Trinidad & Tobago Budget 2018

Caveat

The Trinidad & Tobago Budget 2018 is based on the Economic Policy Statement, entitled “Changing the Paradigm: Putting the Economy on a Sustainable Path,” delivered by the Minister of Finance, the Honourable Mr. Colm Imbert, in Parliament on 2 October 2017.

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

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2 October 2017
In his third budget presentation, the Minister of Finance, the Honourable Mr. Colm Imbert, was explicit in detailing the very significant economic challenges faced by Trinidad & Tobago, which are characterized by the following elements:

- A dramatic decline in oil and gas taxes denominated in US$ and in the price for petroleum products.
- A persistent excessive demand (vs supply) for forex, which can be remedied by allowing the free floatation of the exchange rate, which will drive inflation and wage demands but potentially curtail sales.
- The very high level of government expenditure that individuals and businesses have become addicted to and which cannot be sustained without continuing to adversely impact the country's debt profile.

In EY’s view, certain fundamental principles must be established and adopted as integral to the internal restructuring of the country. These include:

- A commitment to economic stability, a freely floating exchange rate and eliminating the fiscal deficit which has become part and parcel of the country’s economic framework for several years.
- A steady but irreversible commitment to reduce the role of government in areas of national and strategic importance with a focus on outsourcing or divesting of many services, thereby improving the quality of services in many essential areas and by taking steps to significantly improve the ease of doing business in Trinidad & Tobago.
- A clear commitment by the private sector to invest in territories outside of Trinidad & Tobago and to develop export led activities and an increasing alignment of tax incentives toward these activities.
- Most importantly, embarking on a process to involve labour, the public and private sectors and all other stakeholders in planning a realistic path for the country over the next five years.

With the right attitude and focus, the country will be able to manage the current financial storm, once there is an unwavering commitment to certain core principles. Without these principles there is a significant risk that the future would be adversely affected. Time is of the essence and all stakeholders need to approach these challenges with maturity and realism.

We thank you all and welcome your feedback.

Colin Soo Ping Chow
Executive Chairman
EY Caribbean Ltd.
Changing the course of our financial destiny

Trinidad & Tobago may lie just south of the hurricane belt, but the country is no doubt in the middle of an economic and financial storm. In this, the third year of low oil and gas prices, substantial price rebound appears remote and significant changes have to be made to reverse the major declines in our revenues and foreign exchange.

To appreciate the severity of our situation, consider that revenues from the upstream petroleum sector fell from TT$20.9 billion in 2014 to TT$2.8 billion in 2017 and foreign exchange from the energy sector has declined from US$3.2 billion in 2011 to US$500 million in 2017. In fiscal 2018, Government is predating its budget on an oil price of US$52 per barrel and a gas price of US$2.75 per MMBtu. As a result, of continuing weak energy prices, the Government is faced with curbing the consumption preferences of a population that has grown accustomed to significantly larger tax inflows.

Norway just reported that its investment fund, driven from its Oil & Gas Revenues, has surpassed one trillion US dollars. With just over five million people and production levels slightly in excess of 1.6 million barrels per day, their fund equates to US$177 million per person. In comparison, our HSF is just about US$5.73 billion. Despite Norway's high taxation on petroleum net profits (78%), the country maintained disciplined expenditure in times of high oil prices and developed technology and systems to increase efficiencies. Given our level of production on a per barrel basis, our HSF could have been multiple times greater, had we adopted a similar economic discipline with a similar tax regime.

Recession limits a nation's economic options because it creates a situation where spending must be curbed without stifling economic growth, while also maintaining economic stability and stimulating business activity. The concept of Value for Money becomes integral as we are all forced to do more with less.

As a result, the annual budget process has become one filled with apprehension. We understand that the government needs to increase revenues while reducing expenditure, which adversely impacts our economic condition. So how do you implement measures to combat the tough economic climate, while maintaining social equity in an increasingly crime ridden environment?

The Honourable Minister of Finance has attempted to prepare a budget that seeks to provide fiscal incentives, such as promoting housing development and farming. He has also sought to implement revenue generating measures, such as increasing the burden of taxes on standard rated corporations, commercial banks, and energy companies. His chosen path attempts to equally distribute the fiscal burden amongst all members of society and the business community.
Divestment

The Government, however, also needs to complete and improve its divestment programme, transferring the operations of potentially viable businesses out of the hands of the state and into the hands of the private sector. This will allow the government to focus on infrastructure development, increasing diversification and reinvesting in growth industries, rather than operating expenses.

The wage bill, which now accounts for 31% of annual revenue, continues to increase with little or no improvement in service quality. And the Minister only mentioned divestment of the CLICO and CLF assets, but there was no distinctive divestment programme or privatization plan for the many state enterprises. We, therefore, are left with no clear strategy on how the Government’s wage bill is going to be significantly reduced.

Diversification

It is widely believed that the private sector has been complacent, with companies preferring retail and distribution rather than manufacturing, thereby increasing the foreign exchange deficit. In order to manufacture with an eye on exporting and earning much needed foreign exchange, however, we need volume. To achieve volume, we need to be price competitive and diversify. But to be price competitive and diversify, we first have to overcome the hurdle of the productivity - or lack thereof - of the labour force.

With absenteeism approaching 40%, manufacturers have to hire more staff to ensure the efficient running of its operations, making the products uncompetitive in global markets. Should we continue to allow our manufacturing sector to be blighted by the labour issues? Should we adopt an “import the labour – export the product” mentality, if our people do not want to work?

The agri-business sector is on a growth path globally, but our agricultural sector has been plagued by this shortage of labour. As the food bill continues to rise, the question becomes whether or not we need greater incentives or more drastic measures to shift the paradigm.

The Minister has put the incentives in place to encourage export and we are pleased to hear acknowledgement of the inefficiencies and the difficulty in doing business, but the labour issue is not one that can be cured by Government alone. It requires a robust effort from the private sector, the trade unions and the industrial court to catalyze an accountable work force, as we no longer have the luxury of accepting mediocrity.

The Government will attempt to enhance the entrepreneurial eco-system by implementing much needed incentives, but it is up to T&T to pursue these initiatives. SME development provides opportunities for self-employment and fosters a culture of accountability as young people learn to understand the value of hard work. As such, we applaud the allocation of TT$50 million to assist in
financing their seed capital and growth. The success of this spend will, however, be dependent on further support for these young entrepreneurs in accounting, supply logistics and operational efficiencies.

The Government’s housing and construction grant is also laudable as it broadens the opportunity for PPP relationships where any small developer can participate in generating low cost housing. This initiative admirably relies on private sector participation but, again, success will be contingent upon the processes and controls in place to ensure that its intended use is not abused.

The 2018 budget seeks to navigate the delicate balance between the urgent need for expense reduction and continued stimulation of the economy. Clearly, this is a challenging task: one which will require collaboration across all levels of Trinbagonian society and industry.

And while incremental steps have been taken in this budget towards enabling greater economic participation by the private sector and labour, more remains to be done by Government to clearly articulate a path towards divestment and privatization that would ultimately change the course of our nation's economic future.

Wade George  
Tax Director

Gregory Hannays  
Tax Director
2018 fiscal measures

The Honourable Minister of Finance in his 2018 Budget Statement is proposing to harmonize the tax rate for companies to 30% and for commercial banks to 35%. It is expected that this measure should take effect from 1 January 2018.

It is noteworthy to point out that the proposed increase in the Corporation Tax rate of 35% for commercial banks is consistent with the prescribed rate of Corporation Tax applicable to the Petrochemical Industry1.

We are assuming that the commercial banks being referred to by the Minister are commercial banks licensed under the Financial Institutions Act, 2008 to conduct the business of banking and business of a financial nature. The Financial Institutions Act, 2008 and the Financial Institutions (Prudential Criteria) Regulations, 1994, together with the Central Bank Act of Trinidad & Tobago, provide for the regulation and supervision of commercial banks in Trinidad & Tobago.

The basic Corporation Tax rate in T&T was as follows:

<table>
<thead>
<tr>
<th>Income Years</th>
<th>Corporation Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000 to 2002</td>
<td>35%</td>
</tr>
<tr>
<td>2003 to 2005</td>
<td>30%</td>
</tr>
<tr>
<td>2006 to 2016</td>
<td>25%</td>
</tr>
<tr>
<td>2017</td>
<td>Chargeable Profits up to $1,000,000 - 25%</td>
</tr>
<tr>
<td></td>
<td>Chargeable Profits in excess of $1,000,000 - 30%</td>
</tr>
</tbody>
</table>

At one point, Trinidad & Tobago was touted as the financial capital of the Caribbean. The proposed increase in the Corporation Tax rate appears to be inconsistent with the aforementioned government strategy.

