

A photograph of a hummingbird in flight against a blue sky with light clouds. To the left, a red flower is visible, with a hummingbird perched on it. The background is a clear blue sky with some light clouds.

STABILITY

Through the change

TRINIDAD AND TOBAGO'S BUDGET REPORT 2018

Like the humming bird we need to show strength and stability in the coming years. We all have to make sacrifices if our nation is to overcome its current economic difficulties.

Aegis Business Solutions is pleased to share with you our brief overview of the **2018 Trinidad and Tobago Budget** presentation by the Minister of Finance and Economy, The Honourable Colm Imbert yesterday, 2nd October 2017.

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

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MESSAGE FROM OUR CHAIRMAN

We are pleased to present our overview of the fiscal measures announced in the 2018 Budget Statement, themed **“Changing the Paradigm”**, presented by the Minister of Finance, the Honourable Colm Imbert, on October 2, 2017.

Today the world is in turmoil because of the global recession and the energy crisis with oil prices being where they are. T&T has a deficit due to non-collection of revenues and subsidies, there is a high demand for and shortage of foreign currency. These contributory factors have created a strain on the public purse.

Trinidad & Tobago’s economy has traditionally been driven by the Energy Sector. However, based on the Minister’s presentation, the impact of the substantial drop in oil prices together with generous tax allowances on capital investments granted to energy companies in 2013 and 2014, resulted in a tremendous reduction in tax revenues. In light of this, the Minister believes that we are unlikely to get corporation tax from these companies for the next 7 years. From its high in 2014, the reduction in tax revenue from this sector was estimated at 90%.

A shift away from the Energy Sector, therefore, has to be encouraged and it will be up to other industries to take up the mantle and make up the shortfall. The Government has identified potential areas for growth, such as, Tourism, Yachting, Agriculture and the Creative Industries: These sectors will be stimulated to further develop. The Minister also indicated that Business Processing Outsourcing companies will be encouraged as our country is well equipped to service all the requirements of this industry.

On the social side, the Government has considered building the Human Capital of the nation, primarily, by improving the quality of life of all its citizens through affordable housing, either by rental or ownership. The Government intends to stimulate the private construction sector and will initiate a housing construction incentive programme to encourage developers to construct houses to alleviate the heavy demand.

Areas of focus for collection of revenue are the Revenue Authority, the Office of Procurement Regulation, the Gambling Commission, Property Tax, the rationalization of State Enterprises, the restructuring of Petrotrin and divestment of some of CL Financial Limited’s assets.

Corporation tax will be a single rate of 30% and the Banking Industry will be taxed at 35%.

A major concern of the Government is crime, as this not only directly impacts the safety of every citizen, but is a major deterrent to much needed foreign investment.

Every citizen will have to play his part and make adjustments and this is where **'Changing the Paradigm'** comes into play. We cannot continue to spend what we do not have, as this will not only have consequences for us as individuals, but will also increase the national deficit. We all have to make sacrifices if our nation is to overcome its current economic difficulties. Like the humming bird we need to show strength and stability in the coming years.

Once more, it is our hard-working team and their commitment to excellent client services which makes me very proud. We would all be happy to hear from you with any questions you may wish to ask as the budget impacts you and your business.

EXECUTIVE OVERVIEW

“Changing the Paradigm” are the words the Minister of Finance, the Honorable Colm Imbert, ascribed to his theme for the national Budget 2018. He emphasised the need to spread the burden and have adjustments from all sectors of society. When one considers the rapid decline in oil and gas revenues as a percentage of total revenues, there is little disagreement that there is a need to change the paradigm. A decline in oil and gas has been predicted for as long as we have been an oil and gas economy. However, the sheer precipitousness of it is worth noting. In the early 2000’s, oil revenue accounted for over 40% of total revenue. For the five-year period 2009 to 2014, its contribution hovered around 30%. It then fell sharply to 18.4% in 2015 and then even more steeply to 2.3% in 2016 and 1.2% in 2017¹.

