

Taxation Services
Client Newsletter

Trinidad and Tobago Budget 2009/10

Vision 2020: Strengthening Efficiency, Addressing the Challenges

September 7, 2009

Photo: Richard Acosta



PRICEWATERHOUSECOOPERS 

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Introduction

Senator the Honourable Karen Nunez-Tesheira, Minister of Finance today (September 7, 2009) presented to Parliament her Government's 2009/10 Budget Presentation, the theme of which she noted was entitled "Strengthening Efficiency, Addressing the Challenges."

PricewaterhouseCoopers is pleased to provide our clients with this Newsletter which contains a summary of the fiscal measures announced by the Honourable Minister, our interpretation of those measures and our initial assessment of the potential impact on the T&T business sectors, based on the information available to date. It is not intended to be a comprehensive statement of the fiscal provisions and therefore should not be acted upon without appropriate professional advice.

It will be noted that this 2009/10 Client Newsletter is a departure from the extensive printed Budget Memorandum that we have produced in prior years. This has been a deliberate action on our part as it has been recognized that, in the recent past, we have tended to stray outside of the role of the professional advisor interpreting and commenting on the budgetary fiscal measures and into one of economic and political commentators. We are not the latter and we therefore trust that our clients will appreciate the renewed focused approach to analyzing and commenting on the budget's fiscal measures.

In keeping with our Firm's commitment to 'Keeping it Green' we have also adopted the approach of circulating this Newsletter to our clients by email with a limited run of CDs for distribution at the post Budget seminars at which we will make an appearance. We will however be happy to provide you with a CD upon request, made to our Tax Administrator Bernadette Hutson at 623-1361, extension 277 or by email to bernadette.hutson@tt.pwc.com.

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Budget Overview 2009/10

The Honourable Minister of Finance delivered her second budget presentation in Parliament under the theme of “Strengthening Efficiency, Addressing the Challenges.” The Minister stressed the challenges that the country had faced during 2008/09 which resulted in a projected budget deficit for that year of \$7.5 billion, noting that significant shortfalls in revenue were realised as a result of the declines in the price of oil, gas and in other petrochemicals.

In reviewing the economic performance for 2008/09 the Honourable Minister noted that:-

- The economy achieved 2.3% growth;
- Real GDP declined by 1.0%;
- Unemployment Rate of 5% up from 3.9%;
- Official Reserves stand at US\$8.6 billion or 11 months import cover;
- Total debt stock estimated at 39% of GDP;
- Inflation (headline) reduced from 15.4% in October 2008 to 5.9% in July 2009;
- Budget deficit of 6.3% of GDP.

The Honourable Minister emphasized that given the current state of the economy and the expected gradual resurgence in demand in 2010 her Government’s medium term fiscal strategy is to provide the fiscal stimulus that will ensure that the economy does not continue to contract in 2010. A budget deficit of approximately 5% of GDP in 2010 is however anticipated.

To its credit GORTT appears to have taken a conservative approach in basing its principal revenues from oil and gas on a US\$55 per barrel of oil and US\$2.75 per million cubic feet.

The Honourable Minister thereafter proceeded to review the Government’s performance across each sector of the economy and announced an extensive range of interventions and initiatives that are to be undertaken in 2010 and beyond. These included plans for Energy, Agriculture, Trade and Industry, Tourism, Financial Services, Tobago, Housing, Infrastructure, the Environment, Education, Health, National Security and Institutional Reform.

The objectives have been clearly enunciated and the blueprint of the 2020 Vision remains the roadmap for getting there.

The Fiscal Measures announced are intended to form the “stimulus package” for the private sector. In this regard the proposal to extend financing and contracting opportunities for the Small and Micro Enterprises will be viewed positively.

The re-introduction of the Approved Property Development Allowance as a tool to encourage property development will also be well received having been an effective incentive in the past.

However the increase in the Initial Allowance from 75% to 90% as an incentive to encourage re-tooling is uncertain and maybe of little or no consequence being a timing issue. The re-introduction of the Capital Investment Allowance would have been more meaningful.

The proposed updating of the Lands and Building Tax system is long overdue but may result in financial hardship to homeowners being introduced at a time when “rental” values on which the tax is to be based are in a state of flux, but remain high.