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1Applies to companies involved in the liquefaction of natural gas, manufacture of petrochemicals, physical separation of liquids from a natural gas stream, transmission and distribution of natural gas, wholesale marketing and distribution of petroleum products (as defined) and any other activity so prescribed. It does not include companies operating a liquid petroleum gas filling plant or conducting a refilling operation, involved in the sale and distribution of leaded and unleaded gasoline, diesel and kerosene, lubricants and other car care products or operating service stations.
A summary of the Corporation Tax rates in certain Caribbean territories is shown in the table below.

The impact on the financial statement of an increase in the Corporation Tax rate should result in a re-measurement of a company’s deferred tax position. Thus, companies currently having chargeable profits of up to TT$1,000,000, as well as commercial banks, would have an increase in their deferred tax position.

<table>
<thead>
<tr>
<th>Country</th>
<th>Corporation Tax Rate on Taxable Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barbados</td>
<td>25%/15%</td>
</tr>
<tr>
<td>Jamaica</td>
<td>25%/30%/33.3%</td>
</tr>
<tr>
<td>Guyana</td>
<td>27.5%/40%/45%</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>30%/33.3%</td>
</tr>
</tbody>
</table>

Notes:

Barbados
A 15% rate applies to manufacturing companies and to net income derived from the rental of residential property.

Jamaica
Unregulated companies are taxed at the rate of 25% and regulated companies (excluding life insurance companies) are taxed at a rate of 33.3%. Building societies are taxed at a rate of 30%.

Guyana
Non-commercial companies are subject to tax at a rate of 27.5% whereas commercial companies are subject to tax at a rate of 40% or a minimum of 2% of turnover, whichever is lesser. Companies engaged in the business of telecommunications are subject to tax at the rate of 45%.

St. Lucia
The 30% tax rate is only applicable to companies that, prior to income year 2003, have no tax arrears and have complied with the requirements of any enactment administered by the Inland Revenue Department. A tax rate of 33.33% will still apply to those companies that have tax arrears and have not complied with the requirement.

Export Allowance for the Manufacturing Sector

The Minister is proposing to re-establish an export allowance for manufacturers. He indicated that a framework would be established which would allow for a reduction of tax on revenues generated from incremental exports to existing markets. He stated that further details would be provided in the Finance Act, 2018.

It should be noted that an export allowance previously existed for exports of products from manufacturing and processing industries, as well as certain specified services, but excluding the following:

- Approved products for the duration of the tax holiday period under the Fiscal Incentives Act
- Crude petroleum and petrochemicals
- Petroleum products and petroleum based products
- Re-exports
Exports to CARICOM jurisdictions were also excluded from the original export allowance which was computed using the formula:

\[
\text{Export Sales/Total Sales} \times \text{Total Sales Profits}
\]

In the above formula, “Total Sales Profits” is equivalent to the chargeable profits of the company.

The export allowance was, however, repealed with effect from 1 January 2003 within the context of a reduction in the Corporation Tax rate, as well as an increase in the rate of the initial allowance for manufacturing entities. There were also some concerns that the export allowance, as then formulated, may have been inconsistent with the free trade principles embodied by the World Trade Organization (WTO). We note, however, that various countries including Barbados continue to utilize the export allowance as an incentive.

The Minister has signaled the Government’s intention to introduce a housing construction incentive programme. In his Budget Address, the Minister alluded to the shortfalls of the Housing Development Corporation's ability to provide sufficient housing to the current applicants, who are in excess of 150,000.

The proposed incentive provides that private developers will be encouraged to construct homes for qualified applicants on the Housing Development Corporation’s list. The homes are to be constructed in accordance with the designs, specifications and prices as fixed by the Government and the private developers will be required to acquire their own land, raise their own financing and mobilize their own resources for the construction of the homes. It should be noted that, whilst the Minister provided an example of the cost of a finished home being TT$750,000, a price threshold has not been articulated for this subsidy. Upon successful completion and sale by the private developers to the qualified applicants, a cash incentive of up to TT$100,000 per unit will be paid by the Government to the developer. Alternatively, the developers could be provided by the State with suitable land at no cost in lieu of the cash payment per unit. Additionally, the income from the sale of the homes will be exempt from tax. The Minister envisages that in so doing, the time frame for the complete construction of the homes will be reduced to nine months or less.

The Minister has proposed the establishment of a Ministerial Oversight Committee, chaired in the first instance by the Prime Minister, to monitor and expedite the process of obtaining building approvals from all relevant regulatory bodies. It has also been proposed that discussions will be entered into with the commercial banks to design a suitable housing loan regime including, if necessary, a mortgage loan interest subsidy. To further stimulate housing construction, it has been proposed that the Town and Country Planning divisions will be requested to relax existing guidelines for the allowable density of housing developments and the process for registering approved housing developers will be simplified, monitored for efficiency and fast tracked.
<table>
<thead>
<tr>
<th>Income Tax Incentive</th>
<th>Sale of Newly Constructed Houses</th>
<th>Initial Sale of Residential House Site</th>
<th>Newly-Constructed Commercial Building &amp; Multi Storey Car Park</th>
<th>Multi-Family Dwellings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Tax Act (ITA) Provision</strong></td>
<td>Section 42(2) (c)</td>
<td>Section 45C</td>
<td>Section 45D</td>
<td>Section 45E</td>
</tr>
<tr>
<td><strong>Description of Exemption</strong></td>
<td>Gains or profits from the initial sale of newly constructed houses, where the cost of construction exclusive of the cost or value of the land does not exceed TT$1.5M shall be exempted from income tax.</td>
<td>Gains or profits from the initial sale of a residential house site, being part of a land development project will be exempt from income tax.</td>
<td>Gains and/or profits from the initial sale or premiums and/or rents derived from the letting of newly constructed commercial buildings or multi-storey car parks will be exempt from income tax.</td>
<td>Gains or profits from the initial sale or premiums and rents derived from the letting of a newly constructed multi-family dwelling by an approved developer will be exempt from income tax.</td>
</tr>
<tr>
<td><strong>Effective Date</strong></td>
<td>1 February 2013&lt;sup&gt;2&lt;/sup&gt;</td>
<td>1 October 2012</td>
<td>1 October 2012</td>
<td>1 July 2016</td>
</tr>
<tr>
<td><strong>Expiry Date</strong></td>
<td>N/A</td>
<td>31 December 2025</td>
<td>31 December 2025</td>
<td>31 December 2025</td>
</tr>
<tr>
<td><strong>Applicant</strong></td>
<td>Registered trader in house</td>
<td>Registered land developer</td>
<td>Owner of building or car park</td>
<td>Owner of multi-family dwelling</td>
</tr>
<tr>
<td><strong>Responsible Ministry</strong></td>
<td>Ministry of Housing</td>
<td>Ministry of Housing</td>
<td>Ministry of Trade and Industry</td>
<td>Ministry of Housing</td>
</tr>
<tr>
<td><strong>Legislation</strong></td>
<td>All legislative provisions are in effect for the granting of the exemption.</td>
<td>All legislative provisions are in effect for the granting of the exemption.</td>
<td>All legislative provisions are in effect for the granting of the exemption.</td>
<td>Currently awaiting a definition for the term ‘multi-family dwelling’ as well as the regulations outlining the application process.</td>
</tr>
</tbody>
</table>

<sup>2</sup>Effective date in which the limit for the cost of construction was increased to TT$1.5M
In keeping with the Government’s intention to collect Property Tax, the Minister indicated that the data gathering process is being implemented to build a comprehensive list of all properties in Trinidad & Tobago. The Minister envisages that once this process is successfully completed it would form the basis for meaningful assessments to be made and for property taxes to be paid by all property owners commensurate with the rental values of their property.

It is important to note that the Minister did not address whether the waiver on the payment of the Property Tax would be extended to include income years 2016 and 2017. The payment of the Property Tax under the Property Tax Act has been waived for the period 1 January 2010 – 31 December 2015. It is the Government’s intention to have a fully implemented property tax system by income year 2018. In this regard, please note our Property Tax Appendix which details the current Property Tax regime. The Property Tax Act is legally in effect, as such, taxpayers should begin accruing for the said liability.

