Focus on
Trinidad & Tobago
Budget 2015

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Caveat

The Trinidad and Tobago Budget 2015 is based on the Economic Policy Statement delivered by the Minister of Finance and the Economy, Senator the Honourable Mr. Larry Howai, in Parliament on 8 September 2014.

This review summary was prepared by Ernst & Young and is intended for the benefit of our clients and associates as a general guide. Readers are encouraged to consult with professional advisors for advice concerning specific legal, accounting or tax matters before making any decision.

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Chairman's message

EY is again proud to have played a leading role in providing you with a response to the fifth budget presentation by the People's Partnership. In this EY budget presentation, the Honourable Minister of Energy and Energy Affairs and a number of business leaders and associations have provided perspectives on the energy and non-energy sectors.

Budget debates by definition are typically quite intense, particularly in the year prior to a keenly contested national election, with detailed coverage provided by the print media, on live television, by business associations and through social media. EY contributes to this debate by sharing perspectives with our clients and the wider business community on matters relevant to the Minister's budget presentation.

Trinidad and Tobago (T&T), as a small Caribbean twin island republic, enjoys certain marked advantages over the majority of its neighbours. The country has maintained its investment rating, our debt is not at an astronomical level, our energy costs are low and we have a strong and vibrant entrepreneurial sector. Having said that, many developed countries around the world continue to grapple with uncertainty and all nations, regardless of where they stand today, must make tough economic choices to remain competitive and to enjoy sustainable growth and development. Managing one's expenditure and spending within controllable limits are part of this difficult equation. Investing in infrastructure, education, health and achieving diversification require differential and significant investment dollars without any guarantees. T&T is not insulated from these risks and challenges, and strategic decisions have to be made to broaden the economic base and to create a culture that drives growth and development across all sectors, in an efficient and productive manner, including the SMEs.

Tough choices are usually accompanied by tough debates. We welcome these debates but it is equally important for the Government, the Opposition, the Public Sector, the Private Sector and Labour to adopt an attitude that, at the end of the day, is in the national interest. Without this overarching value proposition, T&T will not avoid the pitfalls that have afflicted many countries. Let us, therefore, embrace these discussions with vision, with goodwill, with passion and with intensity and let us all be prepared to make sacrifices at an individual and corporate level for the benefit and future of the people of T&T.

We thank you all and we welcome your feedback.

Colin Soo Ping Chow
Executive Chairman
EY Caribbean Ltd.
Executive overview

The paradox of plenty

During his delivery of the Government's last fiscal budget of its current term, the Honourable Minister of Finance and the Economy was able to celebrate the achievements of an economy which continues to demonstrate its ascendancy compared to its CARICOM neighbours. As recited by the Honourable Minister, the country recorded top-tier statistics in the areas of international debt ratings, unemployment rates, GDP per capita, inflation statistics and import cover. With the prospect of a steadily improving global economy ahead, the Republic appears poised to enjoy a period of relative prosperity in the near term. The challenge before the nation is to utilize this ideal opportunity to plan for and implement strategies aimed at ensuring that our children can enjoy the same prospects over the longer term.

The after-shocks of the global financial crisis continue to reverberate around the region resulting in unprecedented austerity by the Government in Barbados and a continued slide in the Jamaican dollar. Despite the economic difficulties of its major regional trading partners, the T&T economy remains on course to grow by 3.4% in 2014 and 4% in 2015, according to the IMF. This may be due to several positive developments such as the buoyancy of energy prices, increased execution of Government projects and the continuance of an accommodative Central Bank monetary policy. Perhaps for the above reasons, the first Business Confidence Survey conducted by the Central Bank and the Arthur Lok Jack Graduate School of Business found the local business community to be cautiously optimistic about the economy in 2014.

Yet, in our recent history, the challenge for T&T has not been about our economic fortunes in the near term. Rather, it has been about taking advantage of the blessing of our petroleum resources to carve a sustainable future for ensuing generations and about using the opportunity presented by our energy riches to plan for the inevitable long term depletion of this finite resource. Put another way, our real challenge has been about using energy wealth as a means of diversification and to build a sustainable competitive advantage.

It is against the foregoing benchmarks that the performance of the country should be judged and, in this regard, there is much to be desired. The most worrisome trend is the continuation of the perennial state of dependency: dependency of the nation on its energy resources and, perhaps more disconcertingly, the dependency of our citizens on Government transfers and subsidies. Transfers and subsidies include, but are not limited to, the petroleum subsidy, spending on the CEPEP and URP programmes, unemployment assistance, the increased disability and public assistance grants, the increased senior citizen pension, the newly announced “baby grant”, free education up to tertiary level, the school book grants, the school feeding programme and the grant of 75,000 laptops to secondary school students.
The statistics underpinning these observations present incontrovertible evidence of the continuation of these trends:

- The accumulated non-energy fiscal deficit for the years 2009 to 2013 stands at $139.8 billion.
- Transfers and subsidies continue their ascent from $17.9 billion in 2007/2008 rising to a projected $31 billion in 2014/2015.
- The petroleum subsidy is projected to be $6 billion in 2014/2015.
- The overall size of the Budget is projected to be $64.664 billion pointing to an unabated rise in Government spending.

In the intervening period, the country’s competitive rating has recorded another disappointing year in 2014-15 ending at 89th of 148 countries showing a continuation of a decline from 73rd in 2008. In 2014-15 the major impediments to competitiveness were “inefficient Government bureaucracy”, “corruption” and “poor work ethic of the national work force”.

The latter item perhaps reflects the emergence of an age of entitlement where many citizens are growing increasingly expectant of the Government for successive tax amnesties, employment via its multiple social programmes, and for a petroleum subsidy costing billions per year that disproportionately benefits higher income earners (who generally consume more fuel and electricity per capita). Indeed, the dependency syndrome is so entrenched that it is now viewed by a large segment of our society as an entitlement, which if removed would be perceived as a disadvantage. Little wonder that our President could remark during his Independence Day address: “Our dependency levels on the public purse in all sectors of our society are unparalleled. In this almost institutionalized age of entitlement in our history, where dependency is the jockey riding the economy, where productivity levels continue to wane and we lose our competitiveness edge …”

Perhaps the International Development Bank (IDB) summed up the current state of affairs most aptly when it described T&T as “an overgenerous state.” It seems evident (almost rational) that many persons employed in the CEPEP and URP programmes may be making enough of a comfortable living from those programmes and other subsidies to choose against seeking full time employment in the private sector. Similarly, if the abundance of free tertiary training opportunities, resulting in a “world-class” 65.2% student participation rate, are not structured to take advantage of the employment opportunities available in the market, graduates will increasingly face the prospect of accepting jobs below their qualification, thereby further eroding skilled labour productivity. It is this reality that perhaps prompted the IDB to state: “cross country evidence shows that structural, sustainable economic growth over the long term, which leads to reduced structural poverty, occurs due to increased labour productivity, not larger handouts.”
Yet, it is far from too late to address these issues. Indeed, our economic good fortunes present ample opportunity to right the situation now while we still have the financial flexibility to do so and while the private sector is both willing and able to take up any slack in the labour market thereby created. It is within this context that it is high time for the leadership of our nation to carefully examine the true efficacy of the petroleum subsidy and multifaceted social programmes with a view to streamlining the same and making them more targeted and effective. Indeed, it would be desirable for our nation’s leaders to articulate a medium term plan to wean the society off some of the plethora of hand-outs now in existence. In this respect, the Honourable Minister’s announcement that the World Bank would be conducting an assessment of the efficacy of the country’s social programmes is a laudable and critically important first step. Should we fail to follow through on these recommendations, and not simultaneously, gradually and incrementally reduce the petroleum subsidy, we risk turning the blessing of our petroleum resources into a curse where our citizens increasingly rely on their energy patrimony and the generosity of the State and less on their own abundant individual talents.
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We are grateful to our valued clients for sharing their insights into the 2015 Budget, which we have outlined hereunder in alphabetical order:

**Anya Schnoor**  
*Country Head*  
*Scotiabank T&T Limited*

The following are my major insights into the 2015 budget statement:

On the positive end, we note the following:

- Reduction in the projected budget deficit as a percentage of GDP to 2.3% from 3.6% last year.
- Continued strengthening of the financial sector through resolution of the HCU and CLICO issues and the proposed implementation of legislation to regulate credit unions.
- Continued focus on AML Compliance and initiatives to improve Counter Terrorism Financing activities through new legislation and the establishment of a Commission on Gaming.
- Attempts to improve the avenue for savings through the introduction of proposed savings bonds and increases in the limits for contributions to registered annuities.
- Continued efforts to divest state enterprises which will provide opportunities for alternative forms of investments.

