2013 Budget Memorandum

Maintaining balance while striving for gold!

www.pwc.com/tt

To Our Clients and Friends

Shortly after his appointment to 'the hot seat' the Honourable Minister of Finance, Senator Larry Howai, sounded the warning that this would be an austerity Budget. The clear signal he gave was that while he intended to ensure that the various Ministries receive the financing to fund what were considered to be the priority projects, he would be seeking to control the deficit, possibly through new tax measures and enhanced collection efforts.

However, this initial sentiment has not been evident and the tune, as we Trinis say, seemed to change on Saturday when the Honourable Prime Minister, Mrs Kamla Persad Bissessar promised the removal of VAT on all but luxury "food" items such as caviar and champagne. There seemed to be great deal of jubilation at the news, but until we understand the true import of that statement it would be prudent to contain that excitement.

The Minister's Budget was much more upbeat than we had been led to expect. One can describe it as cautiously optimistic regarding the state of the economy and the prognosis for the future. While some measures were announced such as the gradual reduction/removal of the gas subsidy and tax incentives for the targeted sectors of the economy such as construction and the creative sector, other measures were deferred pending what the Minister promises to be wide spread consultation. He expects that consultation to end in an overhaul of the tax system and a re-introduction of property tax, in a more palatable form than was previously proposed. Only time will tell if it will be sufficiently palatable for the populace .

While we welcome the move away from austerity to stimulus, we can only hope that as we continue to celebrate our 50th anniversary as an independent nation that we are mature enough to make the difficult decisions and introduce any austerity measures that may be needed before our situation becomes too dire and we are again forced down an unwelcomed path by factors outside of our control.

Like the athletes who made us so proud at this year's Olympic Games, we need to put in the hard work and make sacrifices now so that we have a basis for celebrating later, i.e. a sustainable, healthy, productive country of which we can all be proud.

We have sought in this document to provide some background to and explanations of, the tax and other measures as we understand them, in an attempt to provide you with a clearer picture of the proposed measures and their implications. As always, our team is willing and able to discuss any of these issues with you and we will be happy to support you in maximising such opportunities as may be available as a result of the proposed amendments to the tax legislation.

Allyson West
Director

Contents

Budget Overview 2012-2013

In his maiden national budget presentation and the third of the current administration, the Honourable Minister of Finance seems to have pressed the restart button and changed the focus of his administration. The previously marketed five growth poles were reduced to mere passing mention and instead under the theme "Stimulating Growth, Generating Prosperity" the focus is now on "public policy agenda for transforming this country with solid platforms for good quality job creation and ensuring that the wealth so created is distributed to the national citizenry in a fair and equitable manner."

The Minister has however not shifted the basis of his revenue projections which consistent with 2011/12 are estimated using USD75 per barrel of crude and USD2.75 per million cubic feet (mcf) of gas. These estimated prices appear to be reasonable compared to projected 2012 and 2013 West Texas Intermediate (WTI) prices of USD95.66 and USD92.63 respectively.

In the budget speech for fiscal 2012 economic growth was projected at 1.7% and is expected to be "in the vicinity of 1.2%." However for fiscal 2013 an average annual growth rate of 2.5% is anticipated, a 100% increase.

Inflation which was pegged in 2012 at 7% is estimated at a decreased rate of 5.6% for 2012/13 in spite of the partial removal of the fuel subsidy on premium gasoline which is likely to have an impact.

It has become the norm that a detailed review of the performance of the economy is no longer part of the budget presentation .Instead there is limited information provided in a review of the domestic economic conditions. This leaves the citizenry to guess how the country performed. For example, information on the amounts transferred to the Heritage and Stabilisation Fund was not provided but rather the balance of the fund as at August 2012. In 2012/13 a deficit of $7.669bn (4.6% of GDP) is expected with total revenue estimated at $50.736bn and expenditure of $58.405bn.

The Minister has identified Land and Building Tax, Fuel Subsidies and Tax Collection as the pillars on which he will be able to arrive at a balanced budget in the medium term.

The details however were notably absent regarding the reintroduction of the Land and Building Tax regime with the Minister merely promising that it will be fairer and more equitable than what was previously proposed. Until this new regime is introduced, the waiver of these taxes continues to be lost revenue to the government. In the meantime companies continue to face the issue of determining whether to accrue for such taxes and if so, how much. However, the Minister should be given some credit for at least indicating the broad intention in relation to the property tax since for too long, we have all been left to

Comprehensive review of the entire tax system is proposed and it is hoped that this review will be structured and that there will be wide consultation so that many of the anomalies caused by previous piecemeal amendments may be resolved.

wonder.

The Minister has announced his intention to begin a phased removal of the fuel subsidy. It was perhaps prudent for it to be limited to premium gasoline at the outset as this is potentially the area in which its removal is likely to have the least negative impact on the wider populace.

Comprehensive review of the entire tax system is proposed and it is hoped that this review will be structured and that there will be wide consultation so that many of the anomalies caused by previous piecemeal amendments may be resolved.

The Honourable Minister has also stated very decisively that 2012/13 will see the close of the CLICO and Hindu Credit Union (HCU) matters. The CLICO investment Fund (CIF) will finally be launched on 1 November, 2012, followed by trading on the T&T Stock Exchange of units exchanged for 11-20 year bonds. The tax exemption of the dividends / distributions paid to resident individuals/companies should be an incentive to the potential unit holders. Exactly how the Minister intends to bring the HCU matter to conclusion in fiscal 2012/13 was not disclosed but it seems ambitious given that only approximately 33% of payments to beneficiaries with balances under $75,000 have been made to date and those over $75,000 will commence on 1 November, 2012.

The diversification of the T&T economy away from oil and gas has been an elusive target and this time around it is "the third area of growth focus" One initiative mentioned in this regard is improving the ease of doing business in T&T and specifically speeding up the time to establish a new company in T&T. This is indeed welcomed and should be streamlined with the review of the tax system and the introduction of electronic payments to government agencies which in the very early stages should include the BIR as this is a constant enquiry by foreign companies considering doing business in T&T.

The establishment of the Financial Institution Support Services Industry seems to be very positive in its employment creation potential as we certainly have an increasing number of persons pursuing tertiary education and the skilled workers to supply the need.

The conversion of gasoline vehicles to compressed natural gas (CNG) has not been as successful as the government would have liked in spite of the tax incentives offered; one of the reasons being the number of filling stations. Perhaps the government can take the initiative in this and start by converting all government vehicles to CNG. The five year conversion period seems ambitious given the number of years that this initiative has been on the cards. However, the very real threat of subsidy reduction may achieve where the tax incentives failed.

The Honourable Minister has also stated very decisively that 2012/13 will see the close of the CLICO and Hindu Credit Union (HCU) matters. The CLICO investment Fund (CIF) will finally be launched on 1 November, 2012,

The local fashion industry has been identified as an area for diversification and no doubt the introduction of the tax deduction of up to $3M for the corporate sponsorship of nationals in this industry and relief from Customs Duty and VAT would be welcomed.

Declining oil production continues to be an issue and the Minister is introducing additional measures aimed at increasing production and the competitiveness of the T&T tax regime.

Increases in the benefits paid under the NIS system and the Disability assistance grants will be welcomed by recipients, through this will mean an increase in contributions. We note that the Minister has mentioned annual increases in the maximum insurable earnings beginning 2013 as well as increases in contributions.

The initiatives to stimulate the growth in the economy are many and seem to rely very much on the Public-Private Partnership (PPP) model. The question however is whether sufficient confidence in the economy exists that would bring the level of investment and buy in on which the Minister seems to be relying.

Overall, there was a surprising optimism to the Minister's presentation that did not reflect the gloomy outlook that many were expecting. However, in the absence of details of the actual performance and the measures that are yet to come, it is difficult to assess whether that optimism is warranted.

Summary of Fiscal Measures

Personal Income Tax

- Income Tax of 25% retained;
- Personal Allowance of $60,000 per taxpayer retained;
- Tertiary allowance for children attending university abroad of $60,000 retained;
- Deduction for contribution to approved pension fund/annuity plans retained ($30,000 per year inclusive of 70% of NIS contribution);
- Non-taxable special allowance ($1,000) paid to members of the protective service to be extended to Special Reserve Police officers from 2 October 2012;
- Dividends and other distributions paid to resident individuals by the Colonial Life Insurance Company Limited (CLICO) Investment Fund will be exempt from Income Tax.

Corporation Tax

- Corporation tax rates of 25 % and 35 % retained;
- Dividends and other distributions paid to resident companies by the CLICO Investment Fund will be exempt from Corporation Tax;
- Tax exemption for profits from the initial sale of land developed after 1 October 2012 for residential housing where the eventual sale is completed prior to 31 December 2015;
- Tax holiday on gains from the initial sale of newly constructed houses of a value not exceeding $1.5m where construction commences after 1 October 2012. The tax holiday will apply for a period of three years from the date that the legislation is enacted;
- Corporation tax holiday of five years on profits earned in the construction and rental of commercial buildings (including multi-storey car parks) where that property is constructed within five years from 1 October 2012;
- Tax deduction of 150 % of expenditure (up to a maximum $3m per annum) for corporate sponsorship of:
    - audio, visual or video productions intended for local education or local entertainment;
    - nationals in the local fashion industry;
- Tax deduction of 150 % of expenditure (up to a maximum $3m per annum) to be claimed by local production companies in respect of their productions;
- Tax deduction in respect of contribution to sporting activities increased from $2m to $3m from Income Year 2013;
- Employment allowance uplift of 150 % of salaries for companies which employ Community-Based Environmental Protection & Enhancement Programme (CEPEP) and Unemployment Relief Programme (URP) employees.

Business Levy

- Business Levy threshold to be increased from $200,000 to $360,000 with effect from 1 January 2013;
- Business Levy of 0.2 % on gross income retained.

Withholding Tax (WHT)

- Standard rates of WHT of 15 % on payments and 10% and 5% on distributions retained.

Petroleum Tax

- Petroleum Tax rate of 50 % retained.

Unemployment Levy

- Unemployment Levy rate of five % retained for Petroleum Operations.

