He indicated that the old system of land and building taxes will continue to apply, or rather be reintroduced at the old rates and old values. What is unclear is what is meant by old values since under that system there is provision for revaluations and such revaluations have been undertaken at least in some areas. We are advised for example that the current property valuations in San Fernando, because they were conducted fairly recently, are significantly higher than elsewhere in the country. How will such inequities be addressed?

Import Duty

Import duty will be removed on:

- CNG conversion kits and cylinders;
- Solar water heating equipment;
- Wind turbines and supporting equipment.

Motor Vehicle Tax

The Minister announced his intention to reduce motor vehicle tax on imports of factory outfitted private and commercial CNG vehicles where those vehicles are no more than two years old. This incentive is to apply for a period of 5 years.

Tax Amnesty

For the third time in approximately 10 years, the Government proposes to introduce a tax amnesty under which penalty and interest due on late filings and payments in respect of income years up to and including 2009 will be waived if the returns are filed and/or outstanding payments made by May 31, 2011. The stated intention is that after the expiration, the Tax Authority will enforce strict compliance or imposition of the applicable penalties. It will apply to income tax, corporation tax, VAT, business levy, green fund levy and land and building taxes.
Overview of 2009/10 Fiscal Revenue & Expenditures

Fiscal Revenue

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Review of 2009-2010 Performance - Revised Estimate

- Petroleum Taxes: 39%
- Corporation Tax: 13%
- Individual Income Tax: 21%
- Other Income Taxes: 5%
- Taxes on Property: 4%
- Taxes on Goods and Services: 0%
- Taxes on International Trade: -1%
- Other Taxes: 0%
### Recurrent Expenditure

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**Total**

42,955.10 43,974.21

### Allocation - Revised Estimate

- Ministry of Education: 8%
- Ministry of Health: 8%
- Ministry of National Security: 9%
- Ministry of Finance: 18%
- Other: 57%
## Appendix 1: Tax Facts

### Income Tax

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<td>300,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Alimony paid</td>
<td>No Limit</td>
<td>No Limit</td>
<td>No Limit</td>
</tr>
<tr>
<td>Personal Allowance</td>
<td>60,000</td>
<td>60,000</td>
<td>60,000</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>60,000 (1)</td>
<td>60,000 (1)</td>
<td>60,000 (1)</td>
</tr>
<tr>
<td>Pension/Deferred Annuity</td>
<td>30,000 (2)</td>
<td>30,000 (2)</td>
<td>30,000 (2)</td>
</tr>
<tr>
<td>National Insurance</td>
<td>70% (2)</td>
<td>70% (2)</td>
<td>70% (2)</td>
</tr>
<tr>
<td>First Time Homeowners allowance</td>
<td>18,000 (3)</td>
<td>N/A (3)</td>
<td>10,000 (3)</td>
</tr>
<tr>
<td>Donations to Children’s Life Fund</td>
<td>15% of total income (4)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Corporation Tax

| Corporation Tax Rate (Petrochemicals)              | 35%    | 35%    | 35%    |
| Corporation Tax Rate (Other)                       | 25%    | 25%    | 25%    |
| Business Levy (On Gross Sales & Receipt)           | 0.2%   | 0.2%   | 0.2%   |
| Green Fund Levy (On Gross Sales & Receipt)         | 0.1%   | 0.1%   | 0.1%   |
| Initial Allowance                                  | 75% (5) | 75% (5) | 75% (5) |
| Arts and Culture Allowance                         | 2,000,000 * | 1,000,000 * | 1,000,000 (6)* |
| Donations to Children’s Life Fund                  | 15% of total income (4) | N/A | N/A |

### Petroleum Taxes

| Petroleum Profits Tax                               | 50%    | 50%    | 50%    |
| – Shallow water (shelf/block)                       | 35%    | 50%    | 50%    |
| – Deep water block                                  | 5%     | 5%     | 5%     |
| Unemployment Levy                                   | Base & Sliding | Sliding Scale | Sliding Scale |
| Supplemental Petroleum Tax                          | (Revised) |

### Investment Income

| Local Dividends Received                           | Exempt | Exempt | Exempt |
| Interest Received (Individuals)                   | Exempt | Exempt | Exempt |

Note (1) For attendance at foreign universities not Government of Trinidad and Tobago Funded;

Note (2) Maximum $30,000;

Note (3) First time homeowners for five years with effect from the date of acquisition;

Note (4) Equal to amount of donations up to a maximum of 15% of total income in any one year;

Note (5) See Corporation Tax Commentary on page 9;

Note (6) Arts & Culture, Sports & Video Production Allowances limited to $1M, Arts & Culture new maximum $2M proposed effective date for new measures January 1, 2011.
# Appendix 2: Corporation Tax Computation

