

Promoting Economic Governance; Propelling Organic Growth



BUDGET NEWSLETTER 2019/2020



Aegis Business Solutions is pleased to share with you, our brief overview of the **2020 Trinidad and Tobago Budget** presentation read by the Minister of Finance, The Honourable Colm Imbert on 7th October 2019.

Feel free to contact us with any questions for your business or schedule a free consultation with us at info@aegistt.com

CAVEAT

This budget overview was prepared for information purposes only and does not constitute legal or professional advice. It is intended to inform Aegis Business Solutions Limited and Aegis & Co. clients and stakeholders as a general guide.

Readers are encouraged to consult with professional advisors for advice concerning specific legal, accounting or tax matters.

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ACKNOWLEDGEMENT

We would like to express our thanks and appreciation to our Aegis team for their contributions towards producing this National Budget Newsletter.

We wish to mention the following team members who have demonstrated team spirit, leadership and commitment to delivering responsive information to our colleagues and clients in Trinidad and Tobago.

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Our support staff: Kevin Antoine, Christian Morris, Michael Chunu, Stephen Joseph, Catherine Perreira, Jaime Warner, Brent Lee.

We also wish to express a special thank you to our Alumni who also assisted us in producing this newsletter and Mr Randy Lewis and Aegis' staff for the photographs used on our cover.

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MESSAGE FROM OUR CHAIR

We are pleased to present our overview of the fiscal measures announced in the 2020 Budget Statement entitled “Stability, Strength and Growth”, presented by the Minister of Finance, the Honourable Colm Imbert, on October 7th, 2019.

Trinidad and Tobago is a small and developing economy and, as such, cannot escape the effects of developments in the wider global economy. Currently these include the growing tension between the US and China regarding trade issues, the uncertainties of Brexit and all the other many geopolitical tensions playing out throughout the world.

This uncertain world environment creates volatility to energy prices and this, in turn, impacts our economy which, for the foreseeable future, will be energy based.

The budget is based on estimated revenue of TT\$47.749 billion and expenditure of TT\$53.036 billion. This will result in a deficit of TT\$5.287 billion and is predicated on oil price of US\$60 and gas price of US\$3 per MMBtu.

The budget covered many far-reaching social matters including the efficiency of operations – there will be no need for life certificates to be presented to the Treasury by pensioners; the necessity to complete arrival forms at the airport will be abolished. There will be incentives to develop the farming industry, improve transportation, home ownership and the minimum wage will be raised. There will also be incentives to facilitate energy efficiency and to stimulate exploration and development by energy companies. Tax allowances for corporate sponsorship in sporting, culture, arts, audiovisual productions and the local fashion industry will be increased. There will be social incentives for day care centers for children and homeless females displaced by conflict and violent crimes.

The second largest allocation in the budget, TT\$6.44M, has been earmarked for the combat of crime in the country. The Minister has heard the concerns of the citizens!

All these initiatives will be detailed in the following pages for your further information.

If we are to develop, it is imperative that there is good governance to encourage transparency, facilitating stability and fights corruption which is key to future economic growth and lasting democracy and improved standard of living, thus the theme of our bulletin “Promoting Economic Governance; Propelling Organic Growth”.

Once again, I wish to thank our hard-working team for making this newsletter possible.

We would be happy to hear from you with any questions you may wish to ask or if you need any further clarification on any matter.

Angela Lee Loy

EXECUTIVE OVERVIEW

In his final budget of his current term as Minister of Finance, the Honorable Colm Imbert’s presentation was themed “Stability, Strength and Growth”. The Minister highlighted the inherited levels of expenditure and efforts taken to reduce this to sustainable levels. The table below summarizes the revenues and expenditure presented in the budget statement¹ over the term of the current administration.

	2019/20	2018/19	2017/2018	2016/2017	2015/16	Increase/ Decrease	Increase/ Decrease
	\$bn	\$bn	\$bn	\$bn	\$bn	2020/2019	2020/2019
Total Revenue	47.7	47.7	45.7	47.4	60.3	\$bn	%
Oil Revenue	11	9.5	6.4	2.6	5.4	1.5	15.8
Non oil and capital revenue	36.7	38.2	39.3	44.8	54.9	-1.5	-3.9
Total expenditure	53	51.8	50.5	53.5	63	1.2	2.3
Deficit	5.3	4.1	4.8	6.1	2.7	1.2	29.2

Oil and Gas Dependency

In our review of the first budget presented by Mr Imbert for 2015/16, we asked the question whether Trinidad and Tobago had entered the age where oil dependency had ended. We commented back then that it was the first time, in a decade, that a budget had oil revenues of less than 35% of total revenues. Whilst budgeted revenues have shown an increase in the reliance on oil over the five years, it is still substantially less than historical averages.