Supplemental Petroleum Tax (SPT)

- Harmonisation of SPT rates (pre-1988 and post-1988) for marine areas as detailed below:-

Pre-Budget SPT Rates

Price $US (%)	Marine "A" (%)	Marine "B" (%)	Land and Deepwater "C" (%)
0 – 50.00	0	0	0
50.01 – 90.00	42	33	18
90.01 – 200.00	Base SPT Rate + 0.2% (P-90.00)	Base SPT Rate + 0.2% (P-90.00)	Base SPT Rate + 0.2% (P-90.00)
200.01 and over	64	55	40

Revised rates

Price ($US) (%)	Marine (%)	Approved New Field (%)	Land and Deepwater "C" (%)
0 – 50.00	0	0	0
50.01 – 90.00	33	25	18
90.01 – 200.00	Base SPT Rate + 0.2% (P-90.00)	Base SPT Rate + 0.2% (P-90.00)	Base SPT Rate + 0.2% (P-90.00)
Above 200.01	55	55	40

- Introduction of an uplift of 40 % for a period of five years on exploration costs (excluding exploration dry holes) incurred in approved projects.

Customs/Import Duties

- Waiver of import duties for persons engaged in the film industry on the importation of equipment and film-specific goods;
- Exemption from custom duties on the importation of CCTV cameras and digital video recording equipment for homeowners, community and business security;
- 30 % import duty on the importation of used tyres.

Value Added Tax (VAT)

- Zero-rating of VAT on machinery and equipment for persons in the creative industry;
- Exemption from VAT on the purchase of CCTV cameras and digital video recording equipment for homeowners, community and business security;
- VAT is to be removed from all food items (except luxury items and alcoholic beverages).

Stamp Duty

CLICO Investment Fund

- Waiver of stamp duty on the transfer of shares held in Republic Bank Limited from CLICO to the Government of Trinidad and Tobago;
- Waiver of stamp duty on the transfer of shares held in Republic Bank Limited from the Government of Trinidad and Tobago to the CLICO Investment Fund (CIF);
- Waiver of stamp duty on the transfer of units in CIF by the Government of Trinidad and Tobago to bondholders after the expiration of the initial offer period.

Premium Gasoline

- Premium Gasoline to be increased in price from $4.00 per litre to $5.75 per litre with effect from 2 October 2012.

National Insurance

- The contribution rate will be increased from 11.4 % to 11.7 % in 2013 and 12.0 % in 2014; resulting in an increase of 0.1 % in contributions for employees and 0.2 % for employers in 2013 and similar increases in 2014.
- The Maximum Insurable Earnings will be increased initially from $8,300 in 2012 to $10,000 in 2013 and thereafter annually up to 2020 at which time the maximum insurable earnings will be $22,000.

Gaming Tax

- Taxes on gaming tables and other devices used by Private Members' Clubs to be increased from 1 October 2012.

Other Fiscal Measures

- With effect from 1 November 2012 the first issue of a driver's permit will remain valid for five years. Upon renewal, the holder will have the option to renew for five years at the fee of $500 or ten years at the fee of $1,000.

Commentary on Fiscal Measures/ Other Measures

In accordance with the Theme of the Budget for 2012/13 “Stimulating Growth, generating prosperity” the Honorable Minister of Finance Minister has identified the following measures:

Growth Trade and Investment

Financial Institutions Services Industry

- Incentives to be announced

Commentary

The Honourable Minister announced that the Government as part of the launching of the International Financial Centre is proposing to introduce the appropriate legislation and tax incentive in due course. In the absence of any details as to what form the proposed incentives will take it is difficult to comment on what potential impact if any these incentives will have in the attraction of foreign direct investments as well as local investment.

The idea of the IFC has been promoted for several years and several suggestions were offered as to what form the incentives should take including the removal of withholding tax and the management charge restriction. Nevertheless, the institution of any measure to incentivise the financial services sector should only be undertaken after due consideration of all the relevant factors relating to this sector. A holistic review should therefore be undertaken and experience should be drawn from similar initiatives in other jurisdictions.

CLICO Investment Fund

- There will be a waiver of all applicable stamp duty on the following transfers:
    - Republic Bank Limited Shares (RrBL) from CLICO to the GOTT:
    - Transfer of these shares to the CLICO Investment Fund (CIF)
    - CIF units by the Government to bond holders after the initial offer period has expired

Commentary

The waiver of stamp duty on transfer of RBL shares to the GORTT and transfer of these shares to CIF can be seen more as an administrative move where the GORTT is prepared to forego the revenue from this transaction in an effort to expedite the completion of this issue. The true implication of this initiative is not apparent since economically the payer of the tax and the recipient is the same.

- The legislation will be amended to exempt:
    - Any dividends and distributions paid to resident individual and companies by the CIF.
    - Profits accruing to the Trust under the CIF

Commentary

The move by Government to exempt dividend and distributions paid to resident individuals and companies is in keeping with the scheme of the Income and Corporation Tax Legislation since this measure already exists in the legislation. The exemption of the profits accruing to the Trust is also consistent with the GORTT policy to encourage local investment. There may however be some inconsistency/contradiction in that in the current scheme of the legislation and based on the position adopted by the BIR it is unclear as to how the investment by a Savings Plan to such a Fund will be treated since the legislation appears to tax income derived by a Savings Plan from investment. While this state of affairs may not have been contemplated by the Minister it should be borne in mind so that the appropriate enactment will address this apparent inconsistency.

Creative Industry Incentives

The following incentives will be introduced effective January 1, 2013 with respect to sponsors and producers in the creative industry as follows:

- 150% tax deduction to a maximum of TT$3m for the following:
  - Corporate sponsorship of nationals in the local fashion industry
  - Corporate sponsorship of audio, visual or video production for the purpose of local education or local entertainment
  - Local production companies in respect of their own production

It is intended that during fiscal 2013 there will be consultation to:

- reduce the relevant customs duties for persons in the creative industries under the currnet system
- Implement a regime to allow duty free importation into T&T of equipment and film-specific goods
- Determine listing of goods that would be zero-rated of machinery and equipment for persons in the creative industries

Commentary

The granting of this deduction in respect of contributions made to audio visual and local production is not new but merely increases the cap allowed.

The introduction of this allowance in respect of contributions made to the local fashion industry, at a time when there is an urgent need to diversify the economy and focus on sectors outside the volatile energy industry will be embraced by many. It has a double barrel effect in that it encourages local entrepreneurship as well as creates an environment for business to support this industry while at the same time enjoying the accompanying tax benefits. There is however need for clarity in defining what the local fashion industry entails and how far is the GORTT prepared to go to support this industry. For instance it may be counter intuitive to seek to promote this measure without at the same time introducing some measures with respect to local contents.

Crime and National Security

- Purchase of CCTV cameras and digital video recording equipment will now be exempt from customs duties and VAT

Commentary

With the growing concern over the increase in crime rate over the last few years this measure will go a long way in providing relief not only to business owners but also residential owners. The Honourable Minister noted that the purchase will be exempt from customs and excise duties and VAT. However, in respect of VAT it may be more beneficial to the taxpayer where a zero rate applies rather than the exemption since this will allow those persons to be able to claim this expense as input VAT in accounting for VAT.

Corporate Social Responsibility

- Increase of deduction for contributions to sporting activities from TT$2mil to TT$3mil effective 2013

Commentary

There is a need to continue our support and development of athletes in light of T&T's recent achievements at the Olympics. As such the increase in the allowance for the sponsorship of sporting activities will provide an incentive to the corporate sector to continue its support. As in the case of donations to charitable organisations consideration should be given also to extend this incentive to individuals which will provide further incentive for more persons to support this initiative.

National Insurance System

- NIS - Modification of the present contribution system over the next two (2) years.
- NIS – Increase in the maximum insurable earnings from 2013 to 2020
- NIS – Inclusion of self employed under the NIS system

Commentary

This measure essentially increases the benefits and contributions applicable under the scheme. It represents a continuation of the Government's long term plan to revamp the social contributions system to make it more viable and less burdensome to the State. The benefits of this measure are likely to be felt by the lower income earner who will not be required to pay at the highest rate.

The inclusion of the self employed into the system was also announced previously by the Government and as such it is to still to be seen how the Government proposes to implement and monitor this proposed measure.

Housing and Land Development

Housing Development

- Tax exemption of gains or profits from the initial sale of newly constructed houses by a trader in houses where the construction cost does not exceed 1.5m for activities commenced after October 1, 2012. This incentive is operational for a period of three (3) year from date of passage of legislation.

Land Development

- Gains and profits from the initial sale of land developed for residential housing where development commenced after October 1 2012 and sale of land is prior to Dec 31, 2015.

Commentary

Though there continue to be an increase in the demand for housing, fewer persons are finding it increasingly difficult to access housing owing partly to the slowdown in the economy and the inflated prices . Government's quest to provide incentives to encourage housing development may however not yield the intended benefits in the absence of a comprehensive legislative regime regulating the housing development. In fact this may have the undesired effect of fostering further exploitation and inequity where the affluent developers will readily capitalise on the tax incentives and at the same time are not compelled to lower the costs (selling price) for housing. This measure should therefore be implemented simultaneously with other legislation regulating the housing market.
This also holds true for land development.

Energy Sector

Harmonising SPT rates

- Removal of distinction in SPT rates between pre and post 1988 for marine areas
- One rate of 33% now applicable for the prices ranging between US$50/ bbl - US$90./bbl
- For prices over US$90/bbl the current formula will continue to be applied
- SPT provisions for land and deepwater will continue unchanged.

Introduction of new SPT rates

- A special SPT rate of 25% will be introduced for new field development at prices above US$50 and up to US$90/ bbl
- No change to applicable rates for prices >US$ 90 and US$200.

Uplift on Exploration Cost

- The introduction of an uplift of 40% for a five (5) year period on exploration costs (excluding exploration dry holes) on approved projects in deeper horizons.

Commentary

The Government continues to look at creative ways to stimulate the energy sector. The move to harmonise the SPT rates is one such initiative and as the Honourable Minister noted that the measure is intended to inter alia enhance the economics of field development of small pools and increase the competitiveness of the country's fiscal regime.

The 40% uplift is also a positive move to increase investment by attracting more investors to T&T.

Business Levy Threshold

Business Levy threshold has been increased from $200,000 to $360,000 with effect from January 1, 2013

Commentary

The increase of the VAT threshold to $360,000 effective January 1, 2013 has led many commentators to predict that the Business Levy threshold will also be increased. This measure is therefore not a surprise. It may however lead to the argument that the GORTT is contracting rather than expanding the tax net and allows many small businesses to fall outside this net.

Employment Allowance

Uplift of 150% of wages and salaries paid to former CEPEP and URP employees employed by private sector companies.

