

BUDGET PROPOSALS
2007 – 2008

A PRESENTATION
OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF
TRINIDAD AND TOBAGO

PREPARED FOR THE MINISTRY OF FINANCE
MAY 18TH 2007

INTRODUCTION

These proposals for the 2007-2008 Trinidad and Tobago Budget have been prepared by the Institute of Chartered Accountants of Trinidad and Tobago at the request of the Honourable Conrad Enill, Minister in the Ministry of Finance.

The Institute of Chartered Accountants of Trinidad and Tobago (ICATT) was established by statute in 1971 as the body responsible for the development and regulation of the accountancy profession in Trinidad and Tobago. As such, ICATT takes great interest in the administration of taxation in the country. The Institute's members include several of the country's leading tax practitioners.

Continuing from our previous submissions and the Government's focus on taking Trinidad & Tobago to developed status by 2020, we have developed our submission which we believe reflects the areas that require attention. As indicated in previous submissions, the budget should be a process which roles out the Government's overall long term fiscal policy with an analysis of what will happen in the ensuing year which will ensure that the broader strategy is obtained.

Thus our presentation will focus on the following areas:

- Fiscal Proposals and other proposals
- Fiscal Administration
- Social Development

1. FISCAL AND OTHER PROPOSALS

1.1 Personal Allowance and Tax rate

In keeping with the Government's objective to simplify the tax regime, consideration may be given to a further reduction in the tax rate to 20% as well as increasing the personal allowance to \$75,000 thereby keeping in line with inflation. It should be noted that should the rate reduce, the corporate rate should also be reduced in tandem.

In addition, over the next couple years, the personal allowance can be further increased to \$100,000 together with the removal of the pension allowance, thus resulting in further tax simplification. This simplification would result in a freeing up of administrative resources and redeployment of these resources to tax monitoring and collections.

1.2 Pension Allowance

The new tax system has now been effect two years and we trust that the impact of the change has been analysed by the Inland Revenue department. One aspect that we would like to have revisited is the pension allowance. At present the allowance is \$12,000, we believe that this allowance should be increased to one-sixth of chargeable income. This increase would be in line with increases experienced in wage levels as well as ensure that the focus on savings is reinforced. It should also be increased to allow for the greater NIS contributions that have been implemented. Further discussions of alternative incentives for savings appear later in this document. It should be noted that this proposal is only applicable if there is no change in the personal allowance structure.

1.3 Group Loss Relief

In 1997 a system of partial group loss relief was introduced to enable companies that are part of a group to set off losses against the profits of another profitable member company. We believe that the legislation envisaged that once companies are part of a group structure for the period during which the loss was incurred such losses can be offset up to 25% of the liability of the profitable company. The unrelieved losses would be carried forward to future periods. However, due to the manner in which the legislation is worded, only losses incurred in the accounting period can be offset. (Section 18G(1) of the CTA). Therefore if part of a loss incurred in the year is surrendered, the balance cannot be surrendered to a future accounting period. In addition, only companies that are 100% subsidiaries in a group are entitled to loss set off. Thus, where there are minority interests there is no benefit to be derived from this group loss relief.

We suggest that:

- This aspect of the legislation should be clarified, so that group losses may be offset and unrelieved losses may be utilised against future profits of profitable group member companies.
- Once companies are part of a group, then loss set off should be available in accordance with their shareholding in the loss making entity;
- The amount available for offset be increased to 50% of the liability of the profitable company.

1.4 Other Suggested Policy Measures

2 VAT and Business Levy Threshold

The current threshold for VAT and Business Levy is \$200,000. With the increase in inflation we believe that this threshold should be increased to \$400,000 which will result in a reduction in the administrative burden that is placed on the BIR where the revenue collected is minimal.

3 Tax Payments and Refunds

At present where a tax payer has a liability or refund of \$3 or less, the tax is considered settled and no payment or refund is issued. We believe that this threshold should be increased to \$25, again reducing the administrative burden placed on the BIR.