It is worth noting that the Minister did not mention the temporary Land Tax regime, which was previously alluded to in the press as a measure to bridge the current gap in the national revenue-expenditure account as a result of the failure to properly implement the Property Tax Act. The temporary Land Tax regime proposed a flat rate of tax depending on the square footage of the land and its purpose. The regime appeared to contain no consideration for property values, the location of the land nor its capital value, which may have resulted in an inequitable taxation. Additionally, no guidance was provided on the process by which the rate of tax per annum was computed relevant to the land size and type.

Fast tracking the process for registering housing developers will be a welcome initiative to taxpayers currently applying for the sale of newly constructed houses and initial sale of residential house site exemptions under the Income Tax Act. Since the repeal of the Housing (Income Tax Exemption) Regulations and Housing Act Regulations in 2005, traders in house and land developers have been frustrated in their applications to access incentives due to the lack of regulations. In January 2015, the authority of the Minister of Housing to make regulations was reinstated. It was not until 2016 that regulations were passed allowing taxpayers access to the Income Tax Act incentives and only in 2017 were formal processes put in place to receive such applications. It should be noted that since its introduction in the year 2016, a definition has yet to be provided for the term ‘multi-family dwelling’ and access to the incentive has been frustrated by bureaucracy.

The proposed incentive will join the currently existing exemptions aimed at promoting and encouraging investment in the development of public infrastructure within Trinidad & Tobago. The current property development tax incentives pertain to houses targeted at medium and low income earners on one end of the spectrum and residential land development and commercial buildings on the other end. The table hereunder provides a summary and comparison of each incentive.

### Property Tax

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Currently, Supplemental Petroleum Tax (SPT) is imposed on windfall profits, calculated on gross income from the sale of crude oil (including condensate). Income from the disposal of natural gas is not subject to SPT. The tax is charged on the gross income of marine and land operations at varying rates based on the weighted average annual crude oil price.

The rates of SPT are as follows:

<table>
<thead>
<tr>
<th>Weighted average crude prices US$</th>
<th>A Marine</th>
<th>B New Field Development</th>
<th>C Land and Deepwater Block</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.00–50.00</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>50.01–90.00</td>
<td>33%</td>
<td>25%</td>
<td>18%</td>
</tr>
<tr>
<td>90.01–200.00</td>
<td>SPT rate = base SPT rate + 0.2%(P–US$90)</td>
<td>47%</td>
<td>40%</td>
</tr>
<tr>
<td>200.01 and over</td>
<td>55%</td>
<td>47%</td>
<td>40%</td>
</tr>
</tbody>
</table>

As such, where the weighted average crude price falls below US$50 per barrel, no SPT would be due and payable. By and large, with average crude oil prices of US$48.03 per barrel for fiscal year 2017, the SPT revenue to the Government was significantly challenged.

In this regard, the Minister stated that the following critical areas are being reviewed for implementation before the end of year 2017:

- Amending the SPT from a tax charged at rates based on weighted-average annual crude oil price to a tax to be responsive to underlying profitability.
- Extending the SPT to include natural gas.

In addition to the SPT, the Minister stated that the following areas are also being reviewed:

- Reconciling and simplifying the fiscal regimes applicable to the exploration and production sharing systems.
- Standardizing and uniformly applying appropriate royalty rates to all crude oil, condensate and gas.

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3 New fields in shallow marine areas shall be approved and certified for development by the MOEEI. “New field” means an area within the license, sub-license or contract area, consisting of a petroleum reservoir or multiple petroleum reservoirs, all grouped on or related to the same individual geological structural feature or stratigraphic conditions from which petroleum may be produced and where the total recoverable reserves are not more than 50 million barrels of oil equivalent, that comes into production after 1 January 2013, and where recoverable reserves are certified by the MOEEI before the commencement of production and the beginning of each financial year.

4 Base SPT rate is equal to the SPT rate applicable at the crude price range of US$50.01 to US$90.00.

5 P = weighted average crude oil price in US$. 

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Currently, the rate of royalty varies and is dependent on the terms and conditions stipulated in the particular agreement with the Government.

The applicable royalty rates have ranged from 10% to 15% for crude oil and de minimis for natural gas (TT$ 0.015/mmcf).

The Minister proposes to implement a standardized and uniform royalty rate of 12.5% on the extraction of all crude oil and natural gas. This royalty will be calculated on the fair market values of oil and gas, which will be fixed by the Petroleum Pricing Committee. This measure will take effect from 1 December 2017.

It should be noted that in the Budget Statement 2005, the late Honourable Prime Minister Manning sought to ensure an equitable level of taxation for all of the industry players and stated:

“As part of the discussions with the industry, the Government sought to ensure that the levels of taxation were equitable across all the industry players. In that regard, as part of our fiscal reform process, we asked the largest energy company, bpTT to consider accelerating the onset of a 10% gas royalty – currently due to commence from 2017. I am happy to announce that my Government has a secure agreement with the company to a volume equivalent to 10% of gas sold for LNG. This royalty will be implemented in a phased manner beginning in 2005 and be fully effective by 2008, a full nine years ahead of schedule. The company currently sells some gas through NGC at preferential prices for use for power generation. This value is recognized by the Government as equivalent to a similar royalty on gas sold to local industry through NGC.”

Based on the foregoing, the government of the day negotiated to accelerate receipt of the gas royalty, which was to commence in the year 2017, by way of gas in kind equal to 10% of the volume equivalent to natural gas to be utilized for, inter alia power generation purposes, from 2005.

Whilst the contractual terms of the agreements between the Government and the companies are not made public, we are uncertain as to whether the proposed implementation of this royalty rate will be enacted by way of legislative reform or through negotiated agreements (i.e. E&P licenses).

It should be noted that companies that are party to tax indemnified Production Sharing Contracts would not be impacted by this change in the royalty rate as such contracts hold the operators harmless from such impositions.
It should be noted that all cash winnings from games administered by the National Lotteries Control Board (NLCB) are currently exempt from tax pursuant to the provisions of Section 6 (2) of the First Schedule to the Income Tax Act, which states:

“No chargeable gain shall accrue—

(a) ...

(b) ...

(c) From winnings from betting lawfully carried on under or by virtue of the provisions of the Gambling and Betting Act including pool betting and lotteries or games with prizes;

(d) “

The NLCB has reported that its net contribution of TT$300 million for the financial year 2016/2017 has surpassed all profitability targets since the organization was established 49 years ago.

Notwithstanding the profitability of the NLCB, the Minister proposes the introduction of a 10% tax on all cash winnings by the NLCB. This tax will be applicable on all games administered by the NLCB, as identified below:

- Lotto Plus
- Play Whe
- Cash Pot
- Pick 2
- Pick 4
- Any other game or set of games, methods or devices as organized and conducted by the NLCB.

The effective date for implementation of this measure is 1 December 2017.

The Minister of Finance communicated the progression of the Gambling (Gaming and Betting) Control Bill 2016 and supporting regulations which he expects to be fully operational in the year 2018.

It is the view of the Minister that the unregulated and buoyant gambling sector and the emergence of online gambling are absorbing significant foreign exchange resources, with annual outflows estimated at approximately US$200 million.

He also stated that tax compliance is presently at the rate of 10% by industry participants in the gambling industry, which he expressed is unacceptable and can no longer be tolerated.
The new gambling legislation proposes to enforce existing legislation, which stipulates limitations under which various gambling and betting entities may operate (Registration of Clubs Act for Private Members Clubs, the Liquor License Act for bar owners who operate amusement gaming machines and the Betting and Levy Board Act for all betting establishments), to ensure that all Private Member Clubs, bar owners and betting establishments meet their prescribed tax liabilities.

The following has been proposed:

- Duty on all mechanical games of chance for gambling - increase from 20% to 40% effective 20 October 2017.
- 10% tax on all cash winnings by the National Lotteries Control Board effective 1 December 2017.
- Electronic roulette devices operating in bars throughout the country, under the Liquor Licence Act, Chap 84:10 will now attract a flat device tax of TT$120,000 annually.
- The gaming tax which shall be payable annually under the Liquor Licence Act, Chap 84:10 will be increased from $3,000 to $6,000 in respect of each amusement game.
- The taxes on gaming tables and other devices by Private Members Clubs as defined by the Registration of Clubs Act would be increased as follows:

<table>
<thead>
<tr>
<th></th>
<th>Rate per annum</th>
<th>Proposed Annual Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>For every Baccarat table</td>
<td>$50,000</td>
<td>$100,000</td>
</tr>
<tr>
<td>For every Black Jack table</td>
<td>$60,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>For every Caribbean Stud Poker table</td>
<td>$75,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>For every Dice table</td>
<td>$35,000</td>
<td>$70,000</td>
</tr>
<tr>
<td>For every regular Poker table</td>
<td>$30,000</td>
<td>$60,000</td>
</tr>
<tr>
<td>For every Roulette table</td>
<td>$60,000</td>
<td>$120,000</td>
</tr>
<tr>
<td>For every Electronic Roulette device</td>
<td>-</td>
<td>$120,000</td>
</tr>
<tr>
<td>For every Rum 32 table</td>
<td>$75,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>For every Sip Sam table</td>
<td>$75,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>For every Slot machine</td>
<td>$12,000</td>
<td>$24,000</td>
</tr>
<tr>
<td>For every other table or device not mentioned above</td>
<td>$30,000</td>
<td>$60,000</td>
</tr>
</tbody>
</table>

These measures take effect from 1 January 2018.

