



GOVERNMENT OF THE REPUBLIC OF TRINIDAD AND TOBAGO

Ministry of Finance

The Appropriation (Financial Year 2018) Bill, 2017

Presented by:

Senator the Honourable Allyson West

Minister in the Ministry of Finance

October 24th, 2017

“Changing the Paradigm:

Putting the Economy on a Sustainable Path”

Table of Contents

Introduction.....	2
The Global Economy	3
Medium-Term Fiscal Policy	4
Energy Sector.....	5
Transfer Pricing.....	5
Fiscal Reforms.....	5
Property Tax	6
Regulation of Gaming.....	7
Trinidad and Tobago Revenue Authority	7
Procurement	12
Diversifying the Economy	12
Business Facilitation.....	13
Export promotion.....	13
Business Development Incentive Programme	13
Business Process Outsourcing	13
Yachting	14
Creative Industries	14
Building Human Capital and Quality of Life.....	15
Housing	15
Transportation	15
The objective of those reliefs is to assist in keeping the price of public transportation affordable to all. 16	
Hospital Construction Programme	16
Social Agenda	16
Sports	16
National Security	17
Tobago.....	18
Estimate of Revenue and Expenditure: 2017-2018.....	19
Conclusion.....	24

Introduction

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 ending September 30, 2018 be read a second time.

For this Budget presentation we have chosen the theme “**Changing the Paradigm**” as these are unusual times which call for major changes in our thinking, our policies, our institutions and in our approach to how we live as Trinbagonians. This new paradigm will call for serious adjustment from all sectors of society and from each of us; it calls for a greater sense of personal and collective responsibility. To paraphrase the words of Pres. John F. Kennedy – we need to ask not what our country can do for us – but ask instead what we can do for our country.

Changing the Paradigm

Madam President, the characteristics of our current economic and financial paradigm include:

- the continued over dependence on the energy sector;
- private sector’s investment in retail and immediate consumption, rather than in manufacturing and export;
- A banking sector that supports consumption rather than investment

- failure to develop an effective and efficient tax administration; and
- inefficient systems such as our procurement process.

We have already started to address the weaknesses in our economy as well as to create the new paradigm which is a precondition for the restoration of economic stability and long term growth.

Before I move forward in placing this Budget in the context of the global economy, let me first commend the outstanding professionalism and dedication of the public officials in the Ministry of Finance, the Ministry of Planning and Development, and the other Ministries and Departments who worked tirelessly in the preparation of the National Budget 2018.

The Global Economy

The latest projections are for global real GDP growth of around **3.5 percent** in **2017** and **3.6 percent** in **2018**, up from an average of **3.2 percent** in **2016**; but a far cry from the pre-crisis levels, particularly for the advanced economies and the commodity-producing developing countries.

Commodity exporting economies, most of which were plunged into adjustment mode to offset the sharp decline in commodity prices, are expected to slowly exit their recessions because of the steady rise in commodity prices. The recovery is likely to be slower for oil-producing economies as oil prices are expected to make a much slower rebound.

It is in this global context of weak or modest economic growth in many countries that we must find our way.

Medium-Term Fiscal Policy

Madam President, the total revenue collected by the Government in 2017 was some \$10 billion less than budgeted. This was caused by

- weaker than expected performance in some sectors of the economy;
- the challenges faced by GORTT in divesting some assets,
- the under-performance of the revenue collection agencies.

It is for this reason that a significant component of our fiscal policy will be to address tax administration.

Madam President, developments in the second half of **2017** confirm the assessment of the recently concluded IMF Article IV Consultation mission that the T&T economy is on the cusp of a moderate recovery. To ensure and support this turnaround, we need to redouble our efforts to reduce the large fiscal imbalance and to accelerate the structural reforms that are needed for economic diversification.

The medium-term recovery will again be driven by the energy sector. However, the policies being put in place are expected to elicit a stronger response from the non-energy export sector.

