



Chamber's Budget Submission 2011-2012

(1) BUILDING THE GROWTH MOMENTUM

One of the negative fallouts of the international financial crisis has been a loss in confidence, particularly investor confidence, in not only the financial sector but in all sectors of the economy. Trinidad and Tobago, as part of the global economy, is not immune to these developments, and so has also been experiencing declining investor confidence. This has stymied economic growth over the last two (2) years or so.

There is a dire need, therefore, for the restoration of business investment confidence and the Government, as the major player in the economy, has a pivotal role to play in this regard. During fiscal 2011, capital investment spending by the Government has been sluggish. It is imperative that Government commits to a significant injection of funds in the economy in order to reactivate growth. This stimulus should be supported by an implementation of its diversification thrust.

1.1 The 2010/2011 Budget Statement referred to "**A New Model to Manage Industrial Estates**" and stated that:

"... we will build new non-energy export platforms through our Industrial Estates. The primary focus will use our existing industrial parks to build these non-energy export platforms, through a programme designed to attract foreign investment in targeted areas. While industrial estates will remain state owned, we will invite private companies to manage these estates along commercial lines, similar to the model used in the Hyatt Trinidad and the Dominican Republic."

The Chamber is not satisfied with the progress made under this initiative and **recommends** that a public-private sector committee be established to move this initiative forward. The Chamber is prepared to have a representative on this committee. Included in this committee's Terms of Reference should be the "Rationalization of Institutional Arrangements" for estates such as eTeCK, as well as an evaluation of their service delivery to date.

1.2 The Chamber applauds the coming on stream of the **TTBizLink (Single Electronic Window)**. Whilst registration under the TTBizLink has commenced in March 2011, we eagerly await the full implementation of other critical modules under this platform. These modules include e-work permit application, fiscal incentives, certificate of origin and import duty. The required legislation to allow for full commencement **together with** the partnering with Customs Division to allow for the use of **Asycuda** as an integral part of this system must be achieved with urgency.

The Chamber **urges** for this to be treated as critical, as this system can have a significant positive impact on our Ease of Doing Business Index in which Trinidad and Tobago is currently ranked 97 out of 183 countries. At this critical juncture in our development, investment is key to stimulating our economy and, as such, there is urgent need to remove the impediments to business; reduce the length of time it takes to set up a business and the waiting periods for approvals.

Further, the Chamber **recommends** that a **physical** “One Stop Shop” be established, staffed with the requisite personnel to guide investors through the necessary steps to making their projects/ investments possible and to act as a liaison even after their investments are operational. Such a facility can also be used as a revenue-generating vehicle.

- 1.3 The Chamber **recommends** that the ***diversification strategy*** be clearly articulated to give direction to investments.

In that regard, we **recommend** that a full review of the seven (7) sectors previously earmarked for diversification be undertaken to ascertain their performance (where appropriate) and relevance.

- 1.4 Additional sectors have been identified for the diversification thrust such as the fashion and ship-building industries. However, no strategy for achieving growth and development in these sectors has been put forward. If we are to attract investment into these sectors, a clear strategy needs to be laid out after the necessary consultation with all stakeholders has been completed. The Chamber **recommends** that a Working Group should be established for each sector and action plans with timelines developed. The 2010/2011 Budget Statement also enunciated the ***International Business Centre (IBC)*** to replace the International Financial Centre (IFC) as “part of the institutional structure of a new thrust in investment promotion and innovation”.

The Chamber **recommends** that certain elements of the IFC model should be retained, for example, “the back office”. Trinidad and Tobago has a natural advantage in the provision of financial services in the Caribbean. We should, therefore, seek to build on this model and use it as a launching pad into Latin America, particularly, Central America.

It is envisaged that this market could be broadened and deepened beyond the Caribbean to include the provision of both bond and equity financing for Central and South American mid-sized companies. To facilitate this, it would be necessary and desirable to have the following in place with these countries:

- (i) Reciprocal Trade in Goods and Services Agreements
- (ii) Double taxation treaties
- (iii) Reciprocal regulatory agency agreements

To further support these Policy initiatives, the draft Securities Act 2010 would need to be re-crafted and the proposed Depositary Receipts Regulations re-focused to accommodate capitalization levels consistent with the Central and South American target markets.

There is a dire need for the Government to accelerate its spending under the **Public Sector Investment Programme (PSIP)**. However, in the face of current financial constraints and challenges, the Chamber **strongly recommends** that the Public–Private Partnership model be used as an option for the way forward. As noted in the National Budget 2010/2011, the Government must shift its role from State control to facilitator, including regulation and monitoring, and let the private sector take the risk and invest the capital. Government should seek to learn from the Canadian model where the Canadian Government has partnered with the private sector to undertake many large infrastructural projects.

(2) REVENUE MOBILISATION

2.1 A proposal for the establishment of a Tax Policy Committee was submitted in our Budget Recommendations for 2009/2010 and **the Minister of Finance agreed** in principle to its establishment. At a meeting held on 14 June, 2011 the Minister of Finance agreed to effect the establishment of the Committee and to appoint a Chair.