Of greater concern however is the ongoing absence of real incentives to the Petroleum Sector which continues to be the engine of growth for the economy. The Honourable Minister has noted that the Government is in the process of discussing a new fiscal incentive regime. However this review has been ongoing for an extended period and there is little to suggest that we are close to establishing a regime that “will encourage exploration and development activities....while maintaining the global competitiveness of our major sector.”

Government must be aware that the major stakeholders in the sector compete internationally for their investment capital and in the absence of a competitive fiscal regime in T&T, such capital will flow to more attractive locations. Urgent attention to this vital sector is therefore paramount.

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Budget 2009/10 Revenue and Expenditure

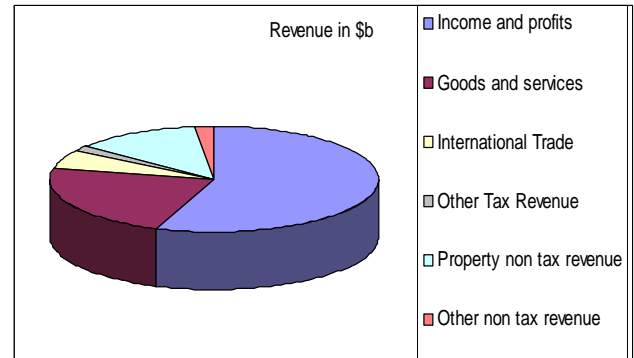
Fiscal Deficit

Following on from the 2008/09 anticipated deficit of \$7.5 billion the Honourable Minister indicated that GORTT projects another deficit for fiscal year 2009/10 of \$7.7 billion amounting to 5.3% of GDP. This results from projected revenues of \$36.6 billion and expenditures of \$44.36 billion.

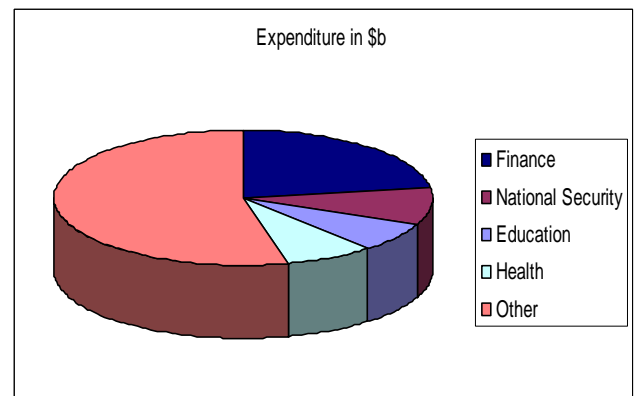
The pie charts below reflect revenues of \$35.9 billion and expenditures of \$45.9 billion as contained in the Draft Estimates of Revenue and Expenditure.

Of the \$35.9 billion, \$8.9 billion is projected to be received from Oil Companies as compared to \$11.7 billion in 2009 and \$25.7 billion in 2008, a reduction of 65% from 2008.

Revenue in \$b	
Income and profits	20.055
Goods and services	8.14
International Trade	2.002
Other Tax Revenue	0.505
Property non tax revenue	4.573
Other non tax revenue	0.638
Repayment of past lending	0.019
	<u>35.932</u>



Expenditure in \$b	
Finance	10.309
National Security	4.132
Education	3.366
Health	3.346
Other	24.811
	<u>45.964</u>



Summary of Fiscal Measures – 2009/10

- **Petroleum Profits Tax**
Rate - 50%
Allowances - no change at this time.
- **Unemployment Levy**
Rate – 5% no change
- **Supplemental Petroleum Tax**
Rates - under review and to be extended to natural gas.
Allowances - no change.
- **Corporation Tax**
Rates - 25% / 35%
Exemption
 - Interest on Approved Mortgages up to \$850,000 exempt (2008 - \$450,000).Allowances
 - Initial Allowance - Increased from 75% to 90%.
 - Approved Property Development Allowance – Reintroduced from October 2009.
- **Customs & Excise Duty** - Increases on tobacco and alcohol proposed.
- **Withholding Tax** - General rate of 15% remains unchanged.
- **Income Tax** - No change to 25% rate of tax.
- **Value Added Tax** – No change to the 15% standard rate of tax.
- **Stamp Duty** – No change to the rates applicable.
- **Property Taxes** – Rates to be varied and properties revalued based on rental valuation appraisal system.
- **Loans to Small and Micro Enterprises** – Loan amounts increased for each category of business.
- **Fair Share Programme** – Value of public sector contracts accessible to Small and Micro Enterprises increased from \$1.0 million to \$5.0 million.
- **Motor Vehicle Penalties & Fees** – Fees and penalties increased across a wide range.
- **Motor Vehicle Transfer Tax** – Tax increased for all age categories of vehicles other than those less than 2 years old.

