

# *Pursuing the Dream- Growth and Diversification* Budget Memorandum 2014

9 September 2013





**To our  
clients and  
friends**



At 1:35 pm today, the Honourable Senator and Minister of Finance, Mr Larry Howai, presented his second, and his Administration's fourth, National Budget with a theme of *"Sustaining Growth, Securing Prosperity"*. Once again the presentation painted a positive picture of the state of the economy, but signalled little in the way of new measures, with the suggestion made that much of what has been done to date is working and will be continued.

Following the Government's ascension into power on the back of the *"Axe the Tax"* campaign in 2010, the Honourable Minister last year promised an overhaul of the tax system through widespread consultation, greater accountability and enhanced delivery through public/private sector partnerships. Perhaps it is fair to say that these matters are still largely *"works in progress"* with a lot of detail still to be developed.

However, with a re-introduction of a revised property tax proposed for this fiscal year, there is some angst amongst members of the Partnership fuelled in part by a lack of clarity on how the tax will be structured.

It is therefore disappointing that we are no closer to understanding how the property tax will affect our individual pockets and how it will differ from what was *"axed"*. It is evident that further information needs to be provided regarding when and how the tax system will be revamped and how the tax administration will be enhanced. In addition, it remains to be seen when transfer pricing will be introduced and what impact it will have on locally based companies.

The removal of the gas subsidy, which commenced last year with a rise in premium gasoline, has been frozen pending the build out of the Compressed Natural Gas (*"CNG"*) infrastructure for wide-spread public access. To support the efficient and effective implementation of this measure, the National Gas Company has been mandated to deliver this initiative, and it is hoped that we will see considerable progress in short order.

Once again the Ministry of National Security received the largest budget allocation, yet insufficient detail was provided on how we will address the burning issue of crime which has the power to derail all of our efforts in the other areas. It is hoped that the recently appointed National Security Minister, the Honourable Senator, Mr. Gary Griffith, will provide insight into the long awaited *"crime plan"* and give us some measure of comfort that there is a light at the end of this particular tunnel.

We are pleased to provide you with our views on the fiscal and other policies announced in the 2014 National Budget.

Our team as always, would be happy to provide you with any further clarification and answer any questions you may have.

Allyson West  
Tax Partner

# Contents

<b>To our clients and friends</b>	<b>2</b>
<b>Budget Overview</b>	<b>4</b>
<b>Summary of fiscal measures</b>	<b>6</b>
<b>Analysis of measures introduced</b>	<b>9</b>
1 Fiscal measures	10
<b>Sector analysis</b>	<b>15</b>
2 Finance sector	16
3 Manufacturing sector	19
4 Energy sector	22
<b>Hot topics</b>	<b>23</b>
5 Hot topics addressed	24
6 Hot topics NOT addressed	25
<b>Appendices</b>	<b>27</b>
1 Snapshot of measures 2012/13	28
2 Glossary of terms	33
3 Tax facts	35
4 Tax computations	37
5 Contact information	39
6 PwC Caribbean Region	41

## ***Budget Overview***

**Budgeted expenditure \$61.398B, budgeted income \$55,041B, deficit \$6.356B**

When the People’s Partnership coalition government suffered a heavy defeat at the hands of the newly formed Independent Liberal Party (ILP) in the recently held Chaguanas West by-election, there was a somewhat widely held view that the 2013/2014 National Budget would be filled with ‘sweeteners’ in anticipation of the upcoming local government elections. This expectation was clearly dispelled when the budget was presented without the typical increases in pension or lowering of tax rates.

The Honourable Minister of Finance read his second national budget, the largest in our nation’s history on the theme “*Sustaining Growth, Securing Prosperity*”. While he built on the prior year’s theme “*Stimulating Growth, Generating Prosperity*” the continued challenge will be to deliver prosperity - as economically we are seeing small amounts of growth. Accordingly, the Minister indicated his intention to continue to focus on building a sustainable Trinidad and Tobago (T&T).

Once again a deficit budget was presented, with an expenditure of \$61.398B is financed by revenue of \$55.041B, leaving a funding deficit of \$6.357B. This compared to a deficit of \$7.669B in 2012/13.

Projected oil revenue is \$23.374B predicated on oil prices of US\$80 per barrel. Gas revenues were not presented, but the projected price is US\$2.75 per mmBt. These prices appear reasonable based on projected 2014 West Texas Intermediate (WTI) prices of US \$91.96 and US \$3.91.

The Minister’s speech ended unusually early at 3.30 pm, leaving much unsaid. In fact, hotly debated topics such as property tax, transfer pricing, fuel subsidy and taxation of life insurance companies were not addressed in the manner expected.

Tax reform which appeared to be shelved, in fact seemed to be happening behind the scenes, as the Minister indicated that work has started on the infrastructure for the phased introduction of a “*growth oriented tax system*”. An increase in communication would be beneficial, as investors prefer certainty and predictability in a tax system, and this should be considered as part of this process.

The ‘axe’ has now been buried and Property Tax is coming back in a three phased approach. Phase one applies to “*industrial land including plant and machinery*” beginning 1 July 2014, and phase three focuses on “*agricultural and residential properties*” which will be completed in 2017. The return of the Property Tax was expected, as the Minister had previously alluded to its return in media releases, after a hiatus since the 2010 general election.

The details of the impending transfer pricing policy was notably absent and the Minister simply stated that it will be introduced along OECD guidelines providing no further information on when, how etc.

Under the heading “*preventing tax leakages*”, the Minister proposed to formalise the treatment of assets transferred between related parties and to enumerate the capital allowance to be granted to companies using these transferred assets. This practice is already in use to some extent by the Board of Inland Revenue (BIR). He also spoke about leakages in the tax system and the need to plug these by revisiting the Corporation Tax Act and empowering the BIR with greater force.

The nation’s drivers of super and diesel gasoline powered vehicles feared suffering the same fate as premium gasoline users in the 2012/2013 budget, but the Minister confirmed that there would be no further removal of fuel subsidies at this time.

## ***Budget Overview***

### **The World Bank’s annual Doing Business Report ranks T&T at number 69 in 2013 up from 76 in 2011**

This time around , the fuel subsidy was removed from the national carrier Caribbean Airlines Limited (CAL) effective 1 October 2013.

The Tobago airlift will maintain its subsidy and supposedly its fare. However, although the Board of CAL assured that the removal of the subsidy would not increase ticket prices, the question must be answered as to how increased operating costs will be covered.

