Caveat

The Trinidad & Tobago Budget 2016 is based on the Economic Policy Statement delivered by the Minister of Finance, the Honourable Colm Imbert, in Parliament on 5 October 2015.

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EY has prepared its response to the first budget being presented by our new elected Government formed by the People’s National Movement. Last year we predicted that Trinidad and Tobago (T&T) could face major uncertainty and that tough economic choices had to be made to lay down a platform for sustainable growth and for T&T to remain competitive.

We are now in the midst of a major economic storm along with a number of other oil and gas producing countries in the world. This is clearly attributable to the steep decline in these commodity prices and the high likelihood that this is unlikely to reverse in the short term. There is a clear trend in oil and gas based economies around the world that weak markets are forcing these governments to implement cutbacks in social services, to reduce the level of subsidies, to divest of state assets and to implement a broad range of tax measures designed to increase revenues and to broaden the tax base.

Difficult times demand that tough choices and trade-offs be made. But this cannot be done by the Government on its own. It is equally important for the business community and the country at large to spend time to understand and appreciate these challenges and the limited choices that any responsible government can utilize to address these challenges head on. Care must also be taken to ensure that the policy prescriptions are carefully calibrated to mitigate the fiscal deficit, to address structural imbalances and to put sustainable solutions in place but, at the same time, it is important not to erode business confidence.

Against this background, success will be heavily dependent on labour, Government and the private sector working closely together and with the national interest at heart. This is a new journey for T&T and not a path that we have walked in the last decade. We need good judgement, strong conviction and flawless execution to be successful. Let us utilize our best minds and provide an environment where solutions can be identified and implemented.

We thank you all and we welcome your feedback.

Colin Soo Ping Chow
Executive Chairman
EY Caribbean Ltd.
The economic dilemma

Rarely in the history of T&T has a Minister of Finance been compelled to grapple with the combined threat of declining natural gas production and falling energy prices. Rarer still has there been such limited time allocated to a new administration to deliver a National Budget in the wake of a National Election. Yet this is precisely the context in which the newly minted Minister of Finance, the Honourable Colm Imbert, was required to deliver his Budget presentation entitled “Restoring Confidence and Rebuilding Trust: Let’s Do This Together.”

In doing so, Minister Imbert predictably enumerated many statistics underpinning the challenging economic environment, including a stagnant economy, reduced revenue collection, cash flow and continuing deficits. It was noteworthy, however, that the Honourable Minister made no mention of the successive quarterly declines in Gross Domestic Product (GDP) and only once made use of the word “recession.” In that singular instance, it was used to describe the state of the economy of Brazil.

Nonetheless, it behooves the nation to reflect upon whether more prudent fiscal management and development spending in the past would have left the country better poised to face the current energy-led recession. For the new administration, the time for reflection has been short and the need for meaningful action immediate.

Fortunately, successive years of high energy prices have left the country with sufficient financial flexibility to buffer the present crisis. Despite persistent shortages in the supply of foreign currency to the business community (which the Honourable Minister has described as untenable and has given an undertaking to address), T&T still boasts an enviable reserve cover of close to 12 months (or US$10.4 billion) and, although the country’s net public sector debt and external debt is rising (currently at 46.3% and 9.2% of GDP respectively), it still remains within investment grade parameters. In the circumstances, the country presently retains the borrowing capacity and credit rating to run another year of deficit spending. Perhaps, conscious of this fact, the Honourable Minster of Finance predicated an overall expenditure estimate of $63 billion, a revenue forecast of $60.2 billion and a fiscal deficit of $2.8 billion or 1.7% of GDP (down from 4.2% of GDP for the prior year). The revenue side was predicated on a WTI oil price of US$45 a barrel of crude oil and a novel, mixed net back natural gas price, including Henry Hub of US$2.75 per mmBtu and Indonesia of US$6.00 per mmBtu.

It is perhaps to be expected that the Government would choose to continue to run a fiscal deficit at this juncture, while it assesses the situation and closely monitors world oil and gas prices. As such, the Honourable Minister has also promised to revisit the situation by way of the mid-year budgetary review in March 2016 to ensure that there is in place “a comprehensive regime for restoring long-term fiscal discipline.”

It would be rather unfortunate, however, if the opportunity is not taken to right-size Government’s expenditure patterns. This can be achieved by examining the country’s generous social welfare programmes, such as GATE, URP and CEPEP and the other multifaceted social projects in existence, with a view to eradicating any wastage and making them more targeted and effective. Perhaps the first step in that direction is the immediate increase of 15% in the price of both super gasoline and diesel from $2.70 and $1.50 per litre to $3.11 and $1.72 per litre, respectively. In addition, advantage should also be taken of T&T’s still vibrant private sector to absorb any excess labour generated by the reduction of the country’s make-work programmes and to partner with Government to put surplus capital to work on much needed infrastructure projects.

Naturally, the revenue side of the budget is very important and short to medium term proposals to reform the present tax administration system, better enforcement of the tax laws of the country, implementation of the Property Tax and transfer pricing rules are all welcomed initiatives. Longer term goals, however, such as addressing the natural gas production shortfall and improving the country’s infrastructure and business environment are also of strategic importance and we look forward to the promised collaboration with all of the stakeholders, including the business community and labour. Nonetheless, without immediate meaningful efforts at curbing State expenditure, the country’s ability to balance its budget as promised by 2018 will remain heavily dependent upon the unknowable plight of world energy prices. Further, the longer T&T continues to spend in excess of present earnings, the more debt it will be forced to incur and this, in turn, will eventually impact our credit ratings and increase our cost of borrowing.