In this regard, the Chamber now **submits** a proposed Terms of Reference for the Tax Policy Committee (see attached). This Committee is a joint public-private sector Committee formed for the purpose of developing tax policy recommendations that will improve tax efficiency and enhance business facilitation.

The Chamber **recommends** that the other members of the Committee be appointed immediately and begin work.

(3) INCREASING THE CAPACITY TO DO BUSINESS WITH CENTRAL AMERICA

3.1 Given that there has been a major thrust into **Doing Business with Latin America**, it is ideal and opportune that Spanish continues to be implemented as the official second language of Trinidad and Tobago and that the Ministry of Education be mandated to implement the policy starting at the primary school level.

3.2 Ideally, the Chamber would like to see the implementation of a CARICOM-Central America Free Trade Agreement. We acknowledge, however that this may not be realized in the immediate future due to possible resistance from individual countries. The Chamber proposes, therefore, that the Government initiates a move toward bilateral agreements.

(4) THE FASHION INDUSTRY

The National Budget 2010/2011 articulated the fashion industry as a sector for development and that the government will support these groups to market their products abroad.

The following proposals are listed in order of priority to address the needs of the fashion industry as it stands today in the short term, and to assist in the establishment of fashion as an economic sector in the medium and long term.

4.1 Manufacturing

The revival of the manufacturing sector is vital to Government's plans for diversification and important to the sustainability of the fashion industry. We would like to see major government investment in an industrial park dedicated to 'Made in TT' apparel and carnival costume production. The facility could be modeled on similar areas established in Santo Domingo and Haiti. Technical and financial assistance could be sought using diplomatic channels through bilateral arrangements with India, China, El Salvador, Brazil and other regional and international partners with highly developed apparel industries.

The government may also offer tax incentives to attract foreign direct investment (FDI) into the garment industry, stimulate private investment, and provide employment, training and technology transfers.

4.2 Subsidies

Current subsidies on fabric and materials should be extended to include other materials used in garment production. This will reduce costs and increase price competitiveness with ready to wear garments. Concessions would have an impact on local manufacturing and act as a further incentive to revive the industry.

4.3 Administration/Facilitation

The fashion industry should be built on a solid foundation for growth and sustainability. The Chamber proposes that all of the existing bodies act as pillars under the chapeau of a new fashion Unit, within the Ministry of Trade and Industry. Each pillar will have a well defined role to avoid duplication and the Unit will coordinate the various arms of the industry to drive the process forward.

Inclusion of this Unit in the Ministry of Trade and Industry would allow industry practitioners to draw on established expertise in a variety of areas including trade facilitation, negotiation, and research and development. Funding from the Ministry will be monitored to ensure the necessary checks and balances, and transparency. The Ministry of Foreign Affairs may also partner with the Unit to facilitate dialogue with various Embassies to further the development of the industry and, in the long term, drive export trade with bilateral partners.

Contract officers can be hired to do research, feasibility studies, project analysis and long term policy and planning for the industry.

4.4 Labour

Industry stakeholders have unanimously agreed that they have been negatively affected by a shortage of skilled labour leading to low output, high wage costs and increased competition from the ready to wear imports.

While we are cognizant of the need to create jobs, in the short term the challenges can be mitigated by a two-pronged approach:

- (i) Reduce financial and administrative barriers to imported labour within specific categories of skilled workers (for example pattern cutters and beaders) not readily available or able to meet the demands of the local industry.
- (ii) Together with CARICOM member states, extend the provisions of the Caribbean Single Market and Economy (CSME) with particular reference to the free flow of labour, to include new categories needed for the manufacturing of apparel and specialist niche market workers.

4.5 Education

The Fashion Academy at the University of Trinidad and Tobago has an important role to play in the development of the industry. However, courses should be tailored towards the needs of the industry. A review of the courses offered to more closely match areas of skill and labour shortages, will ensure employment to graduates and alleviate some of the current problems experienced by practitioners in the industry.

The Government must also ensure that there is a return on investment on its human capital. The Chamber proposes the inclusion of compulsory 1 to 2 year internships or industry placements to facilitate skill transfers and practical knowledge application.

4.6 Visibility and Promotion

The annual Fashion Week Trinidad and Tobago (FWTT) event is the single biggest platform for the marketing and promotion of the entire industry. After three (3) successive years of expansion, the event has grown to include the marketing of 'Tobago style' as a resort wear niche market destination. 2009 saw the introduction of an education forum through seminars, a buyer's gallery for accessories, vintage apparel and global media interests.

Our proposal is for assistance grants to be made available for marketing, administrative and logistics costs for events like FWTT that showcase local talent and promote Trinidad and Tobago both regionally and internationally.

(5) INFORMATION COMMUNICATION TECHNOLOGY

5.1 Recommendation #1

History

As defined under the fourth pillar of the People's Partnership manifesto, the development of ICT is one of the areas of focus for the current government. While much focus has been targeted at the development of both the private and public sectors, development of ICT the private sector has been driven primarily by individual groups or companies, who have faced several challenges in their efforts.