Commentary

The basis of this measure is unclear since generally the rationale for this measure is to encourage full employment. According to the Honourable Minister the current unemployment rate is 4.9% which in economic terms reflects a level of full employment. In 2006 when the Government removed this allowance this move was not surprising since during that era like now the economy boasted full employment.

Energy Measures

It may have been a very subtle message by the Honourable Minister in presenting the national budget to list the energy sector as the ninth major area of focus even though he did not indicate that his list was in any particular order of priority. Yet the fact remains, as he concluded, that this sector is the anchor for our growth and development.

The energy sector represents 45.3 % of GDP for Trinidad and Tobago, 82.3 % of total exports and over 50% of Government revenue. In fiscal year 2010/2011 taxation revenues from the oil and gas sector accounted for 37% of total Government taxation. This sector also contributed approximately 54% of the total non tax revenue received by the Government. This includes monies from royalties and Government shares from Production Sharing Contract profits. In addition, on the downstream side, the petrochemical sector and liquid natural gas production, have contributed a very significant percentage of the $8.8 bn collected in Corporation Tax.

The oil and gas sector has been buoyed by high oil prices but the uncomfortable reality is that oil production and exports have been declining and this is likely to continue unless there is significant investment in new exploration. Oil production declined from 148,000 barrels per day in 2006 to 102,316 bpd in 2010 and 91,976 bpd in 2011. See Chart 1.

A key to reversing the decline is a competitive fiscal regime. However, the general consensus seems to be that our regime is not sufficiently competitive and requires the introduction of additional capital and investment allowances to encourage exploration, especially for deep sea exploration. While there has not been the general overhaul of this regime as had been hoped, a few amendments have been introduced over the past two years which seem to have had some impact.

Fiscal incentives for land and marine were introduced in 2010 and resulted in a return to drilling activity in 2011. These additional incentives together with a reduced rate of tax for the deepwater blocks appear to have contributed to a relatively successful 2012 bid round although we must await the actual awards in November to truly determine the level of success. The Minister of Finance also indicated in his budget presentation that 19 exploration wells will be drilled in 2013.

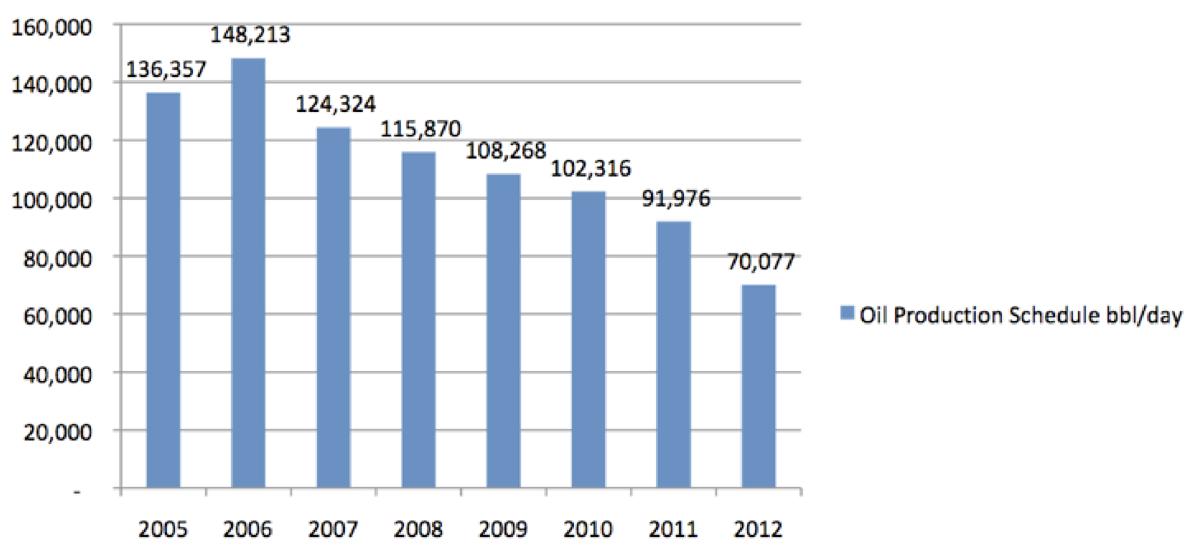
While the expected upstream investment in 2012 is expected to be over USD2.5 m, the country must devise a plan to integrate its energy value chain, improve competencies, export expertise to international markets and ensure the country is seen as a preferred energy sector investment destination by improving doing business here.

The outlook for the gas sector is more positive as T&T will continue to be an important regional exporter of Liquefied Natural Gas (LNG). Gas production continues to rise and the July 2012 Ryder Scott Gas Audit Report indicated buoyant gas reserves. This provides some assurance of supplies for downstream projects which need to be brought on stream.

On the gas side of the sector, the challenge will be finding markets for this gas. The gas export sector was developed with a US focus but the shale gas boom in that county has dramatically reduced the need for the import of LNG by the US. The additional challenge in this regard will be the identification of new markets in Europe and Asia. However T&T's distance from the latter in particular will make it difficult to compete with projects in Australia and Malaysia.

Chart 1

Oil Production schedule bbl/day



Source: Ministry of Energy & Energy Affairs

VAT and the Food Import Bill
The Budget and Other Measures

GORTT has announced its intention to zero rate all foods items with the exception of luxury items and alcoholic beverages. This is intended to be a temporary measure aimed at addressing inflation, a significant portion of which can be attributed to food prices.

The Honourable Minister indicated that the medium to long term objective is to address the food prices by reducing the food import bill (sources indicate that the country currently imports at least 80% of its food). GORTT is seeking a reduction of 50% or just over $2bn per year by 2015. It is expected that when the country has achieved greater self-sufficiency and local food security (and thus has better isolated itself from potential global price shocks) VAT will be re-introduced on food items.

In the interim, the Government intends to implement the following measures to expand the domestic food production:-

1. Establish a Commodity Stabilisation Fund under the National Agriculture and Marketing Development Corporation (NAMDEVCO) aimed at stabilising the supply and price of targeted products and strengthening the agro-processing sector;
2. Distribute standard leases to farmers:-
   a. 4,111 acres of Caroni lands and 100 acres at Tucker Valley conditional on the start of cultivation;
   b. Two acre-size plots to ex-Caroni workers (an estimate of 5,000 leases within the next two years) with the assistance of private attorneys to expedite the process:
3. Establish a Food Security facility with the Government of Guyana aimed at funding the establishment of large farms in Guyana.

The Minister highlighted that the existing legislation already provides for several incentives to persons in the agricultural sector which he encouraged persons to utilise.

In addition to the measures listed in the budget speech, other initiatives also aimed at establishing food security were listed in the National Food Production Action Plan 2012-2015 unveiled by the Honorable Vasant Bharat on March 12, 2012. It included a focus on the production of the following targeted commodities:-

Summary of Production Targets Identified for Priority Commodities For Period 2012 - 2015

Commodity Food Group	Commodity	Current Consumption (Tonnes)	Production in Tonnes			
			Current Production (Tonnes)	2012-2013	2013-2014	2014-2015
Staples	Rice	33,636	2,273	3,000	5,000	7,500
	Sweet Potato	7,000	3,150	8,727	10,909	13,090
	Cassava	4,500	5,454	11,817	15,453	18,182
	Breadfruit[2]	10	10	11	12	13
Vegetables	Tomatoes	2,600	2,150	2,444	2,774	3,100
	Hot Peppers	423	710	1,100	1,500	1,800
	Cucumber	1,050	1,320	1,400	1,500	1,760
	Pumpkin	485	1,790	1,840	1,890	1,950
	Melongene	436	540	550	565	586
	Ochro	921	940	960	980	1,000
	Dasheen Bush	328	340	360	380	400
	Onion	-	-	500	1500	2000
Fruits	Banana (Sucrier)	≤ 5	≤5	230	300	400
	Citrus[1]	32,271	1,537	1,614	1,695	1,780
	Mangoes[1]	50	50	50	53	55
	Pineapple	462	462	700	700	700
	Pawpaw	1,716	1,716	3,432	3,432	3,432
Aquaculture	Tilapia	112	22	90	180	270
Livestock	Sheep & Goat[3]	3,369	355	360	375	425
	Dairy Goat	-	20*	40	60	80
	Dairy Cattle[3]	75,864	4,300	4,750	5,200	5,650
Pulses	Pigeon Peas	802	130	140	150	160
	Bodi	928	970	1,010	1050	1,100

[1] Tree Crops - Significant Impact will be from 2015 *Value is estimated

[2] Backyard gardening [3] Livestock - significant impact will be from 2016

The main pillars of the plan include a focus on:-

- The Land Distribution Program;
- Research & Development and Innovation;
- Training and the Agricultural Labour Program;
- Development and commercialisation of value added products;
- Marketing

The Ministry of Food Production was allotted an estimated budget of $623m or 1.1% of the recurrent expenditure (a decrease of 0.5% over the revised 2012 estimates) to accomplish its mandate.

Commentary

The announcement of the removal of VAT on food items has generated a plethora of comments over the last few days. The main issues for consideration as we see them are:-

- How many additional food items will actually be zero rated given that most basic and several other categories of food were already zero-rated (see Appendix iv)

- Will the measure trickle down to the consumers through a reduction in food prices and is there a system for monitoring and reporting on the overall impact on consumers?
- What will this measure cost the Government?
- How is this loss going to be compensated?
- What assessment can be made in terms of the effectiveness of the current VAT system?

According to the "Details of Revenue for the Financial Year 2013," VAT will constitute 15.6% of the total estimated revenue of the Government in 2013 (versus 16.3% as per the revised 2012 estimates). The VAT earnings are estimated to amount to $6.7bn in 2013 versus $6.5bn according to the 2012 revised estimates, an increase of $0.2bn in VAT revenue. Therefore, despite the zero-rating of the VAT on non-luxury food items, the statistics circulated by the Government suggests that it does not anticipate any decrease in VAT revenue on a dollar value basis. However, we do not have an estimate of the tax that will be foregone through the introduction of this measure.

Ministry of Finance data put together in and around 2005 had identified abnormalities in the efficiency of our VAT system which were attributed in part to an ever increasing number of zero-rated supplies and leakages in the system due to a lack of compliance.