As a nation, we ought to be cognizant of the fate presently besetting our Caribbean neighbours, such as Barbados and Jamaica, which are now overburdened with debt and, as a result, have to some extent lost the autonomy to govern over their own fiscal affairs. The window of opportunity is short and the new Government has started to reshape our future.

The Government should continue to use the podium of the National Budget and subsequent updates to strike the appropriate tone of austerity. This may be an immediately unpopular choice, but is it the only responsible choice as we rebuild and strengthen the fundamentals of our economy. We look forward to continued collaboration and to finding the solutions for the good of the nation.
Property Tax

Taxpayers have enjoyed a moratorium on the payment of Property Taxes for a six year period (2010-2015). The Honourable Minister of Finance has stated that this has resulted in a loss of revenue of at least $1.0 billion (appears conservative); a position that is not sustainable in light of contracting revenues and increasing expenditure, which has resulted in successive budget deficits.

The Property Tax Act was assented to on 31 December 2009 and is currently in force. There was a great deal of ambiguity at the time the legislation was passed in relation to the basis of assessment to be adopted. There was uncertainty as to whether the tax basis was the present market capital value of properties or the expected rental value.

The Honourable Minister of Finance has signaled his intention not to extend the waiver beyond 31 December 2015 and enforce collection from 1 January 2016 using the old levels and rates as a starting point (further clarification is required). He also indicated that he would take steps to amend certain legislative provisions including the determination of rates.

It would be prudent, therefore, to revisit the legislation and highlight the clarification provided by the then Minister of Finance when the legislation was introduced.

Based on the current legislation, Property Tax will be computed as a percentage of the Annual Taxable Value (ATV) of the property. Under the system, residential, commercial, industrial and agricultural properties are to be taxed as follows:

### Residential and Commercial Properties
- Residential properties will be taxed at the rate of 3% of ATV while the applicable rate for commercial properties is 5%. With respect to residential and commercial properties, the ATV is the expected annual rent and not the present market capital value of the property.
- Whether a property is owner occupied or presently tenanted would not change the ATV valuation methodology which would be based upon expected annual rental income in all instances.
- Residential property would be categorized into five distinct classes, namely: executive, modern, standard, sub-standard and shack and the applicable expected annual rental rate would be determined by a combination of the location of the community in which the home is situated and the type of classification applied.

### Industrial Properties
- With respect to industrial properties, the ATV is 6% of the installed cost of plant, machinery and associated buildings. The tax rate for industrial property is 6% of ATV.
- With respect to industrial properties, the ATV is calculated based upon the installed cost of plant, machinery and associated buildings minus a depreciation calculation applied by the Valuation Division. This depreciation allowance would not be based upon accounting convention but rather is expected to take into consideration real declines in the productivity and efficiency of the plant and machinery over time.
- Generally, equipment such as air conditioning and power generation facilities that support installed plant and machinery will not be assessed to tax.
- All immovable plant and machinery would otherwise be assessed whether or not housed within a building.
- Certain buildings that are not specialized, including warehouses or factory shells not adapted for special use of a particular industry, would be taxed on their ATV based upon their annual rental value.

### Agricultural Properties
- For agricultural properties, the ATV will be computed as 2% of the open market capital value of the property. Property tax will be calculated at the rate of 1% of ATV.

In addition the following should be noted:
- Certain sporting bodies, religious and charitable institutions are expected to be exempted.
- Measures are in place through the Ministry of Social Development to exempt persons who are unable to pay the tax, due to adverse financial circumstances.
- Persons receiving assessments are entitled to object to the Commissioner of Valuations and, if not satisfied, have recourse to the Tax Appeal Board with usual access to the higher courts on appeal.

It is a welcome initiative that the Minister is seeking to revisit the legislation with the aim of amending certain provisions. To address citizens’ natural concerns around the financial impact of such a tax, the rates could be phased in over a period of years. For example, the tax on residential property could be levied at the rate of...
1% in year one (FY16), 2% in year two (FY17) and 3% in year three (FY18).
Further, in conjunction with the introduction of Property Taxes, the Government could simultaneously look at incrementally reducing the high incidence of stamp duties on property transfers. This could be achieved either by adjusting the thresholds after which the tax becomes payable or reducing the maximum rate, which for residential property now stands at 7.5% of the value of the property conveyed. This latter move could have the desirable effect of increasing the level of real estate transactions, whilst lowering the overall fiscal burden of taxes on real estate.

At the time the Property Tax Act was first implemented it did not appear that the policy makers were rethinking the imposition of the tax on plant and machinery, despite the manufacturing sector’s objection. In his Budget Speech, the Honourable Minister of Finance made reference to a sector that had stagnated and accounted for less than 10% of GDP. The Minister should, therefore, bear this in mind during the consultative process.

Reform of the T&T Tax Administration

The Honourable Minister in his 2016 Budget Speech proposes to implement the Trinidad and Tobago Revenue Authority (TTRA) by the end of the 2016 fiscal year.