Recommendation

The Amortization of Intangible Fixed Assets- It is recommended that Government amend the act to include all assets, (tangible and intangible) for capital allowance purposes it would be in line with what pertains for other tax jurisdictions in the Caribbean (e.g. Barbados) and elsewhere. All current schedules AB&C of the Income Tax Act refer to fixed assets (plant and Machinery) only, and capital allowances for tax purposes are applicable only to those. As Trinidad and Tobago moves towards developing its ICT sector and towards a knowledge-based economy, intangible assets are and will continue to be a significant part of the capital cost of setting up such companies and as such the current act puts Trinidad and Tobago based companies at a strategic disadvantage when competing globally.

Benefits

The de facto measure of ICT development in Trinidad and Tobago has been the World Economic Forum Global Competitive Index (GCI). A review of international reports and latest technological trends indicate that future ICT spend is expected to focus heavily on intangible assets. Adoption of this recommendation will allow local private sector companies to more readily adopt and apply these new technologies, thus facilitating a more rapid development of the local ICT sector. This area of development is one of the pillars of the GCI metrics, and thus will directly contribute to overall national rankings.

5.2 Recommendation #2

History

As currently exists the Trinidad and Tobago private sector is allowed to import computer systems duty free. This allowance has facilitated the rapid increases in the development and adoption of technology both in the private sector and in individual households. At the same time however the importation of spare parts for those same devices has remained subject to duties.

Recommendation

Permit duty-free imports on ICT spare parts into the country.

Benefits

Further improvements in technology-adoption among the Trinidad and Tobago population.

(6) ENERGY SECTOR

The Chamber continues to support our recommendation made last year which focuses specifically on the issue of the reduction of petroleum fuels subsidy in Trinidad and Tobago. For the fiscal year 2011/2012 we have suggested some additional recommendations to help progress the overall plan suggested last year. The new material we are recommending relates to legislative reform for renewable energy adoption in Trinidad and Tobago.

6.1 Petroleum Products Subsidy Reduction Plan

Problem:

The burgeoning growth of petroleum product subsidies in 2008, exceeding \$3 billion was forewarning that these subsidies need to be applied in a manner that would encourage efficient usage of hydrocarbons in productive activities, as well as reduce waste by consumers. Further, subsidies should be applied in a manner that would minimise the impact of their removal on those who could least afford an increase in fuel prices and, consequently, the cost of living.

- ✓ Aggregate subsidy claimed in the 10 year period 1999 – 2008 was TT\$11.8 billion.
- ✓ Subsidy for 2009 was TT\$1.6 billion
- ✓ Subsidy for 2010 estimated to be TT2.4 billion
- ✓ Monthly subsidy is TT\$200 million

In this context, the Chamber proposes the development of a plan to introduce in T&T a cost efficient public transportation arrangement over a period of 5 to 10 years and, in the process, set the conditions for the removal of blanket subsidies, as well as lay the groundwork for increasing the use of CNG and the introduction of renewable energy.

Target:

- ✓ Eliminate 25% of subsidy within 4 years and 100% in 8 years.

Benefits:

- ✓ Improvement in the use of public transportation
- ✓ Creation of a new entrepreneurial class
- ✓ Employment created in the construction and maintenance of bus stops and associated facilities
- ✓ Improvement of the effectiveness and efficiency of PTSC
- ✓ Increased export of petroleum products at market prices (reduction of subsidy)

Implementation Plan

Reduce the volume of liquid petroleum fuels used by:

- Aggressive growth in number of buses
- Gradual replacement of private vehicles with more fuel efficient vehicles (higher mpg or km/l)
- Substituting liquid fuels by CNG and small scale LNG
- Pursuing a multi-polar economic development model
- Closer scrutiny of fuel consumption patterns to identify the occurrence of any illegal 'leakage' to other markets with particular respect to diesel fuel

Reduce the level of price subsidy

- Only if the volume reduction measures have taken place
- Gradual reduction
- Suggest be done in years 6,7,8 of plan

Immediate specific measures for 2011

People Transport

- Conversion of existing maxis to CNG
- Only grant new maxi-taxi licences to NGV
- Restrict PBR access to non-NGV maxis
- Purchase new buses using LNG
- Install LNG stations at major bus terminals
- Increase duty on diesel vehicles after 2 years
- Require licence to import used diesel engines
- Convert Water Taxis and Tobago Ferry to LNG

Other

- Encourage gasoline goods vehicles by raising duty on diesel goods vehicles as gasoline vehicles are easier to convert to CNG
- Increase existing tax credit to 50% tax credit per year on NGV retrofit cost – up to 2015

6.2 Legislative Reform for Renewable Energy

Problem

- ✓ Private Sector is unable to participate in renewable power generation to the grid due to the low cost of power in T&T

Target

- ✓ Amend legislation framework to provide incentive mechanisms e.g. Feed in Tariffs which would improve economic conditions for investment in Renewable Energy capacity.