Greater focus is needed on:

- Bringing long awaited legislation to Parliament, notably the new Insurance Act and the Proposed Procurement Bill.
- Improving the ease of doing business and the productivity of the public sector.
- Diversification of the economy away from energy based sources.
- The balance between expenditure on short term social programmes and long term infrastructural projects which will generate sustainable growth.
On the positive side, it is encouraging to see the continued investment in infrastructure, particularly in the developments of an expanded and improved road network and improved water supply – both critical to the development of a modern and efficient economy. Positive also has been the focus on improvements in agriculture and the continued investment and incentives that the Government proposes in a sector far too long neglected. Also, the apparent increase of public/private partnerships in various areas of the economy must be commended.

On the other hand, lacking were any initiatives to address two of the most pressing areas affecting the economy - labour/productivity and crime. Without attempting to be overly dramatic, the labour market in T&T is in crisis. We are plagued by consistently low and falling productivity, labour scarcity and high absenteeism. The State’s continued funding, without any apparent plan for rationalization, of the CEPEP and URP programmes are a major contributor to this, and must be addressed if the private sector is to grow and be competitive. The most important natural resource in any country is not what comes from below the ground, but what dwells above it - people. Sadly, for years successive governments have utilized the revenues generated by the former to destroy the work ethic of the latter. If we are intent on following this path, ill-advised as it may be, then we must adopt, like our larger energy producing brothers in the Middle East, a more liberal and open immigration policy - somebody has to do the work! An increase in the minimum wage is in itself not objectionable, but it must be accompanied by policies, incentives and initiatives to improve productivity and deliver value for money.

In the area of crime, while the construction and refurbishment of police stations are welcome initiatives towards improved policing, tackling the growing and dire crime environment requires not incremental measures, but bold and radical initiatives that seek to have a dramatic impact on crime, especially homicides. There is simply no excuse for the outrageous level of violent crime in a nation of our size and financial resources.
Joel Pemberton  
Chief Financial Officer  
Trinity Exploration and Production plc

The outlook for the local energy industry remains generally positive but to achieve the vision of an industry which benefits all stakeholders, there must be greater collaboration. What is clearly needed is a coming together of all the players who share a longer term, strategic vision. The energy industry is dynamic and contributes significantly to the standard of living of citizens. It is also equally important that our people understand how the industry works and the impact it has on our daily lives. The importance of optimizing production in oil and gas through increased activity is a key priority to the economy. T&T is in a hydrocarbon rich geological province for which there is significant remaining potential and the industry must collaborate to efficiently monetize these resources.

At the same time we cannot minimize the importance of diversification, and we should not lose sight of the fact that every sector, including oil and gas, should be given the attention it deserves to further strengthen and de-risk our economy.

Whilst a lot of attention is given to the annual budget, it is equally important to note that this is a short term measure to achieve a longer term goal/ vision. It is crucial that the longer term vision be clearly understood by all stakeholders, so that annual budgets are viewed in the context of achieving these longer term goals. In summary, we should ask ourselves:

- Do we share a common vision for the Energy Industry?
- How can we be more collaborative to deal with common challenges?
- Do our people truly understand the importance of this sector? If no, what are we doing about it?
- How does our economy become less reliant on the Energy Industry?
- How do we increase our levels of productivity and efficiency throughout the economy?
Norman A. Sabga  
Chairman & Chief Executive  
Ansa McAl Group of Companies

We note that the Minister has maintained the overall economic strategic approach of the 2014 Budget, while focusing on the immediate tactical initiatives for Fiscal 2015 that are important to maintain the growth velocity of the local economy.

There is also significant focus on the potential of the non-energy sectors and, in particular, the reference to the Manufacturing Sector by the Minister. Over the last five years we have made significant investments to upgrade our manufacturing facilities and install state of the art plants where we see the opportunity to grow our market share at home and compete favourably in export markets. We see this as crucial to achieve the economies of scale that will generate acceptable rates of return on our investments and deliver both world class products to our customers and consistent returns to our shareholders.

Measures in the 2015 Budget, such as continued investment in infrastructure development, should contribute to the reduction of non-value added cost inputs to industry and the manufacturing sector vital to support the drive for competitiveness. The proposed increase of the minimum wage to $15.00 per hour will not have a directly adverse impact on our costs, as most of our workers are paid above the minimum wage, but the increase may be considered counter intuitive in an already tight and competitive labour market. Perhaps an increase more directly correlated to productivity would send a positive signal to the labour market without eroding our national competitiveness.

It is laudable that Regulatory and Legal entities are being strengthened to improve governance, transparency and accountability, which should contribute to the ease and cost of doing business for T&T companies.
Trinidad and Tobago Manufacturers’ Association

The Trinidad and Tobago Manufacturers’ Association (TTMA) notes with optimism the measures outlined by the Minister in the National Budget for the fiscal year 2015. We await the specific details on how and when these measures will be implemented. In the interim, the Association wishes to comment on the following:

Public Procurement Legislation

Given our ongoing interest in having a transparent Procurement Framework the Association is pleased to learn of the Government’s intention to develop an Office of Procurement Regulation. However, we observe that no clear mention was made regarding the expected date for its establishment; notwithstanding, we look forward to this being put in place before the end of 2014 along with sufficient provisions for Local Content.

Minimum Wage

TTMA notes that the minimum wage is expected to increase by 20% from January 2015. We are concerned that, in the absence of a commensurate increase in productivity, there will be a negative impact on inflation and on our local manufacturers’ competitiveness. Furthermore, we would like to see a re-commissioning of the National Productivity Council, with a new mandate to oversee the measurement of productivity in the country.

Agricultural Sector

The Association further welcomes the provision of rebates on the cost of refurbishing approved facilities for agro processing, but would prefer to see this being made available for the entire Food and Beverage Sector, inclusive of the input suppliers. TTMA further acknowledges and welcomes the establishment of subsidies for testing services to assist manufacturers in producing quality products.

Innovation

TTMA notes with keen interest the reference made to the development of the Innovation Fund and wishes to partner with the Government in developing its Terms of Reference along with other stakeholders.
Outstanding Vat Refunds
The Association congratulates the Honourable Minister in significantly alleviating this perennial issue, as has been consistently lobbied by the TTMA; we look forward to the realization of the Government’s commitment to ensuring that this is completely dealt with by the end of 2014.

Trinidad and Tobago Chamber of Industry and Commerce

The Trinidad and Tobago Chamber of Industry and Commerce found that there were some positive announcements in the Budget. The incentives for stimulating innovation at the firm level should give a further impetus for driving the economy to an innovation-driven economy. We welcome the new proposals to further expand the manufacturing sector, which continues to be a driving force in our economy, particularly with respect to employment.

We agree that “the re-balancing of the economy in favour of the non-oil energy sector” will lead to a more sustainable economy.

The Chamber also welcomes the mention of the Procurement Legislation and calls for expediting the regulations. However, we were expecting to receive an indication of a timeframe for this Legislation to be placed back in the House on the agenda.

We have also found that the Minister’s presentation did not substantially provide any new avenues for truly taking the country to “Sustained Economic Growth and Prosperity”.

Many of the initiatives mentioned are ones which were already in train, but which did not materialize within the expected time frame. Implementation of plans and projects continues, in the Chamber’s view, to be a handicap.

The ability for the Government to get past the bureaucracy is a concern for the Chamber. The last two Competitiveness Reports identified “inefficient government bureaucracy” as the Number One problematic factor for doing business.

This is also symptomatic of our revenue collection. In terms of implementation, the Chamber is concerned that there have been two tax amnesties in the past four years, not to mention similar amnesties given in previous years. The Chamber continues to question the efficiency of the current tax system: it indicates that we are not able to put proper systems and mechanisms in place to ensure that all revenues due are collected in an efficient and effective manner, so that there is no need for the amnesty on a regular basis. The Chamber questions whether the Government is now building a culture of expectation that there will be a tax amnesty ever so often?
Productivity is another issue that the Chamber feels needs to be addressed. T&T ranked 126 out of 144 in the sub-index of Pay and Productivity of the 2013/2014 Competitiveness Index; in the 2014/2015 Index, our rank was 124 out of 144. We are concerned that we are not moving upward in the indices in this area. While we are in support of a minimum wage which allows all persons to be able to afford to live at a reasonable standard of living, we would like to better understand what process was used to determine the amount of the increase, and whether productivity, among other factors, was considered. A Social Dialogue Committee was set up two years ago to have the widest possible discourse on labour matters – was there discussion on this proposed minimum wage increase?

