

Focus on Trinidad & Tobago Budget 2019



Building a better
working world

Trinidad & Tobago Budget 2019

Caveat

The Trinidad & Tobago Budget 2019 is based on the Economic Policy Statement delivered by the Minister of Finance, the Honourable Mr. Colm Imbert, in Parliament on 1 October 2018.

This review was prepared by EYC 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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Table of contents

Chairman's message 1

Executive overview 2

2019 fiscal measures..... 8

Petrotrin - The Devil is in the Details 16

Energy sector review 18

Income tax 20

Status of fiscal measures 2018 22

Guyana 26

Chairman's message

We are pleased to publish our commentary following the budget speech which was read in Parliament on 1 October by the Minister of Finance, The Honourable Mr. Colm Imbert. This budget is being read in the context of a world facing climate change and natural disasters, trade wars, immigration and other challenges, as nations grapple to resolve the ever increasing socio-economic divide.

Small nations such as Trinidad & Tobago and our Caribbean counterparts are not immune from these global events and it is arguable that the challenges of managing small island economies have increased dramatically. For governments, balancing fiscal discipline, addressing social inequity, increasing business confidence and improving the ease of doing business are a delicate and complicated balancing act. Businesses are continuously challenged to “think outside the box,” and must become better prepared to embrace new technologies in a future world where artificial intelligence, robotics and block-chain solutions will change the landscape and drive increased competitiveness. This country – private and public sector – is compelled to adjust to this new order in the short to medium term and find solutions for the difficulties that will inevitably come our way. How we manage these opportunities, changes and challenges are questions that have to be addressed AND implemented.

With this in mind, EYC is pleased to share our points of view on the annual budget and to discuss our points of view with you, our clients, as you navigate the new global environment.



Colin Soo Ping Chow
Executive Chairman
EY Caribbean Ltd.

Executive overview

From stabilization to transformation: Next is Now

Having been confronted with a deep recession caused by a precipitous fall in revenue derived from the energy sector, the Administration's initial focus naturally pivoted to the stabilization of the Trinidad & Tobago economy. This was pursued via a combination of austerity measures and increased taxation. Now that the immediate crisis has been seemingly averted our attention ought to shift to the transformation of an economy over-reliant on one sector; operating with an inefficient tax system and dependent upon transfers/subsidies provided by a patriarchal state.

During the fourth national budget presentation of his present term, the Honourable Minister of Finance was pleased to present a picture of an improving macro-economic performance underpinned by increased energy sector production and better international pricing. To substantiate this prognosis, the Minister articulated an increase in natural gas production from 3.37 BSCF per day in 2017 to 3.8 BSCF per day in 2018 with the medium term production outlook peaking at 4.1B BSCF per day in 2021. This has resulted in projected GDP growth of 1.9% in 2018 and forecasted continued GDP growth up to and including 2021, marking a reversal of many years of sequential GDP decline.

From late 2015 to present, the Government predominantly¹ implemented a programme of tax increases with the effect of redistributing the financial burden of operating the State on the more financially able taxpayers. These imposts included: the increase in revenue based taxes such as the business levy (0.6%) and green fund levy (0.3%); the hike in the standard rate of corporation tax to 30% and to 35% in the case of commercial banks; the imposition of the royalty tax of 12.5% for energy companies; the increase in the high end personal tax rate to 30%, and the reintroduction of the Property Tax.

Government expenditure has also been laudably curtailed as evidence by the decrease in total spend from TTD 62.8 billion in 2014 to approximately \$48.9 billion in 2018 and approximately \$51.8 billion in 2019. This pattern of expenditure reduction has been synchronized with a measured reduction in the petroleum subsidy leading to increased prices at the pump for diesel to \$3.41 per liter (unchanged from 2018) and in super unleaded gasoline to \$4.97 per liter – an increase of 25.2% from the 2018 price.

Perhaps of greatest significance has been the Government's decision to restructure the operations of Petrotrin. The Minister explained that this action was designed to stem multiple years of chronic losses, non-payment of taxes and unsustainable third party debt, which ultimately has to be funded by tax payers.

¹ There were also instances of tax reliefs such as the reduction in the VAT rate to 12.5%, an increase in the personal allowance to \$72,000 and increased incentives for agriculture and real estate development.

It is hoped that this decision sends a strong signal that the State is prepared to withdraw or possibly restructure unsustainable businesses (of which there are others) and consider divesting of state owned enterprises that are capable of being run more efficiently by the private sector. In this vein, the intention to forge Public Sector/Private Sector Partnerships on HDC housing and alternative energy are directionally desirable endeavours.

Another notable initiative aimed at the diversification of the economy is the Government's announced intention to collaborate with Sandals Resorts to construct a 1,000 bedroom hotel in Tobago under what is presumed to be a long term franchise arrangement with the internationally renowned hotel chain. This initiative, coupled with an upgrade to the existing ANR Robinson airport, is likely to provide a positive catalyst to Tobago's economy, which is in dire need of stimulus. However, there are inherent financial and executional risks in Government footing the construction costs of the property and uncertainties as to what additional tax and other incentives would come into play, which could affect the playing field for competing operators, albeit operating on a smaller scale. In similar fashion, the joint venture initiative with the China Harbour Company to construct and operationalize a dry dock in the South West peninsula appears to be a worthwhile endeavour aimed at stimulating foreign exchange earnings and job growth with the attractive potential to absorb some of the displaced skilled Petrotrin workers. Nonetheless, the executional risk of Government retaining a significant controlling stake should be acknowledged.