Benefits

- ✓ Renewable energy resources are abundant in Trinidad and Tobago and are not utilised
- ✓ Once in place, the power is produced and is not subject to variations in input cost (e.g. petroleum products) and is therefore predictable
- ✓ Renewable power resources are theoretically inexhaustible
- ✓ Reduce natural gas consumption or slow the demand in natural gas consumption for electricity
- ✓ Reduce T&T's carbon footprint
- ✓ Introduce a social awareness of conservation of resources

Implementation Plan

Introduce a Renewable Energy Capital Fund for providing low interest financing for Energy Projects

- Fund the Renewable Energy Capital Fund from existing oil and gas receipts
- Allow funding for projects up to USD 100 million at rates of 3-4%

Review legislation governing:

- T&TEC
- Regulated Industries Commission
- Electrical Inspectorate Division
- Any other legislation

With a view to introducing a *Feed in Tariff* scheme which will clearly outline a scheme for Independent Power Producers of Renewable Energy supporting:

- Guaranteed access to the grid
- Stable long term purchase agreements
- Payment levels based on the costs of renewable energy generation (not linked to avoided costs)

The Chamber does not recommend, in the first instance, increasing the total subsidy to the Power Generation and Distribution Sector in order to introduce Renewable Energy

for power, but rather supports displacing an existing subsidy to the sector by redirecting existing transfers to natural gas generated power sector (generation and distribution) to Renewable Energy sources (Wind Power, Solar PV installation, Hydroelectricity from Guyana) in order to improve the economic conditions required to access private sector investment for development of the Renewable Energy sector.

6.3 Management of a Lease Operatorship and Farm Out Programme

The justification for and the benefits of these programmes have already been outlined and remain valid.

The management of such a programme requires that several questions be answered as listed hereunder:

- (i) Will there be automatic candidates (single wells or clusters) for the programmes?
- (ii) Will data be universally available either online (website) or at a data room at the MEEA or Petrotrin?
- (iii) Who will manage the process?
- (iv) Who will set the terms and conditions e.g. overriding royalties or taxes?
- (v) Will Petrotrin employees be given incentives to become contractors

The following is recommended:

- (a) All wells currently producing less than 100 barrels a day are automatic candidates for the programme.
- (b) Data should initially be made available at a data room at the MEEA until a website is created where all the relevant data would be stored and made available to the public.
- (c) The process should be managed by an independent entity, which will be given title to the designated wells/fields and which will be responsible for giving contracts and making paying to the state and Petrotrin. This entity will be overseen by the MEEA.
- (d) The terms and conditions will be pre-determined and agreed by the MEEA, Petrotrin and relevant department of the Inland Revenue Division
- (e) There should be an incentive package for those employees of the E&P Division of Petrotrin who leave the company and become LO and FO Contractors.

It is not immediately clear what the recognized trade union would be seeking in order to sign on to the programme and so this was not addressed.

(7) **TECHNICAL AMENDMENTS TO THE TAX LEGISLATIVE FRAMEWORK**

The Chamber is proposing the following changes to the tax legislative framework that would serve to promote business development and foreign direct investment by either:

- modernizing the tax framework to facilitate certain evolving investment requirements of enterprises;
- removing inconsistencies and uncertainties that serve as an impediment to business;
- provide for reduced complexity and thereby promote better tax compliance.

7.1 Management Charges

The Income Tax Act currently restricts the deduction of management charges paid to non-residents to two percent (2%) of all outgoings and expenses (exclusive of such management charges and capital allowances). In 2006, the definition of “management charges” was expanded to include personal and technical services as well as the allocation of head office costs. The amendment was aimed at abuse arising primarily from transactions between related parties but, as presently worded, the legislation disallows legitimate charges to unrelated third parties. This has had a serious negative impact on businesses engaged in international transactions.

The current management charges provision appears to be unduly restrictive as in principle all expenses wholly and exclusively incurred in the production of income should be deductible. The Chamber recommends that this arbitrary restriction be addressed in the interest of the business community. Some alternative suggestions for legislative improvement in order of priority would be to:

- introduce transfer pricing rules - unreasonable management charges would be more appropriately disallowed under a properly thought out transfer pricing regime
- provide that all “direct operating expenses” incurred by the business be allowed for tax purposes
- remove all current restrictions on the Board of Inland Revenue’s discretionary ability to allow such expenses and simply provide the Board with the ability to allow such expenses where it is satisfied that such expenses are reasonable in the circumstances.

7.2 Intangible Assets

Companies operating in various sectors of the Trinidad & Tobago economy are increasingly spending significant amounts of money in purchasing and developing intangible assets. By way of example in the banking sector, heavy expenditure is being incurred in developing be-spoke software to support internet banking. In addition, players in the telecommunications and cable sector incur significant expenditure to acquire indefeasible rights of use of capacity on third party submarine cable networks.

The expenditure described above is usually categorized as capital in nature given the large lump sum amounts being expended and the fact that the expenditure produces an enduring advantage to the business. This capital expenditure in turn is usually classed as an intangible asset because the asset created is an identifiable non-monetary asset that cannot be seen, touched or physically measured. The result for the taxpayer is that this type of expenditure is deemed to be capital in nature and therefore not deductible for tax purposes.

In addition, there is no provision within the Income Tax Act for the tax depreciation of intangible assets. The seventh schedule of the Income Tax Act places fixed assets into various pools and specifies the tax depreciation rates applicable. If a fixed asset is not expressly mentioned in a pool, the Board of Inland Revenue may determine the tax depreciation rate taking into account the anticipated normal working life of the plant and machinery.

