www.pwc.com/tt

Recommendations for Taxation Incentives for building Diversification of the Economy

July 2012

pwc

Tax Incentives

A Government sponsored concession/grant/subsidy through the tax system aimed at promoting certain behavior

Advantages

- The tax incentive may promote the desired result
- The Government doesn't need to find cash or expend energy/resources to achieve its result
- Ideally persons with the skill and expertise undertake the desired activity thereby increasing the likelihood of success
- The investor supplies the capital for the activity and as a general rule GORTT's contribution only comes if and when the activity starts to produce a return
- It provides evidence that the country is friendly to foreign investors

Disadvantages

- It's not generally possible to measure the impact/success of incentives
- The cost is not generally tracked as is direct Government expenditure and therefore not subject to on-going reconsideration and validation
- Because it is an indirect grant the benefits do not always reach the intended beneficiary
- Because they are generally short term, the activity may cease when the incentive comes to an end

"Necessary Evil"

- There does seem to be a link between incentives and the level of FDI
- Countries are competing for FDI and given a relatively level playing field governments feel the need to offer incentives to give themselves an edge.
- The amount of incentives we have to offer will therefore depend on where we rank as an FDI attractor in the absence of those incentives
- The 2012 World Bank report ranks us at no 68 behind Antigua and Dominica

Non-tax Factors

Other than tax incentives, issues that impact our ranking include:-

Availability of energy

Ease of doing business

Educated affordable work force

Proper infrastructure

Easy tax system

Cost of financing

Ease of repatriation of funds

Disincentives to Investment

2% restriction

Close company legislation

Taxation of capital gains under employee share plans

Taxation of interest in employee saving plans

Incentives to stimulate desired activity
Options to consider

- Thin capitalisation rules together with regionalization of the exchange to stimulate stock exchange activity
- Encouraging downstream activity through tax incentives – reduced CT rate
- Research and development cost relief

Non Tax Measures

Certainty through binding tax rulings with prospective changes

Speedy resolution of disputes perhaps through ADR

Aligning tax assessment/collection activity with GORTT policy

Closing Statement

WARNING: The following disclaimer and copyright notices must be customised for your local territory - if you need assistance with appropriate wording, contact your local Risk Management or Office of General Counsel.