

Contents

I. Budget Principles	2
II. Review of Government Performance	3
<i>Economic Achievements</i>	3
<i>Accounting for 2005 Revenue</i>	4
<i>Human Development Successes</i>	5
III. Strategy for 2006-2007	6
<i>Crime Intervention Strategy</i>	6
<i>Medium –term outlook 2005-2007</i>	7
<i>Social Sector Policy</i>	8
<i>Effective Education and Training</i>	10
<i>Quality Health Care and Wellness</i>	11
<i>Housing</i>	12
<i>Diversification of the Economy</i>	12
<i>Environmental Management</i>	16
<i>Tobago</i>	16
<i>Regional Integration: Petroleum Fund</i>	17
<i>Major Tax Initiatives</i>	17
IV. Fiscal Operations 2006	23
V. Conclusion	24
VI. Annex	25

**INTRODUCTION
OF THE APPROPRIATION BILL 2005-2006
IN THE SENATE ON TUESDAY OCTOBER 11 2005
BY SENATOR, THE HONOURABLE CONRAD ENILL
MINISTER IN THE MINISTRY OF FINANCE**

Madam President, I beg to move,

That a Bill entitled, an Act to provide for the service of Trinidad and Tobago for the financial year **October 1 2005** to **September 30 2006**, be now read a second time.

Madam President, this is a money bill and was approved in the other place on **October 7 2005**. The Bill provides for the issue from the Consolidated Fund of the sum of **\$30.640 billion** under the various Heads as indicated in the Schedule of the Bill.

I. BUDGET PRINCIPLES

Madam President, this budget advances the process put in place since this administration assumed office in **December 2001**. That process involves the laying out of the framework and strategies for paving the way to a new era of prosperity when we the people of Trinidad and Tobago can realistically look forward to taking our rightful place among the advanced countries within this hemisphere and ultimately within the world at large.

Madam President, it is the Government's deep conviction that broad-based participation in the economic and social life of the country makes growth and development more human centered, democratic and equitable.

Madam President, we have therefore been heartened by the spirited feedback which we have received in our consultations with the members of the national community. The involvement of our ministers of government, parliamentary secretaries and other members of government in the process has been no less dynamic and forceful.

Madam President, our public officers have demonstrated the highest levels of professionalism and dedication in preparing all the documents laid in this Parliament. We wish to

take this opportunity to salute them. The documentation represents an account of our stewardship for the period just ended and our plans for the future and they include:

- *Review of the Economy 2005*
- *Social Sector Investment Programme 2006*
- *Social and Economic Policy Framework 2006-2008*
- *Public Sector Investment Programme(which includes not only the central government but also state enterprises)*
- *Tobago – Public Sector Investment Programme; and*
- *Draft Estimates of Revenue and Expenditure and the Development Programme 2006*

II. REVIEW OF GOVERNMENT PERFORMANCE

Economic Achievements

Madam President, I wish to highlight the government's performance by a review of the documentation laid in Parliament which points to the successful efforts of the Government in managing and modernizing the economy. We have had the deep satisfaction of seeing this country evolve into a global leader in the gas and petrochemical markets, a regional centre for financial services as well as a business and manufacturing hub and a preferred destination for investment in the western hemisphere.

Madam President, success has been due to our economic and social policies which placed people at the centre of our planning. We must be justifiably proud as we review our own domestic economic performance in **2004** and our medium-term outlook:

- *real economic growth* was recorded at **6.5 percent** in **2004** – our eleventh successive year of positive economic growth; in 2001 it was 4.2 percent
- *economic growth* continues to be broad-based; from oil only to oil, gas, tourism, financial services, manufacturing, and expansion of small business activity in distribution and services.

- *economic growth* is generating jobs (28000 jobs in 2004) at a rapid pace bringing the unemployment rate to an average of **8.3 percent**; in 2001 it was 10.8 percent
- *economic growth* is generating healthy trade surpluses with our major trading partners, including our CARICOM neighbors and is contributing to a build-up of our external reserves which now stand at a comfortable **US\$3.8 billion**
- *fiscal surpluses* have continued with transfers to the Interim Revenue Stabilisation Fund the balance at the end of 2004 is TT\$5.4 billion in 2001 it was TT\$1.0 billion
- *external public sector debt* has now fallen to approximately **40.5 percent** of GDP; and in 2001 it was 58.3 per cent and
- *our financial institutions* remain sound, profitable and well capitalized.

Accounting for 2005 Revenue

Madam President, our **2005** expenditure profile is illustrative of our public policy agenda with the larger-than-expected oil revenue in **2005** -- **\$3.2 billion** higher than envisaged in the budget -- Government scaled-up its capital programme with the result that expenditure in **2005** was **\$27,901.3 million** - **\$3,893.4 million** more than the original budget figure.

Madam President, our commitment to good governance requires that we provide this House and the population at large with a full account of our expenditure and this is available to all: We will however highlight a few:

First: we transferred **\$2,593.0 million** to the Interim Revenue Stabilisation Fund.