¹ Actual numbers may vary significantly from budget as many years the minister presented mid-year reviews with substantial revisions.

Notwithstanding, oil and gas prices have still received prominent attention in setting the budget assumptions. For the 2020 fiscal, these have been set at US\$60.00 per barrel and US\$3.00 per MMBtu, respectively. It is fair to say that the current administration took up office in a climate of tumbling oil prices and gas prices. The current geopolitical climate has seen some uptick in oil prices, with threatened sanctions on Iran, political upheaval in Venezuela and attacks on Saudi oilfields. Against such a backdrop, the oil and gas price assumptions do not appear unreasonable.

Fiscal Stability

Even though he took pains to demonstrate reductions in expenditure during his term in office, the Minister still presented five consecutive years of budget deficits, aggregating to TT\$24.3bn. These deficits have been funded by public sector borrowings and, for 2020, the Minister plans to finance the current deficit with a combination of domestic (\$3.8bn) and external (\$1.5bn) borrowings. While the Minister maintains that our debt to GDP remains healthy, caution must be exercised, as our sovereign credit rating underwent a downgrade earlier this year by rating agency Standard and Poor's.

For fiscal stability to be a reality, the revenue-expenditure gap must be closed. In his outlook for the period 2020 to 2022, the Minister projected growth of 1.9%, 4.1% and 3.6%. For sustainability to materialize, added government revenue derived from this growth must be achieved with minimal additions to cost.

New Fiscal Measures/Legislative Changes

Among the major changes noted are:

- Tax reform on Life Insurance companies
- Changes in capital allowances and loss relief for Energy companies
- Establishment of an authority to govern the Co-operative sector

The Co-operative/Credit Union proposed changes are quite noteworthy. According to the Minister, once the regulating entity is established, Credit Unions will be able to offer banking and quasi-banking services, including the cashing of cheques. The pros and cons will inevitably come to the fore in the intervening period. The benefit of increased access to credit and providing banking services to persons unable to access such services at present is welcome. On the flipside, the implications to regulation from an anti-money laundering perspective must also be considered.

National Investment Fund

The Minister commented on the success of the National Investment Fund (NIF). This vehicle for investing in assets formerly held by CLICO is earmarked for growth in 2020. The Minister proposed the transfer of \$2.6bn of additional assets, maintaining the current ratio of debt/equity. This will mean that another public offering of bonds will be undertaken, equating to half of the value of the assets transferred. So far, NIF has tabled one annual report for the period ended December 2018; this was a truncated period of less than one year. Dividends received were sufficient to meet financing obligations to bondholders. The ability of NIF to successfully service its debt obligations will depend on the performance of the underlying assets. Investors in NIF will have to weigh risk versus reward inherent in investment considerations.

PETROTRIN

One year ago, the nation was rocked by the announced closure of PETROTRIN. In his budget delivery for 2019, the Minister outlined, with considerable detail, the burden PETROTRIN placed on the state and his plans for reform. Included in the 2019 presentation was a statement that OWTU would have first option to purchase the refinery operations. In his 2020 presentation, the Minister presented details of the procurement process that lead to the refinery being awarded to the workers' union, now trading as Patriotic Energies and Technologies Company Limited.

In justifying the purchase, the Minister said they presented the best terms, with an upfront injection of US\$700mn. However, the upfront payment has been foregone for a three-year moratorium and a further ten years to repay. According to the Minister, on a net present value basis, this still presented the best deal.

Some Thoughts on Economic Governance

The budget presented by the Hon. Minister combines intervention for those deemed in need of social support, as well as incentives for the business sector. It also outlines strategies for creating economic stability and development for future growth. In critically examining the plans, it is quite clear that the success of measures hinge on robust practices by those charged with governance.