In order encourage and sustain investment in this area, we recommend that the provisions of the Income Tax Act and Corporation Tax Act be amended to allow for the amortization of these costs in alignment with generally accepted accounting standards. Alternatively, the provisions of the Income Tax Act and Corporation Tax Act relating to capital allowances may be amended to provide relief to taxpayers in relation to investments in intangible assets. In this regard, guidance can be sought from the provision contained in the Income Tax (In Aid of Industry) Act in relation allowances available for the purchase of patents.

7.3 Capital Allowances

The Income Tax (In Aid of Industry) Act makes provision for initial allowances for plant and machinery in the manufacturing sector. Section 16(1) of the Act grants the initial allowance when the expenditure is **incurred** in the acquisition of the plant and machinery. However, section 63A(1A) of the said Act provides for capital allowances to be granted in the year of income in which the assets are first put into use. In order to rectify this anomaly, we recommend that the legislation be amended to clearly state when initial allowances are claimable (on the incurring of the expenditure or when the asset is first put into use).

7.4 Group Relief

Under group relief provisions in the tax law, a member of a group of companies (the surrendering company) may surrender current trading losses (exclusive of capital allowances) to another member of the group (the claimant company). The claimant company may then claim deductions for the losses in calculating its taxable income. To qualify for group relief, the surrendering company and the claimant company must be resident in Trinidad and Tobago and must be members of the same group throughout the respective accounting periods of each of the companies. Two companies are members of the same group if one is a ***wholly owned subsidiary of the other or both are wholly owned subsidiaries of a third company***. The reduction in tax payable by the claimant company is limited to 25% of the tax that would have been payable if the relief had not been granted.

The Chamber is of the view that the threshold ownership requirement necessary for group relief to take effect is too high. For example, some group of companies would like to allow their employees to participate in stock ownership plans of one form or the other. By restricting group relief to wholly owned companies, the legislation may in certain circumstances inadvertently act to penalize a group for entertaining minority ownership in the capital of one of its subsidiaries. In the circumstances, we recommend that the threshold for group relief be reduced to 75% as is the case in the United Kingdom and Barbados.

7.5 Loss Carry-Forward

Where there is a change in the shareholding of a company, section 7(7) of the Corporation Tax Act allows the carry forward of losses only where there has been no change in the control of the company or where the Board of Inland Revenue, in its discretion, is satisfied that the change of control was not effected for the purpose of tax avoidance. Similar wording can be found in section 12 A of the Petroleum Tax Act.

As presently worded the legislation provides the Board of Inland Revenue with a high degree of discretion and as a result creates an elevated level of uncertainty for tax payers. Since it is commercially desirable for acquirers to purchase distressed companies in order to resuscitate failing businesses, we propose that this matter be discussed with a view to arriving at a more balanced and objective provision that would provide greater security to would be acquirers.

7.6 Changes necessitated by the Removal of the Corporate Tax Holiday under the Fiscal Incentives Act

The Fiscal Incentives Act (FIA) operates to bestow Customs Duty, Value Added Tax and dividend withholding tax benefits on certain approved products and enterprises. However, since 2007, corporate tax reductions/exemptions are no longer available under the FIA. This major legislative amendment necessitates changes to the tax

legislative framework impacting companies benefiting under the FIA, which hitherto have been ignored.

Our suggested amendments are more fully described below:

- Currently, section 16 (1) of the Income Tax (In Aid of Industry), provides for an initial allowance (IA) of seventy five percent (75%) to be allowed to a manufacturer that incurs expenditure on the provision of machinery or plant for the purposes of his trade. It is proposed that this rate be increased to ninety percent (90%) in the Finance Bill 2010, but that Bill has lapsed following the dissolution of Parliament in anticipation of general elections.

Notwithstanding the general law, the IA is limited to twenty percent (20%) for a person that enjoys benefits under FIA. The effect of the above provision is that if an entity is bestowed benefits under the FIA, its IA claim would be limited to 20% of its capital expenditure on machinery or plant.

- Section 11B (1) of the Income Tax Act (ITA) provides for capital allowances on certain newly constructed buildings. By virtue of section 11B (6) of the ITA, this incentive is not available to a company that is enjoying benefits under the Fiscal Incentives Act.
- Sections 24 and 27 of the FIA together act to effectively ring fence losses and expenses incurred by an approved enterprise from the manufacture of an approved product from profits or expenses derived from another industry carried on by the same enterprise.

The above restrictions may have been appropriate during a period where an approved enterprise was able to obtain a corporation tax holiday and was probably intended in part to bifurcate operations enjoying corporate tax exemptions from other operations of an enterprise paying ordinary corporation tax rates. Given the removal of the corporation tax exemptions under the FIA, these restrictions no longer appear necessary and in many instances are prejudicial to newly approved enterprises operating under the FIA since 2007.

7.7 Green Fund Levy

The Green Fund Levy (“the levy”) was introduced in the year 2001 and is charged at the rate of 0.1% of the gross sales and receipts of a company carrying on business in T&T. While the stated goals of the levy are laudable (to financially assist organizations in activities related to the remediation, reforestation and conservation of the environment), its operation has been fraught with problems.