It is assumed that the above measures do not negate the corporate tax liability of the Private Members Club, bar owners and betting establishments which carry on the gaming and betting activities.

The implementation of these measures and the collection of the proposed tax will no doubt have a positive impact on the Treasury.
The Minister is proposing to amend the criteria for qualifying for the existing incentives (exemptions from Value Added Tax, Motor Vehicles Tax and Import Duties) as follows:

- Removal of all tax incentives on hybrid passenger vehicles (new and used) with engine sizes exceeding 1599 cc.
- Extending the existing incentives to CNG passenger vehicles.

Prior to the proposed amendments, new and used hybrid passenger vehicles (not older than four years from the year of manufacture with an engine size not exceeding 1999 cc) qualified for exemptions from Value Added Tax, Motor Vehicle Tax and Import Duties.

The exemption listed above applied to new or used electric vehicles and new or used hybrid vehicles for private and commercial use imported on or after 1 January 2015 and before 1 January 2020.

**Smaller, More Fuel Efficient Vehicles**

To encourage the use of smaller, more fuel efficient vehicles and to reduce the loss of foreign exchange, the Minister is proposing to increase by 25% the Motor Vehicle Tax and Import Duty on private passenger vehicles with engines sizes exceeding 1599 cc but not exceeding 1999 cc.

It appears that both measures are effective 20 October 2017. However, the Minister has proposed a moratorium up to 31 December 2017 for private passenger vehicles already in transit or already landed in Trinidad & Tobago.

**Motorcycles**

The Minister has also proposed to exempt from all duties and taxes motorcycles with engine sizes under 300 cc.

This measure is effective from 20 October 2017.

**Motor Vehicle Inspection**

The Minister expressed his concern that the proprietors of the vehicle inspection stations have been providing services at considerably low fees. Please note private vehicles five years and older from the date of manufacture must be inspected every two years. In light of this, it has been proposed that there be an increase in the fee for inspections of private motor vehicles from $165 to $300. This increase is expected to take effect from 1 December 2017.
The Minister proposes to harmonize the customs duty on the importation of new and foreign used pneumatic tyres. Currently, the customs duty on new tyres utilized on motor cars is 30%, while used tyres for motor cars attract no custom duties.

Under the new proposal, the customs duty on both new and foreign used tyres will be 30%, effective 20 October 2017. However, the customs duty for new and foreign used tyres utilized on lorries and buses will remain at 15%. With this measure in place, the incidence of mislabeling (where new tyres might be described as used tyres) should be non-existent.

Furthermore, the Minister proposes to implement an environmental tax of $20 per tyre on all imported tyres. The purpose of the tax is to cover the cost of proper disposal of used tyres. Unlike the customs duty on used tyres, this measure will not be implemented until 1 December 2017.

In keeping with the Government’s intention to move towards the elimination of the burden of fuel subsidy, the Minister proposes to implement a system whereby fuel prices at the pump fluctuate and are determined based on the market prices of oil and refined products. This pricing model is similar to that of United States of America and other Caribbean islands, such as St. Lucia.

In this regard, in the year 2018, the Ministry of Energy and Energy Industries will be required to publish, on a monthly basis, the wholesale and retail product prices for the five categories of fuel, namely Regular Gasoline, Super Gasoline, Premium Gasoline, Diesel and Kerosene.

The Minister has advised that the adjustment to the subsidy plus the increase in Retail Margins (see below) will increase the price of Super Gasoline from $3.58 per litre to $3.97 per litre and the price of Diesel from $2.30 per litre to $3.41 per litre. The change in price will take effect immediately.

Recent increases in the price of Super Gasoline and Diesel were as follows:-

<table>
<thead>
<tr>
<th>Period</th>
<th>Super Gasoline</th>
<th>Diesel</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2015</td>
<td>From $2.70 to $3.11</td>
<td>From $1.50 to $1.72</td>
</tr>
<tr>
<td>April 2016</td>
<td>From $3.11 to $3.58</td>
<td>From $1.72 to $1.98</td>
</tr>
<tr>
<td>September 2016</td>
<td>No change</td>
<td>From $1.98 to $2.30</td>
</tr>
</tbody>
</table>
Notwithstanding the anticipated positive impact of this measure on the Government’s budget, the increase in the prices of both Super Gasoline and Diesel may result in inflationary effects, primarily on transportation costs to both individuals and businesses.

Moreover, businesses may seek to pass on such increased costs to consumers which may result in higher prices for goods and services.

**Retail Margins for Fuels**

With a view to improving the cash flow and profitability for businesses operating within the Liquid Petroleum Fuel industry, as well as promoting competition among service stations and the creation of enhanced and sustainable jobs, the Minister proposes to increase wholesale margins as follows:

- Regular Gasoline, Super Gasoline and Premium Gasoline – From $0.145 per litre to $0.195 per litre; and
- Diesel and Kerosene – From $0.095 per litre to $0.145 per litre.

The Minister has advised that this measure will be implemented with immediate effect.

The Minister stated that the previous margins, which were last reviewed in 2009, are insufficient to keep the industry in operation whilst simultaneously hindering competition and dissuading new entrants into the market.

As petrol stations typically have high sales revenues but very low profitability margins, the proposed increase in retail margins by the Minister will be well embraced by service station operators seeking to offset the negative impact of rising operating costs and taxes, such as the recent increase in the rates of Business Levy and Green Fund Levy, which are charged on the gross receipts of a company and levied at the rates of 0.6% and 0.3% respectively (effective January 2016).

**Access to Foreign Exchange**

The Minister of Finance stated, “The exchange rate will move more in step with demand and supply and the availability of foreign exchange.” By way of these comments, it appears that the Minister is signaling the intention to move closer to a free-floating foreign exchange rate.

Although we cannot say with certainty, the aforementioned comments suggests a willingness of the Government to allow the Central Bank foreign exchange rate to fluctuate based upon market conditions.

In addition, the Minster has proposed the establishment of an Export Promotion Facility which would provide manufacturers with access to foreign exchange required for the purchase of raw materials and other inputs.

Under the establishment of the anticipated facility, the Central Bank will licence the Export Import Bank of Trinidad & Tobago Limited (EximBank) as a dealer in foreign exchange. The EximBank is currently the only official Export Credit Agency (ECA) in the country.
In order to qualify for access to the facility, the Minister stipulated that at least 30% of the manufacturer’s production must be for export purposes and the manufacturer must also agree to repatriate a portion of their foreign exchange earnings.

He further indicated that start-up or fledgling manufacturers will not be excluded from the programme. They must, however, provide a feasible export plan.

Initially, the facility will be capitalized at US$100 million but it is expected that this cap will be revisited as necessary as additional manufacturers join the programme. This measure will take effect from 1 January 2018.

New Incentives for Farmers

As a measure to encourage local food production, stimulate agricultural growth and improve farming techniques, the Minister has proposed an Agricultural Financial Support Programme, with grants for new and existing farmers of up to TT$100,000.

Appropriate training or certification in farming will be a prerequisite for applicants since the objective is to encourage rational, efficient and methodical participation in agriculture. Applications will be reviewed by a panel of experienced and successful farmers and agricultural entrepreneurs, who will make recommendations to a Ministerial Committee.

The grants will be directed to financing the purchase of seeds, planting materials, livestock, tools, feed, chemicals, equipment, engines and other essential inputs into farming, and to provide the necessary start up or working capital for farmers, but will not be available for the purchase of vehicles or other non-essentials. This measure will take effect from 1 December 2017.

Removal of the 100 acre restriction for larger farms investments

Currently, Section 14 of the Income Tax Act (ITA) permits a tax holiday of 10 years on the gains and profits from commercial farming carried out on an approved agricultural holding. This exemption was restricted under the provisions of Section 14 (5) (a) to agricultural holdings that do not exceed 100 acres in area.