We believe that there is a necessity for a social safety net to catch the most vulnerable. While some of the Government Social programmes are good initiatives that can have a positive impact on society, we believe that the proliferation of such programmes, which often cross over several Ministries, leads to duplication of efforts and money spent. Proper management, monitoring and evaluation are imperatives for ensuring that the nation receives value for money.

The Chamber has been pushing for CNG conversion of vehicles in T&T as one means of reducing the fuel subsidy, with a view to having our PTSC buses leading the way in the conversion. However, we would like to take a step further and address the root of the issue: our current transport system almost makes it a necessity for each individual to own a vehicle, which increases the cost of this subsidy. The Chamber believes that in order to successfully reduce the fuel subsidy, a mass transit system must be revisited in a serious way.

However, even with these issues, the Chamber remains committed in this upcoming year to working with Government, business and all stakeholders to see the realization of an empowered people through sustained economic growth and prosperity.

Energy Chamber of Trinidad and Tobago

After four years of significant fiscal reforms in the energy sector, the fact that this budget presentation offered no additional amendments to the fiscal regime governing the energy sector comes as no surprise. The reform undertaken in prior years held the promise of large proposed investments of US$3.3 billion, US$3.2 billion and US$2.8 billion for years 2014, 2015 and 2016 respectively.

We must not, however, become complacent and take for granted the willingness of the energy companies to continue to invest in T&T. We must continue to work closely with these investors to ensure that there is a proper balance, whereby the objectives of both the Government and investors are met. All in all, the outlook for the sector, and by extension the country, is very positive.
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2015 measures

Increase in contributions to registered annuities

Contributions made by individuals to annuity plans that are approved by the Board of Inland Revenue are tax deductible. At maturity, pursuant to Section 28 of the Income Tax Act (ITA), the individual may opt to take a tax-free lump sum equivalent to 25% of the capitalized value of the pension or annuity with the remainder being utilized to provide an annuity for life. It should be noted that the annuity payable upon maturity is taxable in the hands of the individual.

The Minister has proposed to increase the limit for contributions to registered annuities from $30,000 to $50,000 effective 1 January 2015. It should be noted that the current $30,000 deduction applies to contributions in respect of approved annuities, pension plans and NIS. Although the Minister made no mention of pensions and NIS contributions in his Budget Statement, we anticipate that such other contributions will be included within the proposed $50,000 limit as has traditionally been the case.

Personal Allowance

The Minister is proposing to increase the Personal Allowance from $60,000 to $72,000 effective 1 January 2015 in respect of resident individuals who have attained the age of 60 years.

The current Personal Allowance of $60,000 has been in place since 2006 and is applicable to the following:

- Resident Individuals
- Non-Residents who have attained the age of 60 years and are in receipt of pension income from T&T

Having regard to increases in the cost of living since 2006, an increase in the Personal Allowance for all resident individuals is clearly justifiable. The Honourable Minister is, however, limiting the increase to only those individuals who have attained the age of 60. This appears to be in line with other measures announced in the Budget which are aimed at the most vulnerable in society. We note, however, the apparent absence of measures in the Budget for middle income households.

It should be noted that a similar two-tiered Personal Allowance was in effect from 2001 to 2005.

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

<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></td>
</tr>
<tr>
<td></td>
<td>Over 60(^1): BD$40,000</td>
<td></td>
</tr>
<tr>
<td>Jamaica</td>
<td>JAM$507,312</td>
<td></td>
</tr>
<tr>
<td>St. Lucia</td>
<td>EC$21,000(^2)</td>
<td></td>
</tr>
<tr>
<td>Guyana</td>
<td>GUYS$600,000</td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Individuals over the age of 60 and in receipt of a pension are entitled to the BD$40,000 Personal Allowance.

\(^2\) This was signaled in the 2015 Budget Statement delivered in May 2014 and is expected to be effective 1 January 2015 but has not yet been enacted. The current Personal Allowance is EC$18,000.
First Time Home Owner Allowance

The Honourable Minister is proposing to increase the First Time Home Owner tax allowance to $25,000 per household per annum on mortgage interest paid in the year of income for first time home owners for five years, including those years utilized by existing beneficiaries.

This measure is in light of the continued challenges facing individuals as they seek comfortable and affordable homes and given the Government’s objective of making housing affordable for all of our citizens.

The Minister made reference to the allowance being granted in respect of mortgage interest paid by the first time home owners. The current provision as contained in the ITA in respect of the First Time Home Owner tax allowance does not make reference to mortgage interest but rather to an allowance. Clarification is needed as to whether the increase in the allowance from $18,000 to $25,000 pertains to mortgage interest or cost incurred in acquiring a house by way of purchase or construction.

The First Time Home Owner allowance was initially introduced in 2003, whereby a resident individual who acquired by way of purchase or construction a house to be used as his residence was entitled to an allowance of $10,000 per year in respect of such acquisition for the first five succeeding years.

Subsequent to the above enactment to the ITA, the Government, in an effort to reduce the costs associated with the purchase of property and make acceptable housing available at an affordable price, introduced another housing strategy which included:

- A subsidized interest rate of 2% for mortgages for Government low income housing
- Longer repayment terms
- Standardization of the mortgage instrument
- Rent to own policy

With the implementation of the above measures, the Government eliminated the First Time Home Owner allowance in 2006.

The First Time Home Owner allowance of $18,000 per year was subsequently reintroduced in January 2011 to encourage home ownership. The allowance was granted to a resident individual who acquired a residence, by way of purchase or construction, and was not the owner of a house at any time prior to 1 January 2011. The allowance was granted for the first five succeeding years commencing from the year of acquisition.
Tax Amnesty
The Honourable Minister proposes to introduce a further tax amnesty for tax penalties and interest for late filing of returns and late payment of income, corporation and value added tax, business levy and environmental levy. The amnesty will apply to returns, penalties and interest on outstanding tax liabilities for years of income up to 2013.

Accordingly, all individuals and corporations who have outstanding tax returns or outstanding tax liabilities and associated interest charges will have the interest and penalties waived if they comply on or before 31 March 2015. This measure will require amendments to the Income Tax Act, the Corporation Tax Act and the Value Added Tax Act. This measure takes place with immediate effect and will expire on 31 March 2015.

Based on the Minister’s statement, we have noted that the tax amnesty does not apply to returns, penalties and interest on outstanding tax liabilities in regard to petroleum taxes. We have also noted that the Minister’s statement does not mention insurance premium tax, financial services tax, and withholding tax, although in previous amnesties withholding tax was specifically mentioned.

This is the fourth amnesty granted by the Government within the last fifteen years - 2001, 2006, 2009 and now 2013. The Government’s objective of granting the previous amnesties was twofold: firstly, the Government considers that the tax liability to be collected far outweighed the penalties and interest and secondly, the amnesty acted as a mechanism to encourage taxpayers’ compliance.

It is highly probable that the unintended effect of frequent tax amnesties may lead to the continued delinquency of taxpayers, as a tax amnesty will always be anticipated. This act of non-compliance is at the expense of the diligent taxpaying public. This measure may also defeat any strategies the Government may consider implementing to promote compliance with the tax system and may also be viewed as disadvantageous to compliant taxpayers.

Where taxpayers have pending applications for waivers of penalty and interest, it should be noted that the taxation legislation governing previous amnesties granted an automatic waiver of penalties and interest where the taxes were paid prior to the commencement of the amnesty.

Corporate Documents Amnesty
The Minister proposes to waive all penalties outstanding or chargeable on the filing of corporate documents with the Registrar of Companies. The waiver will be applicable until 31 March 2015.

Taxation Committee
The Minister made reference to having established a Taxation Committee which includes stakeholder groups from the business and accounting communities. It is our understanding that this Committee was, in fact, established in 2011 but had not been as active as intended. It appears that the Committee is being revived.
The Tax Committee was established to deal with non-energy sector tax policy and overall tax administration issues. We welcome this initiative which should assist in the rational development of the tax laws in T&T, as well as improvements in tax administration. We hope that, on this occasion, the mandate of the Tax Committee will be fully realized and that its recommendations will be implemented in due course.

Manufacturing Sector: Film, Fashion and Music

The Government offers a Production Rebate Programme (PRP) which is administered through the Trinidad and Tobago Film Company Limited. The objective of the PRP is to provide a financial incentive for the production of both foreign and domestic budget film, television and digital platform projects in T&T.

Currently, T&T nationals who have satisfied all the criteria set out under the PRP can access the following rebates:

- 35% from an initial spend up to US$3 million
- 15% on labour cost incurred for hiring citizens of T&T

In an effort to ensure that T&T remains competitive in attracting film productions from abroad while developing the skills of T&T nationals in the film production industry, the Honourable Minister has indicated that the limit of US$3 million will be increased to US$8 million and the rebate of 15% on labour cost will be increased to 20%.