“Those Charged with Governance”

This is a categorical description of leaders in the world of corporate governance. The use of the term here is, therefore, deliberate as there are many principles of corporate governance that can apply to governance at the national level. Indeed, such things like insinuating a budget is a political tool can be neutralized through some of the best practices of corporate governance. These best practices espouse principles of fairness, accountability, responsibility and transparency. By an understanding of these principles, one can see how the benefits redound from a national perspective.

Fairness in corporate governance seeks to ensure that all shareholders receive equal consideration, regardless of number of shares held. Shareholder agreements require minority protection. A national governance model should, therefore, seek to ensure all citizens benefit from national initiatives, regardless of party affiliation.

Through their reporting mechanisms, corporations account for their conduct and actions. These mechanisms are governed by numerous standards, including financial reporting standards, legislation, securities regulations, etc. They form a rigid basis via which the boards of corporations are held accountable. While at the national level there are numerous legislations to guide accountability, one cannot deny that the adherence and punctuality displayed in the corporate world is correlated with their degrees of success. In other words, the corporations that adhere more strictly to their accountability through reporting tend to be those that lead their respective industries.

Directors' responsibilities are hard-coded in legislation and carry with them the burden of criminal punishment. Whilst the burdens of duties in public life may be stricter, the supporting accountability of the corporate world makes it more probable that transgressions would be detected and the resulting corrective action be done swiftly without the interference of politics.

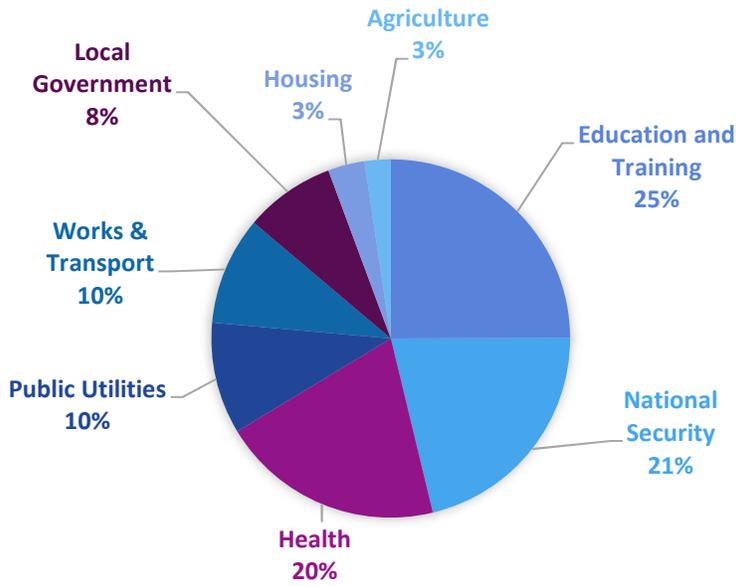
Transparency in corporate governance seeks to encourage governors to disclose more than the minimum stipulated by standards and legislation. This is best encouraged through company values and culture. Values and culture require constant validation and reinforcement. They establish a foundation of not only habits, but principles that should not be compromised. From such a foundation the pillars of the organization's strategies are established.

The national agenda perhaps needs to establish values that are universally embraced, that transcend political lines and help our nation become a true competitive player at regional and international levels. It is only through a robust foundation that we can bequeath to future generations the gift of economic stability.

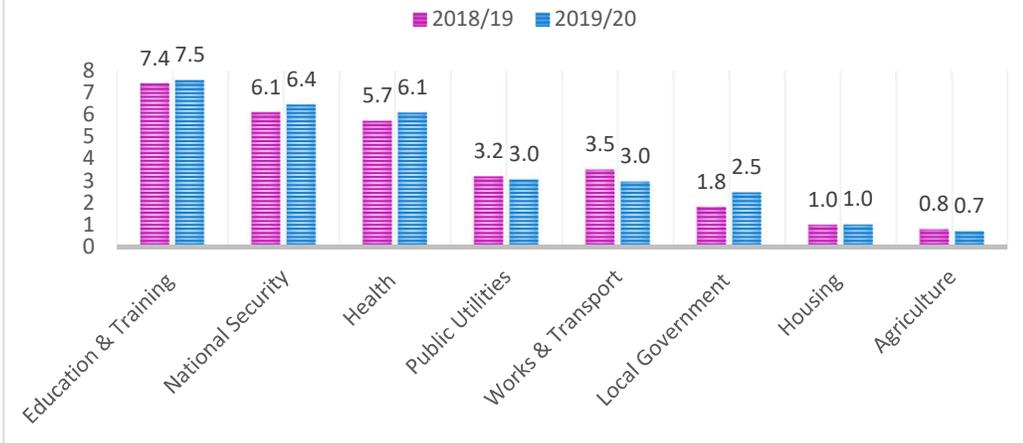
Aegis will be hosting the Caribbean Corporate Governance Conference on October 30, at the Hyatt Regency. Come join us to find out more about how adopting good governance practices can positively impact your organization.