To encourage the establishment of larger farms and to remove the inequity created by Section 14 (5), the Minister proposes to remove the restriction of 100 acres of land.

This measure will take effect from 1 January 2018.
The Minister proposes to significantly increase license fees and penalties payable by operators of private hospitals.

In his speech, the Minister advised that the license fee applicable to all private hospitals is $150 per year. The license fee proposed, will be based on the number of beds at the institution and is as follows:

- Less than 30 beds: $25,000 per year
- Over 30 beds but less than 60 beds: $50,000 per year
- 60 beds and over: $100,000 per year

Institutions classified as Hospitals for the Convalescent or Chronically-ill, Home for the Elderly or Hospital for any designated disease, or specified disease or disorder or illness will continue to pay the existing license fee of $150 per year as stated by the Minister.

The Minister proposes to increase penalties for persons found guilty of an offence under the Private Hospitals Act from $10,000 to $100,000. Continuing offences are also to be increased from $200 per day to $1,500 per day.

These measures are proposed to take effect from 1 January 2018.

The Minister is proposing to expand the existing Hotel and Guesthouse Room Stock Upgrade Incentive Programme. The programme, which was originally introduced in 2010 and extended in 2015, was applicable to hotels and guesthouses of 6 to 150 rooms. Effective 31 July 2014 for a period of three years, the incentive provided for the reimbursement of 25% of expenditure on the cost of work per room, with the maximum reimbursement being capped at TT$750,000.

The Minister has proposed to extend this by increasing the cost per room reimbursement from 25% to 50% and increasing the maximum reimbursement cap from TT$750,000 to TT$1,500,000.

The Minister has proposed to extend the Small Approved Tourism Properties Programme, available to tourism properties between 1 to 5 rooms, by increasing the cost per room reimbursement from 20% to 40% and the maximum reimbursement cap will be extended from TT$75,000 to TT$150,000.

In addition to the above, the Minister has proposed to expand its Tourism Loan Guarantee Programme. The Minister has indicated that there shall be an increase in the Government subsidy on interest charged by financial institutions on new and restructured loans taken for the tourism sector from 2% to 5%.

Further, the Government has requested that the commercial banks extend loan maturity periods on loans under the Loan Guarantee Programme from 7 years to 15 years.
In the absence of specific legislative provisions that govern the nature of these subsidies, it is unclear as to whether these incentives would constitute a taxable benefit to the taxpayer.

All measures will take effect from 1 December 2017.

Revenue Authority

The Minister signaled Government’s intention to have the Trinidad & Tobago Revenue Authority operational in 2018. As the Minister noted, the Revenue Authority model was adopted since 2009 but has yet to be implemented.

The Minister stated that the Inland Revenue and Customs and Excise Divisions have long been struggling to function in an efficient and effective manner. He also noted the allegations of extensive corruption which have dogged both organizations. He further stated that, under the oversight of a Board of Management, with a degree of autonomy, the Revenue Authority will be empowered to develop its own human resource policies, including appropriate compensation packages and financial management regimes.

Given the problems currently plaguing the Inland Revenue and Customs and Excise Divisions, the Revenue Authority model does appear to be an attractive option. It seems very unlikely that these organizations would be given the power to recruit staff, determine compensation for its employees or be given control over its funding if they remain within the public service. These goals would appear to be more realistically achievable through the vehicle of the Revenue Authority.

Left open by the Minister was the critical question of the migration of personnel to the Revenue Authority, especially in the context of the corruption allegations which he specifically highlighted. We also note that the Trinidad & Tobago Revenue Authority Bill 2010 was allowed to lapse in April 2010, since it failed to attain the required three-fifths majority in the Senate. Since Government does not currently have a three-fifths majority in Parliament, the prospects of enacting the relevant legislation remains to be seen.

Transfer Pricing

Following the initial announcement of October 2011 to implement transfer pricing legislation, the Minister has indicated that an international gas consultant has been engaged to work with the Government to establish mechanisms, through which the Government can increase and maximize its share of income generated from the sales of LNG. In this regard, it appears that the transfer pricing initiative would be pioneered in the Energy Sector and, more specifically, to LNG transactions.
**Income Tax**

Individual Rate (based on chargeable income)
- Every dollar up to $1,000,000 of chargeable income 25%
- Every dollar that exceeds $1,000,000 of chargeable income 30%

**Allowances & Deductible Expenses**

<table>
<thead>
<tr>
<th>Allowance/Expense</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Allowance</td>
<td>$72,000</td>
</tr>
<tr>
<td>Contribution to Approved Pension/Retirement Fund/Deferred Annuity/70% NIS Contribution</td>
<td>$50,000</td>
</tr>
<tr>
<td>Tertiary Education Expenses (Note 1)</td>
<td>$60,000</td>
</tr>
<tr>
<td>First Time Home Owner Allowance (Note 2)</td>
<td>$25,000</td>
</tr>
<tr>
<td>Maintenance or Alimony (under Court Order)</td>
<td>Amount Paid (unlimited)</td>
</tr>
<tr>
<td>Donations under Deed of Covenant (Note 3)</td>
<td>Up to 15% of Total Income</td>
</tr>
<tr>
<td>Purchase &amp; Installation of CNG Kit</td>
<td>Tax Credit of 25% of acquiring and installing (up to $10,000)</td>
</tr>
<tr>
<td>Purchase of Solar Water Heating Equipment</td>
<td>Tax Credit of 25% of cost (up to $10,000)</td>
</tr>
<tr>
<td>Purchase of Bonds (National Tax Free Savings Bonds Regulations) (Note 4)</td>
<td>Tax Credit of 25% of face value</td>
</tr>
</tbody>
</table>

**Benefits In Kind**

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor Vehicles/Equipment</td>
<td>50% of Wear &amp; Tear/ 50% of Lease Rental Fair Rental Value</td>
</tr>
<tr>
<td>Company Owned Housing</td>
<td>Difference in CBTT Repo Rate &amp; Rate Charged Cost to Employer</td>
</tr>
<tr>
<td>Staff Loans</td>
<td></td>
</tr>
<tr>
<td>Other Benefits</td>
<td></td>
</tr>
</tbody>
</table>

**Exemptions**

- Initial sale of a residential house site (Note 5)
- Newly Constructed Commercial Buildings and Multi-Storey Car Parks (Note 6)
- Income and dividends distributed by the CLICO Investment Fund (Note 7)
- Multi-Family Dwelling (Note 8)
- Other Prescribed Exemptions are available

**Other**

- Health Surcharge $4.80/$8.25 per week Based on scale rates
- National Insurance

---

**Notes:**
1. Allowance does not apply to local and regional public tertiary institutions.
2. Applies to residences constructed or purchased on or after 1 January 2011. Allowance may be claimed for each of the first five years commencing from the date of acquisition.
3. Total income is the aggregate income after any deductions are made for expenses, allowances or loss relief.
4. Tax credit may be claimed in the succeeding years of income.
5. Gains or profits derived from the sale are exempt from tax until the year ending 31 December 2025. The residential house site must be a part of a land development project.
6. Exemption from income tax until the year ending 31 December 2025 in respect of:
   a) Premiums and rents derived from letting
   b) Gains or profits from initial sale of newly constructed commercial buildings and multi-storey car parks construction of which commenced on or after 1 October 2012.
7. Applies to income or dividends distributed to resident individuals and companies that are unit holders of the CLICO Investment Fund.
8. Exemption from income tax until the year ending 31 December 2025 in respect of the income derived from the letting or initial sale of a newly constructed multi-family dwelling of which construction commenced on or after 1 July 2016.
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Energy Sector - Survival in a Soft Price Environment

“Lower for longer” or “lower forever”?

The debate continues but, either way, energy companies and governments of hydrocarbon producing nations must recalibrate their strategies to successfully navigate the challenges fashioned by a soft price environment.

With average crude oil prices of US$48.03 per barrel and natural gas netback prices of US$2.00 per mmbtu for fiscal year 2017, industry spectators are remaining optimistic in this bearish period. The reality however, may be somewhat more daunting as the drivers for soft commodity prices appear to be well entrenched in the global framework. Such factors include:

- Increased supply, primarily from unconventional sources
- Reduced global demand
- Contraction in global economic growth
- Proliferation of clean fuel sources

That being said, it is not business as usual for industry stakeholders.

Energy Companies’ Approach

Innovative initiatives, such as financial restructuring to shore-up balance sheets, resetting growth targets, raising capital and cutting costs, are all common features of the new business norm. Global energy companies have moved quickly to shed assets and optimize portfolios.