Second: we spent approximately **\$1.4 billion** on subsidies to maintain the price of gasoline and other petroleum products and in due course we would have to decide at what price it would be reasonable to sell this commodity on the domestic market.

Third: we spent **\$7.5 billion** on our **three (3)** priority areas - education, national security and health.

Fourth: we spent **\$2.6 billion** on interest payments.

Fifth: we spent **\$2.0 billion** on pensions.

Sixth: we transferred **\$1.6 billion** to the Tobago House of Assembly and to the regional corporations.

Seventh: we spent **\$1.0 billion** to maintain water and electricity rates, to subsidise inter-island transport and to address the restructuring requirement of Caroni (1975) Limited and BWIA (West Indies) Airways Limited.

Eighth: we spent **\$426.0 million** on the Unemployment Relief Programme providing relief for 50000 temporary job opportunities and

Ninth: we spent **\$2.847 billion** on the Public Sector Investment Programme.

Madam President, we have been making a decisive difference in the lives of the people of Trinidad and Tobago. In fact, the **2005** United Nations Human Development Report through its human development index has underlined the improving social conditions in the country.

Human Development Successes

Madam President, I would like therefore to detail a number of successes in our human development agenda:

- in *education*: the strengthening of the educational infrastructure with the coming on-stream of the University of Trinidad and Tobago (UTT), the Government Assistance for Tuition Expenses (GATE) financing programme, and other programmed targeted at pre-schools and primary and secondary schools;

- *in health:* improvement in the delivery and quality of health services as evidenced by reduced waiting times for surgical operations, the overwhelming success of the Chronic Disease Assistance Programme (CDAP) and free-of-charge access programme to the Eric Williams Medical Sciences Complex;
- *in housing:* the aggressive and impressive programme under which **6,000** houses were built in fiscal **2005** and the allocation of residential lots for lease by **6,755** former employees of Caroni (1975) Limited; and
- *in public infrastructure:* improved delivery of services by the Water and Sewerage Authority and improved wastewater treatment through the completion of the Municipal Wastewater Treatment Facility.

Madam President, by any standard these are remarkable achievements.

III. STRATEGY FOR 2006-2007

Madam President, Trinidad and Tobago is at a most critical juncture in its history. We are advancing steadily towards a transformed and diversified economy. On the other hand, we are facing some acute social challenges which, if not successfully addressed, could undermine the gains we have achieved. In particular Madam President, we must continue to deal with the issue of crime and safety of our citizens.

Crime Intervention Strategy

Madam President, our strategy to control crime reflects a full understanding of the dimensions of the problem:

Madam President, Government has been making available to the security forces all the required resources to address the current crime wave on a sustainable basis:

- we have acquired state-of-the-art crime fighting technology;

- we are purchasing **three (3)** offshore patrol vessels. The first would be delivered in the first quarter of **2007**;
- we established the special anti-crime unit – SAUTT - and the Incident Co-ordination Centre;
- we are purchasing **149** additional vehicles for the police service;
- we continue to rehabilitate police stations – work on **five (5)** began in **September 2005** and we are building **six (6)** police stations;
- we are establishing a prisons training college at Tumpuna Road, Arima and, through a Prison Reform and Transformation Unit, we have embarked on a rehabilitation programme for prisoners;
- we are accelerating the implementation of **three (3)** military-led specialized youth programmes; and
- we are providing technical assistance to the police service through Scotland Yard of the United Kingdom and the Federal Bureau of Investigation of the United States of America.

Madam President, this Government recognizes and accepts its responsibility to the people of Trinidad and Tobago of providing an environment of peace and security of creating good quality and sustainable jobs and building a cohesive and caring society.

Madam President, for this reason, the theme of this budget statement *Ensuring Our Future Prosperity: Addressing Basic Needs* is indeed appropriate.

Medium-Term Outlook 2005-2007

Madam President, how do we see the medium-term outlook? Our economic projections for **2005-2007** have just been endorsed by the International Monetary Fund during their **July 2005** Article IV Consultation. Our medium-term economic outlook remains encouraging:

- real GDP is expected to increase from **6.5 percent** in **2004** to **8.0 percent** in **2006**;
- the expansion in GDP would be driven by:
 - increasing oil production levels;
 - the commercial commissioning of LNG Train IV;
 - the expected commissioning of **five (5)** new plants in the petro-chemical sector; and
 - construction activity resulting from the on-going development projects.

Social Sector Policy

Madam President, in addition to our economic policy it is important to spend some time on our social policy. It is well established that if you rebuild and strengthen the family - the basic unit of society - the multifaceted societal problems would diminish and community life enhanced. The *first pillar* in our modernization programme is therefore, *the utilization of a more targeted comprehensive and co-ordinated approach to treat with issues confronting the family as a unit.*

Madam President, in our social and economic policy framework we have identified the following objectives for the population:

First: guaranteed access to an adequate level of housing including related basic facilities and services for *all* families;

Second: the creation of an integrated security infrastructure which ensures that issues of crime, public safety and security are addressed on a sustained basis;

Third: the evolution of a modern and relevant education system which would promote a culture conducive to lifelong learning and training;

Fourth: the establishment of a health system conducive to delivery of high quality services;

Fifth: the assurance of sustainable high quality jobs and equal opportunities for all groups in the society; and

Sixth: the provision of support mechanisms for the unemployed and other vulnerable groups.