The continuing trend is expected to exacerbate the issue by:-

- Possibly creating definitional problems and thus the possible misapplication of tax rates;
- Encouraging other stakeholders to lobby for the inclusion of additional items in the zero-rated schedule;
- Creating compliance and accounting complications;
- Resulting in the decrease of potential tax revenue.

A reintroduction of the VAT in the future will create its own challenges.

Therefore, despite the zero-rating of the VAT on non-luxury food items, the statistics circulated by the Government suggests that it does not anticipate any decrease in VAT revenue on a dollar value basis. However, we do not have an estimate of the tax that will be foregone through the introduction of this measure.

Whither the Fuel Subsidy?

In considering further adjustment we must examine the feasibility of the subsidy system in providing benefit to those more at risk and whether there is another way to implement it or another means of providing the safety net to those who need it most.

One of the most challenging issues facing the country is what should be done about the fuel subsidy which continues to be a significant drain on the Treasury. It is of particular concern for the Minister of Finance as he seeks to reduce the deficit and revitalise the economy.
The issues contributing to the increase in the size of the subsidy are:-

- The level of the subsidy is pegged to oil prices and at prices approximating US$100 per barrel the subsidy is in the range of $3.4bn annually. See Figure 1
- The increase in domestic sales of gasoline and diesel as a result of the number of vehicles on our roads, and the increasing number of high-end vehicles that consume diesel which is more heavily subsidised than premium gasoline. See Figure 2.

In pre-budget commentary, the new Minister indicated that austerity measures are the prescription to fix our economic challenges and it was speculated widely that adjustment to the fuel subsidy may have been among the measures prescribed. In the Budget presentation the Minister announced the partial removal of the subsidy only in respect of the price of premium gasoline which will increase from $4.00 per litre to $5.75 per litre. The Minister seems to have taken the relatively safe road since premium gasoline is the least subsidised and the price increase will not have the same far reaching implications as an increase in the price of diesel. This decision was presumably based on the notion that premium gasoline is required for the higher end vehicles which are owned largely by persons better able to sustain this price increase. However, it should be noted that this is the first phase of a more all encompassing adjustment to the gas subsidy.

Statistics reveal that a large percentage of the subsidy benefits the higher income earners in society who are better able to bear the cost of unsubsidised fuel than their more economically challenged counterparts. So GORTT is seen to be spending large sums of money to aid those not at risk. However, one must view this in the context of the fairly recent revelation that certain persons were purchasing subsidised fuel in T&T to sell at a premium up the islands. It is unclear how much of the subsidy is to be ascribed to that activity and whether effective measures have been taken to halt that unsavoury practice. This is happening at a time when GORTT's income is declining and it is more imperative that we maximise the impact of our expenditure.

In considering further adjustment we must examine the feasibility of the subsidy system in providing benefit to those more at risk and whether there is another way to implement it or another means of providing the safety net to those who need it most.

The statistics indicate that higher income earners tend to benefit more from subsidies as they are the ones who own more than one vehicle, including diesel engine SUVs and pleasure craft. Figure 3 shows that the highest level of subsidy is embedded in the price of diesel.

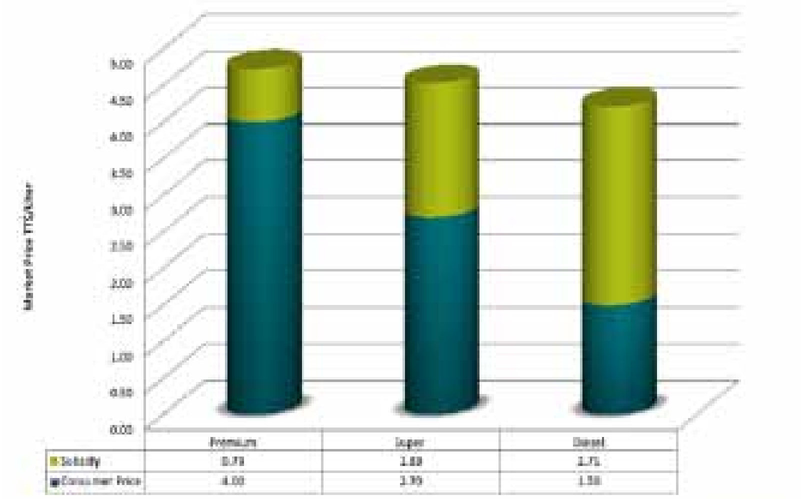
However, the wholesale removal or even further adjustment of the subsidy will have far reaching economic implications for the country as it is widely anticipated that such action will precipitate increases in inflation and the cost of living. This is expected to be reflected in increases in the costs of goods and public transportation.

The social and political impact of the removal/reduction of the subsidy is likely to be far reaching and governments here and elsewhere baulk at implementing unpopular austerity measures.

One only has to remember the situation in Nigeria recently to see the potential impact. The Nigerian government decided to eliminate the country's fuel subsidy program which had an estimated cost to the country of USD 8bn in 2011. Fuel prices were increased by 115% and sparked mass protests and unrest across the country. In India Thomas Reuters reported on September 13, 2012 that the government there increased the price of heavily subsidised diesel recently to rein in its fiscal deficit and counter the threat of becoming the first of the big emerging economies to be downgraded to economic junk. The impact was twofold: investors greeted it with elation and expectation of further reforms to reverse the investment slump and revive the economy, but on the other hand, there was instant political backlash with the calling of protest marches even by a partner in the ruling coalition. The government in Egypt is facing the same challenge... how to cut massive energy subsidies that makes up a large proportion ofgovernment expenditure. The list of countries goes on.

So whither the fuel subsidy? The answer lies in finding creative ways of providing the benefit that the subsidy intends to those persons in society who need it the most, whether through greater direct tax incentives and/or a more efficient public transportation system. In this regard we look forward to the initiatives aimed at increasing the Public Transport Service Corporation fleet and its services, and the introduction of Compressed Natural Gas buses. There will also be the need for close monitoring of prices to ensure that price increases are not disproportionate to additional costs incurred by businesses with the adjustment of the subsidy. Now that we have seen the start of the removal of the subsidies the government must implement a transparent system for monitoring the use of the funds redirected from the subsidy program. This system must be available to all citizens for scrutiny.

Figure 1



Market Price at WTI 79 (USD)/bbl

Source: Ministry of Energy and Energy Affairs

Figure 2

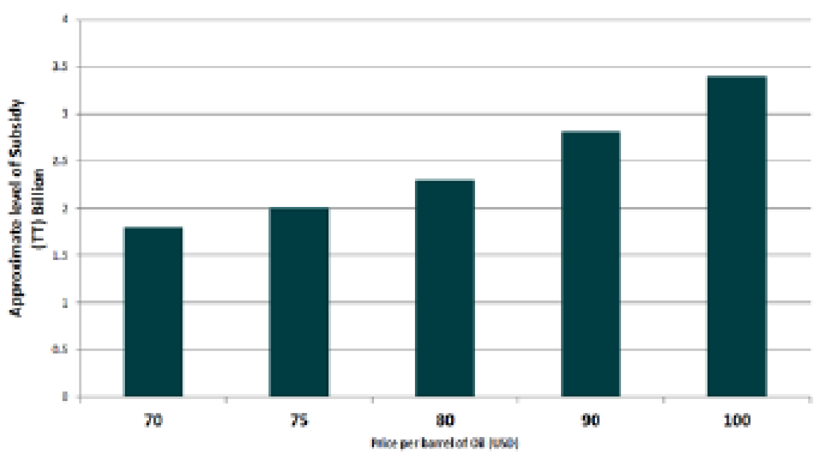
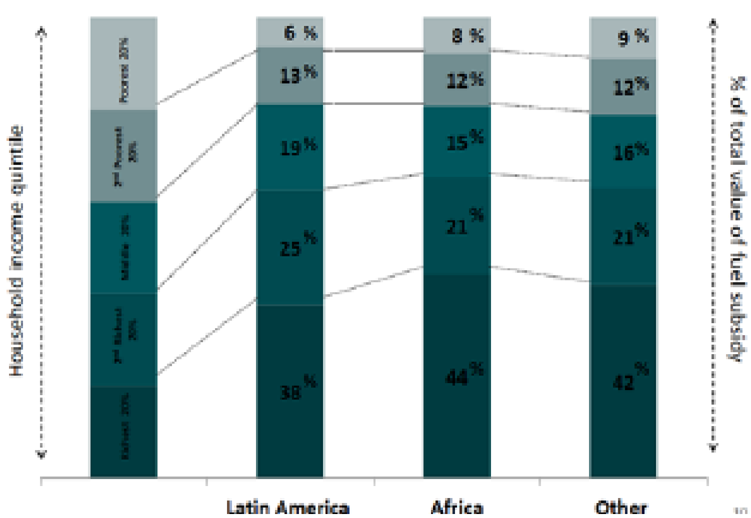


Figure 3



Property Tax

Most observers who are in tune with the Trinidad and Tobago economy will admit that property tax continues to be one of the most topical issues both in terms of the Government's apparent reluctance to tackle it, as well as the skepticism and resentment to this issue harbored by the population at large.

The Honourable Minister announced in his budget presentation that changing domestic and international considerations have compelled the Government to conduct a comprehensive review of the current tax system. This is a medium term initiative and one of the areas targeted for reform is Land and Building Taxes. According to the Minister a fair and equitable property tax will be introduced on residential, commercial and industrial land. The Minister also indicated that the waiver of the taxes will continue until the complete framework is implemented. The Minister did not elaborate further on this issue and as such there is no indication as to what the future holds for property tax in our twin-island state.

Most observers who are in tune with the Trinidad and Tobago economy will admit that property tax continues to be one of the most topical issues both in terms of the Government's apparent reluctance to tackle it, as well as the skepticism and resentment to this issue harbored by the population at large.

For several years T&T operated under an antiquated system which up until 2009 was either ignored or not given sufficient focus. This changed when the then Government sought to introduce a new property tax regime via the Property Tax Act 2009 which was passed in February 2010. This required that the tax be computed on the basis of the annual rental value of the property and provided for the imposition of various rates of tax depending on the use to which the land was put with the rates being lower for uses such as agriculture and higher for industry.

The legislation sparked national controversy. It became not only a socio economic battleground but was a significant political issue. The result being that the new law was never fully implemented by the former Government and in 2010 was repealed by the current regime. To date no legislation has been put in place, which has resulted in revenue loss at a time when the economy is fragile and revenue creation/ generation is foremost on the Government's agenda.