The levy specifically applies even where there is exemption from the Business Levy and the wording of the legislation is wide enough to capture capital receipts even though that is surely not the intention. This is of particular concern in the financial services sector where there is some degree of uncertainty as to the application of the levy to transactions such as repurchase (repo) agreements. Such uncertainty will undoubtedly hinder the development of T&T as an international financial centre.

Further, having both a Business Levy and a Green Fund Levy increases the administrative and compliance burden of taxpayers who may, understandably, view such impositions as nuisance taxes. We are of the view that the Green Fund Levy needs to be restructured in order to address these concerns.

We recommend combining the Business Levy and the Green Fund Levy into one levy at the rate of 0.3% of gross sales and receipts. This revamped levy would only be applied to receipts that are brought in as income for the purposes of income/corporation tax. Taxpayers would be allowed to credit income/corporation tax paid against the levy liability. A specified portion of the levy may be set aside in support of environmental activities.

Finally, it is recommended that for corporations the basis period for the calculation of the combined Business Levy and Green Fund Levy be changed from the calendar year to the accounting terminal date of the corporation to better synchronize this tax with Corporation Tax.

7.8 National Insurance

Provisions should be made in the National Insurance Act for self employed persons to self-assess and pay NIS contributions.

(8) TOBAGO'S ECONOMY

The Tobago Division of the Trinidad and Tobago Chamber of Industry and Commerce has over its many years of existence submitted many proposals to the Political Directorate for consideration and inclusion in the Tobago House of Assembly's budget. While there has not as yet been an established channel to provide the required feedback on whether these recommendations have been tabled, the Chamber remains resolute and committed and will continue to make its contribution to this exercise as one of the key stakeholders representing the business community on the island. In making these recommendations for consideration the Chamber has therefore set very high expectations to see most if not all of these suggestions come to fruition.

In so doing it is expected that the THA must by virtue of necessity seek to partner with the Chamber and other recognized stakeholders, that is, there must be a coming together of the public and private sectors who can work assiduously to ensure that the greater good of Tobago is served. The Tobago House of Assembly must therefore **consciously redouble its efforts** to ensure that these stakeholders are regularly consulted in the effort to move Tobago from its current position of inertia to rank on par or ahead of its sister isle of Trinidad. This is a necessary priority if First world status is our goal. The vision of 2020 must therefore begin to unfold now and the need for greater collaboration between the public and private sectors that together share common goals and expectations for Tobago cannot be over emphasized.

8.1 Creation of an Investment Climate conducive to stimulating the growth of the Tobago economy.

The stimulation for growth is going to come from investments to be made into the island's tourism product. The priority is the Tourism Plant. This requires consideration to and a commitment to upgrade existing facilities and by clearly articulating its position, so encouraging **current and prospective investors**.

Until the THA states otherwise, the Chamber will continue to assume that the THA's commitment and its vision for Tobago is that it will **first** be a Tourism destination of choice. All things remaining equal, the Chamber therefore expects that most of the resources of the THA will be directed towards stimulating the tourism sector. Having said that, the Chamber underscores the need for diversification and will address this matter later on in these recommendations.

As the priority is Tourism, there is need for immediate relief for the existing tourism related businesses that have been suffering and that continue to be in pain given the reduced economic activity in the Tourism sector over the past five years.

In this regard the Chamber is once more calling on the THA to:

- a) **Offer a Tourism Loan Guarantee Facility** whereby hotels and guest houses **and all other related service providers** would benefit from guarantees backed by the THA and by extension the Central government in respect of loans obtained to fund working capital of these businesses to ensure that they remain viable. Other economies within the Caribbean, Barbados for example, have successfully supported their tourism sector through such a facility and there is no need for Tobago to re-invent the wheel as we can learn from their experience in this area.
- b) **Offer a Hotels/ Guest Houses Refurbishment Program facility** separate and apart from the Loan Guarantee facility mentioned above. In this case funds can be allocated to upgrade rooms to meet market standards. This program should provide very soft repayment terms to the hotelier who would remain committed to repaying these advances over a mutually agreed period of time. This facility should replace the current program in which funds are being distributed to hoteliers and guest house operators without the proper structures being in place to facilitate transparency and accountability. As a result Tax payers' hard earned dollars are being disbursed to beneficiaries without the required checks and balances being in place. The THA should immediately revisit their modus operandi to ensure that at the end of the day every cent spent in this program is evident and in fact translates to better standard of room stocks on the island. The THA should also place a stipulation whereby they reserve the right to hold a lien over the beneficiary's property to clearly send the message that this facility is not a "hand out" but a collaborative effort in which the hotelier's asset and ultimately the room stock of the island would be improved, the end result being a more attractive tourism destination.

The THA has access to various lending agencies through which such a facility can be properly administered and is encouraged to utilize these lending agencies to execute this program thereby giving credence to its transparency and legitimacy.

- c) **Revisit the current budget allocation for marketing Tobago as a Tourism destination.** In so doing a forensic audit must first be carried out as a matter of urgency to assess the impact of the Division of Tourism's marketing efforts over the past three years. It is common knowledge that a tremendous amount of money continues to be spent on marketing Tobago yet the Tobago product continues to be elusive as it is not easily identifiable by anyone. On the other hand the Trinidad tourism sector is buoyant and there continues to be an increase in room stock to satisfy demands.