Madam President, this comprehensive approach would be collaborative in nature and would be driven by several key ministries of Government.

Unemployment Relief Programme

Madam President, the Unemployment Relief Programme is a key support mechanism for the unemployed. However, in the context of the falling level of unemployment, we are simultaneously rationalizing and restructuring the programme with the introduction of a mandatory comprehensive training element.

Community Development

Madam President, in respect of community development, we are upgrading and establishing community sporting facilities, including swimming pools, play fields and jogging tracks.

Culture

Madam President, in respect of culture, we are:

- transforming the national steel orchestra;
- establishing **two (2)** academies for the performing arts; and
- establishing a new state-of-the-art national carnival centre at the Queen's Park Savannah in time for the **2007** carnival celebrations.

Effective Education and Training

Madam President, the *second pillar* which underpins our economic and human development strategy is our explicit and sustained policy to improve the quality of our human resources.

Madam President, we are focusing on early childhood care education. We are rebuilding some **150** primary schools of which **twenty (20)** are being built in this fiscal year. We are putting in place a modern secondary school system in which new infrastructure would be installed and we are well on the way to achieving our goal of a **60.0 percent** participation rate at the tertiary level by **2015**.

Free Public Tertiary Education

Madam President, we cannot deny tertiary education opportunities to our citizens for want of financial resources. The government is therefore pleased to announce that with effect from **January 1 2006** all nationals of Trinidad and Tobago enrolled at public tertiary institutions – The University of the West Indies, the University of Trinidad and Tobago, COSTAATT and other institutions where the Government sponsors students - would be eligible for free tuition.

Madame President, please allow me to take the opportunity to respond to a letter to the editor in one of the daily newspapers in which the writer indicated that she intended to save any extra money she got from the 2006 Budget for her daughters' university education because she was unsure that the government would be able to continue to provide free tertiary-level education by the time her daughters were ready to attend university.

I would like to commend her on a well thought out and brilliant strategy, because in 5, 10, 15, 20 years under this government two things would have occurred.

One – her children would have received free tertiary-level education under this government, and two they would have been provided with seed capital by their mother, who also benefited from the fiscal measures proposed in this Budget. Madam President, as a direct result of our fiscal measures her daughters would be armed with both a university degree and capital which could be used to buy a house or start a business. Her daughters would be well on their way to taking their rightful place in society, and that Madame President is the vision of this government

She, together with the assistance of this government, would have achieved two things. She would have ensured the future prosperity of her daughters as well as helped address their basic needs, and that Madame President is the goal of this budget.

Training

The demands of our expanding and diversified economy are being met by no less than **seventeen (17)** training programmes. The Laventille Technology and Continuing Education Centre has now become a major provider of technical training in one of the most poverty-stricken areas in our country. Similar centres are being constructed throughout various parts of the country to support these efforts.

Quality Health Care and Wellness

Madam President, as our *third pillar*, we are ensuring that our front-line health institutions, through qualitative improvements and capacity expansion, continue on a path of providing affordable and equitable health care. In support of this thrust:

- a Bachelor of Science Nursing Degree is being offered by The University of the West Indies;
- we are continuing the annual scholarship programme for doctors to be trained at the St. George's University, Grenada; and
- we have put in place a community outreach family medicine programme utilizing mobile clinics that would *provide a broad range of health services to families living in remote areas.*

Housing

Madam President, access to adequate, affordable and quality housing represents the *fourth pillar* in our modernization agenda:

- we are improving access through a subsidised interest rate and a rent-to-own policy;
- we are constructing **8,000** units under the accelerated housing programme; and
- we are continuing with our subsidy programmes and our home improvement grants.

Diversification of the Economy

Madam President, the restructuring and strengthening of the drivers of growth in our economy remain at the top of our agenda and is the *fifth pillar* in our transformation drive.

Energy and Energy Industries

Madam President, in support of our diversification thrust, we are ensuring that the energy sector forges greater linkages with the rest of the economy:

First: all new project proposals in the down-stream natural gas sector must now include a value-added element.

Second: a world-scale **US\$1.4 billion** polypropylene plant is being established with start-up estimated for the year **2010**.

Third: LNG Train IV is being commissioned in **November 2005** and investment opportunities along the entire LNG value chain will be promoted and developed.

Fourth: The National Gas Company is nearing completion of **two (2)** major cross-country pipeline projects.

Fifth: the Government is giving due consideration to the establishment of **two (2)** aluminum smelter plants – one at Point Fortin and the other at La Brea.