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Budget 2009/10 Fiscal Measures

Although we have been anticipating significant amendments to the petroleum tax and natural gas regimes since 2005, as evident from our commentary in each of our Budget Memoranda since that time, once again, we note that the National Budget for the year, failed to address the measures that are expected to be introduced to stimulate that vital sector. In fact, there were few fiscal measures featured in the Budget presented by the Honourable Minister for fiscal year 2009-10. Such measures as were mentioned are outlined below:

Corporation Tax

1) Initial Allowance

The Income Tax (In Aid Of Industry) Act is to be amended to increase the initial allowance that may be claimed by persons involved in a manufacturing trade from 75% to 90% of the cost of acquisition of plant or machinery acquired and used in the trade. The intended impact of this is unclear as is the exact nature of the benefit to be derived by the manufacturer.

As it currently stands, in the first year that his asset is brought into use for the purpose of the trade, a manufacturer may claim initial allowance of 75% of the cost of that asset, as well as wear and tear allowance of 25% of that cost, allowing him in year one to write off the full cost of the asset.

With the initial allowance increased to 90% and not available until the asset is brought into use, the very year in which wear and tear becomes available, is it the intention of the Government that in that year the manufacturer will be allowed to write off not 100%, but in fact 115% of the cost of the asset? This would indeed provide a benefit in the nature of the long abandoned investment incentive, but as stated above, it is not clear that this was the Minister's intention since it appears from her presentation that she contemplated that the initial allowance would be claimed in year one

on the cost of the asset, but no wear and tear would be claimed until year two in which case the basis for the claim would be not the cost of the asset, but the written down value after deduction of the initial allowance. So that the year one claim would be 90% of cost, and the year two claim would be 25% of the remaining 10% of the cost, thereby ensuring that the total capital allowance claim would never exceed the cost of the asset.

We await the publication of the draft amendment to lend clarity to this issue.

It is to come into effect from January 1, 2010.

2) Approved Property Development Company (APDC) Allowance

The APDC has become something of a yo-yo in recent times, having been repealed in 2006, but reintroduced shortly thereafter for buildings commenced before December 31, 2007 and completed by December 31, 2007. It is now to be re-introduced again, this time for buildings constructed between October 1, 2009 and September 30, 2014. While this measure will be welcomed by persons engaged in the sector and will hopefully encourage a continuation of construction activity funded by sources other than the public purse, there seems to be a lack of clarity of GORTT's position re this allowance and by extension perhaps the sector.

This measure is to take effect from October 1, 2009.

3) Approved Mortgage Company Exemption

The exemption from corporation tax on interest by an approved mortgage company will be extended from houses costing up to \$450,000 to houses costing up to \$850,000. This is to complete the measure that will give first time home owners preferential mortgage rates on houses costing up to \$850,000 rather than the \$450,000 that currently qualifies for that relief.

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Budget 2009/10 Fiscal Measures

(Continued)

Business Levy

No change has been announced

Green Fund Levy

No change has been announced

Withholding Tax

Having regard to the fact that the rates of withholding tax were reduced with effect from January 1, 2008 and that the penalty for late payment was also reduced from 100% to 25%, no further changes were expected and none were forthcoming.

Income Tax

No change was made to the Income Tax regime, although we would have welcomed a measure(s) to encourage individual savings.

Value Added Tax

No change has been announced to the VAT regime, although it should be noted that a legal notice was issued on August 20, 2009 to zero-rate food items such as:

- Ground nut oil
- Olive oil
- Palm oil
- Sunflower seed oil
- Coconut oil
- Mustard oil
- Animal or vegetable fats and oils

Petroleum Tax

We continue to await the revision of the petroleum tax regime. However, in the interim, the Honourable Minister indicated a proposed revision to Supplemental Petroleum Tax (SPT) to introduce a single regime to govern all licenses and sub-licenses.