4 VAT Penalty

At present the penalty for late payment of VAT is 8% and interest accrues at 2% per month. While we agree that penalties and interest must be charged, we believe that these charges are onerous and should be reviewed. In this regard, we suggest that the while the penalty could remain the interest should be in keeping with the interest charged under the Income Tax Act of 20% per annum.

5 Make Business Levy And Environment Levy Assessment On A Financial Year Basis

Several of our members are of the opinion that these taxes create unnecessary administrative burdens on taxpayers and the billing authorities. It may well be that the cost of administering these taxes outweighs the revenue derived therefrom.

At minimum, we would suggest that they should be assessable on a financial year rather than calendar year basis. This would then be in line with quarterly payment basis for corporation taxes. In addition, Environment Levy should be a creditable tax.

6 Environmental Expenditure

In order to meet new environmental regulations, businesses have to incur substantial capital costs. As an incentive towards this, we feel that a tax write off of 100 percent of the environmental compliance costs incurred within the next three years should be given in the year in which the costs are incurred.

7 Amalgamations

Under the current legislation, there are no provisions which deal specifically with how companies that have amalgamated should be treated for tax purposes. We suggest that the tax legislation be amended to take cognizance of the changes made in the Companies Act, 1995 to ensure that companies in making their strategic plans have clear tax guidance to make their decisions.

8 Pension Portability

We have commented on this in our Green & White Paper comments. To summarise some "low hanging fruit", we believe that there should be no tax penalty or stamp duty payable:

- on transfer between individual deferred annuities approved under s28 of the Income Tax Ordinance
- no transfer between contracts approved under s134(6) of the Income Tax Ordinance

Further, a person with a deferred pension in an approved occupational pension plan should be allowed to transfer their funds to an individual approved deferred annuity. Similarly, a person should be allowed to transfer the balance on an individual approved deferred annuity into an approved occupational pension plan.

FINALLY, INDIVIDUAL DEFERRED ANNUITY PRODUCTS ISSUED BY TRUST COMPANIES SHOULD BE SUBJECT TO THE SAME REGULATORY REGIME AS THOSE ISSUED BY INSURANCE COMPANIES.

9 NIS and Old Age Pension

Both these benefits are paid on a monthly basis and Finance Ministers have all indicated that these payments should at least equal one another. In this regard we believe that the NIS benefit should be reviewed and consideration given to having the benefits kept in sync with the Old Age Pension.

9.1 Tax Incentive Legislation

Continued review of these pieces of legislation is required. With the continued improvements in the tax system as well as reduction in taxes, these pieces of legislation may no longer be required.

Incentives should rather be granted through the capital allowance system. In addition, there should be consolidation of all capital allowance legislation into one Act, thus bringing all the allowances currently granted under the In Aid of Industry Act into the main Income and Corporation Tax Acts. Secondly consideration should be given to the reintroduction of the investment allowance for capital expenditure on productive assets, (plant and machinery, excluding expenditure on cars and furniture and equipment), as the tax incentive rather than separate tax incentive legislation.

2. ADMINISTRATION

2.1 Time Limit For Making Assessments And Settlement Of Objections

Over the years various Ministers of Finance have sought to ease the burden of the BIR by simplification of the tax regime, making it optional for salaried persons with annual incomes up to \$50,000 to file returns (thus reducing the number of returns), upgrading of computer equipment and decentralisation of offices. These were all intended to make the BIR more effective and efficient. In spite of this, the time limits for making assessments and setting objections have remained the same. In order to encourage the BIR to become more efficient in the circumstances, we propose as follows: -

- 1) The time limit for making assessments be reduced to four years. This will not only cause the BIR to become more efficient but will also result in savings to businesses thereby increasing incomes and taxes.
- 2) The time limit for settling objections be reduced to one year. Savings to both BIR and businesses will result from this proposal.
- 3) Where matters go to the Tax Appeal Board and the matter decided in the tax payers favour, consideration should be given to awarding costs to the tax payer.