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit as per Financial Statements</td>
<td>12,000,000</td>
<td>12,000,000</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,300,000</td>
<td>1,300,000</td>
</tr>
<tr>
<td>Donations not under Deed of Covenant</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td></td>
<td>1,400,000</td>
<td>1,400,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Donations to Children's Life Fund</td>
<td>200,000</td>
<td>-</td>
</tr>
<tr>
<td>Arts and Culture</td>
<td>2,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Wear and Tear Allowance</td>
<td>250,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Initial Allowance (75%)</td>
<td>750,000</td>
<td>750,000</td>
</tr>
<tr>
<td>Gain on Disposal of Assets</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td></td>
<td>3,240,000</td>
<td>1,890,000</td>
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<tr>
<td>Chargeable Profit</td>
<td>10,160,000</td>
<td>11,510,000</td>
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<tr>
<td>Corporation Tax @25%</td>
<td>2,540,000</td>
<td>2,877,500</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>21%</td>
<td>24%</td>
</tr>
</tbody>
</table>

**Business Levy**

|                     |            |            |
| Gross Sales/ Receipts | 30,000,000 | 30,000,000 |
| Business Levy @0.2%  | 60,000     | 60,000     |

**Green Fund Levy**

|                     |            |            |
| Gross Sales/Receipts | 30,000,000 | 30,000,000 |
| Green Fund Levy @0.1% | 30,000     | 30,000     |

**Assumptions:**
- Change in minimum wear and tear allowance of 10% to 25% except for buildings
- Capital allowances base $1,000,000 in both years
- Initial Allowance rate refer to Corporation Tax Commentary
- Donation’s to Children’s Life Fund is not greater than 15% of the company’s statutory total income
  \[(200,000/30,000,000 \times 100\%) = 0.667\%\]
- Company is not engaged in the production of petrochemicals
- Proposed changes effective date January 1, 2011
Appendix 3: Income Tax Computations

1. Lower Income Person

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
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</thead>
<tbody>
<tr>
<td>Income</td>
<td>$72,000</td>
<td>$72,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Allowance</td>
<td>$60,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Pension/ Annuity &amp; NIS Contributions</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>First Time Houseowners Allowance</td>
<td>$2,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>Children’s Life Fund</td>
<td>$2,000</td>
<td>$2,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$512,000</td>
<td>$650,000</td>
</tr>
<tr>
<td>Income Tax Thereon</td>
<td>$0</td>
<td>$500</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>0.0%</td>
<td>0.7%</td>
</tr>
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3. Higher Income Person

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$800,000</td>
<td>$800,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Allowance</td>
<td>$60,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>$60,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Pension/ Annuity &amp; NIS Contributions</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>First Time Houseowners Allowance</td>
<td>$18,000</td>
<td>$18,000</td>
</tr>
<tr>
<td>Children’s Life Fund</td>
<td>$120,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$512,000</td>
<td>$650,000</td>
</tr>
<tr>
<td>Income Tax Thereon</td>
<td>$128,000</td>
<td>$162,500</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>16.0%</td>
<td>20.3%</td>
</tr>
</tbody>
</table>

2. Middle Income Person

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Allowance</td>
<td>$60,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>$45,000</td>
<td>$45,000</td>
</tr>
<tr>
<td>Pension/ Annuity &amp; NIS Contributions</td>
<td>$20,000</td>
<td>$20,000</td>
</tr>
<tr>
<td>First Time Houseowners Allowance</td>
<td>$18,000</td>
<td>$18,000</td>
</tr>
<tr>
<td>Children’s Life Fund</td>
<td>$12,000</td>
<td>$12,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$95,000</td>
<td>$125,000</td>
</tr>
<tr>
<td>Income Tax Thereon</td>
<td>$23,750</td>
<td>$31,250</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>9.5%</td>
<td>12.5%</td>
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4. Retiree (Over 60 years)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Income</td>
<td>$100,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Allowance</td>
<td>$60,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>Tertiary Education Allowance</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Pension/ Annuity &amp; NIS Contributions</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>First Time Houseowners Allowance</td>
<td>$-</td>
<td>$-</td>
</tr>
<tr>
<td>Children’s Life Fund</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Taxable Income</td>
<td>$30,000</td>
<td>$40,000</td>
</tr>
<tr>
<td>Income Tax Thereon</td>
<td>$7,500</td>
<td>$10,000</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>7.5%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

SUMMARY:

Effective Tax Rate Comparatives

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lower Income Person</td>
<td>0.0%</td>
<td>0.7%</td>
</tr>
<tr>
<td>2. Middle Income Person</td>
<td>9.5%</td>
<td>12.5%</td>
</tr>
<tr>
<td>3. Higher Income Person</td>
<td>16.0%</td>
<td>20.3%</td>
</tr>
<tr>
<td>4. Retire</td>
<td>7.5%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>
Notes:
Important Notice: PricewaterhouseCoopers has prepared this Client Newsletter to alert clients on the principal changes announced in the 2010/11 Budget. The changes are outlined in general terms and for information purposes only and therefore should not be acted upon without securing professional advice.

If you have any further questions in connection with the above or would like to explore further how these Budget pronouncements may impact your business or corporate arrangements, please feel free to contact any member of our specialist tax team listed below or your usual PricewaterhouseCoopers Trinidad & Tobago contact.

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