Notwithstanding the optimistic tone struck by the Minister, there is still, however, cause for caution. More prudent government expenditure and increased taxation may have been necessary measures taken to stabilize the economy - but both are counter cyclical to growth. Consequently, although the country's economic fortunes are improving, we are by no means out of danger. As the Central Bank noted in its 28 September 2018 Monetary Policy Announcement, improvement in natural gas production has not yet led to improved performance in domestic sectors. In addition, despite more prudent Government expenditure patterns, the country continues to incur significant fiscal deficits² and our current debt to GDP of 60.9% may come uncomfortably close to Government's soft target of 65%, should Petrotrin's debt be absorbed by the Central Government. Further, our foreign currency reserves which stand at eight months import cover, while comparatively healthy by regional standards, are depleting. Most importantly, we remain a society severely impacted by unrelenting crime.

Above everything else, our structural reliance on the energy sector remains intact. In the 1990s, the country made transformational investments into Liquefied Natural Gas production and other related down-stream industries that resulted in decades of superior economic growth. However, the stark reality is that even in the most optimistic scenario, our oil and gas resources are finite. Additionally, alternative energy (such as solar) is predicted to pose a

²On account of reporting on a cash basis, the stated deficit does not take into consideration accrued liabilities of the government, including outstanding VAT refunds, amount due to contractors and the like.

significant threat to fossil fuels. As such, we now have to accelerate the process of reengineering the economy and preparing for the next generation by using our advantages, such as less expensive energy costs, superior access to state sponsored education and our strategic proximity in the Americas to shift from the industrial to the digital age.

Time is not on our side. The pace of disruption that is occurring globally is astonishing and improvements in price efficiency are rapidly progressing. By way of example, the average tenure of a company on the S&P 500 in 1965 was 33 years. By 1990, it was 20 years. It is forecasted to shrink to 14 years by 2026. Such is the pace of game changing technological disruption. Having obtained some semblance of stability, we ought to begin the national conversation on what is next and that conversation ought to start now.



Wade George
Tax Director



Gregory Hannays
Tax Director



Building a better
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EYC's Digital Innovation Services



Data Insights

*We believe in getting more than just transforming data into actionable information, with our knowledge and industry experience and appropriate use of advanced analytics **we can help our clients obtain true insight!***

- Data extraction, transformation and loading
- Use of advance data processing algorithms:
 - Regressions
 - Categorization
 - Pattern recognition
 - Others
- Advanced data visualization



Intelligent Automation

The rise of the machines is here, not in a distant future, it is a reality and at EY we are ready, we are helping clients locally and internationally prepare in this journey from automation into artificial intelligence

- Robotics Process Automation (RPA)
- Cognitive Computing:
 - Computer Vision
 - Natural Language Processing
 - Machine Learning
- Business Process Management
- Digital Process Orchestration
- Testing and Application Performance Improvement



Digital Transformation

EY has the ability to accelerate the transformation or support of business activities, processes, competencies and models to fully leverage the changes and opportunities of digital technologies

- Application Development: Mobile, Thick Clients, Web and Enterprise
- Software Services:
 - Architecture
 - Design
 - Implementation
 - Maintenance and Support
- Internet of Things
- Blockchain Strategy

Process and workforce
transformation



Grow

Solution design
and implementation



Optimize

Continuous improvement
and support



Innovate

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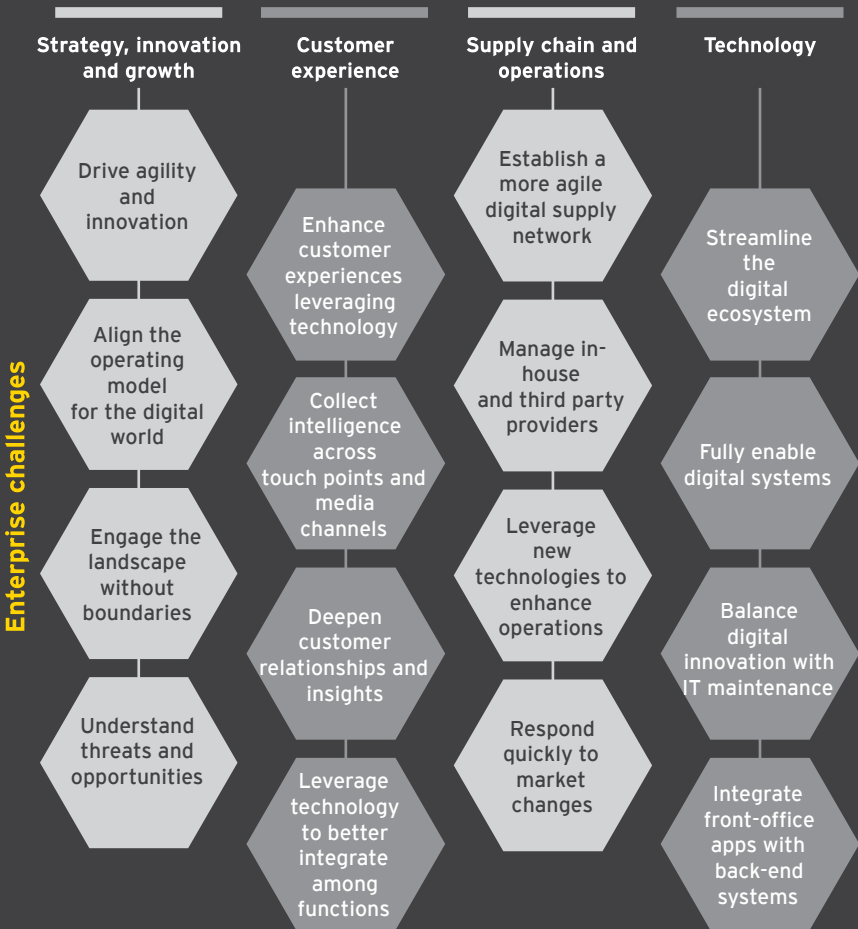
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It's time to talk about digital

In a world that's now powered by big data and advanced technologies, digital is disrupting everything from business models to entire industries – and impacting organizations – from top to bottom.