Hybrid and Electric-powered vehicles

Fuel-efficient cars may be broken down into two main categories:

- Hybrid Cars
- Electric–powered Cars

In modern society, the appetite for fuel-efficient cars is on the rise. This increase in demand is believed to be predominantly driven by intrinsic motives to preserve the environment. Hybrid vehicles combine a conventional external propulsion system with an electric propulsion system. The purpose of the electric component is intended to achieve the following:

- Better fuel economy
- Reduced emissions on the environment

In order to encourage the purchase of these fuel-efficient vehicles, thus placing less of a demand on gasoline and diesel supplies and by extension reducing the fuel subsidy, the Honourable Minister has made the following pronouncement:

“I propose with effect from 1 January 2015 to exempt motor vehicle tax and VAT on new or used hybrid or electric-powered vehicles not older than two years for a period of five years for private or commercial use.”

The intention is to make these fuel efficient vehicles competitive and, therefore, more attractive.
2015 measures Cont’d

Capital Market: Tax-deductible Bonds

Savings Bonds are debt instruments issued by the Government which aid in the subsidization of the Government’s financial needs. These instruments once served as a notable portion of T&T’s capital market and are traditionally deemed attractive to investors for their competitive interest rates and overall low risk.

The Honourable Minister announced an initiative to reignite the trading of savings bonds, specifically targeting small investors and pensioners through the implementation of tax-deductible bonds. Purchasers would, therefore, be permitted to acquire bonds of smaller denominations, including $1,000 per bond, and the combined investment deemed tax deductible up to $5,000 annually.

The proposed duration of the savings bond initiative is for a period of five years; however, it should be noted that the effective date of implementation has not been declared.

While not specifically addressed in the Budget Presentation, the current legislation provides that interest income derived from such bonds is to be treated as tax-exempt. When coupled with the proposed deduction, these bonds would be extremely attractive to investors.

Trinidad and Tobago Hotel and Guesthouse Room Stock Upgrade Incentive Programme

The Minister is proposing to expand the existing Hotel and Guesthouse Room Stock Upgrade Incentive Programme which is managed by the Tourism Development Company Limited. The programme was originally intended to continue for a period of two years and is currently applicable to hotels and guesthouses of 8 to 100 rooms which have been operating for more than four years. The incentive provides for a reimbursement of 25% of the upgrade cost per room with a maximum reimbursement of $12,000 per room for Trinidad properties and $15,000 per room for Tobago properties.

As an interim measure and to encourage upgrade works both in the interior and the exterior areas, the Honourable Minister is proposing to expand the incentive retroactively effective 31 July 2014 for a three year period for properties between 6 to 150 rooms with the maximum overall limit being increased to $750,000.

The Minister is also proposing to introduce another three year incentive programme commencing on 31 July 2014 which is aimed at upgrading work in small tourism properties between 1 to 5 rooms. The incentive would be a reimbursement of 20% of the cost of the upgrade work to a maximum of $75,000.

In addition to the above, the Government is proposing to provide guarantees to the financial institutions for lending to investors.
Tax Exemptions for Housing Developers

The Finance Act, 2013 provided for an exemption from tax on gains or profits derived from the initial sale of newly constructed houses:

- By registered traders
- Where cost does not exceed $1.5 million
- Construction commenced after 1 February 2013

Owing to the lack of Ministerial authority to grant certification as a registered trader under the Housing Act, the Housing Act will now be amended to make such regulations as required, so as to grant such tax incentives to housing developers as outlined in the 2014 Budget Statement effective 1 January 2013.

Inclusion of the Self Employed in the National Insurance Scheme

Under the current National Insurance Act, self-employed individuals fall within the definition of “employed person” and should be registered with the National Insurance Board and pay contributions accordingly. The Honourable Minister acknowledged same during his 2012 budget presentation; however, he indicated that there were no arrangements in place to govern the payment of contributions from or the payment of benefits to these individuals. He proposed to rectify same.

The Honourable Minister has resurrected the inclusion of self-employed individuals in the National Insurance Scheme effective 1 January 2015.

The proposals announced by the Honourable Minister seem to acknowledge the fact that self-employed individuals who are close to retirement age, which is 65 years of age under the National Insurance Act, would not benefit from joining the scheme because they would not meet the required number of contributions to qualify for a minimum pension. To counteract this disincentive the Honourable Minister has announced the following proposals:

- Self-employed persons in the age group 57 and over at the time of commencement of coverage in the year 2015 will receive a one-off payment equivalent to three times their contribution.
- Self-employed persons in the age group 50 – 56 at the commencement of this coverage who have contributed fully in each year prior to retirement will be credited with additional contributions to allow them to receive the minimum monthly pension payments.
- The subsidization of up to two-thirds of the contributions made by low-income, self-employed persons (defined as persons who earned less than $3,000 per month by the National Insurance Board).
Changes to Social Safety Net

Increase in Public Assistance Grant
The Public Assistance Grant is a monthly subsistence grant designed to provide financial aid to adults who are unable to work because of ill health and to needy children whose father, mother or both parents are dead, incarcerated, disabled and unable to work, or have deserted the family and cannot be found. The quantum of the grant varies depending on the circumstances. The grant has been increased by $300 across all bands effective 1 October 2014.

Increase in Disability Grant
The Disability Grant is a monthly grant provided to persons with a physical or mental disability who have been certified as permanently disabled by a Medical Officer of the Ministry of Health or a Regional Health Authority (RHA). The grant has been increased by $300 to $1,800 per month from 1 October 2014.

Financial Assistance for Underprivileged Parents
The establishment of a new programme to provide financial assistance in the amount of $500 per month for one year only for any child born to underprivileged parents during the course of the next fiscal year.

Establishment of Fund for Deceased Security Personnel
A new fund has been established which provides $1 million to the estate of a member of the State's protective services who has been killed in the line of duty.

Senior Citizens' Pension
The Senior Citizens’ Pension is paid to residents of T&T who have attained the age of 65 years. Recipients must satisfy certain income qualification requirements in order to receive the pension. The current maximum pension of $3,000 has been in effect since 2010. The Minister proposes to increase the Senior Citizens Pension by $500 to $3,500 with effect from 1 October 2014. Where persons are in receipt of other pensions, there will be a cap of $4,500.

Public Officers’ Pension
Additionally, the Minister has proposed to increase the minimum monthly pension for retired public officers by $500 to $3,500 with effect from 1 October 2014. This increase is consistent with the increase in the Senior Citizens’ Pension.

Minimum Wage
Effective 1 January 2015, the Minimum Wage is to be increased from the current $12.50 per hour to $15.00 per hour. In this regard, we would note that the majority of employers in the country are probably already paying in excess of the proposed $15.00 minimum wage due to difficulties in sourcing workers in the current labour market. The impact of this measure on current wages as well as the competitiveness of the labour market is, however, yet to be determined.
Personal income tax

With regard to residents of T&T, the Finance Minister has proposed the following changes:

<table>
<thead>
<tr>
<th>Note</th>
<th>Description</th>
<th>2015</th>
<th>2014</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Personal Allowance for residents 60 years and over will increase to TT$72,000 effective 1 January 2015.</td>
<td>(60,000)</td>
<td>(60,000)</td>
<td>(60,000)</td>
<td>(60,000)</td>
</tr>
<tr>
<td>2</td>
<td>Tax Allowance limited to $18,000 per household (i.e. spouses must share allowance) on mortgage interest paid in the year of income for first time homeowners for five years with effect from the date of acquisition. Effective 1 January 2011. Tax Allowance limited to $25,000 per household (i.e. spouses must share allowance) on mortgage interest paid in the year of income for first time homeowners for five years including those years utilized by existing beneficiaries. Effective from 1 January 2015.</td>
<td>(25,000)</td>
<td>(18,000)</td>
<td>(25,000)</td>
<td>(18,000)</td>
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<tr>
<td>3</td>
<td>Maximum allowance per household is $60,000 (i.e. spouses must share allowance).</td>
<td>(60,000)</td>
<td>(60,000)</td>
<td>(60,000)</td>
<td>(60,000)</td>
</tr>
<tr>
<td>4</td>
<td>Maximum allowance granted for contributions to Approved Annuities/Pension Plans and 70% of NIS Payments is $30,000 effective 1 January 2009. Maximum allowance granted for contribution to Approved Annuities/ Pension Plans and 70% of NIS Payments is $50,000 effective 1 January 2015.</td>
<td>(50,000)</td>
<td>(30,000)</td>
<td>(50,000)</td>
<td>(30,000)</td>
</tr>
<tr>
<td>5</td>
<td>Tax Deduction equal to the amount of donation, up to a maximum of 15% of the individual's total income in an income year. The Income Tax Act (ITA) defines total income as the aggregate amount of income of a person before making any deductions for expenses or allowances.</td>
<td>(2,500)</td>
<td>(2,500)</td>
<td>(5,000)</td>
<td>(5,000)</td>
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CHARGEABLE INCOME