The proposed TTRA will effectively disband the Board of Inland Revenue (BIR) and the Customs and Excise Division (C&E) and establish a management board for oversight and accountability, facilitating the introduction of more modern human resources and other administrative practices.

Currently, the BIR and C&E are both revenue collecting divisions of the Ministry of Finance (MOF). The divisions are responsible for the administration and enforcement of the revenue law in T&T, as well as the collection of taxes, at the least cost to the public and, in a manner that warrants the highest degree of public confidence in the BIR’s integrity, efficiency and fairness.

In the context of the deteriorating performance of the T&T economy, it is absolutely appropriate for the citizens of the country to ask questions of the Government and its revenue collection agencies specific to its corporate governance. However, before we proffer any solution, there is a need to critically examine some of the underlying problems within the present system.

Physical Infrastructure

The physical infrastructure of the Government buildings housing the employees of the BIR is in a deplorable state. The move to the Government campus has been delayed for five years due to lack of outfitting. This problem can be solved once outfitting the Government Campus is addressed and the tax authority is allowed to relocate to its intended accommodation.

Human Resource Management

The following are some of the challenges in this area:
- The inability of the BIR to retain competent staff within the tax system.
- A heavy reliance on external bodies to provide funding (MOF) and perform the vital talent recruitment function (Public Service Commission).
- Inadequate management capability and training.
- Inadequate staff development and training.
- Inadequate supervision of staff resulting in corrupt practices.
- A manifest lack of robust performance management systems in place.

Since there are various models which a Revenue Authority can take, the key in our view would be to determine and ensure that the model adopted should ensure that the Authority should:
- Be autonomous from the public service but at the same time remain insulated from Government interference vis a vis specific taxpayer matters. However, the body should be made accountable to the MOF on broader policy and operational matters.
- Implement best-in-class corporate governance.
- Have access to sufficient financial resources to properly carry out its function in the form of Government allocations and later, once instituted, out of the proceeds of collection.
- Have a human resource management function which should facilitate effective recruitment and selection of appropriate personnel; career planning; promotion and advancement; learning, growth and development; performance management; rewards and compensation.
- Aspire to sustainable excellence, whereby the focus is on customer satisfaction and productivity through people.

Even if the above items were adequately addressed, other critical success factors would be:
- Managing the transition process in which the current employee complement of the BIR is transferred into the new system.
- Consultation and participation of all stakeholders, including employees and employee representatives.
- An effective change management process which allows for the unfreezing of established unwanted culture and freezing of desired culture and beliefs.
- Proper job analysis and having the appropriate job specification and job description.

The Revenue Authority is not an easy solution to implement. Further, if it is not carefully planned and transitioned, it can result in significant industrial relations problems. Nonetheless, it is clear that the present system is working sub-optimally and is in need of fundamental reform.
In addition, there are other facets of the tax administration which need to be effectively managed, such as the institution’s reputation, which directly impacts the BIR’s administration, enforcement and collection functions.

Although the BIR has wide-ranging powers under the tax legislation to administer the tax system and enforce its laws, the institution is not well respected. In light of the aforementioned, a key outcome of the Revenue Authority should be to earn the respect of its various stakeholders, thereby enhancing the efficiency of collections.

Any attempt to quantify the potential additional revenue at this stage would be arbitrary at best. What is more relevant is that the recent income years of economic prosperity, that is, income years 2009 to 2014 are not statute barred and remain open to scrutiny. In this regard, the current tax administration, any transitional arrangement, or any final authority should focus on maximizing the revenue flows from those, and subsequent periods.

### Transfer Pricing

The Honourable Minister indicated that the Government is advancing work on the introduction of transfer pricing legislation in its thrust to optimize tax revenues.

It is noteworthy that on the same day that the Honourable Minister delivered his Budget Statement, the Organization for Economic Cooperation and Development (OECD) released its Base Erosion and Profit Shifting Report. Base erosion and profit shifting refer to tax avoidance by multinational companies through the use of abusive transfer pricing policies, among others. The OECD has conservatively estimated that worldwide revenue losses from base erosion and profit shifting amount to US$100 billion to US$240 billion annually, or anywhere from 4% to 10% of global corporate income tax revenues. The OECD stated that the impact on developing countries is particularly significant.

We recall that the previous administration, in its Budget Statement delivered in October 2011, had signaled the introduction of transfer pricing rules in T&T. Transfer pricing rules represent one of the main pillars in combatting base erosion and profit shifting. Transfer pricing rules seek to prevent pricing manipulation between related parties in order to achieve a tax advantage. Transfer pricing rules achieve their purpose by treating related parties as if they were independent entities so as to ensure that the prices charged between them accord with the arm’s length principle.

Transfer pricing in T&T must also be viewed in the context of the current tax legislative framework. We note that the Income Tax Act currently arbitrarily restricts the deduction of management charges paid to non-residents to 2% of all out-goings and expenses (exclusive of such management charges and capital allowances). In this regard, the definition of “management charges” was expanded in 2006 to include personal and technical services, as well as the allocation of head office costs. As presently worded, the management charge restriction disallows legitimate charges incurred for the purposes of the business.