Summary of Budgeted Revenue to Expenditure - Oil vs Non Oil, 2016 to 2018

	2017 / 18 Budgeted \$bn	2016 / 17 Budgeted \$bn	2015 / 16 Revised \$bn	Increase / (Decrease) 2018 / 2017 \$bn	Increase / (Decrease) 2018/2017 Per cent
Total revenue	45.7	47.4	44.0	(1.7)	(4%)
Oil revenue	6.4	2.6	3.1	3.8	1.46%
Non-oil and capital revenue	39.3	44.9	41.0	(5.6)	(12%)
Total expenditure	50.5	53.5	59.0	(3.0)	(6%)
Deficit	(4.8)	(6.1)	(15)	(1.3)	(21%)

¹ Source: Spotlight on Trinidad and Tobago’s Financial Circumstances: The Road Ahead – 27/09/2017.

The fall in oil and gas revenues has resulted in continued incurrences of deficits. However, after two years of depressed oil revenues, the Minister is predicting an increase in the contribution of oil revenues in 2018 of approximately 14% of total revenue. From his presentation, this is expected to be due to increased oil and gas prices, with the budget based on USD52.00 per barrel and USD 2.75 per MMBtu, respectively. Additionally, the Minister expects increased oil and gas production. Even though there is a predicted increase in oil and gas revenue, total revenues still fall substantially short of the government's expenditure, thus, the need for borrowings to fund the deficit.

It is noteworthy that there has been a pattern of reductions in expenditure, from \$59.0bn in 2016 to \$50.5bn in 2018. The contributors to these reductions are not clear. However, government has a long way to go to closing the gap. The strategy for rebalancing continues to be one of growing government's revenues through diversification and increased taxes. Among the major adjustments noted were increases in the corporation tax rate for all companies, a special corporation tax rate for commercial banks, increases in gaming taxes, adjustment of the fuel subsidy, an increase in wholesale margins on fuel, removal of incentives available to passenger vehicles with engine sizes exceeding 1599cc, and increased license fees for private hospitals. The Minister also mentioned that the Regulated Industries Commission will be reviewing the existing utility rates and that CL Financial Limited's remaining indebtedness of \$15bn to the state will be pursued.

The controversial Property Tax continues to be pursued, with the Minister making the assessments process a priority in 2018. Also, in the picture is the need to improve the efficiency and effectiveness of tax collection. Thus, the Revenue Authority is once again on the agenda; the Minister has asserted that it will become operational in 2018.

Incentives and Diversification

The Minister laid out strategies for energizing the various sectors of the economy. Among the fiscal incentives were:

Construction incentive programme to encourage private developers to satisfy affordable housing demands. Cash incentives of up to \$100,000 per unit will be paid to developers.

Grant funding of up to \$100,000 for business development. Appraisal will be carried out by a panel of experts in similar fashion to the Shark Tank reality TV show.

Grants to farmers of up to \$100,000, based on an applications process.

Assistance for the creative industries.

Exemption of all motorcycles with engine sizes under 300cc from all duties and taxes.