Many organizations are asking “What is my digital strategy?” We think the better question is... **“Does your business strategy work in a digital world?”**

Dimensions of the enterprise



Accelerating catalysts

\$626b

in consumer spending via mobile by 2018 (US\$)

Source: Goldman Sachs 2014

85%

of business relationships managed without human interaction by 2020

Source: Goldman Sachs 2011

99%

of all devices that may some day join the network are still unconnected

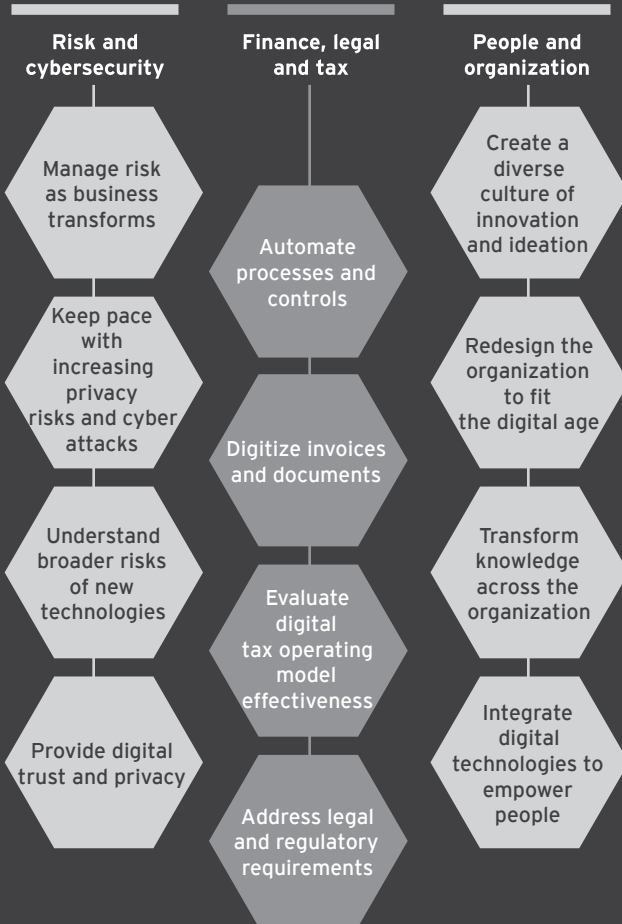
Source: Cisco, Rob Soderbury 2013

Sensors

Analytics

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Now is the time to discuss how digital is impacting your business and especially the way you define and create value.

Digital enterprise
Every layer of business strategy is now impacted by digital. For the enterprise to thrive in a digital world requires agility and innovation. The right approach to digital creates value by unlocking growth, optimizing the way organizations work and develop while managing risk intelligently.

3D printing

36%

of organizations are unlikely to detect a sophisticated cyber attack

Source: EY Global Info Sec Survey 2015

Cloud

Cyber

81%

of senior executives agree that data should be at the heart of all decision-making

Source: EY Becoming an analytics-driven organization to create value 2015

Social

Artificial intelligence

2019 fiscal measures

Manufacturing Sector: Foreign Exchange Earnings Tax Credit

The Minister of Finance, the Honourable Mr. Colm Imbert stated that one of the main drivers of the new Trinidad & Tobago economy must be growth in export in order to earn foreign exchange and penetrate new markets. However, one of the major challenges faced by exporters is the ability to access foreign exchange for raw materials and other essential inputs to manufacturing.

In this regard, the Minister proposed then to re-establish export allowances for manufacturers. This allowance would have provided for a reduction in tax on income generated from exports to existing markets. It was proposed that the aforementioned measure was to take effect from 1 January 2018, however this did not come into fruition.

Notwithstanding the above, the Minister proposes to strengthen the framework for boosting non-energy exports and for generating foreign exchange by introducing an Incremental Foreign Exchange Earnings (IFEE) Tax Credit for the manufacturing sector, in particular for: agriculture and agro-processing; food and beverage; non-energy and non-petrochemical products; and any other businesses approved by the Minister with the responsibility for Trade & Industry.

The Minister also proposed that the appropriate legislation giving effect to this measure be introduced in Parliament during the 2019 fiscal year.

An IFEE tax credit:

1. Establishes a baseline of foreign exchange earnings for each taxpayer;
2. Ascertains the incremental percentage of foreign exchange earnings in the current year over the baseline;
3. The increment percentage is usually indexed to an applicable rate of tax credit; and
4. The tax credit is then applied to the tax charged.

It should be noted that the proposed IFEE tax credit incentive is in addition to the accelerated capital allowances and promotional allowance given to manufacturers.