This holds true for T&T as well, as evidenced by the recent divestments of local assets by Chevron (Blocks 6A, 5 and E), Centrica (Blocks 1a, 1b, 22, NCMA 4 and NCMA1) and Repsol (The TSP Acreage). Fortunately, the T&T LNG market played into the strategy of Shell, which acquired the assets of Chevron and some of Centrica, with DeNovo acquiring Blocks 1a and 1b of Centrica and Perenco purchasing the TSP asset of Repsol.

Energy companies are also seeking to optimize growth and secure consistent cash returns through cost reductions and the consolidation of drilling activities, among other things.

On a global level, energy companies are also focused on achieving long-term success through the acquisition of reserves. A recent study conducted by EY unearthed that over the past five years, top performing oil and gas
companies (i.e. those with a return on capital employed (ROCE) of between 8% and 22%), grew their reserve base by an average of 16%, while bottom tier companies did not grow their reserve base at all. The EY study also revealed that such growth in reserves was achieved largely by way of organic measures.

**Government’s Approach**

By and large, governments of energy exporting nations have been slower to react to changes affecting the performance of their economies and T&T is no exception. Core Government Revenue has declined from a peak of circa TT$56.8 billion in 2008 to TT$37.8 billion in 2017, with revenue from all sources in the Energy Sector contracting to TT$9 billion in 2017. Government Expenditure, on the other hand, was TT$50.5 billion for 2017 and, while this represents a significant reduction from the peak expenditure of TT$62.8 billion in 2014, the Government managed to run a fiscal deficit of some TT$12.6 billion (8.4% of GDP).

Recognizing that this price environment may very well be the new norm or, at a minimum, persist over the medium term, it is evident that energy policy must dovetail with the strategy of the oil and gas companies to cushion the impact of declining revenues.

Akin to business, survival in a soft price environment is immediately counteracted with a drive to increase volume, which in the context of the energy sector focuses on production. To ensure revenue preservation, the Government must facilitate efforts to boost production of hydrocarbons particularly given the fact that downstream demand remains robust and currently exceeds supply (both in the domestic and export natural gas sectors and oil refinery business).

As we have commented previously, there continues to be diametrically opposing views to as whether the tax incentives granted by the last administration were too generous. Such incentives included the immediate write-off of 100% of the capital allowance on exploration activity and accelerated claims of capital allowances on capital expenditure associated with development and production activity. With the sunset clause on the exploration incentive set to expire at the end of 2017, a number of projects have recently come on stream or will do so shortly. These include:

- bpTT Juniper Project, which came on stream in August 2017 and is expected to have peak capacity of 590 million scf.
- EOG/bpTT Sercan (Phase II) which was commissioned in 2016 and has capacity of 275 million scf.
• bpTT Trinidad Regional Onshore Compression (TROC), which came on stream in the second quarter of 2017 and is expected to be accretive to the tune of 200 million scf.
• bpTT Angelin, which after prolonged renegotiations, is expected to commence production during the forth quarter of 2019 with 600 million scf.

Other projects on the drawing board include:
  • Shell’s Starfish, Dolphin, Bounty and Endeavour
  • bpTT’s Cassia

The above, together with the promise of cross border natural gas from the Dragon, as well as the unitization program for Loran/Manatee field with Venezuela, also provide other opportunities to enhance production and actual gas supply.

It is imperative, however, that the Government moves quickly to conclude negotiations and execute the necessary fiscal reforms, as the incremental supply that is achieved in the short-term would need to be supplemented to meet medium term demand. In addition, the enhancement of crude oil production, which currently stands at 73,500 barrels per day to meet refinery demand, must also be high on the agenda of this Government.
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Analysis of tax revenues

FISCAL YEAR 2018

- Taxes on Income and Profits of Oil Companies: $2,102m
- Taxes on Income and Profits of Other Companies: $7,704m
- Taxes on Income and Profits of Individuals: $6,962m
- Value Added Tax: $7,100m
- Other Tax Revenues: $6,972m
FISCAL YEAR 2018

- Charges on Account of Public Debt: $3,784m
- Ministry of Finance: $5,608m
- National Security and Police Service: $5,667m
- Education: $5,152m
- Health: $5,105m
- THA: $1,893m
- Utilities, Infrastructure, Development: $8,737m
- Pensions and Social Services: $7,477m
- Other: $4,598m
### Status of fiscal measures 2017

#### Budget Statement 2017

<table>
<thead>
<tr>
<th>Proposed Measures</th>
<th>Implications</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax Rates</td>
<td>Introduction of a two-tier rate on the chargeable income of individuals as follows:</td>
<td>Enacted in the Finance (No. 3) Act, 2016</td>
</tr>
<tr>
<td></td>
<td>• 25% on chargeable income up to $1,000,000.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 30% on chargeable income exceeding $1,000,000.</td>
<td></td>
</tr>
<tr>
<td>Corporation Tax Rates</td>
<td>Introduction of a two-tier rate on the chargeable profits of companies as follows:</td>
<td>Enacted in the Finance (No. 3) Act, 2016</td>
</tr>
<tr>
<td></td>
<td>• 25% on chargeable profits up to $1,000,000.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 30% on chargeable profits exceeding $1,000,000.</td>
<td></td>
</tr>
<tr>
<td>Value Added Tax</td>
<td>Zero-rating of foreign yacht repair services.</td>
<td>Enacted in Legal Notice No. 7 of 2017</td>
</tr>
<tr>
<td>Fuel Subsidy</td>
<td>Increase in the retail price of diesel from $1.98 per litre to $2.30 per litre.</td>
<td>Enacted in Legal Notice No. 139 of 2016</td>
</tr>
<tr>
<td>Tobacco and Alcohol</td>
<td>Increase in government levies of approximately 15% and 20% on Tobacco and Alcohol respectively.</td>
<td>Enacted in Legal Notices Nos. 159-163 of 2016</td>
</tr>
<tr>
<td>Online Purchase Tax</td>
<td>Introduction of a 7% levy on online purchases of goods and services from non-resident vendors.</td>
<td>Enacted in the Finance (No. 2) Act, 2016</td>
</tr>
<tr>
<td>Agro-Processing Tax Relief</td>
<td>Introduction of an incentive whereby all agro-processing operations will be tax free.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Property Tax</td>
<td>Implementation of the Property Tax Act, 2009 in fiscal year 2017.</td>
<td>Implementation process commenced in April 2017 but since halted</td>
</tr>
<tr>
<td>Proposed Measures</td>
<td>Implications</td>
<td>Status</td>
</tr>
<tr>
<td>--------------------------</td>
<td>-----------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Transfer Pricing</td>
<td>Enactment of Transfer Pricing legislation.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Gaming Industry</td>
<td>Enactment of the Gambling (Gaming and Betting) Control Bill, 2016 in order to enhance collection of taxes in the gaming industry.</td>
<td>The Gambling (Gaming and Betting) Control Bill, 2016 was introduced in Parliament in July 2016 but not yet enacted</td>
</tr>
<tr>
<td>Housing Incentives</td>
<td>Enactment of Regulations to enable investors to access the multi-family dwelling tax incentive.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Revenue Authority</td>
<td>Establishment of the Trinidad &amp; Tobago Revenue Authority in fiscal year 2017.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Electricity Bill Relief</td>
<td>25% rebate on electricity charges for residential customers whose electricity bill is $300 or less.</td>
<td>Implemented with effect from 1 December 2016</td>
</tr>
<tr>
<td>Public Private Partnership (PPP)</td>
<td>Introducing fiscal incentives for PPPs.</td>
<td>Not Implemented</td>
</tr>
<tr>
<td>Sale of Assets</td>
<td>Disposal of the undermentioned assets in order to generate approximately TT$4.1 billion:</td>
<td>Additional Public Offering (APO) of 40,248,000 shares in TTNGL was oversubscribed. An APO in respect of 48,495,665 shares in First Citizens Holdings Limited was undersubscribed by approximately 16.4 million shares. The partial disposal of the industrial estates under eTeck, the shareholding in TGU and the partial divestment of Lake Asphalt have, to date, not been implemented.</td>
</tr>
<tr>
<td></td>
<td>• 51% of the National Gas Company's shareholding in Trinidad &amp; Tobago NGL Limited (TTNGL).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 20% of government's shareholding in First Citizens Holdings Limited.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• 50% of industrial estates under the remit of Evolving Technologies Development Company Limited (eTeck).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Up to 40% of the shareholding in Trinidad Generation Unlimited (TGU).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Partial divestment of Lake Asphalt of Trinidad &amp; Tobago (1978) Limited (Lake Asphalt).</td>
<td></td>
</tr>
</tbody>
</table>
Property Tax Appendix

The Property Tax Act, 2009 was assented to by the President on 31 December 2009 and was expected to come into operation on 1 January 2010. We note, as well, that the Property Tax Act, 2009 also repealed the Lands and Buildings Taxes Act and Part V of the Municipal Corporations Act effective 1 January 2010. Taxpayers have, however, benefitted from a moratorium on the payment of the tax since inception.