It is hoped that the introduction of transfer pricing rules would see the repeal of the arbitrary 2% management charges restriction so that unreasonable charges would now be more appropriately disallowed under such transfer pricing regime. Conversely, all reasonable charges based on arm’s length principles will be fully deductible.

International best practice suggests following the OECD Transfer Pricing Guidelines, which have widespread acceptance among worldwide tax authorities and multinational enterprises. The adoption of the OECD Transfer Pricing Guidelines would result in more certainty for multinational enterprises in the application of the relevant rules by the Board of Inland Revenue and ensure uniformity of treatment in the global context.

### Valued Added Tax Reform

The Minister of Finance has proposed a reduction in the Value Added Tax (VAT) rate on standard-rated commercial supplies from 15% to 12.5% along with an increase in the VAT registration threshold from $360,000 to $500,000 effective 1 January 2016.

The combination of widening the VAT base, increasing collection and compliance and reducing the VAT rate is expected to yield approximately $4.0 billion according to the Minister.

To achieve this ambitious target in light of a reduction in the VAT rate will call for:

1. An aggressive expansion of the tax net through increased audits and greater focus on non-compliance with the aim of improving VAT collections.
2. A rationalization of the exempt and zero rated goods and services beyond that of non-essential luxury items.

The zero-rated list, in particular, was significantly expanded by the former administration to include various basic food and beverage items. Given the possible fall out in VAT revenues as a result of the rate reduction, a broadening of the VAT base is required whereby goods and services which are zero rated or exempt are re-characterized to standard rated supplies subject to VAT.

A reduction in the number of zero rated and exempt items is keeping with recommended best practice of the International Monetary Fund (IMF) because it ought to improve the administrative efficiency of the VAT system.

The following table highlights the current VAT/General Consumption Tax (GCT) rates on standard rated commercial supplies in a few Caribbean territories:

<table>
<thead>
<tr>
<th>Country</th>
<th>VAT /GCT Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbados</td>
<td>17.5%</td>
</tr>
<tr>
<td>Jamaica</td>
<td>16.5%</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>15.0%</td>
</tr>
<tr>
<td>Guyana</td>
<td>16.0%</td>
</tr>
</tbody>
</table>
From a regional perspective, a reduction in the standard rate of VAT to 12.5% places T&T in a more competitive position than that of its CARICOM neighbours. It is instructive to note, however, that the proposed decrease in the VAT rate may not redound to the benefit of the final consumer unless suppliers adjust prices accordingly.

With respect to the increase in the VAT registration threshold, this may lead to the de-registration of smaller businesses for VAT purposes which would result in the inability of such business to recover input VAT. Nonetheless, the option for voluntary registration should remain open. It is instructive to also note that the process for VAT registration is bureaucratic and lengthy and this should be improved going forward in order to encourage compliance.

**Business Levy**

In his Budget Address, the Honourable Minister of Finance, with a view to spreading the burden of adjustment across the board, proposed to increase the rate of the Business Levy from 0.20% to 0.60%, which it is anticipated will result in increased revenue of $327.5 million. This measure will take effect from 1 January 2016. Business Levy is currently calculated at the rate of 0.20% on the gross sales or receipts (exclusive of income exempt for Corporation Tax) for each year of income on a calendar year basis. Business Levy is not applicable for the first three years from the date of registration of a company in T&T. The Business Levy is payable on a quarterly basis.

In essence, companies are only required to pay the higher of Business Levy or Corporation Tax. Moreover, it should be noted that petroleum companies fall outside of the ambit of the Business Levy.

The question therefore arises as to the basis used to ascertain which taxpayers will be liable to Business Levy and as such, the potential impact of this proposed measure.

**Green Fund Levy**

In addition to the increase in the rate of Business Levy, the Honourable Minister of Finance also proposed an increase in the rate of Green Fund Levy from 0.10% to 0.30%, effective 1 January 2016.

The Green Fund Levy is an environmental levy which is currently administered pursuant to the Miscellaneous Taxes Act of T&T and is payable by all companies (including petroleum companies). Similar to the Business Levy, the Green Fund Levy is payable on a quarterly basis; however, the levy is charged on the gross sales or receipts (inclusive of income exempt for Corporation Tax) for a calendar year.

The Green Fund Levy is payable whether or not the company is exempt from the payment of Business Levy. The Honourable Minister of Finance has outlined that the increase in the rate from 0.10% to 0.30% will increase tax revenues by $544.5 million.

As all companies are required to pay the Green Fund Levy, the quantification of the increase in tax revenues would be easier to ascertain.

**Personal Allowance**

The Honourable Minister has proposed an increase in the Personal Allowance to $72,000 with effect from 1 January 2016.

Currently a two tier Personal Allowance system exists as follows:

- $60,000 for resident individuals who have not attained the age of 60 years.
- $72,000 for resident individuals who have attained the age of 60 years and for non-residents in receipt of pension income from T&T who have attained the age of 60 years.

The $72,000 Personal Allowance for individuals 60 years of age and over was introduced in 2015. On the other hand, the $60,000 Personal Allowance has been in effect since 2006. Having regard to the level of inflation and increases in the cost of living over the past nine years, an increase in the Personal Allowance does appear to be justifiable.