What our clients say

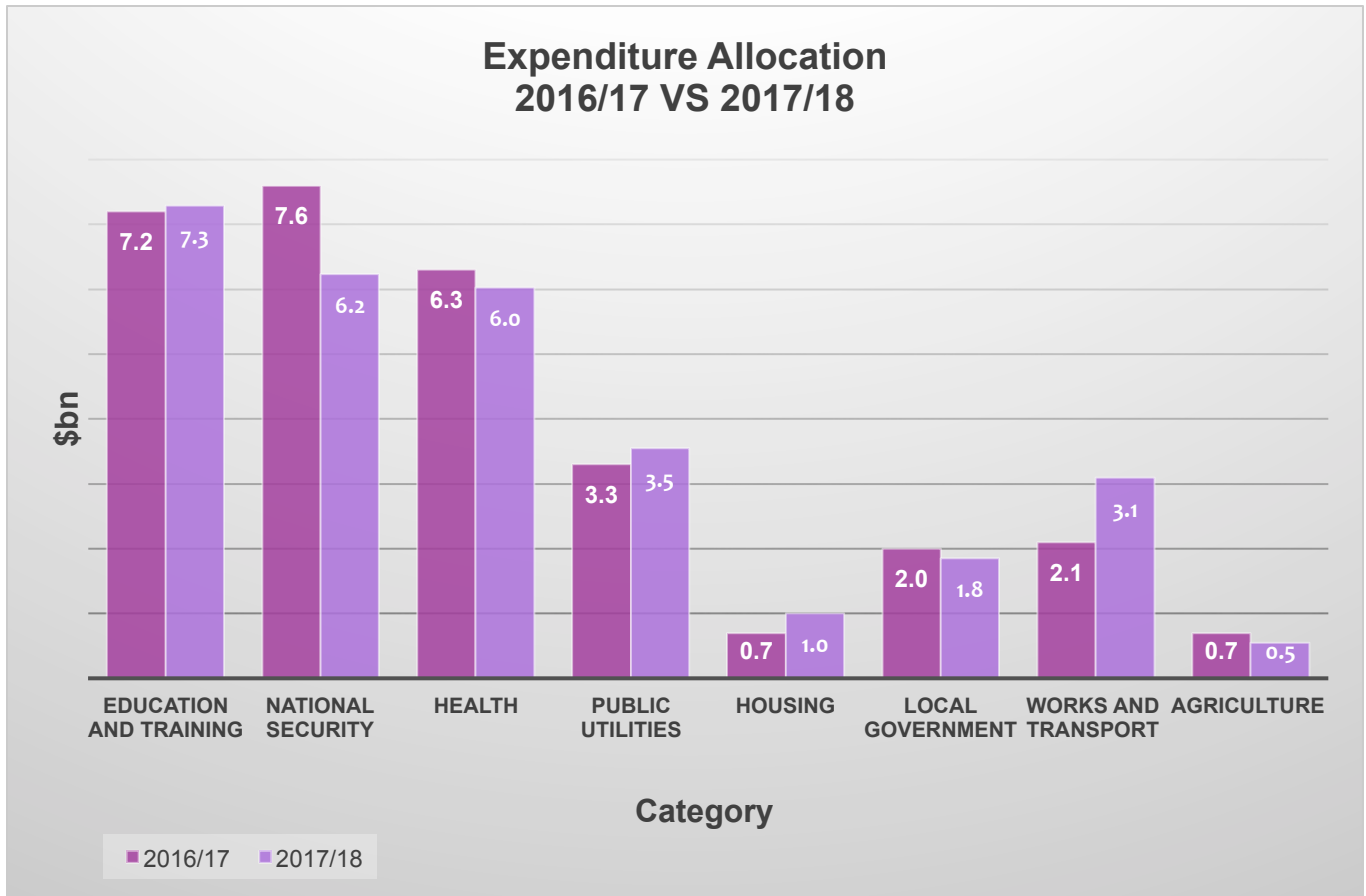
Aegis contacted a few of our clients to get their perspective on the 2018 Budget. We asked whether they felt the budget affected their business favourably, whether they were surprised by any initiatives and whether the initiatives compel them to make changes to their business strategy. Below is a summary of their responses. Aegis neither endorses nor rejects these comments.

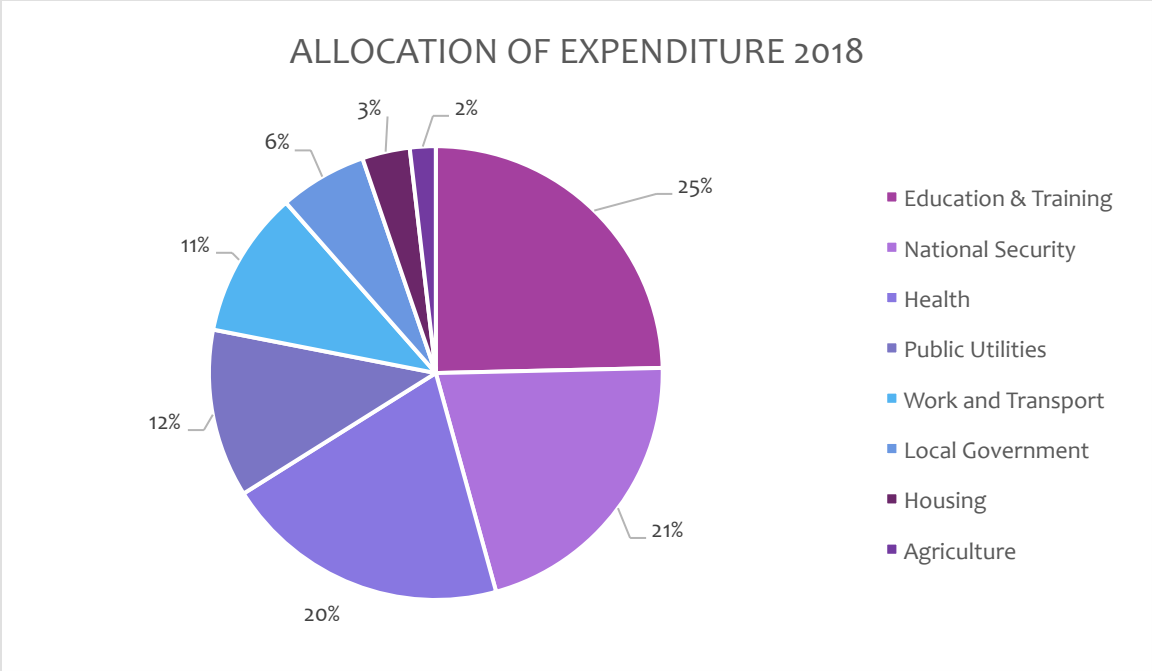
Industry	Favourable/Unfavourable	Surprises	Strategic Changes
Banking	Unfavourable due to the tax rate. The Minister alluding to a floatation of the TT dollar may be a positive, but comes with other implications	Welcomed the incentives for agriculture, but felt more could be done. Surprised that the rate of income tax remain unchanged. Surprised that only banks were singled out for 35% corporation tax.	Definitely. Any reduction in after tax earnings would most likely affect share price and shareholder wealth. Strategies needed to maximize shareholder value in light of new fiscal measures.
Manufacturing	Necessary, balanced, reasonable	No surprises.	No major changes as the reintroduction of the export allowance should counteract increased taxes
Automotive	Unfavourable due to additional taxes and duties on vehicles above engine sizes of 1599 cc.	Surprised that the 35% tax rate was based on an industry (banking) rather than a bracket.	Certainly.