In light of the proposed insurance legislation, which seeks to remove the statutory fund, the Minister noted that the establishment of a fair tax system for life insurance companies is needed but provided no further details.

The five regional growth poles which were presented to the public as ‘igniting economic and social transformation’ have re-emerged in the 2013/2014 presentation after only a passing mention in the prior year. The Minister advised that the pilot study for the Central Growth Pole was completed and that the other four poles are still under development.

Recognising the need to enhance our competitiveness, attract Foreign Direct Investment and increase crude oil production, the Minister announced additional incentives for the upstream and midstream petroleum sectors in the form of accelerated capital allowances and the carry forward of unused investment tax credits.

Late payment of VAT refunds impacts our competitiveness and the cash flow of businesses that can least afford it. The proposal to simplify the VAT refund process for the manufacturing sector, while not exactly matching what the Trinidad and Tobago Manufacturers Association (TTMA) requested, will hopefully help alleviate this problem.

Budget Memorandum 2014

The announcement by the Minister that an increase in the allocation for payment of VAT refunds with an initial \$1.0B in the first month of the new fiscal year will be welcomed by those persons with VAT refunds outstanding for quite some time. The intention to pay VAT refunds within the statutory six month period creates certainty for registered persons.

Ease of doing business also impacts competitiveness and the Minister indicated that “*it has become substantially easier to do business in Trinidad and Tobago.*” The World Bank’s annual Doing Business Report ranks T&T at 69 in 2013, up several spots from 76 in 2011.

The development of the local capital market is clearly an initiative of the Minister and he has set out the framework and companies that will be a part of that process.

Crime continues to be a serious issue for our citizens and the Minister spent a lot of time enumerating the many educational, sporting and training programmes available to our young citizens. The Minister also set out his government’s “*multi dimensional approach*” and some of the specific measures falling into short, medium and long terms.

The Minister also signalled the intention to address the issues of illegal export of subsidised diesel and illegal quarrying on private lands through increases in the applicable penalties. This is a significant problem that requires a solution and greater enforcement, and it is hoped that these new penalties will serve to discourage such activities

The Minister began and ended his presentation by listing the achievements since his administration assumed office and urged citizens to “*judge us on our record*”, certainly indicating that the country is in election season.

# *Summary of fiscal measures*



### Property Tax

- Land and Building Taxes      Phased reintroduction of from July 1, 2014.

### Energy Incentives

- Investment Tax Credit      Carry forward of unused investment tax credits for one year.
- Capital Allowances
  - Exploration*      100% of cost written off in year expenditure incurred 2014- 2017.  
From 2018 50% in the first year, 30% in second year and 20% in the third year.
  - Development*      Revised allowances on plant and machinery (tangible) and drilling of wells (intangibles) : 50% in first year, 30% in the second year and 20% in the third year.
  - Workovers and Sidetracks*      100% of costs in the year incurred.
- Wear and Tear Allowance      Increased for gas compression facilities from 25% to 33.3%.

### Environment

- CNG Conversion      100% allowance on conversion of MVs for individuals and companies up to maximum cost of \$40,000.
- Customs Duty      Waiver of 20% on compact fluorescent lamps.

### SME/Corporation Tax

- SME's      Amendment to qualifying criteria for relief for stock exchange listings.

### Related Party Asset Sales

- Wear and Tear Computation      Prescribed value to be applied in computing wear and tear on assets acquired from related parties.

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## Motor Vehicles

- Customs duties                      Increase in customs duties by 25% on new and foreign used cars over 2,499cc other than T vehicles and maxi taxis.

## Land and Houses Development

- Tax Exemption                      Extension of timeframe to December 2018 for tax incentives to developers to develop residential house sites as part of a land development project.

## Tax Administration

- VAT refunds                              Simplification of VAT process for the manufacturing sector.  
  
Increase of allocation to settle outstanding VAT refunds  
  
VAT refunds to be paid within the prescribed time (six months).

## Motor Vehicle Accident Fund

- Uninsured drivers                      Insurance premium tax to be applied to establish fund to compensate accident victims of vehicles driven by uninsured drivers

## Littering

- Fines    Littering fines are to be increased.

# *Analysis of measures introduced*

## **Analysis of measures introduced**

**9**

1 Fiscal measures

10



## *100% allowance to both individuals and companies on conversion of motor vehicles to CNG (maximum \$40,000)*

### **Property Tax**

- Phased reintroduction of land and building taxes from July 1, 2014.

### **Commentary**

As with the previous budget, the Government once again indicated a phased reintroduction of the notorious property tax. Until further details are furnished by the Government, there remains uncertainty as to how key issues (such as the valuation of property and rates) will be addressed.

### **Gasoline to CNG Conversion**

- 100% allowance to both individuals and companies on conversion of motor vehicles to CNG (maximum \$40,000).

### **Commentary**

Previously individuals were entitled to a tax credit of 25% of the cost incurred in conversions, up to a maximum of \$10,000. Companies were entitled to wear and tear of 130% of the cost incurred.

This measure proposes to harmonise the incentives to provide a tax allowance of 100% of expenditure to both companies and individuals. While this may appear to be a more attractive incentive, it will produce the same result for individuals. However, the incentive to companies is likely to be regarded as more attractive as it allows for earlier recovery, albeit of a reduced amount. However, until the infrastructure is put in place to allow for easy access to CNG and the remaining fuel subsidy removed, it is likely that the populace will be slow to take advantage of this relief.

Budget Memorandum 2014

### **Other Environmental Preservation Measures**

- Waiver of 20% customs duty on Compact Fluorescent lamps and related measures.

### **Commentary**

The Government continues to seek to promote the preservation of the environment by this measures as well as increasing various fines for:

- Illegal quarrying on private lands
- Illegal quarrying of asphalt on State lands
- Illegal quarrying of other materials on State Lands
- Littering

### **SME/Corporation Tax**

- Amendment to qualifying criteria for relief for companies raising capital via the T&T Stock Exchange.

### **Commentary**

This measure targets Small and Medium sized Enterprises (SMEs) which traditionally do not opt to raise capital through the T&T Stock Exchange. SMEs in T&T are traditionally private/family owned businesses which generally value the maintenance of control, preservation of intellectual property and trade secrets and privacy of financial and other information. We therefore do not hold out much hope that this measure will be any more successful than its' predecessor.

## *Prescribed value to be applied in the computation of wear and tear allowance on transfer of assets between parent company and branch*

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We believe that a more comprehensive re-evaluation of the approach is required with consideration being given to levelling the playing field between the tax treatment accorded to debt and equity financing, and the introduction of thin capitalisation rules.

