Budget 2016/2017: Definitely Not a Basket of Goodies, but also not very Painful

While the 2016/2017 fiscal package could hardly be seen as a "goodies" budget, it certainly did not inflict as much pain as many people envisaged in the lead-up to its presentation. With this package, the government sought to reinforce the conservative tone set in its budget a year ago, but one gets the impression that it was still concerned about the potential impact of making expenditure cuts that were too drastic. Given a third consecutive contraction in GDP in 2016 (2.3 percent), the government unsurprisingly highlighted initiatives to boost activity in key sectors. For instance, with as much as 3 billion barrels of "stranded oil" in mature fields, the government intends to design a special package of fiscal incentives for small and marginal fields and for secondary recovery. A general review of the fiscal regime governing oil and gas is also expected to occur. In terms of construction, the budget has identified a number of projects to be initiated in 2017 including, the Point Fortin Highway, Moruga Port, and the Wallerfield to Manzanilla Highway. With the budget titled "Shaping a Brighter Future – A Blueprint for Transformation and Growth" the package also sought to highlight government's policy framework over the medium term and beyond.

This time around, the government based its expenditure and revenue projections on an oil price of US$48 per barrel and a gas price of US$2.25 per mmbtu. With oil prices expected to average within the region of US$50 dollars in 2017 by the U.S. Energy Information Administration, government's revenue projections leave no room for a major fall in international prices. Total expenditure is expected to reach $53.5 billion in fiscal 2016/2017, up slightly from the actual outturn of $52.2 billion in the previous year. For the same period, total revenue is projected to rise by $2.5 billion to $47.4 billion. Consequently, the fiscal deficit is expected to fall from $7.3 billion to $6 billion or 3.9 percent of GDP. It should be noted that revenue projections for 2016/2017 rely partly on one-off revenue measures, yet again. In fact, core revenue (revenue from taxation, royalties and custom duties) is anticipated to reach $37 billion, thereby leaving a fiscal gap of $16 billion. These one-off measures include dividends from state enterprises and the sale of assets such as shareholding in Trinidad and Tobago NGL limited, First Citizens Holdings Limited and Trinidad Generation Unlimited. However, the government also intends to borrow as well as withdraw from the Heritage and Stabilisation Fund to finance the deficit.

With premium and super gasoline already unsubsidized at current oil prices, attention remains focused on making incremental increases on diesel prices. In this regard, owners of vehicles with diesel engines will now pay 15 percent more for a litre of the fuel. The price per litre is now $2.30, up from $1.98.

In the realm of taxes, the government moved to increase the rate of excise and custom duty on tobacco and alcohol by 15 percent and 20 percent, respectively. At the same time, the government introduced a new tax bracket for high income individuals and companies. Individuals whose chargeable annual income exceeds $1 million and companies with chargeable profits above $1 million per annum will now be required to pay income tax at a rate of 30 percent. As for online purchases, they will attract a 7 percent charge with effect from October 20, 2016. Further, the finance minister in delivering the budget did indicate that property tax collections will be fully implemented in 2017 based on The Property Tax Act of 2009. Finally, the long touted Revenue Authority seems set to come into being, with the legislative requirements scheduled to be completed in 2017. This new agency is expected to significantly reduce tax leakages and to strengthen administrative processes of the Board of Inland Revenue and Customs and Excise.

The budget also includes initiatives targeted toward enhancing social sector programmes. For government's low income housing, the qualifying income has been increased from $10,000 to $14,000 to access the 2 percent mortgage rate offered by Trinidad and Tobago Mortgage Finance Company. Additionally, the property value has been increased from $850,000 to $1 million. As it relates to utilities, households which satisfy specific criteria will benefit from rebates in electricity bill payments.

Given the still low oil price environment expected in 2017 and with this country's falling production in the energy sector, the reliance on the non-energy sector for growth has increased substantially. Accordingly, the government has delivered a package, which in its estimation is best suited for the challenging times in which the country finds itself. As per usual, we would have to wait to judge the efficacy of the package.

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