ALLOCATION OF EXPENDITURE

ALLOCATION OF EXPENDITURE 2020



EXPENDITURE ALLOCATION 2018-19 VS 2019-20



All figures in chart are represented in TT\$bn

EXPENDITURE ALLOCATED TO TOBAGO

An amount of \$2.283bn (4.3%) of the national budget has been allocated to Tobago. The allocations are as follows:

- \$2.033bn will be for recurring expenditure
- \$231.6mn for capital expenditure and;
- \$18.0mn to assist with unemployment relief

An additional \$987.1mn was allocated for expenditure in Tobago by various government Ministries, under the Sixth Schedule of the THA Act. Also, discussions are at advance stages with respect to funding in the sum of US\$16 m to the THA from CAF Development Bank to fund urgent costal infrastructure projects.

This will allow Tobago to increase its contribution to national economic development and national economic diversification plan, thereby facilitating further improvement in the standard of living and quality of life of Tobagonians.

To offset some of the above expenses, bond financing in the amount of \$300mn which will be used to fund critical development projects has been approved by The Minister of Finance. This is a historic development for all Tobagonians

FISCAL MEASURES

Life Insurance Companies: Taxation Reform

A new methodology was proposed to calculate the taxation of profits of life insurance companies. This replaces the existing basis for taxation of life insurance companies, as the Statutory Fund is no longer available as a tax basis due to the Insurance Act 2018. The new methodology will have a minimal marginal impact on the tax position of insurance companies. In order to implement this measure, amendments to the Corporation Tax Act are required.

Light bulbs: Tariffs structure

All taxes and duties have been removed on LED bulbs and appurtenances.

Solar Water Heating Equipment

An increase in the tax credit from 25% to 100% of the cost of the Solar Water Heating Equipment up to a maximum of TT\$10,000 will take effect from January 1st, 2020.

Energy: Exploration and Development

Capital allowance for energy companies involved in exploration and development for both tangible and intangible expenditure will be computed on a straight-line bases over five years, i.e. at 20 percent per year. This measure will take effect on January 1st, 2020.

Energy: Loss Relief

From January 1st, 2020, the loss relief rate will be reduced from 100% to 75% of taxable profit for companies engaged in the oil and gas exploration and development.

Energy: Investment Tax Credit

The Investment Tax Credit for energy companies will increase from 20% to 25%, and will take effect on January 1st, 2020. Companies will therefore be able to claim 25% of the expenditure on development activity for mature fields and enhanced oil recovery projects as a credit against their Supplemental Petroleum Tax Liability.

Personal Allowance at Airports

The value of personal goods that can be imported without incurring customs duties has increased from TT\$3,000 to TT\$5,000. This measure will take effect from January 1st, 2020.

REITERATION OF TAX RATES

- The Corporation Tax rate remains flat at 30% and 35% for companies in all industries including the banking industry.
- There were no changes to the Income Tax rate. The existing structure remains at 25% on the first \$1m and 30% thereafter.
- There were no changes to NIS rates.
- Personal allowance for individual employees remains at TT\$72,000.
- The VAT regime remains unchanged, with the threshold of \$0.5m being maintained and the rate of VAT at 12.5%.

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- Petroleum Tax rate remains the same and the existing structure for royalties is unchanged.

Additionally, there were no further changes to penalty and interest.

DIVERSIFICATION INITIATIVES

CREATIVE INDUSTRIES

On January 1st, 2020 an increase in tax allowance from TT\$3mn to TT\$6mn takes effect. It will be implemented as a result of the notable expansion which has been taking place in the creative industries. This allowance applies to corporate sponsorship of nationals in the local fashion industry, audio, visual and video productions specifically for local education, entertainment, local production companies including companies sponsoring sporting activities, events or sportsmen as well as art and culture.