Energy Sector

Madam President, the initiatives being pursued specifically in the area of natural gas include: a new tax regime to provide incentives for increased exploration and production; the gas sales agreement to be finalized with Venezuela; further exploration activity; and the continuation of technical work in the evaluation of the Gas Master Plan.

Transfer Pricing

We are building capacity to guard against transfer pricing practices that erode potential revenue flows to Trinidad and Tobago. It is our intention to bring legislation to the Parliament in 2018 that will strengthen our ability to address such commercial arrangements.

Fiscal Reforms

Madam President, we need to introduce a number of fiscal reforms more in keeping with our goal of fiscal sustainability.

Negotiations between the energy companies and the Government are well advanced and we expect to be in a position to present the new oil and gas fiscal regime before the end of this year.

Property Tax

That said, we recognise the urgent need to enhance revenue collection in other areas and to identify new revenue streams.

Madam President, property values in Trinidad and Tobago have increased significantly since property valuations were last undertaken under the previous land and buildings tax regime. Over the years, as property values increased, property taxes did not keep pace. The time has come when property owners must begin to contribute a share of these benefits to assist in financing the country's development and providing funds for the servicing of the communities in which their properties are located.

Madam President it is not the Government's intention to introduce taxes which place too heavy a burden on the population, which is why the new regime under the Property Tax Act:

- Introduces rates of tax that are lower than those that applied under the Land and Building Taxes Act and the Municipal Corporations Act
- Introduces lower rates of tax for agricultural and residential property
- Removes the discrimination that previously existed in the application of different rates and assessments in different areas of the country; and
- Contains a provision that allows for a temporary or permanent waiver of tax for persons who are unable to bear the cost of the tax

We are confident that these measures will result in property tax rates that are reasonable and equitable.

Regulation of Gaming

Madam President, currently, Trinidad and Tobago is home to a Gaming Industry worth an estimated \$15 - 20 billion, from which we collect very little tax. Actually, the rate of compliance by Members Clubs and Amusement Gaming operators is recorded to be less than 10 percent and 7 percent, respectively. The proposed gaming legislation is to be laid in Parliament soon and we are hopeful that with the support of our friends on the other side who in fact crafted the Bill, that legislation will be in place in 2018.

In the interim, we propose to more rigorously enforce the current legislation which provides some limited regulation of the industry.

Trinidad and Tobago Revenue Authority

Madam President, the purpose of this debate is to provide for the service of Trinidad and Tobago, which requires the collection and management of public revenue. We therefore need to talk about tax administration.

Madam President, the Government of Trinidad and Tobago has taken a decision to establish a semi-autonomous revenue authority, the Trinidad and Tobago Revenue Authority, that will be responsible for the collection and protection of government revenue.

Madam President, to those persons who ask why we cannot fix the problems by reforming the existing agencies (the Inland Revenue Division and the

Customs and Excise Division), we would remind them that successive governments have tried and failed in that task going back at least thirty years.

The challenges in the current system were identified by a multi-stakeholder, non-political Committee as:

- Deficient human resource management
- Inadequate management capability, accountability and training
- Inadequate staff development, training and accountability
- Lack of control over and accountability for budgetary allocations
- Inadequate employee compensation packages
- High incidence of corruption and corrupt practices
- Inefficient systems for internal investigation and enforcement
- Inadequate information exchange and co-ordination between the administrations and of various taxes levied
- Poor customer relations
- Anti-business rules and regulations
- Lack of appropriate information technology systems
- Poor physical infrastructure and accommodation
- Deficiencies in the legislative framework.

Madam Speaker, those issues that could have been addressed within the present institutional, legislative and regulatory context have been addressed, at least in part. For example, the Government has made available impressive and modern physical accommodation; extensive investments in both hardware and software have been made to improve the ICT capacity of the two agencies.

On the other hand, Madam President attempts have been made to address the other issues but with little success, for example:

- Countless appeals and requests have been made to the Service Commissions to fill vacant positions. However, in the face of inadequate responses, successive governments have had to resort to engaging employees on term contracts, a less than ideal arrangement.
- Significant investments have been made in training in all areas of deficiency, with little discernible improvement in the level of service to taxpayers
- The relatively successful establishment of a sub-office in 1989 to introduce VAT was short lived because of the reintegration of that sub-office back into the broader tax administration unit

Madam President, it is not only the structural and institutional inadequacies that hinder the effectiveness of our tax administration, there are also issues relating to fairness, equity and justice.