The Minister focused on the growth driven by the manufacturing sector and touted the amazing growth of 7.3% during the fiscal year 2018, notwithstanding the fact that the export allowance which was proposed in 2018 was not effected.

We look forward to the implementation of the IFEE Tax Credit during the fiscal year 2019, as this incentive should assist manufacturers in expanding their manufacturing base by penetrating new markets and increasing foreign exchange earnings.

Stamp Duty

First-time Homeowners

Stamp duty is generally payable by the purchaser on the total consideration of the purchase price of real estate. With regard to stamp duty on residential properties, the Stamp Duty Act currently provides that where the property is, or includes, a dwelling-house and the property is for use wholly or mainly for residential purposes, stamp duty is applicable as follows:

Property Value	Stamp Duty
First \$850,000	Nil
\$850,001- \$1,250,000	3%
\$1,250,001 - \$1,750,000	5%
Over \$1,750,000	7.5%

In light of rising real estate prices and with a view to assisting the population in acquiring housing affordably, the Minister has proposed an increase in the existing stamp duty threshold for residential properties for first-time homeowners from \$850,000 to \$1,500,000.

The Minister, however, did not provide any information on changes to the property value bands and the rates of stamp duty associated therewith, where the value of the residential property exceeds \$1,500,000.

In this regard, the following calculation reflects the stamp duty savings impact of the proposed change on a residential property valued at \$1,500,000.

Existing		Proposed	
Band	Stamp Duty	Band	Stamp Duty
First \$850,000	\$0	First \$1,500,000	\$0
\$850,000 - \$1,250,000	\$12,000		
\$1,250,00 - \$1,500,000	\$12,500		
Total	\$24,500	Total	\$0

It is anticipated that this initiative will cost the Government \$12,500,000 per year in foregone revenue. The proposed measure should take effect on 1 January 2019.

Fuel Subsidy/Increase in Super Gasoline

In keeping with the Government’s intention to move towards the elimination of the burden of the fuel subsidy, the Minister advised that the Government is implementing methods to enhance the efficiency of energy use in the country.

In this regard, in the year 2019, the Ministry of Energy and Energy Industries will be required to publish, on a monthly basis, the wholesale and retail product prices for all categories of fuel. The Minister has advised that the current adjustment to the subsidy will increase the price of Super Gasoline from \$3.97 per litre to \$4.97 per litre, however, the price of Diesel will remain at the same cost of \$3.41 per litre. The change in price will take effect immediately.

It should be noted that the price of super gasoline was previously increased by 11% in October 2017 and is now increased by 25% as of October 2018 as shown in the table below:

Period	Super Gasoline	Diesel
September 2015	From \$2.70 to \$3.11	From \$1.50 to \$1.72
April 2016	From \$3.11 to \$3.58	From \$1.72 to \$1.98
September 2016	No change	From \$1.98 to \$2.30
October 2017	From \$3.58 to \$3.97	From \$2.30 to \$3.41
October 2018	From \$3.97 to \$4.97	No change

The fuel subsidy has been provided at a high fiscal cost of over \$29 billion over the period 2002 to 2018. To this end the subsidy has been estimated to cost the treasury \$1.5 billion in 2019 and, if oil prices remain at above US\$70 per barrel in the upcoming year, the fuel subsidy will increase further.

The Minister also addressed the fact that an oil price of US\$73 per barrel (current approximate oil price) means that the actual unsubsidized price of super gasoline should be \$5.47 per litre and the unsubsidized price of diesel should be \$4.96 per litre. However, the Government believes that the adjustments to market prices of fuel should be made gradually, hence, no further adjustments have been made to fuel prices or the price of LPG (cooking gas).

The Minister advised that there should not be any inflationary effects, since the cost of diesel was not increased. Diesel is the main type of fuel used by public transportation and commercial vehicles.

Business Levy for Self-Employed Persons

The Minister proposes to increase the threshold for self-employed individuals who are required to pay Business Levy from \$200,000 to \$360,000. This amendment will result in similar thresholds for both the self-employed and

corporations. Hence, individuals will be exempt from business levy, provided their gross sales and receipts in the prior year did not exceed \$360,000 and such amount does not exceed this threshold in the current year of income. This measure is proposed to come into effect on 1 January 2019.

Property Tax

Implementation of Property Tax has been deferred to 2019. That is, the tax will only be implemented and collected in respect of calendar year 2019 (not retroactively). The anomalies, which existed in the legislation previously and impacted the implementation of the Property Tax, have been corrected.

It should be noted that current legislation provides for the waiver of Property Tax up to the year 2017. Therefore, an amendment to the existing legislation is required to extend the change of waiver up to the year 2018.

The Minister indicated that work has commenced by the Valuation Division and the current plan is for the BIR to issue notices to property owners for the payment of Property Tax in the year 2019. Based on the current legislation, the following key dates should be noted:

- ▶ The Board of Inland Revenue (BIR) is required to issue a Notice of Assessment on or before the 31 March in each year.
- ▶ The Property Tax is payable on or before the 30 September in every year.
- ▶ Where the Property Tax or any part thereof remains unpaid by 15 March in the following year, the BIR shall issue a Notice of Non-Payment and the following shall become due and payable:
 - ▶ A further sum of 10% shall be added by way of an increased tax; and
 - ▶ Interest at the rate of 15% per annum is to be applied to the tax as increased from 16 March to the date of payment.
- ▶ Where three months have elapsed since the issuing of the Notice of Non-Payment and the tax assessed or any part thereof remains unpaid, the BIR shall issue a Notice of Demand.
- ▶ Where a Notice of Demand has been issued and the tax assessed or any part thereof remains unpaid and 12 months have elapsed since the same became payable (i.e. 30 September in the previous year), the BIR is authorized to levy distress on the goods, chattels and effects of the owner, tenant or occupier of the lands.
- ▶ Where any tax or any part thereof remains unpaid for a period of five years from the day it became due and payable, the President may, by warrant, order that such lands be forfeited to the State.