TOURISM

There was an increase in visitor arrivals in 2019, with a total projected growth rate of 3 to 4 percent in 2019 with sound long-term projections growth. It has been noted that Tourism Investors are accessing the government's recently introduced investment incentives for improving accommodation plan to first class levels. Therefore, the government has introduced the following initiatives in Tobago: -

- Rehabilitation and rebranding of the Magdalena Grand Beach & Golf Resort
- Roll out of new terminal building at the ANR Robinson International Airport commencing early 2020, which will be completed within 12-18 months
- The addition of two (2) new fast ferries, which are being built in Australia, to the existing fleet which has been servicing the sea bridge.

AGRICULTURE

Diversification of the agricultural sector was cited as high priority for the government and in order to make the industry more efficient they have upgraded the IT Systems at the Ministry of Agriculture Land and Fisheries. In addition, to stimulate domestic agriculture, there will be a removal of all taxes and duties on all inputs for farmers registered for agricultural purposes, including the processing of local agricultural products, making it a tax-free industry.

CARICOM MARKET:

A promotional expenses allowance for a maximum of 150 percent of the amount actually expended for the purpose of creating or promoting the expansion of foreign markets for the export of certain goods and services has been proposed. This allowance is extended to first time exporters in the CARICOM market.

SOCIAL INITIATIVES YEAR 2020

The government continues to remain consistent with their strategy to invest and develop in the areas of health, education, housing and other sectors which in turn mobilizes social reform. This year, the government focuses in the following areas:

Education and Training (\$7.548 bn)

GATE continues to achieve its goals and following this, further improvements will be made to the effectiveness of the overall education system. This includes accessibility and support of all educational pursuits for all persons and continuous monitoring of programmes to ensure alignment with national development goals. Increased allocation for maintenance of educational institutions and improvements to the procurement processes will also be priority.

Housing (\$1.007bn)

Key on the agenda is accessibility and opportunities to own a home for low- and middle-income earners. This has been an ongoing issue for which the government has proposed alternative solutions to make housing available at a cost which is likely affordable to this category of earners.

HDC will be allocated bonds of \$1.0 bn at a 4.5 % fixed rate, which will not only allow citizens an avenue to save but also to access housing.

The modification of the Government Savings Bond Act has made way for the addition of a new category called the Housing Bonds. These bonds are intended to be transferable and will facilitate the purchasing of homes by individuals from HDC. To achieve this initiative the limit under this Act has been increase from \$2.0bn to \$3.0 bn.

New initiatives in the Accelerated Housing Programmes, will also allow the HDC to produce 6,000 housing units by December 2020 and 3000 units per annum thereafter. Other programmes such as the Housing and Village Improvement Programme, Aided- Self Help Housing Programme and public-private-partnerships are also solutions used alongside the Accelerated Housing Programme to increase accessibility of housing opportunities to low- and middle-income citizens.

In addition to the above, the government has designed another solution to address housing issues. Small to medium contractors will now qualify for projects to construct 5 to 10 homes at approximately \$500,000 each. These contractors will construct homes within the specifications outlined by HDC. The initiative is expected to be rolled out within the next 3 months.

Funding for citizens to construct homes will also be provided with the introduction of the new Housing Loan initiative. This is expected to be operational in the early part of 2020 and individuals will be provided with low interest loans up to \$300,000.

Health and Healthcare (\$6.084bn)

Initiatives such as the adoption of CDAP services in more pharmacies throughout the country, increased inventory of drugs, provision of renal dialysis and cardiac programmes and the Childrens' Life Fund continue to offer some improvement in the nation's health care system.

The government proposes to continue focus in healthcare, through the completion and improvement of various health facilities.

Apart from the construction and improvements to various health facilities, allocations have been made to address concerns regarding appointments and retention of health care providers such as nurses

and doctors. Redesign and implementation of mechanisms within NIPDEC will also facilitate increased inventory through bulk purchasing of drugs and medical equipment with other CARICOM countries.

Gender Issues

The government intends to assist women primarily responsible for the household, with daycare services for children under three (3) years of age. This initiative is also intended to provide employment for women. In addition, shelters for homeless women impacted by their social situations is also key on the government's agenda.