We have presented a brief summary of a budget that presumes to change a paradigm built over decades. Deficits, attempted diversification, intermittent divestment and introductions of new taxes and rates have been the constant over the last three years. Consideration must be given to the contagion nature of increasing cost of living in any sector. Coupled with a reduction in disposable income, the result is often decreased savings and further economic contraction. Notwithstanding, a paradigm shift cannot come without some tremors. The

gauging of the success, therefore, cannot take a short-term outlook and must be given appropriate evaluation time.

ALLOCATIONS OF EXPENDITURE





EXPENDITURE ALLOCATIONS TO TOBAGO

An amount of \$2.2bn (4.34%) of the national budget has been allocated to Tobago. The allocations are follows:

- \$1.9bn will be for recurring expenditure
- \$315.7m for capital expenditure and
- \$18m to assist with unemployment relief

Additionally, a further injection of \$1.09bn will be implemented towards the facilitation of work in Tobago by Government Ministries, under the Sixth Schedule of the THA Act.

FISCAL MEASURES

INCOME, CORPORATION & VALUE ADDED TAX

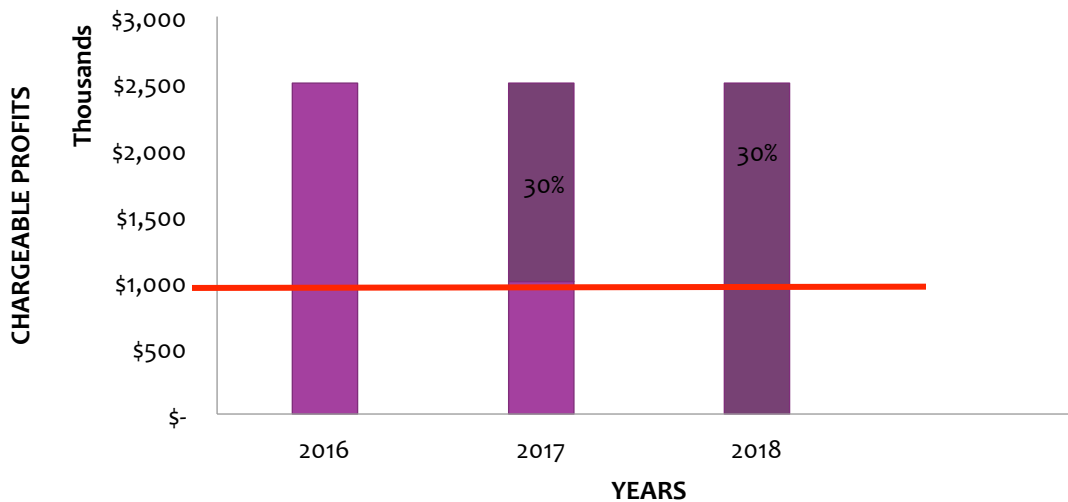
INCOME TAX

There were no changes to the income tax rate. The existing structure remains 25% on the first \$1m and 30% thereafter.