### **Parent Company/Branch Asset Transfers**

- Prescribed value to be applied in the computation of wear and tear allowance on transfer of assets between parent company and branch

### **Commentary**

This will restrict the capital allowances which may be claimed on an asset transferred between a parent and its branch by limiting those allowances to a value based on the lower of the current market value and the notional tax written down value of the asset.

Since the BIR currently restricts such allowances on the basis of the notional tax written down value, what this amendment will do is to deprive a T&T branch of the ability to recover the full cost of that asset.

The rules relate to the time that the asset is in use in T&T where the current market value of the asset is lower than the notional tax written down value. The loophole which the authorities are seeking to close in respect of a parent/branch transaction is unclear.

### **Motor Vehicles**

- Increase of customs duties on the importation of new and foreign used cars over 2,499cc (excluding T vehicles and maxi taxis). This measure is effective from 1<sup>st</sup> October 2013.

### **Commentary**

Imported vehicles over 2,000 cc are presently subject to custom duties at a rate of 30%. The proposed measure will result in an increase of custom duties by 25% on the importation of new and foreign used motor vehicles over 2,499 c.c. This is likely to result in an increase in the sales price of certain motor vehicles with the possible aim of seeking to reduce the demand for these larger vehicles.

### **Land and Houses Development**

- Extend the timeframe to December 2018 for developers to receive tax exemptions for the development of residential housing sites as part of a land development project.

### **Commentary**

GORTT continues to promote measures to increase the stock of residential property available to the public. However, it does not seem that this is having a significant impact on the price of housing and as such acquiring property continues to be a challenge for a large section of the population.

## *VAT refunds to be paid within the prescribed time (six months)*

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### **Tax Administration**

- Simplification of VAT refund process for the manufacturing sector.
- Increase of allocation to settle outstanding VAT refunds.
- VAT refunds to be paid within the prescribed time (six months).

### **Commentary**

Any measure that expedites the VAT refund process will be enthusiastically welcomed by all registered persons, since the delay in processing of VAT refunds adversely impacts the cost of doing business and negatively impacts cash flow.

However, if the process can be simplified for manufacturers why not for all affected persons?

## *Our fiscal regime for the energy sector is not competitive compared to other jurisdictions competing for foreign direct investment*

### **The Energy Sector**

In his 2012/13 budget presentation, the Minister of Finance indicated his intention to address the inefficient allocation of resources and the associated budgetary implications of the fuel subsidies with the objective of balancing the budget in the medium-term.

A phased reduction of the fuel subsidy was initiated last year by the first step of increasing the price of premium gasoline from \$4.00 to \$5.75 per litre. Subsequently, an inter-ministerial team was supposed to review additional measures aimed at further reducing the current level of the subsidy, but to date no progress update on this has been reported.

In the reading of this year's Budget Presentation, the Minister advised that the gradual removal of the fuel subsidy is being deferred until the construction of the country-wide network of CNG stations, 22 of which are to be built in Phase 1.

The Minister addressed CAL's fuel subsidy by indicating his intention to remove it completely and stated that it *"will not impact ticket pricing policy"*. It is hoped that this can be achieved without CAL taking the increasingly popular course of becoming a *"no-frills"* airline.

To enhance our attractiveness as an investment destination and to further encourage exploration and development, the Minister has proposed certain changes in the Energy Fiscal Regime. Other areas needing attention but not addressed, include the Heavy Oil Allowance, Decommissioning and Abandonment Costs and the tax rate applicable to farm-outs.

1. The ability to carry forward the unused portion of the **Investment Tax Credit** which currently can only be utilised in the year of expenditure. This is a welcomed amendment although a longer carry forward period (perhaps 3 years) would have better facilitated full utilisation of the credit.
2. The simplification and acceleration of capital allowances for the upstream energy sector will have a two step approach which allows for 100% write off of **exploration costs** in 2014-2017 and a three year write off thereafter (see table).

In the case of **development costs**, the Minister has indicated that the accelerated allowances will be applicable to both **tangible and intangible costs** so that there should no longer be the need for such classification.

While the changes are intended to simplify computation of the relief, the old basis will continue to apply to pre-2014 costs and as such parallel computations will have to be prepared.

3. The proposal to allow 100% of the total costs of **workovers and qualifying side-tracks** needs clarification. One can only assume that this means tangible costs will now be deductible. However, if Ministerial certification will continue to be required for this relief, efforts should be made to simplify and expedite that process.
4. On the mid-stream side, **the increase of the rate of wear and tear allowance** on compression facilities from 25% to 33.3% will accelerate somewhat the recovery of investment which is welcome.

## Proposed Changes to Energy Tax Incentives

Energy Incentives	Current Structure	Proposed - effective January 1, 2014
<b>Investment Tax Credit</b> - Pertaining to Development Activities on Mature Fields and Plant & Machinery used for Enhanced Oil Recovery Projects.	<ul style="list-style-type: none"> <li>• Tax Credit of 20% on the Qualifying Capital Expenditure.</li> </ul>	No Change
	<ul style="list-style-type: none"> <li>• Tax Credit can only be used in the year in which the expense was incurred.</li> </ul>	<ul style="list-style-type: none"> <li>• Unused Tax Credits can be carried forward for one year.</li> </ul>
<b>Capital Allowances</b>	<u>Exploration</u> <ul style="list-style-type: none"> <li>• Initial Allowance 10%</li> <li>• Annual Allowance 20% Reducing Balance</li> <li>• Annual Allowance commenced from the year of expenditure.</li> </ul>	<u>Exploration</u> <ul style="list-style-type: none"> <li>• 2014-2017 - 100% of the cost to be written off in the year the expenditure is incurred.</li> <li>• Effective 2018 – 50% in the first year, 30% in the second year and 20% in the third year.</li> </ul>
	<u>Development</u> <b>Intangible Expenditure:</b> <ul style="list-style-type: none"> <li>• Initial Allowance 10%</li> <li>• Annual Allowance 20% Reducing Balance</li> </ul> <b>Tangible Expenditure:</b> <ul style="list-style-type: none"> <li>• Initial Allowance: 20%</li> <li>• Annual Allowance 20% Straight Line</li> </ul> <ul style="list-style-type: none"> <li>• Allowances available from the earlier of the commencement of commercial production or the year after expenditure incurred.</li> </ul>	<u>Development</u> <b>Intangible &amp; Tangible Expenditure:</b> <ul style="list-style-type: none"> <li>• 50% in the first year;</li> <li>• 30% in the second year;</li> <li>• 20% in the third year.</li> </ul>
	<u>Workovers &amp; Qualifying Side Tracks</u> <ul style="list-style-type: none"> <li>• Deduction of Intangible Cost incurred.</li> </ul>	<u>Workovers &amp; Qualifying Side Tracks</u> <ul style="list-style-type: none"> <li>• 100% Deduction on the cost incurred in the year.</li> </ul>