Sixth: the Government is also giving due consideration to the revitalization of the iron and steel industry; and

Seventh: the Petrotrin refinery at Pointe-a-Pierre is being upgraded and a new refinery also at Pointe-a-Pierre is being considered.

Agriculture

Madam President, international agricultural developments require that our agricultural sector become competitive, resilient, adaptive and market-driven. We are improving our access roads, drainage, irrigation and water management systems. We are rationalizing land use and we are making available access to finance. Within this general framework, Madam President:

- we have created **7,247** new farmers and brought into productive use an additional **18,338** acres of land in settlement of our commitments to former employees of Caroni (1975) Limited; and

- we are providing support to these farmers in research and development, agro-processing and marketing.

Madam President, there are a number of other initiatives for improving agricultural production and food security: the establishment of an agro-industrial park, the use of Caroni lands as a basis for the development of an agro-processing industry, programmes to increase the levels of sufficiency in **five (5)** strategic foods and the strengthening and rebuilding of family farms in rural communities.

Manufacturing

Madam President, we are pursuing a range of initiatives to ensure that the manufacturing sector maintains its dominant position and becomes competitive in new markets further afield by:

- completing the Technology Park at Wallerfield;
- modernizing existing industrial parks and developing new ones;
- improving the customs service;
- restructuring the Port Authority of Trinidad and Tobago; and
- intensifying efforts to complete negotiations for free trade agreements with MERCOSUR, Canada and Central America.

Small and Micro Enterprises

Madam President, the small and micro-enterprise sector is being adequately supported. In addition, to facilities offered by the Business Development Company and the Caribbean Leasing Company, the small and micro-enterprise sector would have access to Government contracts under the *Fair Share Programme* which is being introduced as part of the reform of the procurement regime in the public sector.

Infrastructure

Madam President, the importance of infrastructure for rapid and sustained economic development cannot be overstated and its strengthening represents the *sixth pillar* in our modernization programme:

- we are undertaking significant road rehabilitation and repair work as well as the cleaning and de-silting of rivers, drains and watercourses. After overcoming significant engineering issues, the Mamoral Dam and Reservoir are now being constructed;
- the problem of flooding in Port of Spain is being addressed;
- with respect to sea transportation between Trinidad and Tobago, Government proposes in **2006** to purchase a fast ferry to service the sea bridge between Trinidad and Tobago;
- power generation is being enhanced to facilitate the planned development projects across the country; and
- over the next **three (3)** years, a continuous supply of water would be available to **36.0 percent** of the population.

Madam President, we are addressing the less-than-adequate implementation of the Public Sector Investment Programme. We are outsourcing to **fifteen (15)** special purpose state enterprises approved development projects.

Madam President, these special purpose state enterprises which are essentially project management companies, will undertake development projects in a number of areas and will operate under the highest standards of good governance, transparency and financial accountability.

Environmental Management

Madam President, the *seventh pillar* in our modernisation agenda is our commitment to a clean and healthy environment. We would continue to address issues relating to deforestation, indiscriminate land development and the improper disposal of solid waste. We have revised the national environmental policy. We propose to establish a recycling industry with incentives for manufacturers, vendors and consumers.

Madam President, the Community Enhancement and Protection of the Environment Programme (CEPEP) is also making an important contribution towards the enhancement of the environment. But the time has come to reorganize this programme to ensure maximum effectiveness through a change of hours of work and mandatory training.

Financial Sector Reform

Madam President, our comprehensive financial sector reform programme is continuing apace.

Procurement Reform

The reform of Government's procurement regime is also well advanced and would come into effect by the fourth quarter of fiscal **2006**.

Tobago

Madam President, let me now turn to Tobago:

Economic growth and development in Tobago is now being driven by the tourism sector. In **2002** **7,000** individuals were employed in the tourism industry. The number now is **15,000**. The hotel occupancy rate is currently at **85.0 percent** compared with **15.0 percent** in **2002**. Yet Madam President, there are other significant achievements in Tobago, including the progress addressing the HIV/AIDS situation, the acquisition of Pigeon Point, the establishment of Cove Industrial Estate and the virtual achievement of full employment.

Madam President, with an *overall allocation of \$2.3 billion dollars to Tobago, the Tobago House of assembly will receive \$1.3 billion directly*, and will have available a further **\$500.0 million from the** Capital Expenditure Borrowing Facility, in addition a further **\$470.9 million** is to be expended under various Heads of expenditure for the people of Tobago. In all **\$2.3 billion for fiscal 2006**.

Regional Integration: Petroleum Fund

Madam President, our commitment to regional integration is un-wavering. CARICOM trade has been generating substantial and good quality jobs for our citizens. For this reason, it is critical that we provide whatever assistance we can to our CARICOM neighbours.

Madam President, in fiscal **2006** we would maintain the Petroleum Fund which was established in **2005** to provide assistance to CARICOM countries.