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<tbody>
<tr>
<td>Income from Employment</td>
<td>250,000</td>
<td>250,000</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal Allowance - (Note 1)</td>
<td>(60,000)</td>
<td>(60,000)</td>
<td>(60,000)</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Deduction for First Time Acquisition of House - (Note 2)</td>
<td>(25,000)</td>
<td>(18,000)</td>
<td>(25,000)</td>
<td>(18,000)</td>
</tr>
<tr>
<td>Tertiary Education (Extra-Regional) - (Note 3)</td>
<td>(60,000)</td>
<td>(60,000)</td>
<td>(60,000)</td>
<td>(60,000)</td>
</tr>
<tr>
<td>Deduction for Approved Annuity/ Pension Plan and NIS - (Note 4)</td>
<td>(50,000)</td>
<td>(30,000)</td>
<td>(50,000)</td>
<td>(30,000)</td>
</tr>
<tr>
<td>Covenanted Donations - (Note 5)</td>
<td>(2,500)</td>
<td>(2,500)</td>
<td>(5,000)</td>
<td>(5,000)</td>
</tr>
<tr>
<td>CHARGEABLE INCOME</td>
<td>52,500</td>
<td>79,500</td>
<td>300,000</td>
<td>327,000</td>
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Income Tax @ 25%

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</thead>
<tbody>
<tr>
<td>Income Tax @ 25%</td>
<td>13,125</td>
<td>19,875</td>
<td>75,000</td>
<td>81,750</td>
</tr>
</tbody>
</table>

Note 1 - Personal Allowance for residents 60 years and over will increase to TT$72,000 effective 1 January 2015.

Note 2 - Tax Allowance limited to $18,000 per household (i.e. spouses must share allowance) on mortgage interest paid in the year of income for first time homeowners for five years with effect from the date of acquisition. Effective 1 January 2011. Tax Allowance limited to $25,000 per household (i.e. spouses must share allowance) on mortgage interest paid in the year of income for first time homeowners for five years including those years utilized by existing beneficiaries. Effective from 1 January 2015.

Note 3 - Maximum allowance per household is $60,000 (i.e. spouses must share allowance).

Note 4 - Maximum allowance granted for contributions to Approved Annuities/Pension Plans and 70% of NIS Payments is $30,000 effective 1 January 2009. Maximum allowance granted for contribution to Approved Annuities/ Pension Plans and 70% of NIS Payments is $50,000 effective 1 January 2015.

Note 5 - Tax Deduction equal to the amount of donation, up to a maximum of 15% of the individual's total income in an income year. The Income Tax Act (ITA) defines total income as the aggregate amount of income of a person before making any deductions for expenses or allowances.
Legislative updates

In his Budget Statement, the Honourable Minister highlighted the recent enactment of certain legislation and signaled the Government’s intention to enact other crucial legislation in the near future.

**Bankruptcy and Insolvency Act, 2007**
On 26 May 2014 the Bankruptcy and Insolvency Act, 2007 was proclaimed. The Regulations to the said Act established the Office of the Supervisor of Insolvency in the Ministry of Finance and the Economy. The Minister of Finance stated that this was the first major overhaul in bankruptcy legislation in almost a century. The new legislation is particularly significant in that it offers the possibility of encouraging corporate rehabilitation and restructuring as an alternative to liquidation.

**Securities Act, 2012**
The Minister also highlighted the recent strengthening of the Securities Act, 2012 so as to bring it in line with international best practice and, in particular, the prosecution of market misconduct and manipulation and the evaluation of risk exposure in the securities industry.

**Insurance Bill**
The new Insurance Bill is modelled on Canadian legislation and has, as a major focus, the strengthening of regulatory capital. The Bill was referred to a Joint Select Committee of Parliament for consideration and the revised Bill is expected to be re-introduced in Parliament in the current term.

**Credit Union Bill**
The Minister indicated that subsequent to the enactment of the Insurance Act, the Government will lay a new Credit Union Bill in Parliament. This Bill will encompass international standards and best practices from other jurisdictions and will transfer the supervision of credit unions from the Commissioner for Cooperative Development to the Central Bank of Trinidad and Tobago.

**Miscellaneous Provisions (Proceeds of Crime) Bill**
The Minister also took note of the recent laying in Parliament of the Miscellaneous Provisions (Proceeds of Crime) Bill which seeks to significantly strengthen the framework for addressing Anti-Money Laundering and Counter-Terrorism Financing activities.
Public Procurement and Disposal of Public Property Bill, 2014

The Minister signaled the imminent enactment of public procurement legislation. He indicated that the Government is expediting the process of preparing the relevant Regulations in order to make the proposed legislation effective.

Gaming Industry

The Minister stated that the Government is committed to bringing all forms of betting and gaming activities in T&T within a dedicated regulatory framework. A Cabinet-established Committee has been holding extensive consultations with all industry stakeholders and there is now broad agreement on the elements of a regulatory regime. The Minister has indicated that the relevant legislation and the supporting Regulations have been prepared and will be laid in Parliament in the next fiscal year.

As an interim arrangement, the Minister signaled that a new taxation and regulatory framework involving the tagging and taxation of gaming machines will be in place effective from 1 January 2015.

Heritage and Stabilization Fund

Legislation to update the governance and operational structure of the Heritage and Stabilization Fund will be introduced in the new fiscal year. This is in accordance with the review requirements as stated under the Trinidad and Tobago Heritage and Stabilization Fund Act.

In an effort to ensure the most effective form of governance and management, the following amendments are proposed:

i. Creation of a legal entity by including a provision to establish the Heritage and Stabilization Fund as a Body Corporate.

ii. Legal protection of the Heritage and Stabilization Fund board members by the inclusion of a provision to allow for the indemnity of the Board of Governors of the Heritage and Stabilization Fund.

iii. Increase in the floor of the Fund from US$1.0 billion in 2010 to US$4.0 billion which increases the amount below which withdrawals cannot be made.

iv. Amendments to Sections 13 and 14 to make explicit that the assessments of projected versus actual revenues for each quarter are to be computed on a year-to-date aggregate basis.

v. Extension of the timeframe for meeting withdrawal requests from 48 hours to 72 hours.
Property Tax Regime

We wish to note that the Property Tax Act, 2009 is enacted but not currently being enforced by the Government of Trinidad and Tobago. Although the 2015 Budget presentation did not make mention of Property Taxes, we should acknowledge the fact that the Minister had identified the phased Property Tax Regime in the 2014 Budget as follows:

- Phase 1 - Revaluation of all industrial buildings, including plant and machinery, whether housed or unhoused.
- Phase 2 - Imposition of tax on commercial properties.
- Phase 3 - Imposition of tax on agricultural lands and on residential properties.

Full implementation of the above was expected by 2017 and we await clarity on specific dates in respect of the phases identified above, defined rates of tax applicable on the different classes of properties and a basis of the computation of annual taxable value.

Mutual Fund Industry – Unit Trust Corporation

The Unit Trust Corporation of Trinidad and Tobago Act (UTC Act) was established to regulate the functions of the Unit Trust Corporation in the management of Mutual/Trust funds. The Minister proposed the following key amendments to the UTC Act:

1) Revision of the definition of “securities” in the UTC Act to be consistent with the definition as prescribed in the Securities Act 2012.
2) Revision of the definition of “income allocated for distribution” to exclude realized and unrealized capital gains from the requirement to distribute not less than 90% of such income.
3) The concentration and control investment restriction of 10.0% governing unit schemes will now be limited only to equity securities.
4) The Unit Trust Corporation will now be endowed with the authority to close, re-open, suspend and cease to sell units in or otherwise wind-up a unit scheme.
5) The Unit Trust Corporation will now possess the authority to restrict its borrowing to a term not exceeding 90 days and to extend the payback period to 180 days.
6) The Unit Trust Corporation will now be endowed with authorization of the sharing of information with local and international regulatory authorities in accordance with any written law, once clarified.
7) The upper limits on unit prices (other than the First Unit Scheme) will be removed to allow the Unit Trust Corporation to issue additional or new schemes at prices and limits on minimum and maximum subscriptions deemed appropriate for market conditions.