The legislation provides for a process of objection and appeal against a valuation or an assessment to Property Tax.

Enhancing Revenue Collection

In the past, Government has relied on granting Tax Amnesties to taxpayers along with using its limited resources to focus mainly on large taxpayers in an effort to build compliance and improve tax collections.

Going forward, it is the Government's intention to achieve these objectives with the establishment of the Trinidad and Tobago Revenue Authority. Additionally, the Minister also mentioned that the staffing in the Audit and Taxpayer Departments will be increased by 150 staff members. It is the vision of the present administration to use these additional employees to target small and medium sized organizations, as well as the self-employed.

The Minister also mentioned that it is the intention of the Government to build capability in the Customs & Excise Division to ensure that tax collection reaches optimal levels.

Tax Fines

The Minister noted that certain fines currently included in the tax legislation are inadequate to be considered a deterrent, and hence, proposes significant increases to improve tax compliance. These measures are proposed to come into effect on 1 January 2019.

Fine for Incorrect TD 1 Declaration

Presently, a taxpayer is liable on summary conviction to a fine of \$3,000 for providing fraudulent documents to support claims on a TD 1 form. The Minister proposes to increase this fine to \$5,000 (NB; a fine of \$10,000 was mentioned in the presentation).

Fine for Fraud

A person found guilty of committing fraud in relation to tax matters is currently liable on summary conviction to a fine of \$50,000 and to imprisonment for three years. The Minister proposes to increase the fine to \$250,000. These offences include, but are not limited to, the following:

- ▶ Knowingly or recklessly making false or deceptive statements or representations in a return, certificate, statement, declaration or answer made under the Income Tax Act.
- ▶ Intentionally evading the payment of a tax imposed by the Income Tax Act, by destroying, altering, mutilating, secreting or otherwise disposing of any records or books of account.
- ▶ In any manner, willfully evading or attempting to evade compliance with the tax legislation or payment of taxes imposed by the Income Tax Act.

Interest on Late Payment of Taxes For Clubs

The Minister proposes to increase the interest on the late payment of taxes by Clubs from 15% to 20%. This measure is geared towards harmonizing interest

rates for late payment of taxes under legislation administered by the Board of Inland Revenue.

The Minister also outlined other fines as follows:

Penalties under the Children's Act

The Minister proposes to increase by 100% all fines in connection with the prevention of cruelty to children as detailed in the Children's Act. This measure will take effect on 1 January 2019.

This proposal is intended to achieve one of the medium-term goals embodied in the Vision 2030 statement to establish a foundation in Trinidad & Tobago of strong families and safe and sustainable communities.

Penalties under the Litter Act

The Minister proposes a 100% increase in all penalties under the Litter Act effective 1 January 2019.

This measure is aimed at mitigating the ongoing challenges with flooding and strengthen the Government's pursuit of a zero-tolerance approach to littering.

Penalties for Bush/Forest Fires

In an effort to reduce the number of bush fires caused by individuals, effective 1 January 2019, the Minister proposes to increase the fine from \$1,500 to \$5,000 under the Agriculture and Fires Act for any individual committing such an offence.

Grants & Incentives

The Minister made mention of a variety of grants and incentives, all effective 1 January 2019.

Pensions

Public service pensions will increase to a minimum of \$3,500 per month immediately upon retirement of the public servant, effective 1 January 2019. It should be noted that the Government does not intend for this to be a permanent measure as they intend to undertake work to improve the efficiency of the current pension system.

The cap on the Senior Citizen Pension will be increased to \$6,000 thereby allowing persons in receipt of both the National Insurance Scheme (NIS) pension and Senior Citizens' Pension to receive up to \$3,000 from both per month. This measure will be effective 1 January 2019.

Health Centers

As an initial measure effective 1 January 2019, the Minister proposes to have the Grande Riviere, Blanchisseuse and Cedros health centers open on a 24 hour a day, 7 day a week basis to facilitate remote communities' access to a public health facility in an emergency situation. Due consideration will be given for the operation of other rural health centers in a similar manner.

Food Card Increase

A proposed \$100 increase in the value of the existing food cards, effective 1 January 2019, as follows:

- ▶ Households with 1-3 persons - from \$410 per month to \$510 per month
- ▶ Households with 4-5 persons - from \$550 per month to \$650 per month
- ▶ Households with 6 or more persons - from \$700 per month to \$800 per month

Disability Grant

The age eligibility for the disability grant will be removed so as to allow disabled children under the age of 18 access to the grant. Payments under the Special Child Grant and the Public Assistance Grant will cease and recipients will be able to access an increased monthly grant of \$1,500 under the Disability Grant. There will also be an increase in the Disability Grant for those 18 years and older from \$1,800 to \$2,000. These measures are expected to take effect 1 January 2019.