Budget Memorandum 2014

# *Sector analysis*

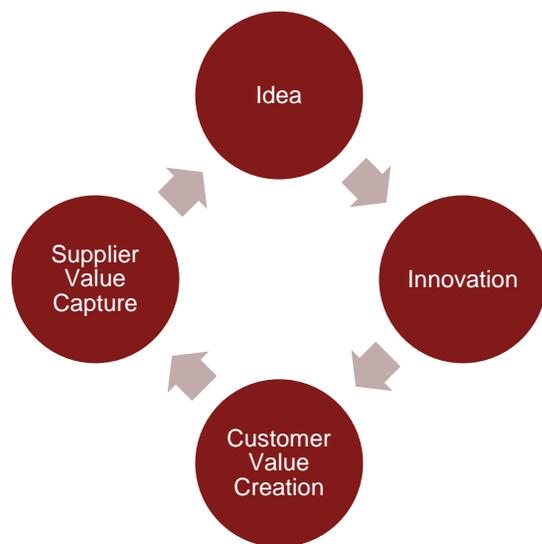
<b>Sector analysis</b>		<b>15</b>
2	Finance sector	16
3	Manufacturing sector	19
4	Energy sector	22



## Finance Sector

### “Capital Ideas”- T&T Gateway to Economic Diversification”

As governments present and future seek to lead a smooth transition from our current energy based economy to a new sustainable twenty first century economy one critical component in that transition will be the private and public sectors’ ability to attract the right capital (land, people and money) and create new “Ideas”. Whether it is the twenty first century equivalent to the Point Lisas Industrial cluster, the LNG complex in Point Fortin or the 24 hour doubles vendor locator app, our current tax system needs to similarly transform in order to support a T&T/Global economy in which the majority of the Economic Value Added will be driven by intangible assets and intellectual property (IA/IP). The process typical involves the following steps:



***“The knowledge driven industries need to be supported by a T&T Tax System that is fair”.***

Many of the valuable products of the present and future are and will be comprised largely of intangible assets; patents, trademarks, copyrights, know how and show how and good old goodwill. The potential billions of dollars in products and services will enable:

- First Citizens Bank to develop its Big Data Assets in an IA/IP capability which predicts future earnings, savings and spending patterns and locks customers into a culture of significantly increased long term savings habits, leading ultimately to Financial Market deepening and Capital Market Development.
- IBM to apply its Cloud computing capabilities to critical health issues at Local Government Level so that the specific factors which lead to chronic ailments such as – heart disease, hypertension, diabetes, kidney disease and asthma may be systematically reduced.

As such, the knowledge driven industries need to be supported by a T&T tax system that is fair.

Specifically, importers of IA/IP and the related analytics need certainty and fairness in relation to the tax obligations that these transactions will create, while local designers/creators of new IA/IP need relief on the expenditure incurred in designing and creating these capital assets.

The franchise holder of the recently concluded Caribbean Premiere League (CPL), has invested and created significant franchise value, the cost of which needs to be appropriately recognised for tax purposes.

## Finance Sector

### “Capital Ideas”- T&T Gateway to Economic Diversification

**“Without recognition and relief for these intangible assets, the development of innovative sectors which will allow for diversification will be stymied”.**

The critical issue to be identified and addressed is that intangible assets and intellectual property are to the era of Digital Capital (term coined by Bughin & Manyika July 2013) of today what the steam engine and industrial plant were to the industrial revolution of the 18th century. Our current tax system still gives a Wear and Tear (W&T) allowance for railway sidings, but other than limited relief granted to manufacturers and persons engaged in petroleum exploration, does not generally recognise and give an allowance for the capital costs of intangible assets and intellectual property.

Without recognition and relief for these intangible fixed assets, the development of innovative sectors which will allow for diversification will be stymied.

We are of the view that this relief could take the form of a W&T allowance, as it does for tangible assets and to that end we have taken the liberty of proposing a rate which seems reasonable in the circumstances. The following table shows the number of years it will take to “recoup” 90% of the value of such assets as compared to the rate of recovery for various classes of tangible assets:

#### Current Capital Allowance System in T&T

Asset Class	Rate (%)	Number of years to Recover 90% of Cost
Class A	10	22
<b>Intangible Assets**</b>	<b>15</b>	<b>14</b>
Class B	25	8
Class C	33.3	6
Class D	40	4.5

\*\*Highlighted is **the proposed** capital allowance rate for Intangible assets. We hope that the Honourable Minister of Finance will address this issue-with alacrity

#### Appendix:

Conventionally, accounting treats digital capabilities not as company investments but as expenses. However, spending on these capabilities should be treated as capital since they can be long lived.

Macroeconomic Studies conducted by Mc Kinsey & Company have suggested that digital capital is not only growing rapidly but also has become a major contributing factor to global economic growth.

IP intensive industries accounted for about \$5.06 trillion in value added or 34.8% of US GDP in 2010.

**Sources (Appendix)-Mc Kinsey & Company & US Patent and Trademark Office.**



Budget Memorandum 2014

## *The Manufacturing Sector*

### Growing exports and private sector development through VAT refunds

The manufacturing sector in T&T is key to sustainability, economic growth and development. The sector represents the third highest contributor to GDP behind the Energy and Service sectors and it is the second highest employer behind the Government, employing approximately 47,200 workers.

In spite of its importance to the economy, the sector faces various challenges that have existed for years which can be described as chronic. These include:

- Lack of productivity and absenteeism;
- Competition from imports;
- Delays at the Ports;
- Traffic congestion leading to higher costs;
- High cost of security due to the level of crime;
- Competition for labour from GORTT sponsored programmes; and
- VAT refund delays and other tax administration issues.

## **\$1 Billion allocation for VAT Refunds**

Budget Memorandum 2014

Governments have in the past introduced tax incentives with the aim of boosting the sector and making it more competitive. Some of these include accelerated capital allowances - reducing tax burdens in earlier years, promotional allowances to encourage the expansion of extra-CARICOM markets and training allowances to encourage staff training.