A recent study undertaken by economists at the University of the West Indies estimated the Tax Gap in Trinidad and Tobago, i.e. the difference between the taxes that should be collected and the taxes that are collected, to be between 11 and 18 percent. In financial terms, the Gap was between TT\$12 billion and TT\$15 billion, with the Corporation Tax Gap estimated to be between **TT\$5.1 and TT\$6.6 billion** and the VAT gap between **TT\$1.9 and TT\$2.4 billion**.

An effective tax system, is one in which taxpayers are motivated to freely comply. One of the criteria for such a system includes equitable distribution of the tax burden. In Trinidad and Tobago there is serious concern regarding the equity in the administration of the taxes. There are many economic actors in the society who are earning a good living and are clearly avoiding their fair share of taxes, while benefiting from the services provided by the state.

In other words, we have wage earners who are relentlessly taxed by the week or the month; who may be living from pay cheque to pay cheque while a wide range of persons making quite a good living are not bearing their share of tax. This is regressive and repressive.

It is in this context, Madam President, that the Government has looked at good practice options to address tax administration.

Case studies have demonstrated the benefits of having a semi-autonomous Revenue Authority as the centre-piece of the tax administration system. A 2004 World Bank Policy Research Paper has argued that the semi-autonomous revenue authority model, properly designed, can serve to improve tax administration in a rapid and comprehensive manner.

Case studies researched by reputable international institutions have convinced us, Madam President, that a well-structured Revenue Authority not only facilitates coordination and collaboration between the two main tax collection offices, but also allows for the recruitment, assessment and proper

reward of specialized staff which is not always possible in the traditional public service.

Madam President, we will engage the national community, including labour and business organizations, in an outreach and educational programme, with a view to sharing with them all aspects relating to the new institution. We propose to have the Revenue Authority operational in 2018.

Permit me, Madam President, to enumerate some key provisions of the policy decision to establish the TTRA:

- i. In the transition, all current staff of the Inland Revenue Division and the Customs and Excise Division will have the option to transition to the TTRA at terms and conditions no less favourable than those they currently enjoy. Indeed, staff in the TTRA can expect job enrichment, greater scope for professional development and enhanced terms and conditions.
- ii. Pension and other such benefits will transition with them
- iii. Staff who do not wish to transition to the TTRA will have the option of remaining in the Public Service

Subsidies and Transfers

Madam President, there are obvious unsustainable weaknesses in the structure of Central Government's expenditure, particularly the explosive growth of transfers and subsidies. While we have made some headway in the area of fuel subsidies, more is required. Consistent with the need to cut out waste and duplication, the Government has engaged the World Bank to

conduct a Public Expenditure Review, starting with the major areas of expenditure. The study will focus on improving the efficiency of our spending on health, education and social services and developing systems to improve targeting and preventing overlapping of our social safety net. We expect that implementation of measures to improve the efficiency and targeting of these subsidies and transfers could produce significant savings, without depriving the deserving beneficiaries of these programmes.

Procurement

Complementary to that expenditure management initiative, Madam President, we anticipate greater efficiency and effectiveness with the full roll out of the new Procurement regime.

Diversifying the Economy

Madam President, in seeking to walk the talk of diversification of the economy, we are focusing on six (6) broad areas

- Business Facilitation,
- Export Promotion,
- a Business Incentive Programme,
- Business Process Outsourcing,
- Yachting and
- The Creative Industries.

Business Facilitation

My colleagues will provide more details on the actions we have taken in respect of the single electronic window, the introduction of an automatic system for the approval of construction permits and the like. However, we recognize that much more needs to be done and we are committed to getting it done.

Export promotion

Madam President, there are several export promotion initiatives, including the licensing of Eximbank as a forex trader to address the forex needs of exporters.