These measures are required as a matter of urgency to ensure that the Tobago economy remains afloat and to reverse the current trend of tourism related businesses having to close their doors. It is no secret that the average businessman in Tobago has had to utilize all his cash reserves in carrying out his business activities over the past five years as Financiers have been less than supportive. This situation continues unabated as where there has been support from the Political

Directorate, this support has been untimely and ineffective to say the least. In the meantime Tobago remains an unattractive destination given its limited and sub standard room stock in addition to the myriad of other issues that are faced by the prospective traveler.

The incidence of retrenchment coupled with a spiraling crime rate are certainly sure recipes for removing the destination permanently for the list of choices for the discerning traveler and these measures are simply a start to reverse these trends into a more positive direction.

8.2 Business Facilitation

Provide an annual allocation to provide technical assistance, training and working capital for persons offering services in the Tourism sector, particularly the small business sector. In this way services can be standardized and the experience of the visitor will be more predictable.

8.3 Improved Productivity and Innovation Tax Credit

As a means of encouraging creativity and innovation, a tax credit of 25% should be granted to entrepreneurs who are focused on encouraging productivity that is vital to the growth of the Tobago economy. The credit will allow for 25% of qualifying expenditure to be deducted by the taxpayer in the year that the expenditure was incurred. This can be offered as a simple alternative to the option of obtaining Venture Capital Financing which is usually very onerous to access.

8.4 Agriculture

8.4.1 Promote agriculture by :

a. Partnering with the existing Tobago Hotel and Tourism Institute to run relevant courses/training programs that will benefit the sector

b. As a priority regularize leases to farmers who currently occupy state lands. For those persons who have applied to obtain leases for more than five years these should now be given priority for approval.

c. Improve the infrastructure to roads accessing agricultural plots to facilitate the transportation of labour, equipment and harvested crops to and from markets.

d. Provide meaningful incentives to encourage young persons to choose agriculture as a career and to see it as a viable business opportunity; while providing encouragement for existing registered farmers to ensure that Tobago becomes self sufficient in producing at least 40% of its own food within the next three years. This will significantly reduce the cost of foods currently being imported from Trinidad and other territories and should make an immediate impact on our cost of living index and our foreign exchange reserves.

e. Establish an Agriculture Division in the THTI with a view to creating menus that will encourage consumption of Tobago grown products and for display such as flowers.

8.4 INFRASTRUCTURAL DEVELOPMENT/TRAFFIC CONSIDERATIONS

- 8.4.1 Expansion of existing road network to accommodate the influx of vehicles particularly in and around Scarborough and in the southwestern section of the island. For example the Sangster's Hill Road is totally inadequate. Opening up of the Smithfield field road to facilitate the flow of traffic from the Claude Noel Highway has long been on the drawing boards and this should now be treated as priority. The regulation of traffic by way of a traffic light is also required at the exit to the Bishops High School at the Mt. Marie junction as too much time is lost to gain access to or from this institution.
- 8.4.2 Proceed to construct the multi storied car park facility earmarked for Castries Street without any further delay. Alternatively consideration may be given to acquire and/or utilize lands on the outskirts of Scarborough for parking of vehicles and employ a 24 hours shuttle service to ferry persons back and forth to the centre of the city. This parking facility should be secured and should offer the option of being metered in order to generate revenue. However the shuttle service would be for free.
- 8.4.3 Introduction of electronic pedestrian crossings in Scarborough to eliminate jay walking and to regulate the flow of traffic – nuisance points include Garden side Street, opposite KFC, Burnett Street and the intersection to Sangster's Hill Road.
- 8.4.4 Incentives for Property/Business owners to upgrade and maintain properties within City Centers beginning with Scarborough.
- 8.4.5 Upgrade current jetty facilities at all major locations in Tobago to facilitate the Tour operators. This will aid re-fuelling and complement the work of the fishermen.
- 8.4.6 Identify and commission two (2) locations for the establishment of a Container Port and a Passenger Port respectively, the former to complement the Cove Industrial Business Park as a matter of priority with the aim of having a second port available for use no later than 2015.
- 8.4.7 A complete upgrading/reconditioning of directional road signs throughout the island especially identifying places of interest. For e.g. direction to Pigeon Point from both directions.
- 8.4.8 Upgrade of facilities at specific locations/beaches - outside of Pigeon Point, Turtle Beach, Store Bay, Charlotteville, Rain Forest Lay by etc. to include standardized vendor stalls, washroom and dining facilities.

- 8.4.9 Fast track the expansion of the existing airport. Alternatively identify an alternative location on the eastern or northern side of the island which would effectively open up the interior parts of the island. This would create additional opportunities for hoteliers and guest house operators, land developers, housing developments, additional schools etc. causing an evening out of investments throughout the lesser developed parts of the island. This would effectively reduce the overcrowding currently being experienced in the southwestern section of the island.
- 8.4.10 Introduce Duty Free shopping at all Ports of Entry, upgrading the respective facilities to include proper vending booths and proper washroom and dining facilities.