The intention of these proposals appears to be an alignment of the regulation of Mutual funds under the UTC Act to the Securities Act and to provide more power to the Unit Trust Corporation in the administration of Mutual funds.
**Petroleum Pricing Committee and Transfer Pricing**

The Minister stated that his office is continuing to focus on modernizing the tax administration to improve the efficiency of tax collection. One such measure stated was the resuscitation of the Petroleum Pricing Committee.

The relevant sections of the Petroleum Taxes Act provide that, for the purpose of advising the Minister of Energy and Energy Affairs in determining the fair market value or processing fees, a Petroleum Pricing Committee shall be appointed. The Committee consists of public officers from the Ministry of Finance, the Board of Inland Revenue and the Ministry of Energy and Energy Affairs (MOEEA) based industries.

In the Budget Presentation 2012, the former Minister, proposed to introduce a transfer pricing regime; however, no such measures have yet been enacted.

The Minister did not allude to any such transfer pricing rules in T&T. However, it is our understanding that the Ministry of Finance and the Economy and the Board of Inland Revenue, are working towards the enactment of such legislation in the near future.

These efforts to modernize the tax administration, particularly the resuscitation of the Petroleum Pricing Committee, could be viewed as steps towards enacting these transfer pricing rules in T&T.

**Negotiation of Double Taxation Agreements**

The Minister has announced the intention of the Government to continue the negotiation of additional Double Tax Treaty Agreements.

To this end, it was mentioned that the Double Tax Treaty Agreement with the Federal Republic of Germany was the latest being negotiated, which is expected to be mutually beneficial to both countries since T&T is the third largest destination for German investment in Latin America.

There are other Double Tax Treaty Agreements which have been placed on the agenda and a new treaty-negotiating team has been established to address these matters, including Double Taxation Agreements with Japan, United Kingdom (UK), Luxembourg, South Korea, and the Netherlands. Given their proximity to T&T it seems sensible for the former Dutch territories of Aruba and Curacao to be added to the list.

Presently, T&T has an extensive Double Taxation Treaty network with several territories, namely:

<table>
<thead>
<tr>
<th>Brazil</th>
<th>Germany</th>
<th>Sweden</th>
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<tbody>
<tr>
<td>Canada</td>
<td>India</td>
<td>Switzerland</td>
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<tr>
<td>CARICOM</td>
<td>Italy</td>
<td>United Kingdom</td>
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<tr>
<td>China</td>
<td>Luxembourg</td>
<td>United States of America</td>
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<tr>
<td>Denmark</td>
<td>Norway</td>
<td>Venezuela</td>
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<tr>
<td>France</td>
<td>Spain</td>
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In the case of the Double Taxation Relief (Federal Republic of Germany) Order 1976, it appears that this Treaty is being re-negotiated due to the fact that it is more than 35 years old and there have been no amendments since its original enactment. Coming out of the re-negotiations, one would expect to see reduced withholding tax rates on certain payments such as Interest to Companies (other than banks) for which the rate of withholding tax matches the rate under the domestic tax legislation of 15%.

It is left to be seen what changes emanate from the re-negotiation of the UK and Luxembourg Double Tax Treaties since both existing Double Taxation Agreements currently offer reduced rates of withholding tax for payments such as Interest, Royalties, Rentals (Equipment) and Management Charges paid to Companies.
One-on-One with the Minister of Energy and Energy Affairs

The creation of an enabling business environment, where capital is well treated and satisfactorily rewarded, ought to rank among the top priorities of the executive branch of the government and, by extension, the MOEEA. A review of the fiscal measures implemented by this Government for the energy sector over the last four years would seem to suggest that this principle is well understood. And so it should be, as the sector accounts for circa 45% of Gross Domestic Product (GDP) and is an overwhelming contributor to the country’s stockpile of foreign reserves.

This administration, through the MOEEA, and this Minister in particular, moved swiftly to enact various measures to stimulate the sector and crude oil production in the main. EY’s Gregory Hannays had a one-on-one dialogue on these issues with the Minister of Energy and Energy Affairs, Senator the Honourable Mr. Kevin Ramnarine.

From all reports, it appears that you are thoroughly enjoying your term in office. What have been the most rewarding and most challenging aspects of your role?

I have been Minister now for over three years. I always believe that you must love what you do and look forward to getting up to go to work. I wake up every morning and I look forward to going to work. The most rewarding aspect of my job is having an opportunity to re-invent the upstream side of the energy sector where we have significantly changed the fiscal regime, attracted investment and stimulated exploration. The most challenging aspects of the job in the last three years were the gas curtailments at Point Lisas.

During your tenure as Minister of Energy and Energy Affairs, successive Finance Acts have introduced various incentives to stimulate upstream activity and, in particular, exploration and production activity. Have these initiatives borne fruit?

Yes, most certainly. I believe that we have created a virtual cycle of “incentive – investment – production”. This is evident from the US$5.3 billion in FDI from 2011 to 2013 which is three times more than what was collectively obtained from 2008 to 2010. The proof is also BP’s investment in Juniper which, at US$2.1 billion, is the largest single upstream investment in our country’s history. Then, of course, there is the deepwater expansion which everyone acknowledges is historic. One must, however, understand that in the energy sector things take time and change doesn’t happen overnight.

To cut to the chase, I guess the question which needs to be answered is whether the T&T fiscal regime is attractive and globally competitive?

There was a lot of inertia around the fiscal regime prior to 2010. The companies and the Energy Chamber all warned the former Government of the need to change. A lot has been changed in the last four years and that has borne fruit. However, work remains to be done. The Natural Gas Master Plan which will be completed by March 2015 will point the direction we must chart. I think our Production Sharing Contracts must evolve to allow us to continue to attract investment. We also have to incentivize asset integrity as we have an ageing asset base.
Interestingly, the latest published data from the MOEEA indicates that oil and natural gas production numbers have declined, year on year. What are the major contributors to such a decline, particularly in light of the production incentives granted (for example, reduction in over-riding royalties, SPT, etc.)?

2014 was a challenging year for natural gas production as a consequence of production outages associated with rig moves and the need to take the BG Dolphin platform offline to tie in the Starfish field. Safety is king in the upstream and companies are prepared to sacrifice production to ensure they get safety right. This is the new paradigm of the industry in a post Macondo world. With regard to oil – we have seen a stabilization of the free fall decline of 2006 to 2011. From 2012 to 2014 the production numbers have stabilized at approximately 81,000 bopd. I look forward to some good news from Leni, Range, Trinity, Touchstone in 2014/2015 as well as Trinmar’s South West Soldado reactivation.
Switching to reserves, what is the status of the Oil Reserve Audits and what are your thoughts of the 2014 Ryder Scott Natural Gas Audit?

I plan to release the 2007 and 2011 oil audits shortly. The overall picture of the 2011 oil audit says that we have a lot of potential for increasing oil production but decisions have to be taken to put acreage in the hands of companies that are quick and willing to invest. This is the way Alberta and Colombia have gone and the results speak for themselves. As regards Ryder Scott: this year there was a 7% decline in proven reserves. I was not happy that one company deferred three to four exploration wells in 2013. This impacted our numbers as there was a lot of anticipation around these wells finding new reserves of natural gas. The good news is that there was a 26% increase in exploration resources due to blocks licensed in 2011 now being captured in the audit. That means that when the deepwater blocks are considered by Ryder Scott in 2015 we should see a significant bounce in exploration resources.
On the issue of exploration, this area appears fairly active, with eight rigs operating. What is your outlook?

This has been a success. The rig count in the country is high and there is a lot of activity around exploration and developmental drilling. In 2015 BP brings in another rig to commence drilling the Juniper wells. I expect activity to stay high in the upstream to the end of the decade as there are some possible 53 explorations that could be drilled under the PSC’s.
What are your plans for the continued negotiation of the offshore and onshore acreage?

By September/October 2014 we expect to sign the three new land licenses from the 2013 onshore bid round. That will mean 12 exploration wells on land. Moving forward we will be looking at opportunities for another land based bid round.

Can you provide some clarity of the status of the unitization of Manatee/Loran field? This is obviously of critical importance to T&T.

The committees that were set up under the “Agreed Minutes” signed by myself and Minister Rafael Ramirez in September 2013 have started to function. The next step is the finalization of a field development plan. This has to be agreed to by the two Governments and four companies involved. It was unfortunate that there was so much misinformation and misunderstanding around this cross border field in 2013.

Reports of gas curtailment continue. What are the Government’s plans to battle the curtailment of natural gas in T&T? In addition to the commencement of production by Starfish (Juniper), what additional plans are there for additional natural gas production?