If GORTT opts to reintroduce a property tax system, it is imperative that the legislators have a sound understanding and appreciation of the principles upon which such a system should be based so as to properly balance competing interests – the Government's right to tax and the citizens' right to enjoy their property. Briefly, these principles are as follows:

- Fiscal adequacy – i.e. the sources of revenue should be sufficient to sustain the demand of public expenditure;
- Simplicity and administrative

feasibility – it should be easy for citizens to understand and be capable of convenient, just and effective administration;

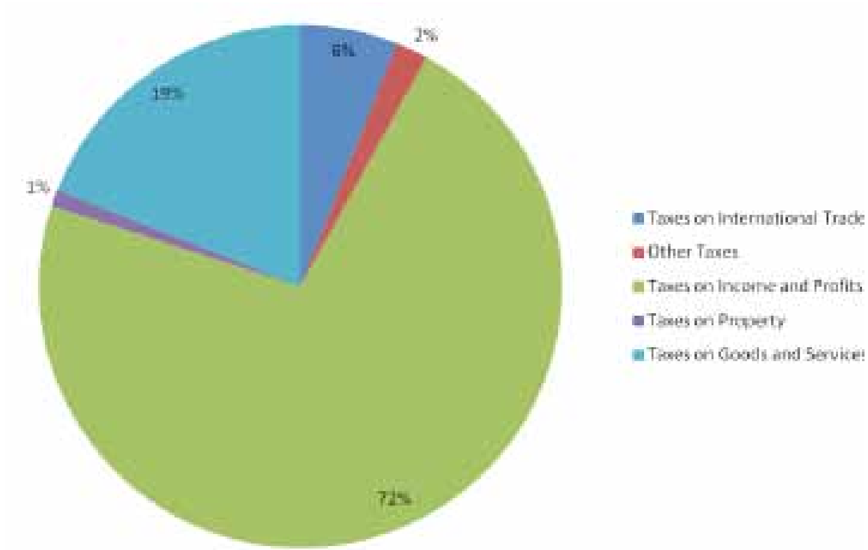
- Equality – the tax burden should be in proportion to the taxpayer's ability to pay;
- Neutrality- tax policies should be impartial with respect to economic activities since this can lead to misallocation of resources, although this principle is often compromised in the interest of promoting certain activities or providing relief to certain groups or sectors.

The elements to be identified in preparing a property tax law are no different from other taxes, via:

- Defining the tax base;
- Identifying the parties subject to the tax;
- Determination of the rate of tax;
- Assignment of administrative functions.

While infinite time can be spent exploring the principles and elements on which a proper system should be based, in defining the 'new' regime it is important to remember that the primary challenge with the old system surrounds the issue of property valuation. According to the then Finance Minister in advocating the Government's position for introducing the 2010 property tax, the last global assessment of property value was conducted in 1948. In the municipal corporations property reassessments were conducted in 1975 in the case of Port of Spain and 2008 in the case of Point Fortin. The picture was clear, the argument was

Figure 1: Tax Revenue 2013



Source: Draft Estimates of Revenue 2013 irrefutable – the system was largely outdated and inadequate. There was also the issue of the variance between the rates charged from region to region which created significant inequity.

This State of affairs is contrary to the principles identified above and naturally demanded serious reform. The challenge though, was that the population was not persuaded that the proposed solution offered by the then Government was the best. The main point of contention not surprisingly was a lack of understanding of the impact of the proposed method of valuation.

Traditionally property has been valued in two ways: on the basis of the annual rental value (ARV) or according to its expected sales price (capital or market value). The choice of system is largely a reflection of historical association. While both methods reflect the income to be derived from a property, their implications in respect of the distribution of that income are at variance. ARV reflects the income from a property in its current use. Capital value reflects the market's assessment of the income to be derived from a property in the future, including income generated by more intensive use of the property. Most commentators seem to favour the capital value approach since arguably it promotes a more equitable method of valuation and also encourages land use efficiency. There is however another school of thought which seems to suggest that the economic consequences of the two methods are not so different as some may argue and as such political credibility and administrative feasibility should be the overriding consideration in seeking to determine value.

The reform of the system should be based on a comprehensive and integrated vision of the property tax system from the setting up and maintenance of the base to the collection of the tax. For this reason implementation should be sustainable, effective and carefully designed over a sufficient period of time. We look forward to the Minister's proposal for whidespread consultation. The principles that should guide the process of design of the system should be simplicity, clarity, equity, efficiency and affordability.

Tax Administration Reform

Since the enactment of Ordinance 1 of 1917 which brought into existence the first income tax regime in Trinidad and Tobago, our taxation system has mushroomed from generating income of £95,000 in that first year to a current yield of $40bn in 2012.

But what can be said of those intervening years? There have been some significant developments, including:

- The introduction of the PAYE system in 1958;
- Quarterly installments on non-emolument income in 1963;
- Withholding tax on non-residents in 1966;
- Petroleum taxes in 1974; and
- Value Added Tax in 1990.

In addition to these developments, 1966 saw the establishment of the Board of Inland Revenue charged with the responsibility of the administration of taxes in Trinidad and Tobago.

Our tax system and the fiscal policies that support it continue to evolve. As the economy changes over time, new markets emerge, new dynamics take place and shifts in relative importance between sectors and factors of production are a natural corollary. While views as to the performance of the T&T economy relative to the tax system may differ depending on the empirical evidence relied on, few will challenge the view that there is an urgent need for a reform of the tax system if there is to be an increase in the efficiency and maximation of revenue generation. Tax reform is usually necessary when there is a change in the economic fundamentals which render the existing taxation regulation insufficient or misaligned to the current functioning of the economy. It may also be required when there are inadequacies within the current system. It is on the latter that this article is focused.

Over the last four decades reform efforts in tax administration in developing countries have generally centered on information technology (IT). The gains from adopting new technology, however, have often failed to reach expectations. Successful reform efforts did not result simply from computerising antiquated processes, but from re-engineering whole systems. Radical improvements in tax administration require changes in organisation and methods facilitated by IT enhancements. Countries such as India would have painfully discovered that successful use of IT requires restructuring and retraining of the tax administration. Moreover, the experience in T&T with the introduction of Gentax bears testimony to this fact.

It is no secret that the tax administration in T&T has been plagued with numerous pitfalls and inefficiencies which have negatively impacted not only revenue collection, but also the attractiveness of the investment landscape within T&T to local and foreign investors.

The challenges faced by the tax administration include deficiency in record keeping, inadequate office facilities and staffing constraints to name a few. Routine processes such as audits and objections are unreasonably protracted which result in significant disruptions to business operations, financial burdens and the creation of bottlenecks at the Tax Appeal Board which is already bogged down with a significant backlog of cases stemming from disruptions in its operations over the last few years.

An appropriate reform strategy must consider the obstacles and constraints arising from such organisational rigidities as the public service rules and regulations, including bases for and constraints on, reward and promotion, the salary structure, and procedural hurdles in acquiring expertise and equipment. Ultimately, the pace of change and the success of any modernisation program depend on human resources—on the training, skills and motivation of the people who are expected to administer the system and use and operate the technology. As one observer noted "technology alone cannot do the job of good tax administration, and good tax administration can be carried out without technology."

Any reform of the tax administration system should be gradual and must include:

- Improvement in the monitoring of the performance of the tax system by introducing regular statistics of income reports and tax compliance analyses;
- Reduction in revenue leakage by improving the number and capability of the resources allocated to collection;
- Improvement in compliance by focusing on the identifying and registering those taxpayers who are out of the net and strengthening the enforcement unit to allow for greater authority in enforcing collections; and
- Modernising the tax administration by reviewing human resource requirements and implanting the transformation of the BIR to an autonomous revenue authority with strong management and business acumen so that they can better understand the environment in which their stakeholders operate and on which they base their decisions.

The Finance Minister has recognised the dire need for the revamping of the taxation system and has committed to undertake same in 2013 with an in-depth look at taxation policy, administration and enforcement with emphasis on personal income tax, corporation tax, value added tax, excise duties and capital and property taxes. We look forward to the promised consultation, and hope that it will occur throughout the process up to and including legislative drafting so that we can minimise the disconnect that sometimes occurs when policy makers, administrators and taxpayers each seek to apply their own understanding of various measures.

Tourism in Trinidad and Tobago

Tourism is a vital part of the global economy. Generating over USD6 trillion in 2011, international tourism ranked as the fourth-largest industry in the world, after fuels, chemicals, and automotive products. Tourism will contribute 10% of the global GDP by 2022, or roughly USD10 trillion. The breadth of international travel has greatly expanded in recent years to encompass the developing world. In 1950 just 15 destinations—primarily European—accounted for 98% of all international arrivals. By 2007 that figure had fallen to 57%. Once essentially excluded from the tourism industry, the developing world has now become its major growth area. Tourism is a key foreign exchange earner for 83% of developing countries and the leading export earner for one-third of the world's poorest countries. The economic might of the tourism industry has helped transform societies, often for the better.

Travel and tourism contributed 3.7% of GDP in 2011 for Trinidad and Tobago. Generating

4, 350.9 m in foreign visitor exports in 2011 this is expected to reach 6,710.7m by 2022. This is an increase of 4.1% per annum, according to the World Travel and Tourism Council (WTTC) and is comfortably above the world average of 3.5%.

In acknowledging that the tourism sector can become an important platform to create jobs, GORTT outlined in 2011 a Tourism Action Plan which provides financial incentives in several areas including product development, marketing and public awareness, competitiveness and investment. Tax incentives available for approved investment projects include tax holidays, tax exemptions for the sale of tourism properties and reductions or exemptions for import tax and duties. These incentives are designed to increase investment in the sector and are intended to spur economic growth.

The WTTC expected the Trinidad and Tobago travel and tourism sector to attract capital investments of 1,162.8 m in 2011, which was expected to rise by 3.3% in 2012 and 4% per annum over the next decade. Projections illustrate that Trinidad and Tobago will attract a promising 1,777.1m in travel and tourism capital investment by 2022.

The incentives for development of the Trinidad and Tobago tourism sector are however plagued by a number of setbacks. Chief amongst these has been the spiralling crime rate in the country. Crime has had an adverse effect upon the industry as the country has been portrayed negatively in several international and local media reports. Bureaucracy continues to be yet another obstacle on the road to the development of a sustainable tourism product. The tedious process of accessing tax and other exemptions has been identified as a detractor by local and foreign investors in this sector.