Major Tax Initiatives

Food Subsidies

Madam President, rising inflation, in particular food prices, impacts heavily on the incomes of the poor and the vulnerable. For this reason, the Government has put in place a three-pronged strategy to address the problem:

First: by end-**March 2006** we would provide short-term conditional cash transfers through a *Smart Card* targeted at approximately **60,000** families. The food hamper programme would therefore, be discontinued.

Second: we are reducing or removing duties on a number of food items which are detailed in the annex to this statement;

Third: we are restructuring the National Agricultural Marketing and Development Corporation (NAMDEVCO) to provide a greater degree of support to our farmers.

Tax Reform

Madam President, despite our obvious economic successes we cannot become complacent. We need to improve the economic environment within which savings and investment can be optimised. Viable tax regimes tend to encourage savings and investment and in the process make growth self-sustaining and job-creating.

Madam President, we have now fulfilled the commitments we made in **2003** and in **2004** to reform the tax system – both energy and non-energy.

Energy Taxation

Madam President, we have undertaken a complete overhaul of the energy taxation regime; and I wish to put also on record my deepest appreciation for work done by the Energy Tax Committee under the chairmanship of Professor Ken Julien and for the advice we received from energy taxation consultants, both locally and internationally.

- *Petroleum Taxation*

Madam President, *the first phase* of the reform involved oil taxation. That was enacted in **July 2005** through an amendment to the Finance Bill 2005. The revised petroleum taxation regime is now limited to the taxation of income from oil production through a Petroleum Profits

Tax (PPT), a Supplementary Profits Tax (SPT) and the Unemployment Levy (UL). Income from gas production is now subject to a separate regime.

Madam President, we have sought to ensure that the new system is transparent, easy to understand and easy to administer with predictable and stable revenue flows and consistent with international best practice.

As a result Madam President, under the new regime:

- SPT payments are now based on a weighted average price of crude calculated quarterly instead of annually. Previously, SPT was assessed annually but paid on a quarterly basis. This often reduced the Government's cash flow pending end-of-year adjustments;
 - the Petroleum Profits Tax (PPT) would now be determined through the following amendments:
 - the removal of the first year allowance for both tangible and intangible expenditure in the case of part III Capital Allowances Exploration Expenditure will be calculated as follows:
 - 10% initial allowance
 - 20% annual allowance on a declining balance from the year of expenditure.
- For Development Expenditure
- 10% initial allowance

- 20% annual allowance on a declining balance from year two (2) or the year in which there is commercial production, whichever is earlier.
- the shift to quarterly tax payments calculated on a current year basis;
- non-deferral of capital allowances and allowing decommissioning and abandonment costs only when they are incurred; and
- limiting deductible management charges to **2.0 percent** of expenditure.

Madam President, the increase in petroleum revenue arising out of the revised legislation is estimated at \$1 billion.

- *Gas Taxation*

Madam President, the second phase of the reform of the energy sector fiscal regime involves the establishment of a separate regime for gas. Although income from natural gas contributes over **62.0 percent** of total petroleum revenue, the tax paid to the Government from natural gas is **49.0 percent** of the total petroleum tax receipts. The decision therefore, to establish separate taxation regimes for oil and gas is therefore timely as it is appropriate.

Madam President, we are deeply aware that in an environment of increasing oil and gas prices there is need to balance the economic and financial interests of both producers and the Government. I am pleased to report that over the course of the last year the Government has had fruitful discussions with the industry and arrived at a position that we believe is equitable and fair under the current circumstances. This comprehensive review has led the Government to agree on amendments to the fiscal regime with a view to:

First: expanding exploration and development activities;

Second: balancing the allocation of gas for export and domestic uses;

Third: achieving fair market value prices for gas; and

Fourth: *revisiting the system of incentives for the LNG industry.*

All these measures have been discussed in depth with the companies and have been agreed generally as a sound basis for developing the sector to the mutual benefit of the companies and the Government.

Madam President, I wish to inform this Honourable House that bpTT the largest supplier of gas operating under an Exploration and Production license, in Trinidad and Tobago has committed to a deep drilling programme over the next **three (3)** years. This agreement was arrived at after prolonged discussions between the company and the Government and this programme would yield a stream of gas which would guarantee a measured pace for our energy sector development. Moreover, bpTT has also agreed to advance the **10.0 percent** royalty payment to **2008** from **2017**. **This would be paid in kind and done on a phased basis beginning in 2005**, with the full **10.0 percent** of the value of gas sold by the company for LNG to be realized in 2008 and continuing.

Madam President, with this new gas tax regime, the concept of fair market value provides the underlying basis for determining the taxable income thus ensuring a fair return to all. The increase in revenue attributable to the new gas regime is about **\$2.0 billion**.

Madam President, the Government has realized that it is not in the best interest of the companies or the country for long lapses between reviews of taxation in the sector and therefore we are now committed to reviewing the energy taxation regime at least every **three (3) to five (5)** years.

Madam President, I would like to apprise this Honourable House of a significant development in this sector. In the context of the prevailing prices for gas, we intend to revisit with the company the existing tax incentives structure previously granted for Atlantic Train 1.