Gas curtailments of today are a product of decisions made and not made in the last decade. When you get a heart attack it’s not because of things you ate the day before but a product of decisions compounded over time. The facts are that from 2008 to 2010 investment by BP in the upstream fell sharply. This was a product of the prevailing level of uncertainty in the fiscal environment. Then there was Macondo in 2010 and the maintenance programme of 2010 to 2013. The period of underinvestment saw “cushion gas” going away and thus we are where we are today. These are facts. When Starfish comes online in November 2014 there will be some relief but we will still have an imbalance in supply/demand. Juniper is expected to be online in 2017 at a rate of 590 mmcf/d. The MEEA has sought to coordinate the supply/demand balance to mitigate as far as possible the impact of the curtailments.

While we hear concerns associated with gas curtailment, we also hear announcements of new downstream projects, including the Mitsubishi/Massy JV project (Caribbean Gas Chemicals Limited) and GasFin. How do the two reconcile?

The Government has not stopped attracting new investment into the midstream/downstream because of the challenges with curtailments. We expect that the commencement of production from Juniper in 2017 coupled with other optimizations, such as BP’s work over programme, would bring new gas into the system.
In light of the recent Petrotrin oil spills, what are the Government’s plans to ensure improved asset integrity and the attendant management systems to mitigate the reoccurrence thereof?

The refinery is almost 60 years old and Trinmar could be close to that age, too. In the land fields there are facilities that could be older. On the east coast we have had production for over 40 years. We operate, therefore, on an ageing asset base. The MOEEA has taken a proactive role and has gone to the Central Tenders Board for the procurement of a Safety Consultancy that would work with us to audit the entire energy sector. This exercise will start in early 2015.
Financial sector overview

Globally, the Financial Services Industry (FSI) has faced significant challenges over the last several years and, while the larger tremors have tapered off and stability has been restored, the industry is still faced with:

- Expected continued consolidation
- Intense competition
- Anemic interest rates
- Increased regulation
- The challenge to increase agility and respond to consumer demands

In the last available Financial Stability Report issued by the Central Bank of Trinidad and Tobago (CBTT) dated June 2013, the CBTT commented that:

- The banking system thus far continues to be highly liquid and well capitalized to withstand severe shocks.
- Banks are profitable, but are experiencing lower returns on assets due to reduced levels of income from interest and fees and higher operating expenses.
- Credit quality has improved as commercial banks took aggressive steps to reduce non-performing loans by restructuring and writing off loans.
- The low interest rate environment and limited investment opportunities pose challenges to the profitability of the life insurance companies.
- There were overall declines in the pension plan funding levels as a result of the low interest rate environment.

In the Minister’s 2015 Budget Statement, he noted that the FSI is currently contributing 15% of GDP and facilitating the modernization of T&T.

Top of mind for these institutions will no doubt be how the initiatives outlined in the 2015 Budget Statement stimulate the economy to increase the demand for credit in a stagnated market. In an election year, however, private sector investment is typically stymied, as companies proceed with caution awaiting election outcomes. The Public Offering of the Phoenix Park Gas Processors Limited, as with First Citizens, is likely to be attractive as institutions and individuals crave investment opportunities. The recent sovereign restructures and downgrades in the region have further limited investment choices.

It was interesting to note that no updates were provided by the Minister on the formation of the Trinidad and Tobago Mortgage Bank, an investment opportunity identified in previous budgets.

In the current investment-limited climate, most companies have focused on streamlining operations and managing costs. As the Minister noted, T&T has been successful in attracting financial services companies to consolidate their shared-support services in T&T, an initiative which should receive continued focus.
In the short and medium term, it is expected that the single largest area of investment in the industry will continue to be in technology. To achieve true agility is to create a differential customer experience that unifies mobile, online, and branch channels in a more seamless fashion – this is what customers want and what players must now respond to. Striving for real-time processing, tracking, and decision-making will free institutions from legacy systems, creating a world of greater efficiency and success, with hopefully lower costs.

But amidst all these developments, there remains a real concern about various technology risks. Given the increasing reliance on technology, inaccurate data, inconsistent reporting, and system glitches have the ability to quickly disrupt a bank’s operations, strategy, reputation, and market value.

These risks will undoubtedly be a major concern for Regulators, and one that the Minister’s Task Force on Integrated Financial Regulation and Supervision must peg as a key concern.

Also on the agenda for the industry, both in terms of process and technology, is the US FATCA legislation which is designed to drive compliance by financial institutions across the globe to provide US tax authorities with information about the offshore financial activities of their tax payers. Non-US financial institutions are compelled to comply with FATCA by the threat of withholding taxes on their US source income if they do not comply. Many of T&T’s larger financial institutions have already registered for FATCA and have entered into agreements with the US Government’s Inland Revenue Service (IRS). The FATCA agreement compels these institutions to collect additional information about their customers, identify potential US tax payers, and report on these customers to the IRS. Additionally, these institutions must levy withholding taxes on individual and corporate customers who fail to provide the required information, and on financial institution customers who have not registered for FATCA themselves.

In summary, the FSI in T&T is strong, having withstood the impact of the global financial crisis and with the Government able to step in to deal with CLICO and the Hindu Credit Union. Our energy-based economy and current macro-economic framework have allowed us to stave off the contagion effect of the failures of these companies. Financial Service Institutions must continue to transform through the use of technology while being cognizant of and managing all the related risks. Through technology, companies will be able to ultimately improve reporting, compliance, leverage information, lower costs, and increase agility giving customers what they want.

The cost of compliance will, however, continue to increase, with the regulatory regime continuing to strengthen, and the various expected legislative changes including the long awaited Insurance Act and Credit Union Act. The Minister in his 2015 presentation also made particular mention of proposed amendments to the Unit Trust Corporation of Trinidad and Tobago Act, 1981. These changes broadly seek to align certain definitions within this Act with the Securities Act, 2012, and to adjust the income distribution and investment concentration parameters.
## Summary - revenue statistics

<table>
<thead>
<tr>
<th>Revenue - $’000</th>
<th>Estimates 2014</th>
<th>Revised Estimates 2014</th>
<th>Estimates 2015</th>
<th>Increase/(Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Taxes on Income &amp; Profits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>35,940,656</td>
<td>36,253,697</td>
<td>35,473,600</td>
<td>(780,097)</td>
</tr>
<tr>
<td>Oil Companies</td>
<td>18,456,151</td>
<td>18,456,152</td>
<td>17,069,700</td>
<td>(1,386,452)</td>
</tr>
<tr>
<td>Other Companies</td>
<td>9,616,200</td>
<td>9,900,000</td>
<td>10,223,000</td>
<td>323,000</td>
</tr>
<tr>
<td>Individuals</td>
<td>6,416,845</td>
<td>6,544,845</td>
<td>6,779,300</td>
<td>234,455</td>
</tr>
<tr>
<td>Other</td>
<td>1,451,460</td>
<td>1,352,700</td>
<td>1,401,600</td>
<td>48,900</td>
</tr>
<tr>
<td><strong>Taxes on Property</strong></td>
<td>3,914</td>
<td>3,301</td>
<td>3,035</td>
<td>(266)</td>
</tr>
<tr>
<td><strong>Taxes on Goods &amp; Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>8,057,997</td>
<td>6,917,313</td>
<td>8,879,791</td>
<td>1,962,478</td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>6,409,734</td>
<td>5,259,400</td>
<td>7,183,000</td>
<td>1,923,600</td>
</tr>
<tr>
<td>Excise Duties</td>
<td>737,193</td>
<td>693,140</td>
<td>711,900</td>
<td>18,760</td>
</tr>
<tr>
<td>Other Duties</td>
<td>911,070</td>
<td>964,773</td>
<td>984,891</td>
<td>20,118</td>
</tr>
<tr>
<td><strong>Taxes on International Trade</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,547,225</td>
<td>2,744,092</td>
<td>2,815,715</td>
<td>71,623</td>
</tr>
<tr>
<td><strong>Other Taxes</strong></td>
<td>249,728</td>
<td>279,000</td>
<td>286,300</td>
<td>7,300</td>
</tr>
<tr>
<td><strong>Total Tax Revenue</strong></td>
<td>46,799,520</td>
<td>46,197,403</td>
<td>47,458,441</td>
<td>1,261,038</td>
</tr>
<tr>
<td><strong>Non Tax Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,754,019</td>
<td>10,960,886</td>
<td>10,018,696</td>
<td>(942,190)</td>
</tr>
<tr>
<td>Property Income</td>
<td>4,724,222</td>
<td>9,778,722</td>
<td>8,997,711</td>
<td>(781,011)</td>
</tr>
<tr>
<td>Other</td>
<td>994,416</td>
<td>1,158,593</td>
<td>982,776</td>
<td>(175,817)</td>
</tr>
<tr>
<td>Repayment of Past Lending</td>
<td>35,381</td>
<td>23,571</td>
<td>38,209</td>
<td>14,638</td>
</tr>
<tr>
<td><strong>Capital Revenue</strong></td>
<td>1,031,331</td>
<td>1,269,154</td>
<td>1,534,070</td>
<td>264,916</td>
</tr>
<tr>
<td><strong>Borrowing</strong></td>
<td>9,154,372</td>
<td>6,368,565</td>
<td>7,510,650</td>
<td>1,142,085</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>62,739,242</td>
<td>64,796,008</td>
<td>66,521,857</td>
<td>1,725,849</td>
</tr>
</tbody>
</table>
## Summary - expenditure statistics