CORPORATION TAX

From January 1st 2018, a 30% flat rate of Corporation Tax will be in effect. This supersedes the current progressive rate of 25% and 30% respectively for any chargeable amounts in excess of \$1m.

Corporation Tax Rates 2016 -2018



VALUE ADDED TAX

The VAT regime remains unchanged, with the threshold of \$0.5m being maintained and the rate of VAT continuing at 12.5%.

Penalty and interest remains at 8% and 2% respectively with \$1,000.00 base penalty for late filing.

Additionally, there are no changes to zero rated and exempt supplies.

Yacht owners will continue to enjoy an exemption from VAT on foreign yacht repair services.

OTHERS MEASURES

- CORPORATION TAX FOR COMMERCIAL BANKS - 35% on chargeable profits will be introduced to commercial banks **effective 1st January 2018**.
- PETROLEUM TAXES - **Effective December 1st 2017** a 12.5% royalty rate will be applicable across the board on the extraction of gas, condensate and oil.
- AGRICULTURE GRANTS - An agricultural financial support program has been established, with grants for new and existing farmers of up to \$100,000. 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. These Grants will not be available for the purchase of vehicles or other non-essentials. This new incentive will take effect from **December 1st 2017**.

Additionally; **effective January 1st 2018**, section 14 of the Income Tax Act will be amended to remove the restriction of 100 acres of land to receive exemptions from tax on income from approved agricultural holdings.

- VEHICLES USING CLEAN OR ALTERNATIVE FUELS - A revision has been made for the usage of alternative fuel vehicles where by engine sizes less than 179 kilowatts and hybrid vehicles with engine sizes less than 1999cc have been **exempted** with respect to motor vehicle tax and VAT.

All taxes and duties for both hybrid and CNG passenger vehicles both with engine sizes under 1599cc have been maintained.

Private passenger vehicles with engine sizes more than 1599cc and less than 1999cc will be taxed at 25% **effective October 20th, 2017**.

A suspension will occur up to December 31st, 2017 for private passenger vehicles already in transit or already landed in Trinidad and Tobago.

- MOTOR VEHICLE INSPECTION FEE - In keeping with the current economic situation, motor vehicle inspection fees have increased from \$165 to **\$300 effective December 1st, 2017**.

- IMPORT DUTY ON TYRES - **Effective October 20th, 2017** all custom duties on tyres both new and foreign used will attract a **30%** custom duty.
- ENVIRONMENTAL TAXES - As of **December 1st, 2017** all tyres imported will incur an environmental cost of **\$20** per tyre.
- FUEL SUBSIDIES - An immediate increase on wholesale margins for premium, super and regular from **14.5 cents** to **19.5 cents** and diesel from **9.5 cents** to **14.5 cents**. With an adjustment to the subsidy plus the increase in gross margins, Super gasoline will increase from **\$3.58** to **\$3.97** per litre and diesel from **\$2.70** to **\$3.41** per litre with immediate effect.

It is anticipated that in the future fuel prices would fluctuated with prices of oil and refined products.

- HOUSING SECTOR - In an effort to stimulate housing construction, the government proposes a housing construction incentive programme **effective 1st January 2018**. This is to encourage private developers to construct affordable housing in accordance with designs, specifications and prices fixed by the government. These are the incentives:

- A cash amount up to \$100,000 based on the degree of difficulty or the provision of state land.
- The income from sales will be tax free.

- LICENSE FEE FOR PRIVATE HOSPITALS - **Effective January 1st 2018** there will be an increase in license fees for Institutions classified as a Medical or Surgical Hospital, Medical, Surgical and Maternity Hospital or Maternity Hospital:
 - Less than 30 beds - \$25,000 per annum
 - 30 beds but less than 60 beds - \$50,000 per annum
 - 60 beds and over - \$100,000 per annum

This measure will not be applicable to institutions classified as Hospitals for the convalescent or chronically ill Homes for the elderly or hospitals for any designated disease, or specified disease or disorder or illness. These institutions will continue to pay the existing fee of \$150 per annum.