Given the present situation we are confident that we will reach agreement with the parties concerned which will positively impact on the country's revenue base and consolidate the gains to be derived from LNG for the benefit of the people of Trinidad and Tobago.

Madam President, the effective date of these changes will now be **January 1 2005 instead of January 2004. In agreeing to this date revenue foregone will be accommodated prospectively.**

Non-Energy Tax Regime

Madam President, in reforming the non-energy tax regime we are seeking to establish a transparent and credible system which would be easy to administer, would minimize efforts at tax evasion and tax avoidance and would be consistent with international norms.

Madam President, in designing the architecture for the personal income tax regime, we have decided to establish a flat personal income tax rate at **25.0 percent** and increased the personal allowance to **\$60,000**. The efficiency of this system required the elimination of a number of allowances except contributions to pension funds and the deferred annuity plans.

Madam President, we have also decided to rationalize the corporation tax regime by reducing the rate from **30.0 percent** to **25.0 percent** and focusing on more depreciation and investment tax credits as against tax holidays.

Madam President, we are of the view that the indirect taxation regime is in line with international best practice in most instances and in that connection we have left unchanged the current Value Added Tax regime.

Madam President, due to the complexity of the issues involved, we are now giving due consideration to the expansion of the tax base through the introduction of a capital gains tax and the overhaul of the present property tax system.

IV. FISCAL OPERATIONS 2006

Madam President, the fiscal operations for **2006 provides for** the total estimates of expenditure for **FY06** to be **\$34,119.0 billion** of which **\$344.0 million** represents expenditure from the Unemployment Fund, including the reforestation programme of **\$44.0 million**, **\$150.0 million** from the Green Fund, **\$1,500.0 million** from the Public sector Investment Programme and **\$2,300.0 million** from the Infrastructure Development Fund.

Madam President, total revenues are based on an average oil price of **US\$45.00 per barrel (Galeota mix)** and a net-back gas price of **US\$3.75 per MMBTU**, expenditure is based on oil and gas prices of **US\$35.00 per barrel** and **US\$3.75 per MMBTU** respectively.

Accordingly, the difference between the revenue estimates, that is, the estimates based on an oil price of **US\$45.00 per barrel** and a gas price **US\$3.75 per MMBTU** and the expenditure estimates based on an oil price of **US\$35.00 per barrel** and a gas price of **US\$3.75 per MMBTU** is **\$1.862.8 billion**.

That amount Madam President, that is, **100.0 percent** of estimated excess oil and gas revenues will be appropriated for transfer to the Interim Revenue Stabilisation Fund. This will bring the balance of the Fund to **\$7,301.8 million** or approximately **US\$1,159.0 million**.

Madam President, Revenue is expected to be **\$34,128.8 million**, Expenditure is estimated at **\$32,256.2 million**, creating a Surplus of **\$1,872.6 million**. The sum of **\$1,862.8 million** would be transferred to the Revenue Stabilisation Fund and there would be a fiscal balance of **\$9.8 million**.

Included in our expenditure is an amount of **\$2,291.8 million** which represents Capital Repayments and Sinking Fund allocations and is normally treated as financing.

The amount of **\$3,800.0 million** for the Capital Programme for **2006** comprises **\$1,500.0 million** from the Consolidated Fund and **\$2,300.0 million** from the Infrastructure Development Fund

V. CONCLUSION

Madam President, I will conclude by pointing to the fact that over the past **four (4)** years we have gained a greater appreciation of the diverse aspects of high quality growth and development. We have come to understand more clearly that macroeconomic stability which we have achieved, must be supported by a range of public policies to improve the efficiency and resilience of the economy. We have learned more accurately the importance for the achievement of a sustainable fiscal position and we have benefited from an improved capacity of the Central Bank of Trinidad and Tobago to manage the domestic financial system.

Madam President, this approach accounts for our current insistence on the need to maintain key public sector investment in the areas of national security, social services, health, housing, education infrastructure and we have gained a keener appreciation of the importance of sustainable growth of social and environmental policies.

Madam President, we have determined in a much better manner how much to keep adding to public expenditure to avoid an erosion in the economic fundamentals. We believe that we are within the critical threshold of where public spending should lie. At **\$32.256 billion** in fiscal **2006** or **31.7 percent** of Gross Domestic Product, public expenditure has risen by less than 5% of GDP over the previous four year period average of 26.8%. Relative to GDP, revenue in 2006 is 33.2%. Within this threshold we are of the view that our ramped-up social and infrastructure spending would not impair already stable conditions and would foster growth and development and this would take place under the astute economic management of this administration.

The details of all the tax measures are provided in the Annex to this Statement.

Madam President, I beg to move.