Of 181 countries Trinidad and Tobago is ranked by the WTTC at 116 in the relative contribution of travel and tourism towards GDP. The total contribution of Travel and Industry to Trinidad and Tobago's GDP in 2011 is 3.7% compared to a world average of 5.2%. In its ranking of relative contribution to employment, Trinidad and Tobago is ranked 86 with 9.3% compared to the world average of 13.6%.

Trinidad and Tobago was awarded the World Best Tourism Destination for 2012 by the European Union Council on Tourism and Trade based on the rich cultural heritage and the ecological and geographical biodiversity the country offers. This award illustrates the potential of the country in this sector.

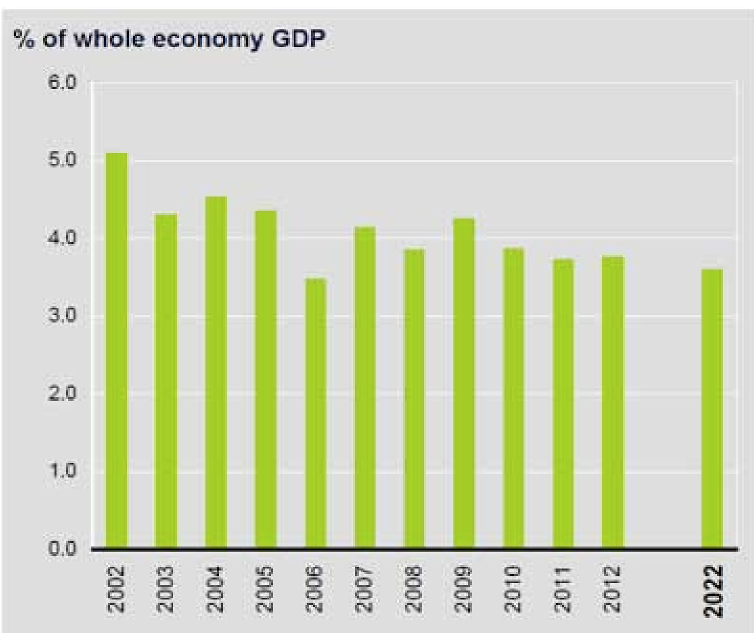
We need to focus on exploring new tourism niches and differentiating the tourism product in order to be competitive in the tourism market. Projections for 2012 from the World Travel and Tourism Council (WTTC) show that Trinidad and Tobago is expected to attract 424,000 international tourist arrivals.

Visitor Exports and International Tourist Arrivals

Source: World Travel & Tourism Council, 2012

Unfortunately the country has not recovered to pre-recession arrivals of 449, 452 in 2007. The WTTC expects a full recovery by 2022 with arrivals forecasted to be 616,000 growing at a rate of 3.1%. In his 2013 budget presentation the Minister of Finance and the Economy signalled the Government's intention to make Trinidad and Tobago the number one location in the region for tourist arrivals. Of course our Caribbean neighbours will be actively competing to secure or retain that coveted spot and getting us there will be an uphill, some might say, insurmountable, task.

Total Contribution of Travel & Tourism to GDP



Source: World Travel & Tourism Council, 2012

Trinidad and Tobago was awarded the World's Best Tourism Destination for 2012 by the European Union Council on Tourism and Trade based on the rich cultural heritage and the ecological and geographical biodiversity the country offers. This award illustrates the potential of the country in this sector.

FATCA - Who, what, when and why

FATCA is an acronym for the Foreign Account Tax Compliance Act (FATCA), which was enacted into law on 18 March, 2010 as part of the Hiring Incentive to Restore Employment (HIRE) Act. FATCA seeks to identify US taxpayers who have accounts in Foreign Financial Institutions (FFI) or ownership interests in Non-Financial Foreign Entities (NFFE) and to enforce information reporting through the threat of a withholding tax.

FFI is very broadly defined and encompasses commercial banks, broker dealers, trust companies, investment funds, and life insurance companies as well as many other entities.

FATCA requires an FFI to primarily perform four tasks:

1. Identify new US customers;
2. Examine existing customer information for indicia of US status;
3. Report annually on US accounts; and
4. Foreign 'passthru' withholding on payments to recalcitrant account holders and non-participating FFIs.

These four obligations will be phased in during the period 2013 and 2017 in accordance with a timeline to be established by the US Internal Revenue Service (IRS). The timely completion of these four obligations must be certified by an officer of the FFI.

When fully phased in, FATCA will require withholding agents to withhold a 30% tax on US sourced income (e.g., interest, dividends, rents, royalties, annuities, etc.) on payment to FFIs or NFFEs. More onerously, a 30% withholding tax will eventually be levied on gross proceeds (not net profit) from the sale of assets that generate US sourced interest or dividends.

Withholding can be avoided if an FFI enters into a binding agreement with the IRS by July 1, 2013 and complies with certain obligations such as information disclosures, documentation and other due diligence compliance activities. NFFEs avoid withholding by either certifying to the IRS that it has no US shareholders or disclosing information about its substantial (more than 10%) US owners.

FATCA is here to stay. The IRS has issued three notices and almost 400 pages of proposed regulations to date. It has essentially reaffirmed its timetable for full implementation. While the regulations will be finalised in 2012, Caribbean banks and other financial institutions need to assess how FATCA will impact their organisations in order to meet the phased deadlines beginning July 1, 2013.

Appendices

Tax Facts 2013

	2013		2012		2011	
Income Tax						
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		60,000		60,000	
Pension/Deferred Annuity	30,000	(2)	30,000	(2)	30,000	(2)
National Insurance	70%	(2)	70%	(2)	70%	(2)
First Time Homeowner allowance	18,000	(3)	18,000	(3)	18,000	(3)
Donations to Children 's Life Fund	15% of Total Income	(4)	15% of Total Income		15% of Total Income	
Corporation Tax						
Corporation Tax Rates (Petrochemicals)	35%		35%		35%	
Corporation Tax Rates (Other)	25%		25%		25%	
Small and Medium Size (SME)	10%	(5)	10%	(5)	0%/25%	(5)
Business Levy (On Gross Sales & Receipts)	0.20%		0.20%		0.20%	
Green Fund Levy (On Gross Sales & Receipts)	0.10%		0.10%		0.10%	
Initial Allowance	90%		90%		90%	
Art and Culture/ Sportsmen/ Sporting Activities						
Audio / Visual / Video Production allowance	3,000,000	(10)	2,000,000	(12)	2,000,000	(12)
Fashion Allowance	3,000,000	(10)	0		0	
Production Company Allowance	3,000,000	(11)	2,000,000	(11)	2,000,000	(11)
Donations to Children's Life Fund	15% of total income	(4)	15% of total income	(4)	15% of total income	(4)

Tax Facts cont'd

	2013		2012		2011	
Petroleum Taxes						
Petroleum Profits Tax						
- Shallow water (shelf/block)	50%		50%		50%	
- Deep water block	35%		35%		35%	
Unemployment levy	5%		5%		5%	
Supplemental Petroleum Tax	Base &		Base &		Sliding	
	Sliding		Sliding		Scale	
	Scale		Scale			
Investment Income						
Local Dividends Received	Exempt		Exempt		Exempt	
Interest Received (individuals)	Exempt		Exempt		Exempt	
Value Added Tax						
Registration Threshold	360,000	(6)	360,000		200,000	
VAT Exemptions on Offshore Equipment	Yes	(7)	Yes	(7)	N/A	
Alternative Energy Incentives						
Wear and Tear Allowance (CNG)	130%	(8)	130%		130%	
Wear and Tear Allowance (Solar & Wind)	150%	(9)	150%		150%	
Motor Vehicle Import Duty Relief (CNG vehicles)	50%		50%		N/A	

Note (1) For attendance at foreign Universities not GOTT Funded
Note (2) Maximum $30,000
Note (3) First-time homeowners for five years with effect from the date of acquisition
Note (4) Equal to the amount of the donations up to a maximum of 15% of the total income in any one year
Note (5) 10% rate in 2012 would apply to listed SMEs- 0% tax rate applies to 'approved small companies' as per the provision of Section 16A of the Corporation Tax Act
Note (6) Effectively $30,000 per month
Note (7) Offshore Equipment relates to offshore drilling rigs, drilling ships and other vessels associated with offshore activity in the Energy Sector
Note (8) Effective 1 January 2012, allowance based on acquisition of plant and machinery and equipment including installation costs, for the purpose of providing a compressed natural gas kit and cylinder installation service or the acquisition and installation in a motor vehicle of a compressed natural gas kit and cylinder
Note (9) Effective 1 January 2011, allowance based on plant and machinery, parts and materials for manufacture of solar water heaters/ wind turbines/ solar photovoltaic systems
Note (10) 150% tax deduction up to a maximum of $3m based on the assumption that the fashion allowance is additional allowance of $3m
Note (11) Allowance only available to production companies
Note (12) Allowance restricted to $2m of actual expenditure incurred

National Insurance Facts

		2013		2012		2011
Maternity Benefits						
Leave Period		14 weeks	(a)	14/13 weeks		13 weeks
Maternity Grant		3,750		2,500		2,500
Special Maternity Grant		3,750	(b)	2,500		2,500
Retirement						
Retirement Grant		3,000	(c)	3,000/2,000		2,000
Death						
Funeral Grant		7,500	(d)	5,000		5,000
Death Benefit		Based on rate		Based on rate		Based on rate
		of Contribution		of Contribution		of Contribution
Other Benefits						
Sickness Allowance, Maternity Allowance, Invalidity Benefit, Employment Injury		Increase of 25% of Earnings Class		Rate based on		Rate based on Earnings Class
Survivors Benefits						
Spouse, Child, Dependent Parents, Orphan		Details of comparative unavailable				

Key

(a) Effective 22 May, 2012

(b) Housewife/Homemaker

(‘c) Payable to persons who have made 750 contributions or more

(d) Payable to next of kin of the deceased who has made minimum of 25 contributions