By way of comparison, we have highlighted the Personal Allowance granted in other CARICOM jurisdictions:

<table>
<thead>
<tr>
<th>Country</th>
<th>Personal Allowance</th>
<th>TT Dollar Equivalent (Approximate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbados</td>
<td>Basic: BD$25,000</td>
<td>TTS78,750</td>
</tr>
<tr>
<td></td>
<td>Over 60: BD$40,000</td>
<td>TTS126,000</td>
</tr>
<tr>
<td>Jamaica</td>
<td>JAM$507,312</td>
<td>TTS27,000</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>EC$21,000</td>
<td>TTS50,000</td>
</tr>
<tr>
<td>Guyana</td>
<td>GUY$600,000</td>
<td>TTS18,000</td>
</tr>
</tbody>
</table>

**Application**

We note that the Honourable Minister, in his Budget Statement, specifically referred to this measure as “Personal Deductions from Annual Emolument Income.” The question arises as to whether the increase in the Personal Allowance to $72,000 will be limited to taxpayers earning emolument income only (i.e. income from employment) and does not extend to other taxpayers.

In this regard, a $12,000 increase in the Personal Allowance equates to a $3,000 reduction in an individual’s Income Tax liability. We note that the Honourable
Minister has stated that this measure would reduce revenues by $250 million which translates to just over 83,000 taxpayers earning at least $72,000. This appears to us to be a rather low estimate even if one were only taking into account those taxpayers solely in receipt of emolument income. While it is always difficult to accurately quantify revenue losses, the estimated revenue loss of $250 million associated with this measure appears to be unreasonably low, in the circumstances.

Filing of Tax Returns

We also note that the Honourable Minister indicated that all taxpayers earning $6,000 or less will now be exempt from tax and will not be required to file tax returns. In this regard, the Income Tax Act currently provides that taxpayers in receipt of emolument income only are not required to file Income Tax Returns irrespective of the amount of income earned. Further clarification is therefore required on this measure.

In 2016, the Honourable Minister of Finance proposes to revise the existing technical specification for CCTV and alarm systems, as currently listed in the Zero Rating Schedule of the VAT Act, with a view to implementing a suite of incentives and concessions to encourage citizens to take an active role in enhancing their own security and encourage the installation of CCTV and alarm systems in their homes and businesses.

Given the increasing trend in crime, such a measure will be welcomed by the wider community.

Increase in Earnings Class Limits and Contribution Rates

The Honourable Minister of Finance has indicated that in the near future, a fair, equitable, modern and sustainable pension system will be developed for the public sector.

In the interim, it is proposed to increase all National Insurance (NI) earnings class limits by 13.5% thereby increasing the maximum insurable earnings class limit from $12,000 to $13,620.

Contribution rates will also be increased from 12% to 13.2%. Currently, the contribution rate is $110.80 per week by the employee and $221.60 per week by the employer for an employee earning $12,000 and over per month. Therefore with the proposed increase, the weekly contribution would be approximately $138.29 per week by the employee and $276.59 per week by the employer for an employee earning $13,620 and over per month. These adjustments will take effect from 4 July 2016.

The increased rates are intended to strengthen and extend the viability of the NIS to 2036.

Increase in the cap on joint incomes received by retirees

It is proposed that from 1 December 2015, the cap on joint incomes received by retirees in respect of National Insurance and Old Age pensions will be increased to $5,000 or an additional $500 per month. It is anticipated that the effect of this measure would be to increase the income of approximately 88,000 senior citizens.

Retirees’ Programme

It is proposed that a Retirees’ Benefit Programme will be implemented which will, in the first instance, provide free drivers’ permits and passports for retirees over the age of 60. This will take effect from 1 January 2016.

Subsequently, a system of discounts on utility bills (amongst others) for other categories of retirees will be introduced further in the year 2016. The implementation of these discounts seems to be in line with the Government’s plan to ensure that the standard of living of citizens is maintained post retirement.

Fuel Subsidy

The Honourable Minister of Finance proposes to reduce the fuel subsidy on diesel and super gasoline by increasing the current market price per litre from $1.50 to $1.72 and $2.70 to $3.11 respectively, an increase of 15%. This change in prices will take immediate effect.

The increase in the price of diesel and super gasoline indicates Government’s sustained efforts to improve the fiscal deficit which commenced on 2 October 2012 with a 47.5% increase in the price of premium gasoline, as well as achieve its goal of a balanced budget by 2018 and addressing the inefficient allocation of resources.

As a result of the proposed measure, it is anticipated that Government expenditure on the fuel subsidy will decrease by $340 million. Notwithstanding the reduction of Government expenditure, the annual charge of the fuel subsidy on the purse of T&T is still anticipated to be in excess of $1.0 billion, a significant portion of Government expenditure.

While it appears that the estimated charge of the fuel subsidy in the amount of $1.0 billion is a considerable decline as compared to $4.0 billion from the prior
year, it is important to note that the decrease is on account of the drastic decline in crude oil prices rather than on account of a price movement at the pump. If and when crude oil prices rise it will be interesting to see how the Government addresses the increased fuel subsidy as a result of the fixed retail price of diesel and gasoline.

Infrastructure Incentives

After consultation with major stakeholders and, in particular, the construction industry, the Honourable Minister of Finance has proposed introducing a comprehensive and workable tax incentive framework. This is meant to encourage investment into the development of public infrastructure at the time of the mid-year review of the Budget for the fiscal year 2016.