<table>
<thead>
<tr>
<th>Expenditure - $'000</th>
<th>Estimates 2014</th>
<th>Revised Estimates 2014</th>
<th>Estimates 2015</th>
<th>Increase/ (Decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ministry of Education</strong></td>
<td>4,238,471</td>
<td>4,022,107</td>
<td>4,445,761</td>
<td>423,654</td>
</tr>
<tr>
<td>Recurrent</td>
<td>4,149,971</td>
<td>3,933,607</td>
<td>4,318,161</td>
<td>384,554</td>
</tr>
<tr>
<td>Development</td>
<td>88,500</td>
<td>88,500</td>
<td>127,600</td>
<td>39,100</td>
</tr>
<tr>
<td><strong>Ministry of Health</strong></td>
<td>4,235,257</td>
<td>4,483,344</td>
<td>4,555,151</td>
<td>71,807</td>
</tr>
<tr>
<td>Recurrent</td>
<td>4,083,757</td>
<td>4,322,844</td>
<td>4,386,151</td>
<td>63,307</td>
</tr>
<tr>
<td>Development</td>
<td>151,500</td>
<td>160,500</td>
<td>169,000</td>
<td>8,500</td>
</tr>
<tr>
<td><strong>Ministry of Transport</strong></td>
<td>1,093,082</td>
<td>1,124,619</td>
<td>1,157,756</td>
<td>33,137</td>
</tr>
<tr>
<td>Recurrent</td>
<td>936,032</td>
<td>987,532</td>
<td>1,013,656</td>
<td>26,124</td>
</tr>
<tr>
<td>Development</td>
<td>157,050</td>
<td>137,087</td>
<td>144,100</td>
<td>7,013</td>
</tr>
<tr>
<td><strong>Ministry of Works and Infrastructure</strong></td>
<td>1,288,660</td>
<td>1,366,211</td>
<td>1,314,830</td>
<td>(51,381)</td>
</tr>
<tr>
<td>Recurrent</td>
<td>1,187,160</td>
<td>1,298,700</td>
<td>1,225,330</td>
<td>(73,370)</td>
</tr>
<tr>
<td>Development</td>
<td>101,500</td>
<td>67,511</td>
<td>89,500</td>
<td>21,989</td>
</tr>
<tr>
<td><strong>Ministry of National Security</strong></td>
<td>3,256,049</td>
<td>3,315,036</td>
<td>3,637,354</td>
<td>322,318</td>
</tr>
<tr>
<td>Recurrent</td>
<td>2,811,444</td>
<td>2,807,186</td>
<td>3,121,104</td>
<td>313,918</td>
</tr>
<tr>
<td>Development</td>
<td>444,605</td>
<td>507,850</td>
<td>516,250</td>
<td>8,400</td>
</tr>
<tr>
<td><strong>Ministry of Energy and Energy Affairs</strong></td>
<td>7,180,889</td>
<td>7,135,077</td>
<td>6,161,667</td>
<td>(973,410)</td>
</tr>
<tr>
<td>Recurrent</td>
<td>7,170,789</td>
<td>7,124,977</td>
<td>6,140,784</td>
<td>(984,193)</td>
</tr>
<tr>
<td>Development</td>
<td>10,100</td>
<td>10,100</td>
<td>20,883</td>
<td>10,783</td>
</tr>
<tr>
<td><strong>Ministry of Finance</strong></td>
<td>10,108,529</td>
<td>11,638,271</td>
<td>9,728,944</td>
<td>(1,909,327)</td>
</tr>
<tr>
<td>Recurrent</td>
<td>8,136,353</td>
<td>9,778,318</td>
<td>8,393,806</td>
<td>(1,384,512)</td>
</tr>
<tr>
<td>Development</td>
<td>57,707</td>
<td>32,086</td>
<td>32,950</td>
<td>864</td>
</tr>
<tr>
<td>Debt Servicing</td>
<td>1,914,469</td>
<td>1,827,867</td>
<td>1,302,188</td>
<td>(525,679)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>28,279,231</td>
<td>29,238,586</td>
<td>30,869,550</td>
<td>1,630,964</td>
</tr>
<tr>
<td><strong>Public Debt</strong></td>
<td>4,909,440</td>
<td>4,894,729</td>
<td>5,321,520</td>
<td>426,791</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td>64,589,608</td>
<td>67,217,980</td>
<td>67,192,533</td>
<td>(25,447)</td>
</tr>
</tbody>
</table>
Analysis of tax revenues

FISCAL YEAR 2015

- Taxes on Income and Profits of Oil Companies: 36%
- Taxes on Income and Profits of Other Companies: 22%
- Value Added Tax: 15%
- Other Taxes: 13%

Graph showing tax revenue from 2007 to 2015.
Analysis of recurrent government expenditure
## Status of fiscal measures 2014

<table>
<thead>
<tr>
<th>Proposed Measures 2014</th>
<th>Implications</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum Tax Reform</td>
<td>The following measures were proposed:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>‣ Investment Tax Credit to be carry forward and offset against Supplemental Petroleum Tax (SPT) liability of the subsequent financial year.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>‣ 100% write-off of Exploration Costs incurred in income years 2014 to 2017.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>‣ Accelerated capital allowances in respect of expenditure incurred in relation to development activity.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>‣ 100% write-off of tangible costs related to workovers, maintenance of repair works on completed wells and qualifying side-tracks.</td>
<td>Enacted in the Finance Act, 2014</td>
</tr>
<tr>
<td>Capital Allowances on Assets Transferred Between Related Parties</td>
<td>Establishing the value at which plant and machinery is brought into the T&amp;T branch from a foreign related entity to be the lesser of the fair market value of the asset or the notional written-down value of the asset.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Gas Compression Facilities</td>
<td>The wear and tear allowance for gas compression facilities to be increased from 25% to 33.3%.</td>
<td>Enacted in the Finance Act, 2014</td>
</tr>
<tr>
<td>Property Tax Regime</td>
<td>Implementation of the Property Tax regime with respect to industrial buildings, including plant and machinery, whether housed or unhoused by 1 July 2014.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Proposed Measures 2014</td>
<td>Implications</td>
<td>Status</td>
</tr>
<tr>
<td>------------------------</td>
<td>--------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>Motor Vehicle Accident Fund</td>
<td>Establishment of a Motor Vehicle Accident Fund in order to compensate victims of accidents caused by uninsured drivers.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Compressed Natural Gas (CNG)</td>
<td>Introduction of a Tax Allowance of 100% of the cost of conversion of motor vehicles to use CNG up to a maximum of $40,000.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Customs Duty on Motor Vehicles</td>
<td>Proposed 25% increase in the Customs Duty on new and foreign used cars over 2,499 cc, excluding T-vehicles and maxi-taxis.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Compact Fluorescent Lamps (CFLs)</td>
<td>Removal of the 20% Customs Duty on CFLs.</td>
<td>Enacted in Legal Notice No. 53 of 2014</td>
</tr>
<tr>
<td>Capital Markets Development</td>
<td>Revising the criteria for small and medium-sized companies listed on the Trinidad and Tobago Stock Exchange to qualify for tax incentives.</td>
<td>Enacted in the Finance Act, 2014</td>
</tr>
<tr>
<td>Fines and Penalties</td>
<td>Increase in the fines and penalties in respect of the illegal export of subsidized fuel, illegal quarrying and under the Litter Act.</td>
<td>Enacted in the Finance Act, 2014</td>
</tr>
<tr>
<td>Gaming Industry</td>
<td>Proposed increases in the license fee payable by all betting offices.</td>
<td>Enacted in the Finance Act, 2014</td>
</tr>
</tbody>
</table>
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