Petroleum Tax

(Continued)

It is proposed that the SPT will be computed on a field by field basis and will vary depending on oil price and production levels. The details of the proposed measures have not yet been published and must thereafter be evaluated but we remain concerned that the measures being proposed are not those required to establish a competitive business environment that will encourage exploration and development in the Sector.

Property Tax

The long promised property tax reform appears to be imminent. The intention appears to be a harmonization of all property taxes to replace the current mish-mash of value, rates and application that has resulted from the regionalization of the system.

It is proposed that there will be four categories of property and rates as follows:-

Residential	3%
Commercial	5%
Agricultural	1%
Industrial	6%

The values on which these rates will be applied to arrive at the property tax liability is to be the rental value of the property as assessed by the Valuation Division for property in the first three classes. For industrial property the annual taxable value is to be computed by reference to 6% of the installed cost of plant, machinery and associated buildings giving an effective rate of 3.6% of the cost of the plant and machinery. It is unclear at this time whether all plant and machinery will be assessable to tax or only that contained within an associated building. This is to take effect from January 1, 2010.

While this appears to be a reasonable approach, one should expect an increase in the rateable value of most if not all properties, since most properties have not been valued in decades.

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Budget 2009/10 Fiscal Measures

(Continued)

Of greater significance is the fact that it remains unclear as to when and how these revaluations will occur to allow for a 2010 introduction. However, the Minister has promised a public education campaign which will hopefully help to answer these questions.

Miscellaneous Taxes

1) Fines for Traffic Offences

There is to be a significant increase in penalties imposed for breach of our traffic laws. Examples of this are as follows:

Use of vehicle without park lights	} increase from
Improper overtaking	
Exceeding the speed limit	} \$200 - \$2,000
Unauthorized use of the	
Bus Route	}

Use of Illegal tints	} \$2,000
Vehicle without seat belts	

While we welcome these increases and hope that they will lead to more care being taken on our nation's roads, without proper and consistent enforcement we fear that citizens will continue to flout the laws with impunity, increased fines notwithstanding.

This is to take effect from January 1, 2010.

2) Motor Vehicle Fess and Duties

The cost of renewal of a driver's license is to be increased from \$200 every three years to \$500 every five years.

All other fees and duties are to be increased by 75%.

This is to be effective from January 1, 2010.

3) Motor Vehicles Transfer Tax

This is to be increased by 50% as follows:

Age of MVs	Existing Rate	New Rate
Over 10 years	\$100	\$150
7 – 10 years	\$900	\$1,350
5-7 years	\$2,000	\$3,000
2-5 years	\$3,000	\$4,500

A 50% increase will also be implemented on the transfer of motorcycles.

This measure is to take effect from October 1, 2009.

4) Excise and Import Duties on Cigarettes, Tobacco and Alcohol

The proposed increased will be as follows:

Excise and import duty on all tobacco products	15%.
Excise duty on local rum, beer and alcoholic products	15%.
Import duty on Caricom rum, beer and alcoholic products	15%.
Import duty on Extra-Caricom rum, beer and alcoholic products	30%.

This will take effect immediately, i.e. September 8, 2009.

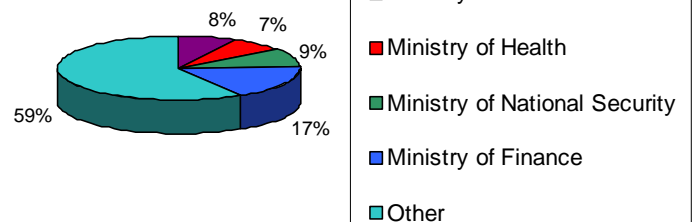
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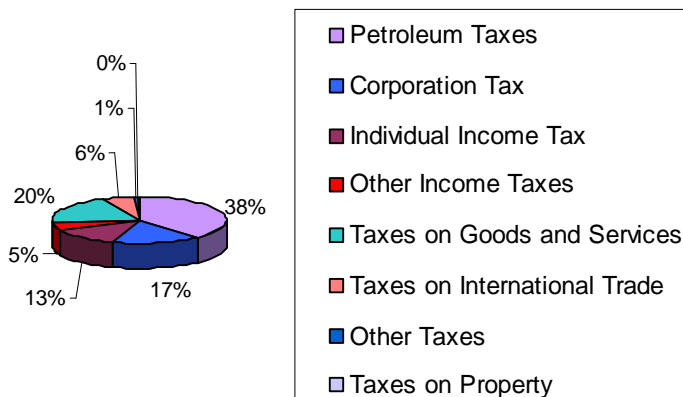
Overview of 2008/09 Fiscal Revenue and Expenditures