In this regard, we note that the Finance Act, 2015 provided for a waiver of Property Taxes for the period 1 January 2010 to 31 December 2015 so that the Property Tax is, in law, due and payable from the year 2016.

Executive Summary

Please note the following definitions:

- Annual Rental Value (ARV) = Annual rent which particular land is likely to attract having regard to the purpose for which the land is actually used, occupied or tenanted, or where it is not actually used, occupied or tenanted, having regard to the purpose for which it is reasonably suitable.
- Annual Taxable Value (ATV) = ARV less deductions and allowances.
- Capital Value = The sum which the fee simple (i.e. freehold interest) might be expected to realize if offered for sale on such reasonable terms and conditions as a bona fide seller would require.

Rates

Property Tax will be assessed as a percentage of the Annual Taxable Value (ATV) of the property as set out below:

\[ \text{Property Tax} = \text{ATV} \times \text{Prescribed Rate for the Property Class} \]

**Industrial**

ATV: 6% of the value of plant and machinery housed in a building\(^1\). In the case of plant and machinery not housed in a building, the ARV is determined to be 3% of the value of such plant and machinery (value to be determined). The ATV will be determined by deducting any applicable deductions and allowances from the ARV.

Rate of Tax: 6% of ATV in the case of plant and machinery housed in a building and 3% of ATV for plant and machinery not housed in a building

Under the prior Lands and Buildings Taxes system, plant and machinery not housed in a building were not liable to be assessed. Under the Property Tax regime, however, plant and machinery would be included in the ATV even if they are not housed in a building.

It is also noteworthy that the definition of “land” was expanded for the purposes of the Property Tax to include “land covered with water” and “all structures, machinery, plant, pipelines, cables and fixtures erected or placed upon, in, over, under or affixed to land”. In the circumstances, the onshore and offshore installations of the energy sector would appear to have to be included in the determination of the ATV.

\(^1\)We note that the 6% valuation methodology for plant and machinery housed in a building is based on guidance from the Ministry of Finance and is not prescribed in the relevant legislation.
Based on current guidance from the Ministry of Finance, the ATV with respect to plant and machinery housed in a building is based on the installed cost of such plant and machinery. The worked example provided by the Ministry, however, refers to the current market value of such assets. In order to determine the current market value of plant and machinery housed in a building, the ARV is determined to be 3% of the value of such plant and machinery (value to be determined). The ATV will be determined by deducting any applicable deductions and allowances from the ARV.

The table hereunder summarizes the applicable rates for the respective Property Classes to compute Property Tax:

<table>
<thead>
<tr>
<th>Property Class</th>
<th>ATV</th>
<th>ATV - Vacant Land</th>
<th>Rate of Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>6% of the value of plant and machinery housed in a building. In the case of plant and machinery not housed in a building, the ARV is determined to be 3% of the value of such plant and machinery (value to be determined). The ATV will be determined by deducting any applicable deductions and allowances from the ARV.</td>
<td>5% of its Capital Value (ARV) less any applicable deductions and allowances.</td>
<td>6% of ATV (plant and machinery housed in a building). 3% of ATV (plant and machinery not housed in a building)</td>
</tr>
<tr>
<td>Commercial</td>
<td>ARV less 10%</td>
<td>5% of its Capital Value (ARV) less any applicable deductions and allowances.</td>
<td>5% of ATV</td>
</tr>
<tr>
<td>Residential</td>
<td>ARV less 10%</td>
<td>3.5% of its Capital Value (ARV) less any applicable deductions and allowances.</td>
<td>3% of ATV</td>
</tr>
<tr>
<td>Agricultural</td>
<td>2% of the open market Capital Value of the property.</td>
<td>2% of the open market Capital Value of the property.</td>
<td>1% of ATV</td>
</tr>
</tbody>
</table>
value, the current replacement cost of the plant and machinery is adjusted to reflect wear and tear as evidenced by maintenance cost levels, production deficits and other influencing factors. We understand that the adjustment for wear and tear would not be based upon accounting convention but is rather expected to take into consideration real declines in the productivity and efficiency of the plant and machinery over time.

Notwithstanding such guidance, there is still a great deal of uncertainty as to how the installed cost of the plant and machinery is to be determined and, in particular, how the wear and tear adjustment is to be computed. We would further note that the terminology utilized by the Ministry of Finance in its guidance (i.e. installed cost, current market value, current replacement cost) is confusing and somewhat contradictory.

In the case of vacant industrial land, the ARV is computed as 5% of its capital value. The relevant legislation does not prescribe a rate of tax specific to vacant industrial land but we would expect that the rate applicable to land with plant and machinery not housed in a building (i.e. 3%) would be applicable to vacant industrial land.

**Commercial**

**ATV:** ARV less 10%

**Rate:** 5% of ATV

In the case of commercial property, the ARV is the annual rental income expected to be earned from such property as determined by the Commissioner of Valuations under the provisions of the Valuation of Land Act. The ATV is the ARV less 10% (for the average time that the property may not be rented). We note that no guidance has been provided by the relevant authorities regarding the valuation methodology to be adopted to determine the expected annual rent of the property and many issues remain unclear. For instance, there is some uncertainty as to whether common area charges are to be taken into account in determining the annual rent of the property.

**Residential Property**

**ATV:** ARV less 10%

**Rate:** 3% of ATV

As is the case with commercial property, the ARV in respect of residential property is the annual rental income expected to be earned from such property as determined by the Commissioner of Valuations under the provisions of the Valuation of Land Act. On the other hand, the ATV is the ARV less 10% (for the average time that the property may not be rented). Whether a property is owner occupied or presently tenanted would not change the ATV valuation methodology, which would be based upon expected annual rental income in all instances.

Based on guidance issued by the Ministry of Finance, several factors will be taken into account in determining a property's rental value, including:

- The location of the property
- The classification of the property
In this regard, the Ministry of Finance has advised that residential properties will be classified as follows:

- Standard Home One: 1 bathroom
- Standard Home Two: 1-2 bathrooms
- Modern Home: At least one ensuite bathroom with a specialty room
- Executive Home: May have at least as many bathrooms as there are bedrooms and specialized areas e.g. a separate room for dining, office, library, etc.

The classification would also take into account factors such as quality of construction and condition of the property.

Further, based on guidance issued by the Ministry of Finance in 2009-10, the ATV is the expected annual rent to be obtained from Trinidad & Tobago resident tenants and, as such, rental rates expected to be obtained from expatriate tenants would not form the basis for assessments. We cannot be certain, however, whether such guidance issued in 2009-10 is still applicable.

**Agricultural Property**

ATV: 2% of the open market capital value of the property

Rate: 1% of ATV

For agricultural properties, the capital value for the purposes of determining the ATV means the sum which the fee simple (i.e. freehold ownership) might be expected to realize if offered for sale on such reasonable terms and conditions as a bona fide seller would require.

**Submission of Returns/Valuation Process**

Pursuant to the Valuation of Land Act, every owner is required to submit a Return which will be used by the Valuations Division in determining the ARV of the property. In this regard, we note that the term “owner” is widely defined in the relevant legislation to include the owner or occupier of any land. There is some uncertainty as to the ambit of the term “occupier” for the purposes of the legislation, however, our understanding is that the onus will be on the property owner to complete and submit the Returns.

The Ministry of Finance, in a newspaper advertisement published on 19 April 2017, advised that Returns were now available and would be mailed to property owners. Returns can also be collected from any office of the Valuations Division or may be downloaded from the Ministry of Finance website.

The Ministry further advised that the deadline for the submission of Returns is 22 May 2017. The Valuation of Land Act provides that a person who willfully fails to make a return within the prescribed time or who willfully makes a false return is guilty of an offence and is liable, on summary conviction, to a fine of $500.

It should be noted that property owners are being asked to submit a voluminous
amount of documentation to accompany the Return, including property deeds, land survey plans, Land and Buildings Taxes receipts, photographs of exterior of the property, sketches of buildings, site plans, building plans, rental agreements, completion certificates, WASA bills, T&TEC bills and Town & Country Planning Approvals.