8.6 SECURITY

- 8.6.1 The installation of at least three Police mobile units with 24hr staffing each to be placed within strategic areas that may be high risk. Each of these mobile posts must have a vehicle attached to it.
- 8.6.2 Institute 24 hour staffing to facilitate ongoing monitoring of all CCTV security systems within Scarborough and environs including all ports or points of entry.
- 8.6.3 The re-introduction of police officers on bicycles for beach patrols within high risk areas.
- 8.6.4 Lobby for the upgrade of all police stations on the island to make them more than habitable and customer friendly; equipping them with state of the art technology allowing for the easy transmittal and sharing of information between other police stations as an effective tool in the fight against crime.
- 8.6.5 Lobby for the construction of a new prison or corrections facility in Tobago within which appropriate programs can be offered to prepare ex convicts for resettlement into civil society in a meaningful way in an attempt to break the cycle of recurring offenders.
- 8.6.6 Institute stricter security measures for all persons and vehicles travelling by the inter island ferry.
- 8.6.7 Ensure that the Port introduces a preventative maintenance program for all its scanners and CCTV systems to ensure that they operate effectively at all times.

8.7 Housing Development Program

- 8.7.1 Fast track the construction of Phase II of the Adventure Housing development, Phase I of the Courland housing project to satisfy the demands of affordable housing in Tobago.
- 8.7.2 Ensure that building contractors domiciled in Tobago are given the first choice to construct these houses as one measure of ensuring that the Tobago economy remains

robust.

8.7.3 Where consideration is given to hire external Contractors by virtue of the complexity or the size of the project, the THA must ensure that Tobago based contractors benefit by being employed by the Lead Contractor whose responsibility will include but will not be limited to ensuring that there is a transfer of knowledge, technical and otherwise so that in time the Tobago based contractors are able to build capacity and provide institutional strengthening to their own organizations thereby being able to undertake projects of such a nature in the foreseeable future.

8.7.4 Set aside the appropriate funding to ensure that contractors are paid in a timely fashion so as to facilitate the timely execution of works being undertaken.

8.7.5 Uphold the principle of providing 30% mobilization per project instead of the usual 10% which is grossly inadequate for the proper mobilization of construction projects.

8.8 EDUCATION

8.8.1 Officially adopt the **Life at the Crossroads** peer counseling program which is currently being taught in all government secondary schools on the island as **the official character based, moral education program** to be taught in secondary schools in Tobago. This program has been tried and tested over the past five years and has been found to be very effective based on the independent audits and surveys carried out with all school principals. The Chamber considers it counterproductive and a waste of tax payers' money for the Division of Education to now commission the creation of another program similar in nature to this one. The appropriate funding should be therefore granted to the Division to ensure the continuity of this program and every effort should be made to get this program into the primary schools. The benefits of this program are long lasting and help our youths to make correct choices regarding their sexuality and their future.

8.9 WAIVER OF PENALTY AND INTEREST

8.9.1 The Chamber welcomes the current Tax Amnesty which ends on May 31st, 2011. However it is the Chamber's view that the THA and by extension the Government of Trinidad and Tobago needs to waive penalties and interest in the following circumstances:

- Where the THA or any other State Enterprise is indebted to a business for **in excess of sixty (60) days**, payment and or interest and/or penalties on all statutory deductions falling due after that time must be waived until such time that the Government or the THA satisfies its obligations to that business.

Once the THA or the Government satisfies their obligation to that business, the business is then allowed a maximum of fourteen (14) days from the date of receipt of payment to clear these "deferred liabilities" with the Government without penalty.

8.10 COVE BUSINESS PARK

8.10.1 The THA needs to ensure that at least 40% of the park becomes occupied by the end of 2012 by making available the required resources to complete the facilities and services required to prospective tenants.

8.11 GOVERNANCE

8.11.1 The THA must acknowledge and embrace the fact that its success in large measure will depend on its ability to embrace the changing role of citizens in participating in the democracy of Tobago. It should therefore invite participation of residents and citizens of Tobago in problem solving and prioritization, planning and service delivery to ensure that at the end of the day the objectives of national development are aligned with the needs and realities of the people. In so doing the state will recognize that they do not have all the answers and will allow every member of society to contribute to the governance of the society should they so desire. This mindset is critical when determining the priorities for budgetary allocations in any given fiscal year and the THA should be so guided.

8.12 OTHER INITIATIVES

8.12.1 The improvement of the air bridge arrival services to accommodate in transit Passengers originating in Piarco and who are travelling on to international destinations, for e.g. to London

8.12.2 Construction of a covered walk way to enter or exit the ferry at the Port Authority terminal in Scarborough.

8.12.3 A "BUY TOBAGO" advertising campaign aimed directly at getting Trinidadians and visitors to Tobago and while here to buy things available locally - from grocery items to locally crafted souvenir items and of course the local cuisine. This should start to stimulate the local economy and build visitor confidence to shop in Tobago rather than to bring in all supplies from Trinidad for their sustenance while vacationing in Tobago.

8.12.4 Develop a Carbon Footprint Reduction Plan.