Last year, the banner incentive of the Budget Presentation was the zero-rating of several food items, a measure which garnered significant publicity and debate. Many questioned whether consumers would actually benefit from reduced prices.

While the measure was intended to reduce food inflation, scepticism remains as to the merits of the measure as data provided by the Central Bank of T&T, between November 2012 (when the list of zero-rated food items was expanded) and July 2013, indicates that the index of food prices increased by 3%.

President of the Trinidad and Tobago Manufacturers Association, Mr. Nicholas Lok Jack, said in August that he hopes that the Budget would include additional incentives for local manufacturers, chief of them being the removal of VAT on heavy machinery and parts for use in that sector.

No such relief was mentioned by the Minister in his presentation. He did, however, indicate GORTT's intention

- To clear the backlog of VAT refunds by allocating \$1.0 billion towards settling same in October 2013,
- To simplify the system of refunds to manufacturers and
- To ensure that VAT refunds are settled within the legal timeframe i.e. within six months of filing of the VAT returns.

## *The Manufacturing Sector*

The Ministry of Trade, Industry and Investment has embarked on a series of institutional, legal and administrative reforms to improve the 'Ease of Doing Business in T&T'.

Measures to be introduced to assist manufacturers are as follows:

- The Customs Act was amended to allow for the submission of advance cargo information to the Customs and Excise Division so that clearance of goods can be reduced from the current estimated 14 days to 1 working day. This law came into effect on July 10, 2013 and should result in faster customs clearance of goods
- GORTT is in the process of procuring non-intrusive container inspection scanner equipment for the ports of Port of Spain and PLIPDECO. This is expected to improve port efficiency.
- online approvals can now be obtained within one working day for Certificates of Origin for exports and the necessary import/export permits and licences

Regional integration arising from the Revised Treaty of Chaguaramas (RTC) of 2001 signalled a new era of closer trader relations between our CARICOM partners, but at the same times restricts certain measures which the government can employ to promote domestic trade.

The treaty prohibits any discriminatory measure which would restrict the free movement of goods and services among CARICOM Member States. Complaints have already been voiced by Jamaican manufacturers of unfair treatment meted out to them in T&T.

CARICOM rules also prevent States from granting subsidies which can cause distortions within the single market. GORTT must therefore continue to focus on measures which alleviate the burden of doing business in T&T and reduce the cost of doing that business, whether through the tax system or otherwise.

## *The Cost of doing Business in T&T must be Reduced*

## ***Energy Sector***

### Revenue from crude oil has increased even though the desired increase in production not achieved

In the past year, crude oil prices have averaged approximately US\$100, but our failure to increase production means we have been unable to really cash in on these buoyant prices. Notwithstanding this fact, however, all indications are that oil revenue has been maintained and even showed an increase in recent years. In 2012 the average production was approximately 81,000 bpd after a steady decline between 2006 - 2011. The estimate for 2013 is in line with 2012.

According to the Minister of Energy and Energy Affairs (MEEA), The Honourable Mr Kevin Ramnarine “our immediate objective is to optimise activity in the domestic energy sector.” The approach identified is via strategies to increase oil production from known reserves and the continuous offer of acreage to facilitate sustained exploitation of hydrocarbons.

The reasons for the decline in crude production have been identified as:

- A lack of strategic focus on oil production;
- Inadequate incentives to stimulate investment;
- Maturity of the oilfields; and
- Priority being given to development of gas resources

MEEA releases indicate that there is a significant increase in exploration and production activity in the oil and gas industry which augers well for apparent optimism in the sector. There are a number of rigs working both offshore and on land all aimed at increasing the level of crude production.

When our crude oil production is compared to oil producing countries in Latin America we find that we are on the lower end.

Budget Memorandum 2014

There have been several efforts to address this, including the provision of additional incentives, the offer of new acreage via bid rounds, as well as on-going review of the fiscal regime for the sector which commendably included input by the various stakeholders. One wonders however, how do these efforts dovetail with the country’s energy policy.

The 2012 Deep Water Bid Round was deemed a success due to the number of bids received as interest was shown in five out of the six blocks offered - some would say an indication of confidence in the potential of the sector.

It is hoped that the 2013 Onshore (Land) Bid Round, the 2013 Deep Water Competitive Bid Round and the proposed 2014 Offshore (Shallow/Average) Water Competitive Bid Round will attract similar interest.

Even as we continue in our attempts to clear this hurdle we can probably look at our Latin American neighbours, Brazil and Columbia, where there have been increases in crude oil production over the period 2008 to 2012 according to OPEC statistics.

In particular as we seek to incentivise the sector perhaps we ought to try to understand what has been done in Columbia to set it on its current path.

The natural gas position is a lot more positive. T&T is now seen as a gas producing nation as we produce much more gas on a barrels of oil equivalent basis than crude oil. The 2012 Ryder Scott audit of gas reserves indicate only a 1% decline in unrisked gas reserves (proved, probable and possible).

## Energy Sector

### The emergence of shale gas presents major strategic opportunities and challenges

The US is a significant recipient of LNG exports, but this is already changing as a result of that country's production of shale gas. The US Energy Information Administration reports a 58% decrease in LNG exports to the USA over the period 2008-2012.

The gas shortages faced by Atlantic LNG and the Point Lisas Industrial Estate companies since 2010 continue, albeit its impact has been managed according to the MEEA by streamlining maintenance programmes of these companies with the planned maintenance of the producers, the latter being the cause of the shortage / curtailment. Increases in the prices of urea, methanol and ammonia compared to the prior year, however, helped to maintain revenue levels.

The emergence of shale gas presents major challenges, but also strategic opportunities, for the Oil & Gas industry and for governments worldwide.

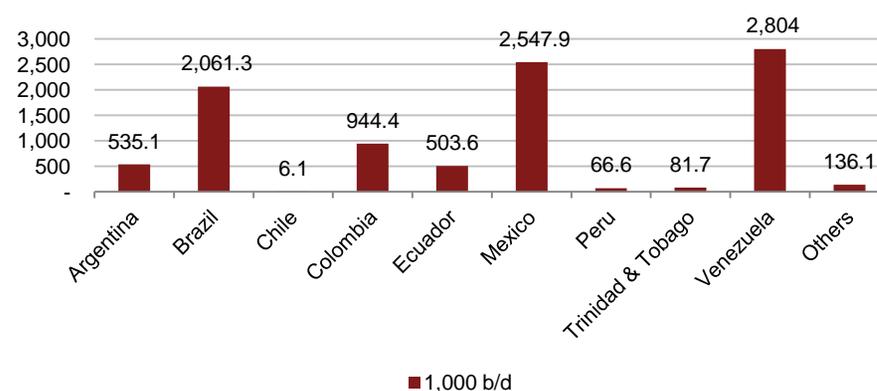
While we may suffer the possible loss of the US as our main customer, as the US becomes self-sufficient and even an exporter of gas, we have the opportunity to rethink our strategies and perhaps look to new markets and opportunities.