Business Development Incentive Programme

Our new Business Development Incentive Programme, Madam President is geared towards the stimulation of at least **500** small to medium sized businesses through the allocation of **\$50 million** in the **2018** budget for the provision of grants to support the vision of our entrepreneurs.

Business Process Outsourcing

Madam President, financial services is one of the sectors around which our diversification strategy is centered. We are therefore moving towards making Trinidad and Tobago a preferred location for “Business Process Outsourcing” (BPO) and making Trinidad and Tobago an International

Financial Centre. The Trinidad and Tobago International Financial Centre (TTIFC) is in the process of expanding its BPO operations by attracting foreign BPO firms, who will use local labour to service their offshore clients.

Yachting

A new yachting policy will be rolled out, laying the ground work for the enhancement of the competitiveness of the Trinidad and Tobago yachting industry, and niching this market as the premier destination for yacht repair services. Madam President, nothing could more starkly demonstrate the benefits of T&T embarking on this path than the current hurricane season which witnessed two successive category five hurricanes which wreaked havoc on our Caribbean and North American neighbours. The need is there and we must move with despatch to fill that need.

Creative Industries

In the Creative Industries sector, a potential revenue earner is an Artiste Portfolio Development Programme and an Export Ready Academy which will assist local artistes in the production, marketing and export of their music.

Madam President we continue to pursue innovations in the Tourism and Agriculture sectors including the New Incentives for farmers. And Madam President the Ministers of Trade and Agriculture will elaborate on the exciting

initiatives which have been and are being introduced in their respective areas to promote these objectives.

Building Human Capital and Quality of Life

Housing

For our housing market, we intend to shift the HDC's focus away from the provision of housing for middle income earners and return this activity to the private sector where it belongs. We will support this activity through grants to persons who construct and sell such accommodation in accordance with Government policy. And we will return HDC's focus to the provision of affordable housing for lower and lower middle income families, with an emphasis on rental accommodation. This shift, Madam President, will be driven by a Ministerial Oversight Committee.

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Transportation

Madam President, apart from the road infrastructure and initiatives to ease traffic congestion, we will introduce a demerit point system as part of the traffic regulation system. We will also reform and modernize the motor vehicle registration system and replace the ageing fleet of the Public Transport Service Corporation.

Madam President, while we recognize that the removal of the fuel subsidy will impact the providers of goods and services, including those persons in

the private sector who provide public transportation services, let us not forget that the Government, even in these very trying times, continues to lend support to the Maxi Taxi owners and operators who enjoy exemptions from:

- Motor Vehicle Tax,
- VAT and
- import duties.

The objective of those reliefs is to assist in keeping the price of public transportation affordable to all.

Hospital Construction Programme

Increasing access to health care will be achieved through continued construction of the Arima and Point Fortin Hospitals and the commissioning in 2018 of the Couva Medical and Training Facility 2018.

Social Agenda

Madam President, we are improving the delivery systems and processes in the suite of social sector programmes while ensuring that the social expenditure is well-targeted to cater for the vulnerable and defenseless.

Sports

Madam President, we are now positioning sports tourism as a viable incipient industry for economic diversification. We plan to focus on three major revenue generating avenues: sports services, sport events and sports

infrastructure, given that those areas require very little capital investment, as a result of the already existing infrastructure and framework.

National Security

Madam President, addressing crime and criminality will continue to be our number one priority, given its implications for the quality of life of our citizens and for the safety and security of persons wishing to visit or do business here.

To this end, this Government is placing even greater effort in the upcoming year into crime reduction. We recognize the need for stronger collaboration between the Governmental and Non-Governmental sectors, law enforcement agencies and the populace.

Madam President, we propose to launch the National Crime Prevention Programme which will constitute a holistic approach to crime fighting. It will impact crime prevention through community empowerment which is a key factor to returning safety and security to the national community. It will employ resources in law enforcement, Government Ministries and communities across Trinidad and Tobago.

Some focus areas are the strengthening of our crime detection capability, and enhancing our border control efforts.