Public Assistance Grant

It was proposed that the Public Assistance Grant be increased by \$150 effective 1 January 2019 as follows:

- ▶ 1 person - from \$1,150 to \$1,300
- ▶ 2 persons - from \$1,400 to \$1,550
- ▶ 3 persons - from \$1,600 to \$1,750
- ▶ 4 persons or more -from \$1,750 to \$1,900

Crime Stoppers

Crime Stoppers currently offers up to \$10,000 in rewards depending on the nature of the crime reported. To further incentivize persons, it is proposed that the reward be increased up to \$100,000 effective 1 January 2019 for information on the 25 most wanted criminals as identified by the Trinidad & Tobago Police Service, which would lead to the successful conviction of those persons.

Housing Bonds

The Government proposes to introduce interest-bearing house bonds in an initial amount of \$1.5 billion to the national community. Its introduction will fund the need for accelerated housing construction as well as aid the financing of the subsidy arising from 2% interest rate for low income mortgages.

It is intended that citizens who invest in housing bonds will be given preference in the allocation of new Housing Development Corporation housing and will be able to assign the full value of their bonds to the Government so as to reduce the purchase price of their housing units. The dual purpose of the interest-bearing bonds will be to encourage national savings as well as give first time home owners access to affordable housing.

EY Caribbean is now in **Suriname.**

Our newest location



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**Building a better
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Petrotrin - The Devil is in the Details

The chronicle of the state-owned enterprise that is the Petroleum Company of Trinidad & Tobago Company Limited (Petrotrin) is yet another classic local case study of corporate failure and public malfeasance.

Born out of a consolidation of its predecessors Trinidad & Tobago Oil Company Limited (Trintoc) and Trinidad & Tobago Petroleum Company Limited (Trintopet) in 1993, with the full acquisition of Trinmar in 2000, Petrotrin's scope of commercial activity covered a wide range of energy endeavours, including Exploration & Production, Refining and Marketing.

In just 25 years, this strategic national asset, which has been burdened with approximately TT\$12 billion of long-term debt and plagued with inefficiencies in all facets of its business, has been deemed no longer commercially viable.

The Government of the day has taken the bold decision to cease the operations of Petrotrin, terminate all 4,700 employees and mothball the refinery. While details of the way forward are sketchy at best, the Minister did offer the following insights into the Government's plans for "a profitable and internationally competitive" entity during his Budget Presentation:

- ▶ The closure of the refinery is the only commercially sound and viable option (subject to a viable offer from an investor).
- ▶ The Exploration & Production activity would be aggressively pursued through a new, "lean and streamlined" entity of some 800 employees to increase current crude oil production to 60,000 barrels of crude oil per day.
- ▶ The establishment of a Terminal Business with an additional 200 employees to import finished petroleum products, including motor gasoline, diesel, aviation fuel, liquefied petroleum gas and other derived and refined products.

Looking back, we must ask ourselves, "How did we arrive at this point?" The lion's share of the blame in the public domain has been placed on the oversized and richly compensated workforce (annual wage bill of TT\$2.2 billion) and an uncooperative and hostile industrial relations partner (i.e. the Oilfield Workers' Trade Union (OWTU)). While undeniably a contributing factor, the sheer size of this failure simply means that the union cannot solely be the responsible party.

After conducting a thorough analysis, we should give consideration to the following:

- ▶ The mismanagement of capital projects, such as:
 - ▶ World Gas to Liquid Project - Estimated cost TT\$1.55 billion, final costs TT\$3.15 billion (still incomplete) and eventually sold for approximately TT\$235 million.
 - ▶ Gasoline Optimization Programme - Estimated cost TT\$2.45 billion, final cost TT\$12.6 billion.
 - ▶ Ultra-Low Sulfur Diesel Plant - Estimated cost TT\$791 million, final costs \$2.89 billion and currently deemed structurally unsound, costing an additional TT\$2.5 billion to resolve.
- ▶ The passive Exploration & Production Programme that has contributed to the demise of crude oil production, the exorbitant crude oil import bill and the contraction of the refining margins.
- ▶ The political nepotism in the employment practices at the company, together with the rotational political appointments at the Board of Directors, have also contributed to poor governance.

That being said, we are here now and must fully understand the way forward. Trinidad & Tobago will move from a petroleum products exporter, to merely an exporter of crude oil and, perhaps the most fundamental change, an importer of finished petroleum products. The unanswered questions remain:

- ▶ What is the all-in cost of the closure of Petrotrin, over and above the estimated termination payment of TT\$2.6 billion?
- ▶ What are the medium to long term plans for the Refining Assets?
- ▶ What measures would be put in place to ensure the efficient and cost effective procurement of the finished petroleum products?
- ▶ How would the volatility in global petroleum prices be managed?
- ▶ What is the quantum of reserves of finished petroleum products that must be maintained for strategy purposes?
- ▶ How would the arrangement governing the Exploration & Production Business be managed?

Termed “The Repurposing of Petrotrin,” this exercise would require significant strategic thought, clinical adherence to best practices in governance and effective execution to avoid the mistakes of the past. We remain hopeful that the open wounds from this financial fiasco that exist today would be indelibly etched in our minds and ensure that suitable systems and controls are implemented going forward.

Energy sector review

Predicated on a budgeted natural gas price of US\$2.75 per MMPTU and crude oil of US\$65 per barrel, Total Core Government Revenue for fiscal year 2019 has been budgeted at TT\$47.724 billion, with Revenue from the Energy Sector budgeted at TT\$9.518 billion. Such an increased revenue is driven by enhanced natural gas production and buoyant prices.