Generally, the tax legislation currently provides for tax exemptions on the following:

- Gains or profits derived from the initial sale of land developed for residential house sites where the development of such lands commenced after 1 October 2012 and the sale is concluded on or before 31 December 2018.
- Gains or profits derived from the initial sale of newly constructed houses by registered traders where the cost does not exceed $1.5 million.
- Gains or profits from the initial sale of a newly-constructed multi-storey car park, where the construction commenced on or after 1 October 2012 and the sale is concluded on or before 31 December 2017.

Developers are required to obtain certification from various ministries for example, the Housing or Trade and Industry in support of the claim for the exemption. It should be noted, however, that some of the abovementioned exemptions are frustrated by the fact that the Housing Act of T&T does not have the appropriate regulations, for example, to grant approvals to persons as registered traders. As such, any proposed incentive framework needs to be undertaken and implemented in conjunction with the necessary amendments to the supporting legislation.

Gambling Sector

In an effort to leverage every potential source of tax revenue, the Honourable Minister of Finance has signaled the intent to expedite the passing of The Gambling (Gaming and Betting) Control Bill, which was first introduced and read in the House of Representatives on 22 May 2015 by the previous administration.

The regulation of the Gaming and Betting industry is intended to not only provide additional revenue, but to address the potential issue of money laundering and terrorist financing in this industry, as well as other negative issues which affect society. This existing Bill seeks to establish a Licence Regime with stringent criteria for obtaining a licence, which in turn seeks to curtail these fraudulent acts of money laundering and terrorism financing.

Public Services

The Minister proposes to improve and facilitate the delivery of public services from 1 January 2016 by implementing the following:

- The re-introduction of a 10 year validity period for passports for adults.
- Removal of the requirement for returning citizens to complete immigration forms at all official ports of entry.

These measures seek to mitigate the administrative challenges and inconvenience faced by travelling citizens.

On the Job Training Programme

The Minister proposes to increase the stipend paid to young people under the On the Job Training (OJT) Programme by 20%, effective 1 December 2015.

Whilst this measure is estimated to cost an additional $62 million, this proposal should inspire young people to enter the OJT Programme.

Graduate Recruitment Programme

The Minister proposes to introduce a Graduate Recruitment Programme in 2016 in all 23 ministries for unemployed and/or university graduates. Initially, this programme is expected to cost $55 million for the employment of at least 500 graduates throughout the Ministries.

From a social perspective, the programme should assist in addressing university graduates who have qualified but are frustrated in not obtaining meaningful employment and should also assist in reducing the unemployment levels in the country.

Agriculture

The Minister proposed incentives to stimulate the agricultural sector in the pursuit of achieving food security. All inputs into this sector will be exempted from all duties and taxes, including approved vehicles, approved fishing vessels and equipment, approved chemicals and pest control. These measures take effect from 1 January 2016.
Stimulus in this sector will promote local food production thereby reducing the excessive food import bill and also improve the nation’s food security.

### Judicial Services

The Honourable Minister proposes to consult with the Judiciary with the intention of assisting the Judicial system. Mention was made of two initiatives for 2016, the introduction of a video conferencing system at the Remand Yard, as well as implementing a pilot project under which lay magistrates will address minor offences, such as minor traffic offences with the intention of reducing the burden on the magistrates’ court.

Reference was also made to giving the Judiciary the financial autonomy to manage its own resources, projects and programmes, including the responsibility for procurement and construction of judicial facilities. Consultation is expected to begin early in 2016.

### Public-Private Partnerships

The Minister made reference to making a provision of $20 million to facilitate the roll out of the infrastructure to support the growth and development of Public-Private Partnerships (PPP) aimed to assist mainly in the technical and operational aspects of these partnerships.

A public-private partnership is a contractual arrangement between a public agency and a private sector entity. Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a service or facility for the use of the general public.

### Trade Unions

The Minister indicated that $15 million will be allocated in 2016 to be divided between the Joint Trade Union Movement and the National Trade Union Centre to assist the Labour Movement in building capacity and for providing technical and training support.
The proposed tax rates, allowances and deductions for income year 2016 are outlined below:

Individual Rate (based on chargeable income) 25%

**Allowances & Deductible Expenses**
- **Basic Personal Allowance** $72,000
- **Contribution to Approved Pension/Retirement Fund/Deferred Annuity/70% NIS Contribution** $50,000
- **Maintenance or Alimony (under Court Order)** Amount Paid (unlimited)
- **Tertiary Education Expenses** $60,000
- **First Time Home Owner Allowance** $25,000
- **Donations under Deed of Covenant** Up to 15% of Total Income
- **Purchase & Installation of CNG Kit** Tax credit of 25% of cost (up to $10,000)
- **Purchase of Solar Water Heating Equipment** Tax Credit of 25% of cost (up to $10,000)
- **Purchase of Bonds** Tax Credit of 25% of face value (National Tax Free Savings Bonds Regulations)

**Benefits In Kind (BIKs)**
- **Motor Vehicles/Equipment** 50% of Wear & Tear/50% of Lease Rental
- **Company Owned Housing** Fair Rental Value
- **Staff Loans** Difference in CBTT Repo Rate & Rate Charged
- **Other Benefits** Cost to Employer

**Other**
- **Home and Business Security** Implementation of appropriate incentives and concessions to encourage citizens to install CCTV and alarm systems
The precipitous collapse in the price of hydrocarbons, and crude oil in particular, has created the stage for mixed fortunes for world economies. For energy exporting nations like T&T, a protracted period of soft prices will undoubtedly have an adverse impact on national revenue. Conversely, countries within the wider Caribbean will receive an extended downward trend in this energy commodity price as a godsend. This sharp decline in the price of crude oil has been attributed, in the main, to the failure to reduce supply by OPEC members and in particular, Saudi Arabia, in an effort to secure market share, together with dampening energy demand in Asia.