Madam President, as we continue to refine our national security strategy, we are pursuing a number of initiatives which are either in the planning or

implementation phases. We are optimistic that our efforts have begun to bear fruit and we stand committed to continue to invest resources strategically and work with our partners in making our crime-reduction goal a reality.

Tobago

Madam President, I now turn my attention to Tobago.

Madam President, the budgetary allocation to the Tobago House of Assembly for fiscal **2018** is **\$2.1936 billion**, of which **\$1.86 billion** will be for recurrent expenditure, **\$315.683 million** for capital expenditure and **\$18 million** for the unemployment relief programme. This allocation to the Assembly represents **4.34 percent** of the national Budget.

Further, the THA has obtained an international credit rating, and we are presently in discussions with the THA with respect to giving approval to the Assembly to borrow money in **2018** to accelerate its development programme.

A further **\$1.09 billion** is allocated to facilitate work in Tobago by Government Ministries. This will cater for ongoing construction works on the Old Grange and Roxborough Police Stations, the construction of a Desalination Plant and the expansion of the power generating capacity at the Cove Power Plant.

Critically, Madam President, draft legislation to grant self-government and a greater devolution of powers to Tobago is before Cabinet and in this fiscal year we will table the legislation before Parliament.

Estimate of Revenue and Expenditure: 2017-2018

The budgeted revenue for **2018** is predicated on an oil price of **US\$52.00** and a gas price of **\$2.75** per MMBtu. It should be noted that our assumed oil price is below the International Monetary Fund forecast of **\$56.20** per barrel for **2018**, and lower than the current oil price forecasts made by the World Bank, United States Energy Information Administration (USEIA) and International Energy Agency (IEA).

Madam President, based on these assumptions we are projecting:

Total revenue	\$45.741 billion
Oil revenue	\$ 6.412 billion
Non-oil revenue	\$32.910 billion
Capital revenue	\$ 6.419 billion

Total expenditure net of capital repayments and sinking fund contribution	\$50.501 billion
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Madam President, we are continuing to build an inclusive society with major allocations of expenditure for **2018** on Security, Education and Health.

□ Education and Training	\$7.2905 billion
□ National Security	\$6.2371 billion
□ Health	\$6.0278 billion
□ Public Utilities	\$3.5454 billion
□ Works and Transport	\$3.0912 billion
□ Rural Development and Local Government	\$1.8494 billion
□ Housing	\$1.0052 billion
□ Agriculture	\$0.5446 billion

Madam President, as we move towards rebalancing our fiscal accounts and ensuring that our expenditure is brought in broad alignment with our revenue, while at the same time creating the necessary conditions for putting the economy on a path of sustainable growth and development, we are utilizing all available financing options for transitioning the economy.

We propose to secure from the domestic capital market the sum of **\$4.5 billion** or **3 percent** of GDP, to continue our *Sale of Assets Programme*, including repayments relating to the CLF/ Clico rescue plan and to withdraw from the restructured HSF, inter alia, to generate an amount of approximately **\$7.5 billion** or **4.4 percent** of GDP.

Fiscal and Other Measures

Madam President, the measures presented in the Budget for fiscal year 2017/2018 provides for the following:

- i. Removal of the incentives currently available to CNG passenger vehicles with engine sizes exceeding **1599cc**;
- ii. Increase of motor vehicle tax and customs duty on private passenger vehicles with engine sizes exceeding **1599cc** and not exceeding **1999cc** by **25 percent**;
- iii. Duty and tax exemption on all motorcycles with engine sizes under **300cc**;
- iv. Increase in the Motor Vehicle inspection fee from **\$165** to **\$300.00**;
- v. Harmonisation of customs import duty on all tyres at **30 percent**, (new or used) with the exception of tyres for buses and lorries which will remain at **15 percent**;
- vi. Implementation of an environmental tax of **\$20.00** per tyre on all tyres imported into Trinidad and Tobago;
- vii. Increase in all wholesale margins for premium, super and regular gasoline from **14.5 cents** to **19.5 cents** and for diesel and kerosene from **9.5 cents** to **14.5 cents**, which will increase the price of Super Gasoline from **\$3.58** per litre to **\$3.97** per litre and the price of Diesel from **\$2.30** per litre to **\$3.41** per litre;