Fiscal Revenue	Revised			Recurrent Expenditure	Revised		
	Estimate	Estimate	%		Estimate	Estimate	%
	2009	2009	Surplus/		2009	2009	Surplus/
	\$M	\$M	(Deficit)		\$M	\$M	(Deficit)
Tax on Income/Profits				Ministry of Education	\$3,350.79	\$3,230.63	-4.00%
Petroleum Taxes	\$16,094.59	\$11,694.00	-27.34%	Ministry of Health	\$3,294.09	\$3,029.18	-8.00%
Corporation Tax	\$7,069.99	\$5,111.82	-27.70%	Ministry of National Security	\$4,038.28	\$3,870.21	-4.00%
Individual Income Tax	\$4,009.75	\$3,969.75	-1.00%	Ministry of Finance	\$10,205.99	\$7,080.08	-
Other Income Taxes	\$1,305.02	\$1,500.58	14.99%	Other	\$25,987.97	\$24,101.85	-7.30%
Taxes on Goods and Services	\$9,569.10	\$6,232.17	-34.87%		<u>\$46,877.12</u>	<u>\$41,311.95</u>	
Taxes on International Trade	\$2,506.55	\$1,850.32	-26.18%				
Other Taxes	\$348.00	\$180.50	-48.13%				
Taxes on Property	\$75.65	\$72.77	-3.81%				
	<u>\$40,978.65</u>	<u>\$30,611.91</u>					

Allocation - Revised Estimate



Review of 2008/2009 Performance - Revised Estimate



Tax Facts 2010

	2010	2009	2008
PERSONAL INCOME TAX			
All Income	25%	25%	25%
Allowances/Deductions			
Severance Pay	300,000	300,000	300,000
Alimony paid	No Limit	No Limit	No Limit
Personal Allowance	60,000	60,000	60,000
Tertiary Education Allowance	60,000 (1)	60,000 (1)	60,000 (1)
Pension/Deferred / Annuity	30,000 (2)	30,000 (2)	25,000 (3)
National Insurance	70% (2)	70% (2)	70% (3)
First Time Homeowners allowance	- 0 - (4)	10,000 (4)	10,000 (4)
COMPANY TAX			
Corporation Tax Rate (Petrochemicals)	35%	35%	35%
Corporation Tax Rate (Non Petroleum)	25%	25%	25%
Business Levy (On Gross Sales & Receipt)	0.2%	0.2%	0.2%
Green Fund Levy (On Gross Sales & Receipt)	0.1%	0.1%	0.1%
Initial Allowance	90%	75%	75%
PETROLEUM TAXES			
Petroleum Profits Tax	50%	50%	50%
Unemployment Levy	5%	5%	5%
Supplemental Petroleum Tax	Revised Scale	Sliding Scale	Sliding Scale
INVESTMENT INCOME			
Local Dividends Received	Exempt	Exempt	Exempt
Interest Received (Individuals)	Exempt	Exempt	Exempt
Mutual Funds (local)	Exempt	Exempt	Exempt
WITHHOLDING TAXES			
Payment - Interest, Royalties, Fees	15%	15%	15%
Dividend-Parent	5%	5%	5%
Dividend-Other	10%	10%	10%

Note (1) The individual must have attended an institution other than a Regional Public Institution situated outside of Trinidad & Tobago and approved by the Ministry of Education.

Note (2) Maximum \$30,000

Note (3) Maximum \$25,000

Note (4) The property must have been purchased or constructed between the period 01/01/2003 to 31/12/2005. The allowance is available for five years commencing from the year in which the house is acquired.

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Important Notice: PricewaterhouseCoopers has prepared this Client Newsletter to alert clients on the principal changes announced in the 2009/10 Budget. The changes are outlined in general terms and for information purposes only and therefore should not be acted upon without securing professional advice.

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

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