China has indicated its desire to purchase LNG directly from T&T and a recent Wood Mackenzie report indicated that "China may need to boost imports of liquefied natural gas by about 80% from current contracted volumes to meet demand for the fuel." While China has a large supply of shale gas reserves, winning that gas requires the development of new drilling and hydraulic fracturing techniques. This provides us with a window that can be explored. China is not the only opportunity that we must pursue as we plan for life after exports of LNG to the US, not the least of which must be more robust and deeper downstream activity.

Budget Memorandum 2014

**Latin America Crude Oil Production 2012**

Source - OPEC



**Percentage of T&T LNG Exports by Countries**

Source - Ministry of Finance, Review of the Economy



# *Hot topics*

<b>Hot topics</b>		<b>23</b>
5	Hot topics addressed	24
6	Hot topics NOT addressed	25



## ***Hot Topics addressed***

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### **Property Tax**

This issue, probably because of its larger than life status in the 2010 national election, has been the single most popular issue in the pre-budget discussions.

The Honourable Minister indicated that his Administration proposes to phase in the new land and buildings tax regime over the period 2014 to 2017. This will facilitate stakeholder consultation and the critical valuation of all industrial, commercial, agricultural and residential properties in T&T.

The Minister provided no insight however, into how the tax will be structured. Some of the critical issues, which will no doubt drive the debate during each phase of development and implementation, will be:

- the basis of the valuation of not only land and buildings, but also plant and machinery;
- the rate(s) of tax to be applied on the various categories of property;
- the allocation of the tax between central and local government and among various local government bodies;
- the utilisation of the funds raised from this source.

### **Caribbean Airlines Limited (CAL) Fuel Subsidy**

The Honourable Minister has advised that effective October 1, 2013 the fuel subsidy will be eliminated as part of CAL's drive towards financial viability. From a geopolitical perspective, this measure will help to quell the charges of unfair competition levelled by our CARICOM partners which T&T has had to endure over quite a few years.

While the Minister indicated that this move will not impact on ticket prices, we are sceptical. However, even if higher prices result, this is one of those measures that is inevitable.

## ***Hot Topics NOT addressed***

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### **Alternative Investment Funds (AIF) – The SME Opportunity**

We believe that there is a significant potential opportunity to adapt and use the AIF model to move the T&T emerging financial market from a relationship banking centered model to a fully developed capital market centered model.

In practice, we see no reason why venture capital and private equity funds in particular, would not want buyout family owned SME's involved in the business of:

- hardware supplies;
- auto parts;
- pharmacy products;
- any other similar SMEs

The incentives for family SME are:

- in instances where succession is a challenge in the absence of interested or capable “heirs to the throne”;
- current owners wish to cash in their investment and retire or invest in a newer/different businesses.

Incentives for the Private Equity/Venture Capital (PE/VC) Fund:

- significant pools of idle liquid capital looking for good investment opportunities;
- ability to purchase chains of currently unconnected businesses in strategic locations in T&T
- potential economies of scale and scope;
- expert managerial capabilities to effect the transformation and consolidation process.

Public Policy Pay-off from Tax Incentives:

- expanded first and second tier capital markets for bonds and equities when PE/PV funds decide to sell their interest publicly after 5 to 10 years.
- a clear and direct basis of assessment between the tax foregone and the number of new SME listings on the local or regional capital markets.

## ***Hot Topics NOT addressed***

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### **The Tax Appeal Process – The Alternative Dispute Resolution (ADR) alternative**

A significant number of Corporate and Individual tax payers currently have a ‘*questimated*’ amount of more than \$1 Billion of disputed tax assessments. These disputes are before the Tax Appeal Board with very little hope of having these issues resolved in the immediate future. As long as this state of affairs continues to exist it will put further downward pressure on T&T’s ranking on the global ease of doing business survey, with the concomitant real impact on T&T’s ability to attract new foreign investment outside the energy sector.

Of particular concern is the need to address the current imbalance between Inland Revenue’s right to raise tax assessments on behalf of the State and the delay in the timely determination of taxpayers’ appeals given the large backlog of cases. This issue is even more acute where the taxes are settled on assessment.

We recognise that some of the existing tax appeals are not suitable for Alternative Dispute Resolution and can only be properly resolved by the Tax Appeal Board and the higher courts. However, if we can restrict the number of matters that must go before the Tax Appeal Board to issues involving the interpretation of law, we would have made significant headway.

Failure to address this problem could create a constitutional crisis.

# *Appendices*

<b>Appendices</b>		<b>27</b>
1	Snapshot of measures 2012/13	28
2	Glossary of terms	33
3	Tax facts	35
4	Tax computations	37
5	Contact information	39
6	PwC Caribbean Region	41

## *Snapshot of measures 2012/13*

Key	
Y	Project completed
IP	Project in Progress
P	Pending approval, procedural or otherwise
N	Project has not commenced

	<b>Status</b>
<b>Fiscal Measures:</b>	
• Waiver of stamp duty on transfer of RBL shares to CLICO	Y
• Waiver of stamp duty on the transfer of units in CLICO Investment Fund (CIF)	Y
• Exemption from tax for dividends/distributions paid to residents by CIF as well as profits accruing to the Trust under CIF	Y
• 150% tax deduction up to a maximum of M\$3.0 for the corporate sponsorship:	
○ of nationals in local fashion industry	Y
○ audio, visual, video productions for the purpose of local education or local entertainment	Y
○ by local production companies in respect of their own productions	Y
• Duty free and other incentives for persons in creative industries	Y
• Increase deduction up to M\$3.0 for contributions for sporting activities	Y
• Taxes on gaming tables and other devices by private members clubs to be increased	Y
• Increase in disability grants	Y
• Business Levy threshold increase from \$200,000 to \$360,000	Y
• Exemption of VAT on all food temporarily with the exception of luxury items and alcohol	Y