Natural gas production is expected to increase from 3.8 BSCF per day in 2018 to 3.94 BSCF per day in 2019. Further increases in natural gas production are expected for fiscal years 2020 and 2021. Crude oil production, which has fallen precipitously in recent years, is expected to rise to 77,500 barrels per day over the period 2019 to 2021 as well.

Driving the growth in production, the Minister cited the following projects:

- ▶ BP T&T LLC proposed investment programme of US\$8 billion over the next 10 years, which includes:
 - ▶ The Juniper Development, now fully operational.
 - ▶ The Angelin Development, which is expected to come on stream in the first quarter of 2019.
 - ▶ The Cassia Compression Project, scheduled for 2020.
 - ▶ The Trinidad Regional Offshore Compression (TROC) projected to come to an end in 2021.
- ▶ The major Exploration and Development programme of EOG Resources Inc. expected to commence in 2019.
- ▶ The focus of Shell Trinidad and Tobago Limited on the Starfish, Dolphin and Block 5c.
- ▶ BHP Billiton Limited's development in Block 3a and the supply of 340 MSCF of gas per day for the next two years.
- ▶ De Novo's imminent commencement of commercial production.
- ▶ The cross board development of the Dragon Field in a joint venture between the National Gas Company and Shell Trinidad.

These projects, along with the Government's commitment to increase energy supply by using renewable sources by 2021, are all positive developments in the sector. When combined with the much anticipated Competitive Bid Round for six shallow water blocks, we can expect an uptick in commercial activity in the sector in the short to medium term.

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Provisional income tax schedule 2019

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

Personal Allowance (Note 1)	\$72,000
Contribution to Approved Pension/Retirement Fund/ Deferred Annuity/70% NIS Contribution	\$50,000
Tertiary Education Expenses (Note 2)	\$72,000
First Time Home Owner Allowance (Note 3)	\$25,000
Maintenance or Alimony (under Court Order)	Amount Paid (unlimited)
Donations under Deed of Covenant (Note 4)	Up to 15% of Total Income
Purchase & Installation of CNG Kit	Tax Credit of 25% of acquiring and installing (up to \$10,000)
Purchase of Solar Water Heating Equipment	Tax Credit of 25% of cost (up to \$10,000)
Purchase of Bonds (National Tax Free Savings Bonds Regulations) (Note 5)	Tax Credit of 25% of face value

Benefits In Kind

Motor Vehicles/Equipment	50% of Wear & Tear/ 50% of Lease Rental
Company Owned Housing	Fair Rental Value
Staff Loans	Difference in CBTT Repo Rate & Rate Charged
Other Benefits	Cost to Employer

Exemptions

Initial sale of a residential house site (Note 6)
Newly Constructed Commercial Buildings and Multi-Storey Car Parks (Note 7)
Income and dividends distributed by the CLICO Investment Fund (Note 8)
Multi-Family Dwelling (Note 9)
Other Prescribed Exemptions are available

Other

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

Note 1: The Personal Allowance for residents is \$72,000. Effective 1 January 2016.

Note 2: The proposed increase takes effect from 1 January 2019. It does not apply to local and regional tertiary institutions.

Note 3: 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.

Note 4: Total income is the aggregate income after any deductions are made for expenses, allowances or loss relief.

Note 5: Credit applies to bonds with a maturity period of 5, 7 or 10 years with a face value not exceeding \$5,000. Any unclaimed tax credit may be claimed in the succeeding years of income.

Note 6: 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.

Income tax computation comparative

With regard to high income individuals, the Minister has proposed the following changes:

	High Income Earner	
	2019	2018
Income from Employment	1,500,000	1,500,000
Less:		
Personal Allowance - (Note 1)	(72,000)	(72,000)
Deduction for First Time Acquisition of House - (Note 3)	(25,000)	(25,000)
Tertiary Education (Extra-Regional) - (Note 2)	(72,000)	(60,000)
Deduction for Approved Annuity/ Pension Plan and NIS	(50,000)	(50,000)
Covenanted Donations - (Note 4)	(5,000)	(5,000)
Chargeable Income	1,276,000	1,288,000
Income Tax @ 25% - (Note 10)	250,000	250,000
Income Tax @ 30% - (Note 11)	82,800	86,400
Total Tax Liability	332,800	336,400

Note 7: 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.

Note 8: Applies to income or dividends distributed to resident individuals and companies that are unit holders of the CLICO Investment Fund.

Note 9: 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.

Note 10: Chargeable income up to 1,000,000 will be taxed at 25%. Effective 1 January 2017.

Note 11: Chargeable income in excess of 1,000,000 will be taxed at 30%. Effective 1 January 2017.

Status of fiscal measures 2018

Budget Statement 2018

Proposed Measures	Implications	Status
Corporation Tax Rates	Introduction of a standard 30% Corporation Tax rate for companies and a 35% rate for commercial banks.	Enacted in the Finance Act, 2017
Removal of 100 acre Restriction for Approved Agricultural Holdings	Profits from farming carried out on approved agricultural holdings are exempt from tax for a period of 10 years. The 100 acre limitation previously applicable to such approved agricultural holdings has now been removed.	Enacted in the Finance Act, 2017
Vehicles Using Clean or Alternate Fuels	Revision of the qualifying criteria for VAT, Motor Vehicles Tax and Customs Duty exemptions with respect to electric and hybrid motor vehicles.	Enacted in the Finance Act, 2017
Motorcycles	VAT and Customs Duty exemptions on motorcycles with engine sizes not exceeding 300 cc.	Enacted in Legal Notice No. 117 of 2017
Import Duty on Motor Vehicles	25% increase in Customs Duties on certain motor vehicles.	Enacted in Legal Notice No. 117 of 2017
Import Duty on Tyres	Harmonization of the rate of Customs Duty applicable on the importation of new and used tyres to 30%.	Enacted in Legal Notice No. 117 of 2017
Environmental Tyres Tax	Introduction of an Environmental Tyre Tax, at the rate of \$20 per tyre, on the importation of certain used tyres into the country.	Enacted in the Finance Act, 2017