While there appears to be consensus on the underlying causes, commentators have not been in unison on the outlook for the recovery in energy prices. Such disharmony of opinion has only created greater hysteria in global markets and perhaps leads one to the logical conclusion that, “It is simply just too early to opine with conviction on the future of crude oil prices at this stage.”

Nonetheless, governments around the world have acted expeditiously (some more than others) to make the necessary budgetary, fiscal and structural changes which are required to navigate through this period of ambivalence.

In T&T, the September 2014 National Budget was premised on a budgeted position of US$80 per barrel of oil, which was later revised to US$45 in January 2015 (natural gas from US$2.75 per mmBtu to US$2.25 per mmBtu). Approximately one year later, the newly appointed Government has adopted a similar projection of US$45 per barrel of crude oil and a more granular approach of a mixed gas prices to reflect our markets, including Henry Hub of US$2.75 per mmBtu and Indonesia of US$8.00 per mmBtu.

The revenue collections from the oil companies in the fiscal year ending 30 September 2015 was $13 billion, some $8.0 billion less than the budgeted estimate. In addition to the fall in crude oil prices, such declines in revenue from the sector can be attributed to the following:

- The Supplemental Petroleum Tax (SPT), a lucrative windfall tax which is applicable on the gross sale of crude oil\(^1\), is not applicable at crude oil prices below US$50 per barrel.
- Accelerated capital allowance incentives granted to the upstream sector to incentivize drilling and development activities.
- Reduction in the production of crude oil and the curtailment in the supply of natural gas.

In light of the foregoing, the new Government of T&T has articulated the following fiscal and structural adjustments which will be needed:

1. Development of small and marginal gas fields by adopting appropriate strategies and incentives to increase production.
2. Review of existing arrangements along the natural gas value chain to implement key measures such as product pricing, transfer pricing principles and fair and transparent taxation regimes.

\(^{1}\)Based on the Trinidad & Tobago EITI Report 2012 suggest that for the period 2011/12, SPT totals 18% of total tax flows.
3. Introduction of a new fiscal regime to encourage further exploration in fields on land and in shallow and deep water acreage.

4. Re-examine the fiscal regime regarding SPT, to create better incentives for production from small and medium sized fields.

The aforementioned has been promised only after a process of meaningful consultation with the energy stakeholders, upstream, midstream and downstream. Interestingly, the Honourable Minister did not speak to the recently commissioned/delivered Gas Master Plan. The sector eagerly awaits such collaborations.

**Heritage & Stabilization Fund**

In the Budget Presentation 2016, the Minister made no mention of the Heritage & Stabilization Fund (the Fund); nevertheless, we shall remind you of the workings thereof.

This Fund comprises of two main components:

- **Stabilization**: To cushion the impact on or sustain public expenditure capacity during periods of revenue downturn whether caused by a fall in prices of crude oil or natural gas and to generate an alternative stream of revenue so as to support public expenditure caused by such downturn.

- **Savings / Heritage**: To provide saving for future generations.

The legislation governing the operation of the Fund, the Heritage and Stabilization Fund Act, dictates that a minimum of 60% of the aggregate excess revenue of the Government, over budget, shall be deposited into the Fund.

The legislation also provides that withdrawals from the Fund ought to be within the following limits;

- The lower of:
  - 60% of the amount of the shortfall or
  - 25% of the Fund balance

In addition, withdrawals are not permitted where the Fund balance in any given year is less than US$1.0 billion.

**Financial services**

The financial services sector will, like all other sectors, face headwinds from slow economic growth throughout the Caribbean region. Continued depressed oil and gas prices in the short to medium term make real GDP growth in T&T challenging. Moreover, tepid consumer confidence and the expected tightening in Government spending on infrastructure projects will mean that growth in non-energy sectors will also struggle.

With this background, our financial institutions will likely be addressing:

- A weakening demand for credit, as interest rates rise and the cost of capital increases.
- A decline in the market values of fixed rate instruments held, should interest rates increase as anticipated.
- Banks have experienced reasonably low loan losses on their TT books – some deterioration in credit quality is expected in a more sluggish economy.
- Continued efforts by the Central Bank to reduce excess liquidity in the financial system.
- Depreciatory pressure on the TT Dollar due, in large part, to the weakening balance of payments on the back of falling oil and gas prices.
- Increasingly assertive regulation, new legislation including transfer pricing legislation and higher capital requirements.
- A changing customer base with new and different banking and insurance needs.
- Continuous technological innovation and increasing cybersecurity concerns.