	<b>Status</b>
<b>National Insurance System:</b>	
• Increase in NIS and maternity benefits	Y
• Modification of Contribution System: Proposed to change the contribution rate of 11.4% to 11.7% in 2013 and 12% in 2014.	Y
• Annual Increases to Maximum Insurable Earnings and New Pension Benefit Formula	Y
<b>Trade and Business :</b>	
• Amend the Exchequer and Audit Act so that the Comptroller of Customs, as a Receiver of Revenue, to accept forms of payment other than cash and certified manager's cheques	N
• Amend appropriate legislation to allow for the use of Electronic signature for conducting business for the submission of goods declarations to the Comptroller of Customs and Excise	
• Amend the Customs Act to allow advanced passenger and cargo information to be provided electronically to the Comptroller of Customs and Excise	Y
• Introduction of legislation with associated tax incentives to support the building of the Financial Institutions Support Services Industry.	
• Reduction of time required to establish company from 43 days to 3 days	Y
• Single Electronic Window for Trade and Business Facilitation under the Ministry of Trade to be integrated with the Asycuda World System.	Y
<b>National Security:</b>	
• Extend non taxable special to Special Reserve Police Officers	Y

	<b>Status</b>
<b>National Security:</b>	
• Exemption from VAT and Customs Duty CCTV cameras and digital video recording equipment for homeowners, community and business security	Y
• Establishing 32 Community Police Units	N
• Reintroduction of police highway patrol and Establish fix joint service units in hot spot areas	IP
• The construction and outfitting of a National Security Training Academy	N
• Naval operations plan to combat drug trade	N
<b>Housing Development:</b>	
• Exemption from income tax on the gains and profits derived from the initial sale of newly constructed houses	Y
• Exemption from income tax the gains on profits derived from the initial sale of land developed for residential housing where the development of such lands is post 1 October 2012 and sold prior to 31 December 2015	Y
• Five year Corporation Tax Holiday in respect of profits earned in the construction and rental of commercial buildings within the next 5 years	Y
<b>Energy:</b>	
• Harmonization of SPT rates	Y
• Introduction of a special SPT rate of 25% for approved new field developments at prices above US\$50 and up to US\$90/bbl.	Y
• 40% uplift for a period of 5 years on exploration costs incurred in undertaking approved projects in deeper horizons	Y
• Reduction of subsidy on premium gas effective 2 October 2012	Y

Budget Memorandum 2014

	<b>Status</b>
<b>Health:</b>	
• Construction of new Hospitals in Point Fortin, Arima, Sangre Grande and Chaguanas	IP
• Upgrade of San Fernando General Hospital	P
• Construction of a National Public Health Laboratory and Caribbean Public Health Agency at Caura	P
<b>Local Government:</b>	
Construction of four(4) Administrative Buildings for the Regional Corporations of Diego Martin, Arima, Princess Town and Penal/Debe	N
<b>Transport:</b>	
• Airport Concessionaries for the Piarco Airport and the ANR Robinson Airport to improve passenger and cargo handling	IP
• Introduction of an Open Ship-Registry	N
• Construction of a Port at La Brea	N
<b>Works and Infrastructure:</b>	
• Extension of the Churchill Roosevelt Highway from Cumuto to Sangre Grande	N
• Construction of road from Cocorite to Chaguaramas to improve access to north-west peninsula	N
• Dualling of the Rivulet Road to improve access to Point Lisas	N

	<b>Status</b>
<b>Justice:</b>	
<ul style="list-style-type: none"> <li>Construction of four (4) building complexes for accommodating High Courts in Trincity, Carlsen Field, Sangre Grande and Penal</li> </ul>	N
<b>Education:</b>	
<ul style="list-style-type: none"> <li>Amendments ad restrictions on GATE</li> </ul>	IP
<ul style="list-style-type: none"> <li>Construction of COSTAATT Campus in Chaguanas</li> </ul>	IP
<ul style="list-style-type: none"> <li>Construction of an Integrated Campus in Tobago to house various public training institutions of COSTAATT</li> </ul>	P
<ul style="list-style-type: none"> <li>Multi storey upgrade to the existing structure at the UWI St. Augustine Campus</li> </ul>	IP

## Glossary of terms

Term	Definition/Meaning
VAT	Value added tax
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FY[xx]	Financial year ending [...]
H1/H2	Half year periods ending [1st half year ending date] and [2nd half year ending date], respectively
KPI	Key performance indicator
LTM	Last twelve months
p.a.	Per annum
ppt	Percentage points
Q1/2/3/4	Quarters ending [Q1 end date], [Q2 end date], [Q3 end date] and [Q4 end date], respectively
SPA	Sale and Purchase Agreement
YTD [xx]	Year to date to [month] [20xx]

Budget Memorandum 2014

## Glossary of terms

<b>Term</b>	<b>Definition/Meaning</b>
<b>GORTT</b>	Government of The Republic of Trinidad and Tobago
<b>EBIT</b>	Earnings before interest and tax
<b>EBITDA</b>	Earnings before interest, tax, depreciation and amortisation
<b>FY[xx]</b>	Financial year ending [...]
<b>H1/H2</b>	Half year periods ending [1st half year ending date] and [2nd half year ending date], respectively
<b>KPI</b>	Key performance indicator
<b>LTM</b>	Last twelve months
<b>p.a.</b>	Per annum
<b>ppt</b>	Percentage points
<b>Q1/2/3/4</b>	Quarters ending [Q1 end date], [Q2 end date], [Q3 end date] and [Q4 end date], respectively
<b>SPA</b>	Sale and Purchase Agreement
<b>YTD [xx]</b>	Year to date to [month] [20xx]

Budget Memorandum 2014

## Tax facts

	2014		2013		2012
<b>Income Tax</b>					
<b>Allowances/ Deductions</b>					
Severance Pay	300,000		300,000		300,000
Alimony paid	No Limit		No Limit		No Limit
Personal Allowance	60,000		60,000		60,000
Tertiary Education Allowance	60,000	(1)	60,000	(1)	60,000
Pension/Deferred Annuity	30,000	(2)	30,000	(2)	30,000
National Insurance	70%	(2)	70%	(2)	70%
First Time Homeowner allowance	18,000	(3)	18,000	(3)	18,000
Covenanted Donations to Charity	up to 15% of Total Income	(4)	up to 15% of Total Income	(4)	up to 15% of Total Income
CNG Kit and Cylinder Tax credit	100% of cost	(5)	25% of Total cost	(5)	25% of Total cost
Solar Water Heating Equipment	25% of Total cost	(6)	25% of Total cost	(6)	25% of Total cost
<b>Corporation Tax</b>					
Corporation Tax Rates (Petrochemicals)	35%		35%		35%
Corporation Tax Rates (Other)	25%		25%		25%
Small and Medium Size (SME)	10%	(7)	10%	(7)	10%
Business Levy (On Gross Sales & Receipts)	0.20%		0.20%		0.20%
Green Fund Levy (On Gross Sales & Receipts)	0.10%		0.10%		0.10%
Initial Allowance	90%		90%		90%
Art and Culture/ Sportsmen/Sporting Activities					
Audio / Visual / Video Production allowance	3,000,000	(8)	3,000,000	(8)	2,000,000
Fashion Allowance	3,000,000	(8)	3,000,000	(8)	-
Production Company Allowance	3,000,000	(9)	3,000,000	(9)	2,000,000
Covenanted Donations to Charity	up to 15% of Total Income	(4)	up to 15% of Total Income	(4)	up to 15% of Total Income
Employees training / retraining	150% uplift		150% uplift		