- viii. Introduction of a **12.5 percent** royalty rate on the extraction of all gas, condensate and oil based on fair market values set by the Petroleum Pricing Committee;
- ix. Increase the base corporation tax rate bracket for all companies to **30 percent**;
- x. Introduction of a new tax bracket of **35.0 percent** for commercial banks;
- xi. Increase the rate of duty on all mechanical games of chance for gambling from **20 percent** to **40 percent**;
- xii. Introduction of a **10 percent** tax on all cash winnings by the National Lotteries Control Board;
- xiii. Introduction of an annual flat device tax of **\$120,000** on electronic roulette devices
- xiv. Increase the gaming tax from **\$3,000** to **\$6,000** in respect of each amusement game;
- xv. Increase the taxes on gaming tables and other devices by private members' clubs as follows:
 - for every Baccarat Table **\$100,000** per annum;
 - for every Black Jack Table **\$120,000** per annum;
 - for every Caribbean Stud Poker Table **\$150,000** per annum;
 - for every Dice Table **\$70,000** per annum;
 - for every Poker Table **\$60,000** per annum;
 - for every Roulette Table **\$120,000** per annum;

- for every Electronic Roulette Device **\$120,000** per annum;
 - for every Rum 32 Table **\$150,000** per annum;
 - for every Sip Sam Table **\$150,000** per annum;
 - or every Slot Machine **\$24,000** per annum; and
 - for every other table or device not mentioned above **\$60,000** per annum.
- xvi. Increase the license fees for certain categories of private hospitals (institutions classified as Medical or Surgical hospital, Medical, Surgical and Maternity Hospital or Maternity Hospital) as follows:
- | | |
|-------------------------------|---------------------------|
| Less than 30 beds | \$25,000 per year |
| 30 beds but less than 60 beds | \$50,000 per year |
| 60 beds and over | \$100,000 per year |
- xvii. Increase the penalty for persons found guilty of an offence under the Private Hospitals Act from \$10,000 to \$100,000 and increase in the penalty for a continuing offence, from \$200 per day to \$1500 per day;
- xviii. Increase in reimbursement of the expenditure on the cost of work per room from **25 percent** to **50 percent** and increase the maximum reimbursement limit from **\$750,000** to **\$1.5 million under the** Trinidad and Tobago Hotel and Guest Room Stock Upgrade programme;

- xix. Increase in the reimbursement of the expenditure on the cost of work per room from **20 percent** to **40 percent** as well as the maximum reimbursement limit from **\$75,000** to **\$150,000** in the Small Approved Tourism Properties programme;
- xx. Increase Government subsidy of interest charged by financial institutions for new and restructured loans from **2 percent** to **5 percent**;
- xxi. Re-establishment of export allowances to manufacturers;
- xxii. Establishment of an agricultural financial support programme, with grants for new and existing farmers of up to **\$100,000**;
- xxiii. Introduction of a housing construction incentive programme up to \$100,000, to encourage private developers to construct houses to satisfy the current demand for affordable housing.

Conclusion

Madam President, this Budget is about changing the paradigm. The paradigm that whets our appetite for imported goods over our indigenous products. The paradigm that causes us to resist change in business processes. The paradigm that demotivates us from paying taxes. The paradigm that fuels our reliance on oil and gas. The paradigm that propels us into the work force, rather than stimulates us to develop our entrepreneurial skills. The paradigm that leads us to believe that we are all entitled to have jobs but that it is ok for us not to actually earn our salaries.

That old paradigm is no longer consistent with our present economic circumstance and stifles our inherent creativity and ingenuity.

The new paradigm calls for collective support and action, a cultural shift. We must embrace this transformation. The time is now. Sustainable growth is within our reach again. Vision **2030** is on the horizon.

It has been an honour to make this presentation, Madam President.

I thank you and I beg to move.