In an era of low growth, the most successful institutions will be those that master transformation, not just to respond to today's pressures, but to be able to adapt to tomorrow's challenges. As is expected internationally, increased regulation and capital requirements in the region make further consolidation within the insurance and banking sectors likely.

Transformation is necessary because companies must find a way to deliver improved performance, while grappling with a low-growth environment. To fund their transformation, they will need to become simpler and more efficient, while reducing operating costs.

We believe that as institutions respond to consumer, regulatory and investor pressures, it will become more critical that they understand where value is created in their organizations. Typically, many institutions have a poor understanding of the full profitability of products, exacerbated by ineffective cross-charging models and poor data analytics. However, a combination of simpler businesses and rationalized product sets should give these institutions a better understanding of profitability, enabling them to completely transform their businesses.

The financial services industry players will have to reinvent themselves. Those that do, developing new products and leaner, more flexible business models for the future, will be able to deliver the returns their investors are looking for, even against the headwind of low economic growth.
Analysis of tax revenues

FISCAL YEAR 2016

- Taxes on Income and Profits of Oil Companies: $3,245m
- Taxes on Income and Profits of Other Companies: $9,721m
- Taxes in Income and Profits of Individuals: $8,250m
- Value Added Tax: $12,364m
- Other Tax Revenues: $6,415m
Analysis of recurrent government expenditure

FISCAL YEAR 2016

- Charges on Account of Public Debt: $3,088m
- Ministry of Finance: $7,381m
- National Security and Police Service: $8,935m
- Education: $7,222m
- Health: $4,709m
- Energy and Energy Industries: $1,843m
- THA: $2,417m
- Utilities, Infrastructure, Development: $10,126m
- Pensions and Social Services: $7,865m
- Other: $5,976m
## Status of fiscal measures 2015

<table>
<thead>
<tr>
<th>Proposed Measures</th>
<th>Implications</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions to Approved Annuities, Pension Plans and NIS</td>
<td>Increase in the deduction for contributions to approved deferred annuity plans, pension plans and NIS from $30,000 to $50,000.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>Personal Allowance</td>
<td>Increase in the Personal Allowance from $60,000 to $72,000 for individuals who have attained the age of 60 years.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>First-Time Home Owner Allowance</td>
<td>Increase in the allowance granted to first-time home owners from $18,000 to $25,000.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>Corporate Documents Amnesty</td>
<td>Waiver of all penalties outstanding or chargeable on the filing of corporate documents with the Registrar of Companies during the period 1 October 2014 to 31 March 2015.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>Film Industry</td>
<td>Increase in the cap in the production expenditure rebate programme from US$3 million to US$8 million.</td>
<td>Implemented</td>
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</tbody>
</table>

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<tr>
<td>Hybrid and Electric-Powered Vehicles</td>
<td>Exemption from Motor Vehicles Tax and VAT on new or used hybrid or electric-powered vehicles for a period of five years.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>Tax Free Savings Bonds</td>
<td>Tax credit of 25% of the face value of bonds issued in accordance with the National Tax Free Savings Regulations where the bonds purchased do not exceed $5,000 per annum.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>Hotel and Guesthouse Room Upgrade</td>
<td>Expansion of hotel and guesthouse room upgrade incentive programme for properties between 1-5 rooms (20% reimbursement up to $75,000) and 6-150 rooms (25% reimbursement up to $750,000).</td>
<td>Implemented</td>
</tr>
<tr>
<td>Tax Exemptions for Housing Developers</td>
<td>Amendment to the Housing Act to facilitate the making of Regulations to give effect to tax exemptions in respect of housing.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>Inclusion of Self-Employed in NIS</td>
<td>Proposal to expand the NIS to include self-employed persons.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Disability Grant</td>
<td>Increase in the Disability Grant by $300.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>Senior Citizens’ Pension</td>
<td>Increase in the Senior Citizens Pension by $500.</td>
<td>Enacted in Legal Notice No. 289 of 2014</td>
</tr>
<tr>
<td>Public Officers’ Pension</td>
<td>Increase in pension to retired public officers by $500.</td>
<td>Enacted in the Finance Act, 2015</td>
</tr>
<tr>
<td>Minimum Wage</td>
<td>Increase in the Minimum Wage to $15 per hour.</td>
<td>Enacted in Legal Notice No. 402 of 2014</td>
</tr>
</tbody>
</table>
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**Tax Services**

**Business Tax Services**
- Business tax compliance and advisory
- Tax planning
- Tax controversy/disputes
- Tax accounting

**Accounting Compliance Reporting**
- Bookkeeping
- Financial Statement Close Process support
- Statutory reporting (including compilation)
- Payroll
- Financial advisory support

**Indirect Tax Services**
- VAT compliance and advisory
- Property tax
- Insurance premium tax
- Hotel accommodation tax
- Stamp duty
- Financial services tax

**Human Capital Services**
- Expatriate tax compliance and advisory
- Global employment tax services
- Global business immigration services
- Personal tax services

**International Tax Services**
- Cross-border corporate income tax advisory
- Double tax treaty analysis
- Tax-effective supply chain management
- Withholding tax

**Transaction Tax Services**
- Evaluation of significant tax exposures
- VAT and other indirect assessments
- International tax
- Tax structuring
- Identification of post-transactional tax reduction options

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