(1) For attendance at foreign Universities not GOTT Funded

(2) Maximum \$30,000

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

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

Budget Memorandum 2014

(5) Tax credit Limited to \$10,000 in 2012 and 2013 and an Allowance of up to \$40,000 in 2014

(6) Tax credit Limited to \$10,000

(7) 10% rate in 2012 would apply to listed SMEs- 0% tax rate applies to "approved small companies" as per the provision of Section 16A of the Corporation Tax Act

## Tax facts

### Petroleum Taxes

#### Petroleum Profits Tax

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

### Investment Income

Local Dividends Received	Exempt	Exempt	Exempt
Interest Received (individuals)	Exempt	Exempt	Exempt

### Value Added Tax

Registration Threshold	360,000 (11)	360,000 (11)	360,000 (11)
VAT Exemptions on Offshore Equipment	Yes (12)	Yes (12)	Yes (12)

### Alternative Energy Incentives

Wear and Tear Allowance (CNG)		130% (13)	130% (13)
CNG conversion	100% (14)		
Wear and Tear Allowance (Solar & Wind)	150% (15)	150% (15)	150% (15)
Motor Vehicle Import Duty Relief (CNG vehicles)	50%	50%	50%

(8) 150% tax deduction up to a maximum of \$3M. Aggregate of all claims restricted to \$3M (\$2M in 2012)

(9) Effective \$30,000 per month

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

(11) Effective 1 January 2012, allowance based on acquisition of plant and machinery and equipment including installation costs, for the purpose of providing a compressed natural gas kit and cylinder installation service or the acquisition and installation in a motor vehicle of a compressed natural gas kit and cylinder

Budget Memorandum 2014

(12) Offshore equipment relates to offshore drilling rigs, drilling ships and all other vessels associated with offshore activity in the energy sector

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

(14) Maximum deduction of \$40,000 per vehicle

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

## Tax computations

TT\$ in 000s	2014	2013
Profit as per Financial Statements	40,000	40,000
<b>Add:</b>		
Depreciation	8,000	8,000
Donations not under Deed of Covenant	100	100
Arts and Culture, Audio Visual, Sporting Allowance	2,000	2,000
Local Fashion Sponsorship Expenses	2,000	2,000
Staff training	100	100
	<b>12,200</b>	<b>12,200</b>
<b>Less:</b>		
Donations to Children's Life Fund	100	100
Arts and Culture, Audio Visual, Sporting Allowance	3,000	3,000
Local Fashion Sponsorship Allowance	3,000	3,000
Wear and Tear Allowance	5,000	5,000
Initial Allowance (90%)	2,000	2,000
Profit on Sale of Asset	175	175
Staff training (150% uplift)	150	150
	<b>13,425</b>	<b>13,425</b>
<b>Chargeable Profit</b>	<b>38,775</b>	<b>38,775</b>
<b>Corporation Tax @ 25%</b>	<b>9,694</b>	<b>9,694</b>
Effective Tax Rates	24%	24%
<b>Business Levy</b>		
Gross Sales/ Receipts	500,000	500,000
Business Levy @0.2%	1,000	1,000
Green Fund Levy		
Gross Sales/Receipts	500,000	500,000
Green Fund Levy @0.1%	500	500

Budget Memorandum 2014

### Assumptions

- Covenanted Donations is not greater than 15% of the company's statutory total income
- $(100,000/40,000,000 \times 100\%) = 0.667\%$
- Company is not engaged in the production of petrochemicals
- Effective date of proposed changes is January 1, 2013
- Company is not engaged in local audio, visual or video production

## ***Tax computations (continued)***

### ***Small & Medium Enterprises***

<b>TT\$ in 000s</b>	<b>2014</b>	<b>2013</b>
Profit as per Financial Statements	250.0	250.0
<b>Add:</b>		
Depreciation	40.0	40.0
Donations not under Deed of Covenant	6.0	6.0
	<b>46.0</b>	<b>46.0</b>
<b>Less:</b>		
Donations to Children's Life Fund	5.0	5.0
Arts and Culture, Audio Visual, Sporting Allowance	5.0	5.0
Wear and Tear Allowance	25.0	25.0
	<b>35.0</b>	<b>35.0</b>
<b>Chargeable Profit</b>	<b>261.0</b>	<b>261.0</b>
<b>Corporation Tax @ 10%</b>	<b>26.1</b>	<b>26.1</b>
Effective Tax Rates	10%	10%
<b>Business Levy</b>		
Gross Sales/ Receipts	4,000.0	4,000.0
Business Levy @0.2%	8.0	8.0
<b>Green Fund Levy</b>		
Gross Sales/Receipts	4,000.0	4,000.0
Green Fund Levy @0.1%	4.0	4.0

### **Assumptions**

- Covenanted Donations is not greater than 15% of the company's statutory total income
- Company is not engaged in the production of petrochemicals
- Proposed changes effective date January 1, 2013
- Company is an SME listed company and is operating within the first five years of being listed

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### Caveat

PwC has prepared this budget memorandum for its clients and stakeholders on the principal changes announced in 2013/14 Budget on 9 September 2013. These changes are outlined in general terms and are for information purposes only. It is therefore not to be acted upon without securing professional advice.

## *PwC Caribbean Region*

Our PwC Caribbean Region network comprises of the following member firms: Bermuda, Cayman Islands, Barbados, Jamaica, Turks and Caicos, The Bahamas, and Trinidad and Tobago. The member firms of this network often collaborate on multiple projects across the region, pooling their resources, knowledge and expertise to help our clients fulfill their business objectives. With greater access to a broader network of nearly 1,400 PwC professionals, our teams understand the local and regional marketplace and our clients can be assured that our firm will address their opportunities and solve their challenges.



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