(e) Increased by 20% in 2014 resulting in cumulative increase of 50%

Tax Computations

Corporation Tax Computations

	2013	2012
Profit as per Financial Statements	40,000,000	40,000,000
Add:		
Depreciation	8,000,000	8,000,000
Donations not under Deed of Covenant	100,000	100,000
Arts and Culture, Audio Visual, Sporting Donations	2,000,000	
Local Fashion Sponsorship Expenses	2, 000,000	
	12,100,000	8,100,000
Less:		
Donations to Children's Life Fund	100,000	100,000
Arts and Culture, Audio Visual, Sporting Allowance	3,000,000	-
Local Fashion Sponsorship Allowance	3,000,000	
Wear and Tear Allowance	5,000,000	5,000,000
Initial Allowance (90%)	2,000,000	2,000,000
Profit on Sale of Asset	175,000	175,000
	13,275,000	7,275,000
Chargeable Profit	38,825,000	40,825,000
Corporation Tax @ 25%	9,706,250	10,206,250
Effective Tax Rates	24%	26%
Business Levy		
Gross Sales/ Receipts	500,000,000	500,000,000
Business Levy @0.2%	1,000,000	1,000,000
Green Fund Levy		
Gross Sales/Receipts	500,000,000	500,000,000
Green Fund Levy @0.1%	500,000	500,000

Assumptions :
Donation's to Children's Life Fund is not greater than 15% of the company's statutory total income

(100,000/40,000,000 x 100%)= 0.667%
Company is not engaged in the production of petrochemicals
Effective date of proposed changes is 1 January, 2013
Company is not engaged in local audio, visual or video production

Small and Medium Enterprises

Corporation Tax Computation

		2013	2012
Profit as per Financial Statements		250,000	250,000
Add:			
Depreciation		40,000	40,000
Donations not under Deed of Covenant		6,000	6,000
		46,000	46,000
Less:			
Donations to Children's Life Fund		5,000	5,000
Arts and Culture		5,000	5,000
Wear and Tear Allowance		25,000	25,000
		35,000	35,000
Chargeable Profit		261,000	261,000
Corporation Tax @10%		26,100	26,100
Effective Tax Rates		10%	10%
Business Levy			
Gross Sales/ Receipts		4,000,000	4,000,000
Business Levy @0.2%		8,000	8,000
Green Fund Levy			
Gross Sales/Receipts		4,000,000	4,000,000
Green Fund Levy @0.1%		4,000	4,000

Assumptions :
Donation's to Children's Life Fund is not greater than 15% of the company's statutory total income
Company is not engaged in the production of petrochemicals
Proposed changes effective date January 1, 2013
Company is an SME listed company and is operating within the first five years of being listed

Current VAT Zero Rating Schedule

VALUE ADDED TAX ACT

Schedule 2 - Zero Rating

Food items

#	Pre 2012/2013 budget	#	Additions in 2012/2013 budget
1	Unprocessed food of a kind used for human consumption	1	All foods except luxury items and alcohol (temporary)
2	Rice		{N.B. no specific mention of which foods are deemed as "luxury"}
3	Flour		
4	Milk in any form, including processed and tinned milk		
5	Margarine		
6	Bread		
7	Baby formulas and baby milk substitutes		
8	Cheese and curd		
9	Corned beef		
10	Curry		
11	Fresh Butter		
12	Peanut butter		
13	Table salt		
14	Salted butter		
15	Tinned sardines		
16	Smoked herring		
17	Toilet paper		
18	Yeast		
19	Baking powder		
20	Pasta (cooked , uncooked)		
21	Cane sugar		
22	Cocoa powder		
23	Coffee		
24	Mauby		
25	Orange Juice		
26	Herring		
27	Tuna		
28	Mackerel		
29	Ghee		
30	Soya-bean oil		
31	Maize (corn) oil and its fractions		

Current VAT Zero Rating Schedule cont'd

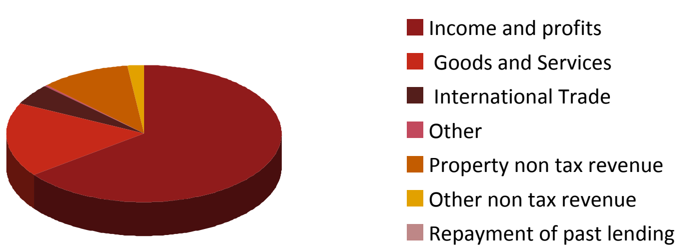
32	Sesame oil and its fractions		
33	Chicken sausage, canned		
34	Salami sausages		
35	Icing sugar		
36	Preparations of malt extract		
37	Corn flakes		
38	Biscuits, unsweetened		
39	Grapefruit juice		
40	Vanilla essence		
41	Soy sauce		
42	Tomato ketchup		
43	Prepared mustard		
44	Mineral water		
45	Ordinary natural water		
46	Aerated beverages		
47	Orange drink		
48	Grapefruit drink		
49	Vinegar		
50	Ground Nut oils (not chemically modified NCM)		
51	Olive oil (NCM)		
52	Palm oil (NCM)		
53	Sunflower-seed, safflower or cotton seed oil (NCM)		
54	Coconut, palm kernel, Babassu oil & certain other oils (NCM)		

Budget Revenue & Expenditure 2012/2013

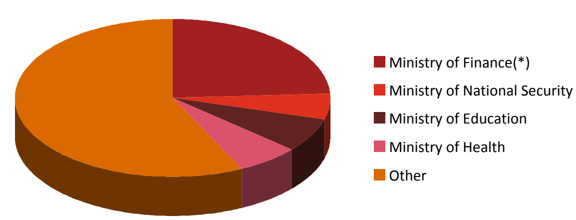
	Revenue			Expenditure
	$bn			$bn
Income and profits	32.002		Ministry of Finance(*)	12.927
Taxes on Property	0.014		Ministry of National Security	2.548
Goods and Services	8.235		Ministry of Education	4.20
International Trade	2.419		Ministry of Health	4.148
Other	0.200		Other	37.029
Property non tax revenue	5.943			
Other non tax revenue	0.826			60.861
Repayment of past lending	0.036			
			(*) Ministry of Finance & Charges on Account of the Public Debt	
	49.677			

Source : Details of Estimates of Revenue for the Financial Year 2013

Revenue Estimates 2013



Expenditure Estimates 2013

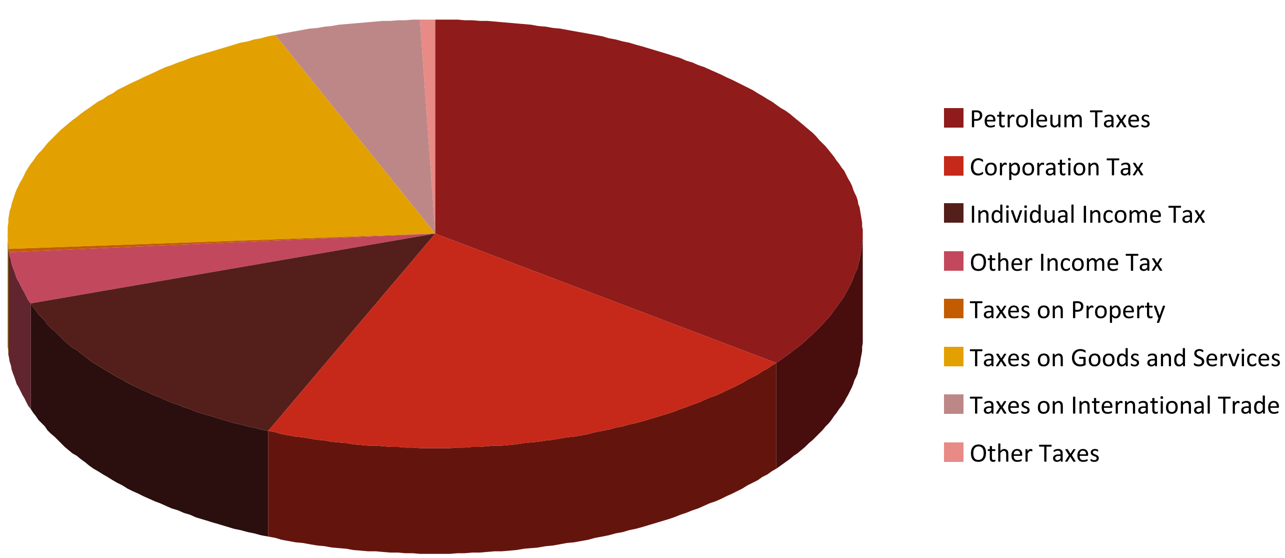


Overview of 2012/13 Fiscal Revenue and Expenditure

Fiscal Revenue				
	Estimate 2012	**Revised Estimate 2012**	**Variance - Estimate 2012 vs Revised Estimate 2012**	**Estimate 2013**
	$m	$m	$m	$m
Tax on Income / Profits				
Petroleum Taxes	14,109.95	14,109.95	-	15,887.89
Corporation Tax	8,487.60	8,171.95	(315.66)	8,541.32
Individual Income Tax	5,351.40	5,369.82	18.43	5,806.74
Other Income Tax	1,553.60	1,711.34	157.74	1,765.86
Taxes on Property	15.00	11.40	(3.60)	14.45
Taxes on Goods and Services	8,058.03	8,041.34	(16.69)	8,235.47
Taxes on International Trade	2,248.08	2,248.11	0.03	2,419.33
Other Taxes	184.00	187.50	3.50	200.00
	40,008	39,851	(156)	42,871

Source : Details of Estimates of Revenue for the Financial Year 2013

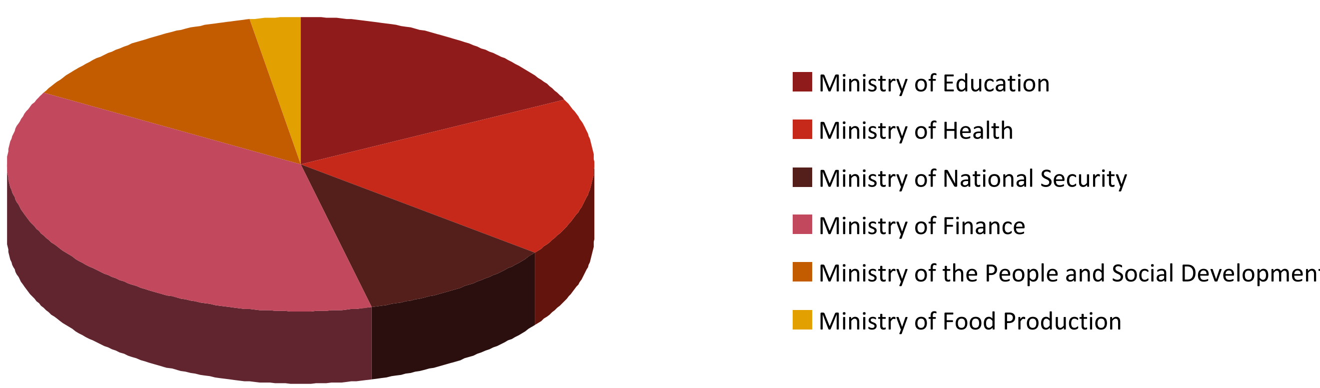
Fiscal Revenue Estimate 2013



Recurrent Expenditure	Estimate 2012	Revised Estimate 2012	Variance - Estimate 2011 vs Revised Estimate 2012	Estimate 2013	Variance - Revised Estimate 2011 vs Revised Estimate 2013
	$m	$m	%	$m	%
Ministry of Education	4,010.95	3,603.85	10%	4,208.12	17%
Ministry of Health	3,656.90	3,629.10	1%	4,148.30	14%
Ministry of National Security	2,967.60	2,842.31	4%	2,548.01	-10%
Ministry of Finance	9,371.03	10,568.05	-13%	8,799.33	-17%
Ministry of the People and Social Development	3,472.28	3,432.82	1%	3,386.10	-1%
Ministry of Food Production	802.18	777.21	3%	627.66	-19%
Other	29,433.51	26,873.36	9%	33,772.25	26%
	53,714.46	51,726.70	4%	57,489.77	9%