We expect that in the case of commercial and residential properties, the actual rental value of such properties would have to be included in the Returns where such properties are actually tenanted. On the other hand, the property owner would be required to provide an estimate where the said properties are not actually rented.

The Valuations Division may also populate the Valuation Roll utilizing information it gathers on its own. In this regard, we understand that the Valuations Division may undertake field visits to verify the information submitted in the Returns.

The ARV will be entered on a Valuation Roll and subsequently an Assessment Roll which will be used by the Board of Inland Revenue (BIR) in determining the ATV. The BIR will then issue Notices of Assessments to property owners by way of post.

The Valuation provides for a fresh valuation to be made five years from the date of the last valuation. We are awaiting further guidance from the relevant authorities as to the frequency of the submission of Returns, the valuation process and any amendments to the Valuation of Land Act.

**Payment of Tax**

The BIR is required to issue Notices of Assessment in respect of properties on or before 31 March in each year and the Property Tax becomes due and payable on the said 31 March. We note, however, that property owners have until 15 September to pay the tax before the 10% penalty and interest, at the rate of 15%, become payable. Further, Section 52 of the Property Tax Act, 2009 authorizes the Minister of Finance to extend the time for the payment of the Property Tax.

**Objections and Appeal**

The relevant legislation provides for two schemes of objection and appeal, namely:

- Objection and appeal against a valuation made under the provisions of the Valuation of Land Act.
- Objection and appeal against an assessment to Property Tax made under the provisions of the Property Tax Act, 2009.

The Valuation of Land Act provides that where a property owner is dissatisfied with a valuation, he may, within 30 days after the service of the valuation, lodge an objection with the Commissioner of Valuations. Where the property owner remains dissatisfied after the determination of the objection, he may appeal to the Tax Appeal Board. Further appeals, on a point of law, may be made to the Court of Appeal and Privy Council.

The Property Tax Act, 2009 provides that where the owner of land is dissatisfied with the assessment to Property Tax by the BIR, he may, within 21 days after the tax becomes due and payable (i.e. 31 March), notify the BIR, in writing, of his objection.
Where the grounds of the objection are in relation to the correctness of the ARV or in respect of any mistake or omission in the Valuation Roll, the Property Tax Act, 2009 provides that the BIR shall refer such objection to the Commissioner of Valuations who shall, within nine months of receipt of the notice, deal with the objection in accordance with the Valuation of Land Act,

In the case of an objection in respect of an incorrect assessment of Property Tax, the BIR must determine the objection within one year of the receipt of the notice of objection.

An appeal lies with the Tax Appeal Board where the property owner remains dissatisfied after the determination of the objection. Appeals may subsequently be made to the Court of Appeal and Privy Council.

**Conclusion**

There are many uncertainties associated with the Property Tax and requiring clarification by the relevant authorities including, in particular:

1. The basis for determining the ATV in the case of industrial property (installed cost, current market value, current replacement cost) and the method of computing the wear and tear adjustment, including the 6% valuation methodology.

2. The treatment of the energy sector’s onshore and offshore installations such as rigs, platforms, subsea installations, drilling wells and pipelines.

3. The valuation methodology for computing the expected annual rent for commercial and residential properties.

4. How the Valuation Roll will be populated, i.e. with information obtained from the Returns submitted or from information otherwise obtained by the Valuations Division.

5. Whether the Minister will extend the statutory deadline (i.e. 31 March) pursuant to the provisions of Section 52 of the Property Tax Act, 2009.

EY stands ready and willing to assist our clients with the following Property Tax issues:

- Rendering advice and custom made solutions on the Property Tax matter.
- Assisting with the completion and/or review of the Returns.
- Preparing objections and assisting with disputes with the relevant authorities.

Please feel free to contact any one of our tax professionals.
EY Caribbean is in Guyana.

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Corporate Tax

Corporate tax rate
- Telephone company 45%
- Commercial company\(^1\) 40\(^2\)
- Non-commercial company 27.5\(^3\)
- Investment company Exempt

Capital gains tax rate 20\(^4\)

Withholding taxes

Payments to non-residents
- Interest 20%
- Royalties 20%
- Rents 20%
- Management charges or charges for personal services and technical managerial skills 20%
- Premiums, commissions, fee or licenses 20%
- Discounts, annuities or other annual or periodic payments 20%

Dividends and distributions 20%

Branch profits remittance 20%

Payments to residents

Inter-company distributions Exempt

Net operating losses (years)
- Carry back Not Applicable
- Carry forward (corporation tax) Unlimited\(^5\)
- Carry forward (capital gains tax) 24 years

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1 A commercial company is a company where at least 75% of its gross income is from trading in goods not manufactured and is defined to include banks and insurance companies carrying on other than long term insurance business.
2 The rate of corporate tax for a commercial company is the lower of 2% of turnover and 40% of chargeable income, whichever is lower.
3 For companies engaged in both commercial and non-commercial activities, a dual rate is applicable, where the commercial activity will be taxed at the lower of 2% of turnover and 40% of taxable income and the non-commercial activity at a rate of 27.5%.
4 In the case of capital gains arising within a period of 12 months, such amount shall form part of the chargeable income subject to tax.
5 Losses carried forward can be written off to the extent of half the taxable income for the tax year. This limitation does not apply to petroleum operations.
Guyana Tax Rates 2017

Capital Allowances

**Petroleum sector**
Petroleum capital expenditure  
20% per annum

**Diamond and gold mining sector**
Exploration and development expenditure  
20% per annum

**Other sectors**

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aircraft</td>
<td>33.3%</td>
</tr>
<tr>
<td>Boats</td>
<td>10%</td>
</tr>
<tr>
<td>Buildings (housing machinery)</td>
<td>5% on cost</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>10%</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>20%</td>
</tr>
<tr>
<td>Electronic office equipment</td>
<td>50%</td>
</tr>
<tr>
<td>Other office equipment</td>
<td>15%</td>
</tr>
<tr>
<td>Plant and machinery</td>
<td>20%</td>
</tr>
</tbody>
</table>

Value Added Tax

- Supply and import of most goods and services  
  14%
- Supply of financial services  
  Exempt
- Rental of residential property  
  Exempt
- Essential food items  
  Exempt
- Exports of goods  
  0%
- Certain supplies of services to non-residents  
  0%

**Supply of electricity (GUY$):**
- Consumption up to $10,000  
  0%
- Above $10,000  
  14% (on full consumption)

**Supply of water:**
- Consumption up to $1,500  
  0%
- Above $1,500  
  14% (on full consumption)

Registration threshold

<table>
<thead>
<tr>
<th>Taxable supplies of</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15,000,000 per annum</td>
</tr>
</tbody>
</table>

¹ Allowances may be claimed on a reducing balance basis or straight line basis. Where the latter basis is applied, allowances are limited to 90% of the cost of the asset.
Property tax rates

Value of net property for companies (GUY$)
- On the first GUY$10,000,000 of net property: Nil
- For every dollar of the next $15,000,000 of net property: 0.5%
- For every dollar of the remainder of net property: 0.75%

Income Tax Rates - Individuals

Band of Taxable Income (GUY$)
- Taxable income up to 1,440,000: 28%
- 1,440,001 and over: 40%

Personal allowances
Basic deduction – Greater of $720,000 or one third of total income from all sources excluding income subjected to withholding taxes

Mortgage interest
100% of interest paid (conditions apply)

Employee NIS contributions
100%

Employee national insurance contributions
National insurance contributions (% of maximum insurable earnings of GUY$220,000 per month)

<table>
<thead>
<tr>
<th>National Insurance</th>
<th>Employee (%)</th>
<th>Employer (%)</th>
<th>Total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employed persons</td>
<td>5.6</td>
<td>8.4</td>
<td>14</td>
</tr>
<tr>
<td>Self-employed persons</td>
<td>-</td>
<td>-</td>
<td>12.5</td>
</tr>
</tbody>
</table>
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Business Tax Services

• Business tax compliance and advisory
• Tax planning
• Tax controversy/disputes
• Tax accounting

Accounting Compliance Reporting

• Bookkeeping
• Financial Statement Close Process support
• Statutory reporting (including compilation)
• Payroll
• Financial advisory support

Indirect Tax Services

• VAT compliance and advisory
• Property tax
• Insurance premium tax
• Hotel accommodation tax
• Stamp duty
• Financial services tax
• Credits and incentives

Human Capital Services

• Expatriate tax compliance and advisory
• Global employment tax services
• Global business immigration services
• Personal tax services

International Tax Services

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

Transaction Tax Services

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