Increase in the penalty for persons found guilty of an offence under the Private Hospitals Act from **\$10,000** to **\$100,000**.

Increase in the penalty for a continuing offence from **\$200** to **\$1,500** per day.

- GAMING - The Minister has proposed several initiatives to gain revenue from the gambling industry.
 - **Effective October 20th 2017**, the rate of duty on all mechanical games of chance for gambling to be increased from **20%** to **40%**.
 - **Effective December 1st 2017**, the introduction of a **10%** tax on all cash winnings by National Lotteries Control Board.
 - Under the Liquor License Act, Chap 84:10:
 - Electronic Roulette devices will now attract a flat device tax of **\$120,000** annually.
 - Gaming Tax will be increased from **\$3,000** to **\$6,000** in respect of each amusement game.

Effective January 1st 2018, taxes on gaming tables and other devices by private members' clubs to be increased as follows:

Gaming Tables	\$'000 per annum
Caribbean Stud Poker	150
Rum 32	150
Sip Sam	150
Black Jack	120
Roulette	120
Electronic Roulette	120
Baccarat	100
Dice	70
Poker	60
Slot Machine	24

For every other table or device not mentioned above, \$60,000 per annum.

SPECIFIC INITIATIVES FOR 2018

- Property Tax System to be fully implemented by 2018.
- All restrictions on banded maxi taxis will be removed to open up the public transportation system.
- Allocation of \$50m for special audits of state enterprise and government department in 2018. This exercise is expected to commence immediately.
- Government Assistance for Tuition Expenses (GATE) programme to be reviewed in the year 2018.
- Planned fiscal reforms, including:
 - Making Supplemental Petroleum Tax responsive not to price but to underlying profitability.
 - Extending the Supplemental Petroleum Tax to gas.
 - Reviewing the tax incentive regime to ensure that there are no companies receiving expired incentives.
 - Presenting the legislation for the Revenue Authority to Parliament by December 2017 and operationalising the Revenue Authority by 2018.
- The establishment of yachting specific legislation to be developed.
- To promote export, a facility will be established to allow eligible exporters to access foreign exchange, the facility would be capitalized at US\$100m, effective January 1st 2018.
- To re-establish export allowances to manufacturers that would allow a reduction on tax for revenues generated from incremental exports this measure will take effect from January 1st 2018, further details will be provided in the Finance Act 2018.
- Business Process Outsourcing as one of the sectors focused on for the country's diversification strategy.
- Draft legislation to grant self-government and a great devolution of powers to Tobago is before Cabinet.

DIVERSIFICATION

EXPORT PROMOTION

In overcoming one of the major challenges relating to exporters the EXIMBank has the responsibility to allocate forex for such individuals whose business production should be at least **30%** for exports, this will be available in fiscal 2018.

BUSINESS DEVELOPMENT INCENTIVE PROGRAMME

State agencies will provide concessional loans and loan guaranties to have new businesses, fund working capital (maximum of \$100,000) through grant funding to both startups and existing small businesses.

TOURISM

The Tourism Development Company (TDC) was dissolved and replaced with the Tourism Trinidad Company and The Tobago Tourism Agency.

The Trinidad and Tobago Tourism Regulatory and Licensing Authority would also be established.

To stimulate and re-energise The Trinidad and Tobago Tourism sector, by increasing the reimbursement of the expenditure cost of Hotel & Guest Room Stock Upgrade programme from 25% to 50% and the Small Approved Tourism Properties programme from **20% to 40%**. **Effective December 1st 2017.**

CREATIVE INDUSTRIES

There will be stimulation and facilitation towards the development of local artists in particular, music, film and fashion.

- An Export Ready Academy to assist local artistes with producing, marketing and exporting their local music.
- Plans to implement an Artiste Portfolio Development Programme and a Strategic Plan for the Film Industry.
- A launch of a Production Assistance and Script Development Programme to assist with funding to film makers.
- The establishing of a Garment Production Facility and a Tailoring Certification Programme.

CAVEAT

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MEET WITH US

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North office: 18 Scott Bushe Street, Port of Spain

Central office: Corner Hosein Drive, Southern Main Road, Chase Village Trinidad and Tobago, West Indies P.O. Box 1543

Phone: (868) 625 6473

voip: 305 260 6673

Fax: (868) 625 4484

Website: www.aegistt.com

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