Source : Details of Estimates of Recurrent Expenditure for the Financial year 2013

Recurrent Expenditure 2013



Snapshot of Government Fiscal Performances

Head	Personnel Expenditure	Other	Development Programme	Total
President	2,418,840	20,430,540		22,849,380
Auditor General	26,070,150	10,897,860	1,000,000	37,968,010
Judiciary	141,622,200	208,104,770	76,925,000	426,651,970
Industrial Court	20,755,100	21,984,530	1,450,000	44,189,630
Parliament	19,721,788	100,344,862	6,650,000	126,716,650
Service Commissions	36,886,500	62,791,110	4,000,000	103,677,610
Statutory Authorities' Service Commissions	3,766,400	2,300,630		6,067,030
Election & Boundaries Commission	38,556,000	79,426,410	5,000,000	122,982,410
Tax Appeal Board	3,079,670	6,184,570	1,800,000	11,064,240
Registration, Recognition & Certification Board	2,389,200	2,155,820		4,545,020
Public Service Appeal Board	1,632,800	1,812,120		3,444,920
Office of the Prime Minister	38,059,300	209,589,500	6,100,000	253,748,800
Tobago House of Assembly		1,986,995,000	349,950,000	2,336,945,000
Personnel Department	15,508,320	25,487,150	32,400,000	73,395,470
Ministry of Finance	364,097,700	8,435,236,350	50,668,000	8,850,002,050
Charges on Account of Public Debt		6,410,194,720		6,410,194,720
Pensions and Gratuities		2,269,441,990		2,269,441,990
Ministry of National Security	1,326,542,000	1,221,468,990	309,600,000	2,857,610,990
Ministry of the Attorney General	52,162,620	186,151,480	18,400,000	256,714,100
Ministry of Legal Affairs	35,944,600	84,418,180	18,125,000	138,487,780
Ministry of Food Production, Land and Marine Affairs	250,589,000	377,070,566	105,150,000	732,809,566
Ministry of Education	2,474,192,300	1,733,932,236	75,700,000	4,283,824,536
Ministry of Health	232,077,800	3,916,221,819	216,000,000	4,364,299,619
Ministry of Labour and Small & Micro Enterprise Development	30,875,808	142,389,787	26,700,000	199,965,595
Ministry of Public Administration	19,023,430	140,207,040	236,472,000	395,702,470
Ministry of Transport	35,373,000	865,756,005	123,700,000	1,024,829,005
Ministry of Tourism	26,875,500	145,396,272	23,010,000	195,281,772
Integrity Commission	2,088,100	27,181,900		**29,270,000**

Snapshot of Government Fiscal Performances cont'd

Environmental Commission	3,229,250	7,269,490		**10,498,740**
Ministry of Public Utilities	31,933,500	640,763,531	77,800,000	**750,497,031**
Ministry of Energy and Energy Affairs	31,942,500	4,619,823,469	21,000,000	**4,672,765,969**
Ministry of Local Government	78,546,000	1,660,920,149	259,500,000	**1,998,966,149**
Ministry of Trade & Industry & Investment	18,712,300	224,497,976	69,600,000	**312,810,276**
Ministry of the People And Social Development	40,760,300	3,345,337,200	63,600,000	**3,449,697,500**
Ministry of Justice	547,570,700	253,893,830	55,872,000	**857,336,530**
Ministry of Tobago Development	11,750,892	17,423,108	12,000,000	**41,174,000**
Ministry of Housing, Land & Marine Affairs	38,551,000	2,288,076,925	120,765,000	**2,447,392,925**
Ministry of Community Development	18,766,860	139,628,353	28,500,000	**186,895,213**
Ministry of the Arts and Multiculturalism	8,368,500	287,324,255	7,000,000	**302,692,755**
Trinidad And Tobago Police Service	1,263,244,000	479,935,050	69,100,000	**1,812,279,050**
Ministry of Foreign Affairs	124,585,000	292,795,083	25,300,000	**442,680,083**
Ministry of Gender, Youth And Child Development	34,154,600	121,336,666	50,000,000	**205,491,266**
Ministry of the Planning And Sustainable Development	48,659,500	101,661,166	149,970,000	**300,290,666**
Ministry of Sports	19,451,300	359,963,478	12,300,000	**391,714,778**
Ministry of Works and Infrastructure	447,061,000	785,446,651	113,800,000	**1,346,307,651**
Ministry of Communications	6,799,100	49,939,050	12,500,000	**69,238,150**
Ministry of the Environment and Water Resources	175,110,700	2,584,626,230	135,828,000	**2,895,564,930**
Ministry of Tertiary Education and Skills	21,886,400	2,082,005,312	336,765,000	**2,440,656,712**
Ministry of Science and Technology	4,727,500	235,644,180	46,300,000	**286,671,680**
Ministry of National Diversity and Social Integration	6,212,500	31,423,934	14,700,000	**52,336,434**
Equal Opportunity	1,390,400	2,744,340		**4,134,740**
	8,183,721,928	**49,306,051,633**	**3,371,000,000**	**60,860,773,561**

Source : Details of Estimates of Expenditure for the Financial Year 2013

Snapshot of GORTT Fiscal Performance - 2013

Current Account			
	Estimate 2012	Revised Estimate 2012	Estimate 2013
	$m	$m	$m
Revenue			
Tax Revenue	40,007.66	39,851.42	42,871.06
Income and profit	29,502.55	29,363.07	32,001.81
Taxes on property	15.00	11.40	14.45
Goods and services	8,058.03	8,041.34	8,235.47
International trade	2,248.08	2,248.11	2,419.33
Other	184.00	187.50	200.00
Non Tax Revenue	5,662.16	6,506.67	6,805.87
Property	4,736.09	5,473.34	5,943.20
Other Non-Tax Revenue	894.01	1,001.52	826.20
Repayment of Past Lendings	32.06	31.81	36.47
Total Revenue	45,669.83	46,358.09	49,676.93
Expenditure			
Personnel Expenditure	8,029.90	7,104.30	8,183.70
Salaries	5,655.70	4,961.10	5,613.10
Wages	647.70	515.20	688.90
Other	1,726.50	1,628.00	1,881.70
Goods and Services	7,743.80	6,864.60	8,000.50
Minor Equipment	409.60	367.50	505.10
Interest and Other Debt Charges	5,066.90	3,929.90	4,749.70
Transfers and Subsidiaries	21,389.90	24,450.70	26,178.70
Transfers to Statutory Bodies	6,509.40	6,163.60	6,876.10
Acquistion of Physical Assets	-	-	38.70
Sub - Total	49,149.50	48,880.60	54,532.50
Current Surplus / (Deficit)	(3,479.70)	(2,522.60)	(4,855.50)
	45,669.80	46,358.00	49,677.00

Snapshot of GORTT Fiscal Performance - 2013

Capital Account			
	Estimate 2012	**Revised Estimate 2012**	**Estimate 2013**
	$m	**$m**	**$m**
Current Surplus / (Deficit)	(3,479.70)	(2,522.60)	(4,855.50)
Capital Revenue	16.90	41.20	47.10
Surplus / (Deficit)	(3,462.80)	(2,481.40)	(4,808.40)
Financing	6,616.80	6,616.80	6,463.00
Changes in Cash Balances	3,008.30	1,981.70	4,673.70
	6,162.30	6,117.10	6,328.30
Development Programme	3,290.10	3,270.60	3,371.00
Capital Repayment and Sinking	2,872.20	2,846.50	2,957.30
	6,162.30	**6,117.10**	**6,328.30**

Caveat

PwC has prepared this budget memorandum for their clients and associates on the principal changes announced in the 2012/13 Budget on 1 October 2012. These changes are outlined in general terms and are for information purposes only. It is therefore not to be acted upon without securing professional advice.

You may contact any member of our specialist tax team listed below for further discussions or enquiries on the impact of the Budget pronouncements on your business or corporate arrangements:

Our PwC Tax Team:

Allyson West
Tax Territory Leader
T: (868) 299-0700, x1030
allyson.west@tt.pwc.com

Keith Robinson
Director
T: (868) 299-2700, x1023
keith.g.robinson@tt.pwc.com

Brian E Jones
Senior Manager
T: (868) 299-0700, x1012
brian.ellison.jones@tt.pwc.com

Walter Rochester
Senior Manager
T: (868) 299-0700, x1024
walter.rochester@tt.pwc.com

Karen Hackett
Senior Manager
T: (868) 299-0700, x1035
karen.hackett@tt.pwc.com

Fanny Ursulet-Headley
Senior Manager
T: (868) 299-0700, x1028
fanny.ursulet-headley@tt.pwc.com

Rosalind Alexander
Senior Manager
T: (868) 299-0700, x1001
rosalind.alexander@tt.pwc.com

Our Office Locations:

Port of Spain

PwC Building
11-13 Victoria Avenue
Port of Spain, Trinidad, WI
T: (868) 299-0700
F: (868) 623-6025
www.pwc.com/tt

San Fernando

Guardian General Building
17-19 Independence Avenue
San Fernando, Trinidad, WI
T: (868) 299-0700
F: (868) 623-4993
www.pwc.com/tt