ANNEX TO FY06 APPROPRIATION BILL

FISCAL MEASURES IN THE 2005-2006 BUDGET

Personal Income Tax

- Increase the personal allowance from the current level of \$25,000 to \$60,000 per annum;
- Remove the existing personal allowance of \$40,000 for individuals 60 years and over;
- Remove the child allowance of \$1,200 per child made to a spouse or former spouse regarding the maintenance of a child;
- Eliminate the deduction of up to \$18,000 for mortgage interest payments and also tertiary education;
- Eliminate the \$10,000 deduction for first-time home owners.
- Remove the deduction of up to \$10,000 in respect of shares purchased in a registered credit union;
- Replace the current personal income tax rates of 25 percent and 30 percent with a flat tax rate of 25 percent for all income levels.

These measures will come into effect from January 1, 2006.

Corporation Tax

- Reduce the corporate tax rate to 25 percent excluding the following corporations:
 - Petro-chemical companies will continue to be taxed at a rate of 35 percent;
 - Energy (oil and gas) companies will continue to be taxed at 55 percent (of which 5 percent represents the unemployment levy);

These measures will come into effect from January 1, 2006.

Approved Small Companies, Approved Companies carrying on business in a regional development area and Approved Activity Companies:

- Remove the tax credit of 25 percent of the chargeable profits currently available to these approved companies;

- Remove the 7-year limit on the application of the 25 percent tax credit given to approved companies carrying on business in a regional development area and to approved activity companies;
- Reduce the tax on the profits of these approved companies from 5 percent to 0 percent for a period of 5 years;
- Exempt the Gross sales of these approved companies from the business levy for a period of 5 years.

These measures will take effect from January 1, 2006.

Road Improvement Tax

- Incorporate the 5 percent Road Improvement Tax into the petroleum excise tax and abolish the Road Improvement Tax with immediate effect.

Petroleum Product Prices

- Reduce with immediate effect, excise duties on petroleum products as follows:
 - Unleaded Gasoline (including 95, 92 and 83 RON) from 99.696 cents per litre to 10 cents per litre;
 - Kerosene from 7 cents per litre to 5 cents per litre;
 - Auto Diesel from 19.6 cents per litre to 5 cents per litre.
- Remove the refinery margin of 2 cents used in arriving at the postal price of petroleum products;
- Increase the retailer's margin by 2 cents as follows:
 - 95 RON Unleaded Gasoline from 15 cents to 17 cents per litre;
 - 92 RON Unleaded Gasoline from 15 cents to 17 cents per litre;
 - 83 RON Unleaded Gasoline from 12.5 cents to 14.5 cents per litre;
 - Kerosene from 8 cents to 10 cents per liter; and
 - Auto Diesel from 10 cents to 12 cents per liter.
- As a result of the change in the excise duty and ex-refinery margin, the Wholesale Price will be adjusted as follows:
 - 95 RON Unleaded Gasoline from \$2.37 to \$2.43 per litre;
 - 92 RON Unleaded Gasoline from \$2.11 to \$2.17 per litre;
 - 83 RON Unleaded Gasoline from \$2.05 to \$2.11 per litre;

- Kerosene from \$1.22 to \$1.20 per litre; and
- Auto Diesel from \$1.16 to \$1.18 per litre.

These measures will:

- Improve the cash flow of wholesalers who bear the burden of subsidy payments in the first instance;
- Significantly reduce the level of subsidy payments by the government; and
- Enhance the viability of the operations of retailers.

Investments in Hotels

- Eliminate the 25 percent equity investment deduction currently granted to hotel investors. This measure will take effect from January 1, 2006.

Pensions and Annuities

- Tax the Refunds of pension plans contributions and surrender of annuities at 25 percent;
- Eliminate the tax on transfers of contributions or premiums to another approved plan;
- Extend tax exemptions in respect of the proceeds of an annuity or other periodic sums payable to all residents regardless of age;
- Increase the contribution an employer can make to an annuity on behalf of an employee, to 20 percent of the gross income of the employee;
- Eliminate the tax-free withdrawal from pension funds and deferred annuity plans for the purchase of a first home;
- Increase the maximum monthly value of a pension fund or deferred annuity plan commuted as a lump sum, from \$65 to \$500 per month.

Employee Share Option Plans

- Remove the reduced rates of tax on the transfer of shares (under Employees Share Option Plans before retirement or on termination of employment) from the Trust to the employee. Include the benefits as outlined above under the ESOP in the assessable income of the employee and tax at 25 percent with effect from January 1, 2006.

Benefits in Kind

- Tax loans to employees on the difference between the interest rate charged and the arm's length commercial rate of interest (as advised by the BIR and the Central Bank); Tax written-off loans as cash payments;

- Tax Motor Vehicles provided for the use of employees at their full market value. Increase the \$100,000 limit on the depreciation of motor vehicles to 100 percent of the value of the vehicles and charge 50 percent of the annual wear and tear on the asset as In-Kind Benefits to the employee; Charge 50 percent of the annual rental value of the motor vehicle as In-Kind Benefit to the employee;
- Tax Housing accommodation provided to directors and employees to the fair rental value of the property.

These measures will take effect from January 1, 2006.