2.2 Payment of Miscellaneous Taxes

The South office of the BIR is responsible for collection of tax revenues in the South. However at the South office, Motor Vehicle taxes and withholding taxes are not accepted. These are only accepted in Port of Spain. Minor administrative changes could ease the plight of the many taxpayers who have to endure hardship to travel to Port of Spain to make these payments.

Consideration should therefore be given to the establishment of regional offices to service the fast growing communities.

2.3 Remittance Forms

We believe that a single remittance form could be used to pay income/corporation tax, business levy, and green fund levy. It will result in significant savings in paper, handling, mailing cost and storage.

ANOTHER IMPROVEMENT COULD BE THE AVAILABILITY OF ALL REMITTANCE FORMS AT A BIR WEB ADDRESS WHICH COULD BE DOWNLOADED AS AND WHEN NEEDED. THERE WILL BE SIGNIFICANT SAVINGS TO BOTH TAXPAYER AND THE BOARD OF INLAND REVENUE.

2.4 One Stop Shop For BIR, VAT And PAYE Registrations

It is a waste of time and resources for a new taxpayer to have to make three applications at different areas of the BIR and furnish virtually the same information to all three places in order to complete registration to meet its tax obligations. A single registration point could result in tremendous saving to the BIR in terms of manpower and space and will also benefit the taxpayer. Since there are staff constraints within the Revenue, this single registration point would free man power that could be better utilised in enforcement and collections.

2.5 Green Fund Levy

It has come to our attention that the Green Fund Levy Act as it is written in the Miscellaneous taxes Act, provides that Green Fund Levy must be paid by all companies. In T&T there are a number of incorporated charities who raise funds via donations and Government subventions and as the Act is worded, it appears that these donations will also fall within the ambit of Green fund levy. We believe that the Levy was not meant to attach to these charities on their donations and subventions and we are requesting that an amendment be made to the Act to exclude charities from Green Fund levy.

3 SOCIAL DEVELOPMENT

3.1 Transportation

The Government has commissioned various transportation studies with a view to alleviating the congestion on the roads. However we believe further consideration could be given to the following:

- Designating a time during which delivery and other heavy duty trucks can access the roadways; and
- Decentralisation of certain Government offices, moving them outside of Port of Spain;

We believe this coupled with the fast ferry will provide further assistance in the traffic congestion problem that we are facing.

3.2 Social & Economic Support For Single Parent Families

The phenomenon of single parent families continues to grow. It is difficult for a single parent to earn a livelihood and at the same time meet the emotional, social and other needs of the family. We feel that a support system should be put in place to provide assistance in deserving cases. For example, in some countries, companies over a certain size are required to provide day care facilities.

In this regard companies should be encouraged to provide facilities for their staff whereby children can sit in a supervised area within the office or other supervised location. A measure that can be introduced to further encourage companies to provide these facilities is as follows:

- Allow full deduction for expenditure incurred in providing day care/afterschool supervision facilities; and
- Provide a 50% uplift in the deduction for such expenditure.

The full deduction is necessary as this cost will generally not be allowed as a deduction as the cost is not incurred in the production of income. By allowing the deduction the cost to the company is effectively the after tax cost. The uplift will be beneficial as this will further reduce the cost to the company. It will therefore be seen as a partnering arrangement. The company bearing the cost and the government incentivising the company with a further tax saving.

It should be noted that the expense will still be a cash cost to the company, however the cost will be reduced by the effective tax saving.

3.3 Vocational Training

The Programme for vocational training should be accelerated and expanded to develop unskilled persons to become part of the skilled workforce.

CONCLUSION

The Legislative and National Policy Committee would be happy to discuss these and any other proposals at your convenience. The Institute of Chartered Accountants of Trinidad and Tobago stands ready to assist the process of national development.

Nicole Lawrence

Member ICATT Legislative and National Policy Committee

BY ORDER OF THE COUNCIL OF THE INSTITUTE

May 18th 2007