Sports

The government recognizes that community support in the area of physical activities and sporting has proven to aid in issues such crimes, youth offenses and drug abuse etc. Continuous developments in various community centers and sporting facilities are also included in this year's agenda.

Social Expenditure

Streamlining and monitoring of processes within programmes such as Public Assistance Grants and Targeted Conditional Cash Transfer Programmes will also be implemented to ensure effectiveness and attainability of intended purpose.

Public Utilities (\$3.047bn)

One critical area highlighted in this years' budget is improving water supply and distribution and upgrading of the country's water infrastructure. This will include replacing aged populated net owned infrastructure.

Life Certificates for Pensioners

The government intends to discontinue the process of submitting life certificates to the Treasury annually by government pensioners.

On -the-Job Training

Increase of stipend by 10% and benefits of the programme extended to 8000 trainees to be effective by December 2019.

Minimum Wage

Increase of the minimum wage from TT\$15.00 to TT\$17.50 per hour. The benefits extend to approximately 194,000 persons.

CEPEP

Wages for workers under this category and fees to contractors to increase by 15% effective December 1st, 2019.

URP

Increase by 15% to wages for this category of workers to take effect December 1st, 2019.

Daily -paid Public Servants

These workers will be eligible for a minimum Public Services pension of TT\$3500 per month. The plan will be contributory and will take effect in 2020.

ENVIROMENTAL, INFRASTRUCTURAL & OTHER INITIATIVES

Road Infrastructure

- San Fernando to Point Fortin highway scheduled to be completed at the end of 2020 at an approximate cost of \$7.4bn or \$210mn per kilometre. The Valencia-Toco Roadway is now under construction and is carded to be completed in 2021. Additionally, the Curepe Interchange is being constructed at a cost of \$221.6mn and is to be completed by March 2020.

Public Transportation

- Twenty-five (25) new buses, powered by CNG, will be introduce to our roads in December 2019.
- A new license plate system will be introduced by March 2020 which aims to improve vehicle registration and removing all illegal license plates. Parking meter will be placed in Port of Spain and San Fernando and tickets will be paid through TTPost in order to free the courts from burdens of ticket fines.
- In mid-2020, the passenger and cargo capacity of the sea-bridge will be enhanced with the arrival of two (2) brand new state-of-the art fast ferries.

Police Stations

- The Carenage Police Station will be commissioned in September 2020. The Police Administration building in St. Clair is under construction and will be completed in 2020. Additionally, the Shirvan Police Station in Tobago has been completed.

Flood Alleviation

- Management of the country's drainage capacity is ongoing with 150 active desilting projects. Detention ponds with flap gates and pumps to control the flow and removal of water based on tide levels are being outfitted to improve drainage in Port of Spain.

Heritage Buildings

- The Magnificent Seven heritage buildings are nearing the final stage of rehabilitation.
- The comprehensive restoration of the President's House is nearing completion.
- The traditional seat of parliament will return to the Red House in January 2020. Construction cost of TT \$441.0 mn

Housing

- The government proposed to build 6,000 new houses by December 2020 and 3,000 per annum thereafter. For persons wishing to build their own homes, the government will issue low interest loans up to \$300,000.

Immigration and Customs Forms

- Due to technological advancement, arrival forms at Trinidad and Tobago's airports will be eliminated, and a new system implemented. This system will rely on advance passenger information using machine readable passports and other appropriate technology. The new policy will take effect 2020.

Cooperative Societies

- Effective January 1st, 2020, it is proposed that the Cooperative Societies will be amended to increase the current limit imposed on transfer of shares to a beneficiary upon death of a member from TT\$5,000 to TT\$50,000.

Styrofoam and Plastics

- Complete elimination of Styrofoam and single-use plastics. Ban on the importation of Styrofoam in the food industry and the cessation of the use of plastic water bottles in Government offices. This will take effect from January 1st, 2020.

Value Added Taxes: Refunds

- In an effort to reduce the TT\$4.5 bn in VAT refund arrears, TT\$3b in government bonds are to be issued to VAT businesses to meet their VAT arrears. The new bonds carry an interest rate of 1.5% per annum and a tenure of five (5) years and will be tradable and transferable to facilitate use as collateral, to obtain cash or to stimulate business activity.