Investment, Incentives and Depreciation

- Terminate tax holidays for new investors for regions and approved activities under the Corporation Tax Act and for approved enterprises under the Fiscal Incentives Act; Tax holidays for tourism projects under the Tourism Development Act will not be removed at this time;
- Terminate tax holidays for small enterprises;
- Terminate the corporation tax holiday for Free Zones, but retain the indirect tax privileges such as import duty exemptions and VAT exemptions.
- Terminate tax exemptions for new investments on interest on lending to tourism, agriculture, small business and housing;
- Remove the deduction for financial institutions of 10 percent of the increase in loans for approved small companies;
- Remove the 15 percent deduction for capital expenditure incurred by an approved property company in the construction of commercial buildings;
- Transfer of the written down value of all pre-1995 assets to their respective classes under the Seventh Schedule of the Income Tax Act; On disposal of an asset within the Seventh Schedule of the Income Tax Act, the full proceeds of the assets disposed of shall be credited to the pool;
- Include all industrial buildings that qualify under the Income Tax In Aid of Industry Act in the depreciation pool under the Seventh Schedule of the Income Tax Act. These buildings will be depreciated at a rate of 10 percent of the declining balance.

These measures will take effect from January 1, 2006.

Other Reform Measures

- Remove the tax exemption for the trading income of local authorities;
- Remove the tax exemption for future issues of public debt;
- Expenditure incurred in the production of exempt income will not be treated as a deductible expense; clearly defined provisions for the apportionment of expenditure will be introduced in the taxation legislation;
- Remove the 50 percent uplift for other expenditures including sponsorship of the arts, sports and culture (up to a maximum of \$1mn);
- Remove the 100 percent uplift for marginal additions in employment including apprenticeship and employment allowances;
- Calculate relief for bad debts by reference to the Central bank's provisioning requirements for specific bad debts, consistent with the prudential criteria of the Central Bank. This policy will be applicable to all companies;
- Abolish close company legislation subject to a review of the control provisions in the legislation and their impact on other parts of the tax code;
- In the case of related party debt, apply thin capitalization rules to deny tax relief for debt interest where the debt : equity ratio exceeds 3:1;
- Include patents and scientific research to the Seventh Schedule of the Corporation Tax Act.

These measures will take effect from January 1, 2006.

Value Added Tax & Import Duties

- Remove the customs duty and VAT on the following educational tools:
 - Geometry sets, under heading number **9017.20.00**;
 - Notebooks, under heading number **4820.10.00**;
 - Puzzles, under heading number **9503.60.00**;
 - Magazines, not otherwise prohibited to be imported or exported or carried coastwise, under heading number **4902.90.00**;
 - Uncoated paper and paperboard, of any kind used for writing, printing or other graphic exposed, in rectangular sheets, under heading numbers **4802.56.00 and 4802.62.00**.

These measures will take effect **immediately**.

Subject to the approval of the CARICOM Secretariat, the import duties on the following food items will be reduced as follows:

- Frozen Meat of bovine: carcasses and half-carcasses -
From 15 percent to 10 percent
- Frozen Meat of swine,; carcasses and half-carcasses – from 40 percent to 30 percent
- Frozen Lamb: Carcasses and half-carcasses – from 15 percent to 10 percent
- Goat Meat– from 15 percent to 10 percent
- Edible offal of bovine animals, swine, sheep, goats, horses, asses, mules or hinnies, fresh, chilled or frozen – from 5 percent to 0 percent
- Pickled pig tails – from 20 percent to 10 percent
- Meat of bovine animals (salted or in brine) – from 5 percent to 0 percent
- Cod – from 30 percent to 0 percent;
- Milk and cream, not containing added sugar or other sweetening matter – from 25 percent to 15 percent
- Condensed milk – from 25 percent to 15 percent
- Prunes – from 15 percent to 0 percent
- All other dried fruit – from 40 percent to 20 percent
- Instant coffee powder – from 20 percent to 10 percent
- Roasted Coffee (not decaffeinated) – from 40 percent to 20 percent
- Wholly milled parboiled rice (in packages of not more than 10 kg) – from 25 percent to 15 percent
- Wheat or meslin flour – from 25 percent to 15 percent
- Shelled Peanuts – from 40 percent to 25 percent
- Cooking oil – from 40 percent to 30 percent
- Cocoa powder, not containing added sugar or other sweetening matter – from 20 percent to 10 percent
- Macaroni only – from 20 percent to 10 percent
- Cereal – from 20 percent to 10 percent
- Mixed vegetables – from 20 percent to 10 percent
- Peas – from 20 percent to 10 percent
- Beans – from 20 percent to 10 percent
- Orange juice – from 40 percent to 30 percent

- Grapefruit juice – from 40 percent to 30 percent
- Orange juice: for infant use – from 10 percent to 0 percent
- Grapefruit juice: for infant use – from 10 percent to 0 percent
- Grape juice – from 20 percent to 15 percent
- Preparations for infant use – from 10 percent to 0 percent

These measures will take effect **immediately**.