Proposed Measures	Implications	Status
Fuel Subsidy & Margin on Fuels	Adjustments to the fuel subsidy resulting in increases in the retail prices of super gasoline and diesel. Increase in the wholesale margin on fuels.	Enacted in Legal Notices Nos. 110 and 111 of 2017
	Implementation of system whereby fuel prices at the pump fluctuate and are based on market prices.	Not Implemented
Gaming Taxes	Increased taxes on gambling tables and other devices.	Enacted in Legal Notice No. 117 of 2017
Lottery Winnings Tax	Introduction of a Lottery Winnings Tax to be charged, at the rate of 10%, on all prize monies exceeding \$1,000 from lotteries organized and conducted by the National Lotteries Control Board.	Enacted in the Finance Act, 2017
Access to Foreign Exchange for Manufacturers	Introduction of a facility at the Export Import Bank of Trinidad & Tobago Limited (EximBank) to provide manufacturers with access to foreign exchange to fund operations.	Implemented by EximBank
Construction Incentives	Introduction of an incentive scheme for private developers whereby a cash payment of up to \$100,000 per unit will be made upon the successful completion and sale of a house by the developers to qualified applicants.	Housing Construction Incentive Programme (HCIP) implemented by the Housing Development Corporation (HDC).
Hotel & Guesthouse Room Upgrade Programme	Increases in reimbursement levels in respect of expenditure incurred in the upgrade of tourist accommodation facilities.	Implemented by the Ministry of Tourism

Proposed Measures	Implications	Status
Private Hospitals	Increase in the license fees applicable to all private hospitals as well as an increase in the penalties for persons found guilty of offences under the Private Hospitals Act.	Increase in penalties enacted in Finance Act, 2017, however, increase in license fees not implemented.
Oil & Gas Royalty	Introduction of a uniform royalty rate of 12.5% on the extraction of crude oil and gas.	Enacted in Legal Notice No. 163 of 2017
Supplemental Petroleum Tax (SPT)	Amending the SPT regime to make it more responsive to underlying profitability and to extend it to include natural gas.	Not Implemented
Property Tax	Full implementation of the Property Tax in fiscal year 2018.	Not implemented, however, the Property Tax (Amendment) Act, 2018 and Valuation of Land (Amendment) Act, 2018 were both enacted in 2018.
Allowance for Exports by Manufacturers	Introduction of a framework to allow for a reduction of tax on revenues generated from incremental exports to existing markets.	Not Implemented
Revenue Authority	Establishment of the Trinidad & Tobago Revenue Authority in fiscal year 2018.	Not implemented, however, the relevant governing legislation was introduced in Parliament in 2018.
Incentive for Farmers	Introduction of an Agricultural Financial Support Programme to provide grants for new and existing farmers of up to TT\$100,000.	Not Implemented

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The EY logo, consisting of the letters 'EY' in a bold, sans-serif font. The 'E' and 'Y' are connected, with the 'Y' having a distinctive shape where the bottom two strokes are separate.

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Guyana tax rates 2018

Corporate Tax

Corporate tax rate

- ▶ Telephone company 45%
- ▶ Commercial company¹ 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 licences 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) Unlimited⁵
- ▶ Carry forward (capital gains tax) 24 years

¹ A commercial company is a company where at least 75% of its gross income is from trading in goods that it does not manufacture and is defined to include banks and insurance companies not carrying on 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 or commercial companies.

Guyana tax rates 2018

Capital Allowances

Petroleum sector

- ▶ Petroleum capital expenditure..... 20% per annum

Diamond and gold mining sector

- ▶ Exploration and deveopment expenditure 20% per annum

Other sectors

Asset	Rate ⁶
▶ Aircraft.....	33.3%
▶ Boats.....	10%
▶ Buildings (housing machinery)	5% on cost
▶ Furniture and fittings.....	10%
▶ Motor vehicles.....	20%
▶ Electronic office equipment	50%
▶ Other office equipment.....	15%
▶ Plant and machinery	20%

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
- ▶ Exports of goods
- ▶ 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 (GUY\$)

- ▶ Consumption up to \$1,500..... 0%
- ▶ Above \$1,500..... 14% (on full consumption)
- ▶ Registration threshold Taxable supplies of \$15,000,000 per annum

⁶ 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.

Guyana tax rates 2018

Property Tax Rates

Value of net property for companies (GUY\$)

- ▶ On the first \$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%

Value of net property for individuals (GUY\$)

- ▶ On the first \$40,000,000 of net property Nil
- ▶ For every dollar of the remainder of net property 0.5%

Income Tax Rates – Individuals

Band of Taxable Income (GUY\$)	Rate
▶ 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\$240,000 per month)

National Insurance	Employee (%)	Employer (%)	Total (%)
Employed persons	5.6	8.4	14
Self-employed persons	–	–	12.5

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