

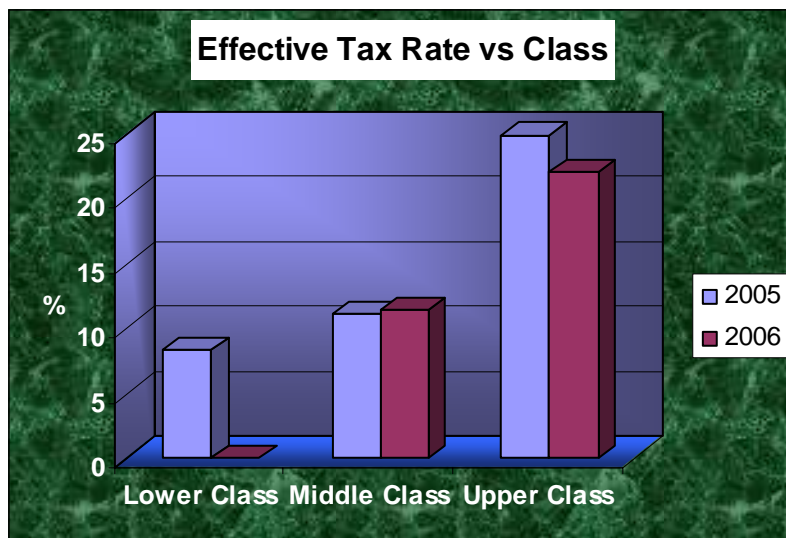
## The Implications of the Tax Deduction on Listed Companies

A tax break! The words that every tax paying citizen wants to hear. When the 2005-2006 National Budget was read in Parliament in September 2005, one can only imagine how elated tax payers were, upon hearing about the proposed tax 'reliefs' as outlined in the Budget. Even companies were given a tax break of 5 per cent! But were the purported tax 'reliefs' really a cause for jubilation? Or are there taxpayers who would be affected negatively and how would the overall impact relay to the companies listed on the Trinidad and Tobago Stock Exchange?

With regard to individual tax payers, the statement that initiated the first thoughts of excitement was an increase in personal allowance from \$25,000 to \$60,000 per annum. People were elated about being able to hold a greater proportion of their hard earned dollars. Despite the elimination of several allowances, the government still approximates that the 'generous' tax deduction would put an estimated 300,000 taxpayers out of the income tax net altogether .

First of all, let us look at who really stands to benefit from the reformation of the tax system. Exhibit 1 is a graph showing the change in the effective tax rate in relation to different income brackets of citizens. The construction of the graph was based on information from Pricewaterhouse Coopers' 2006 Budget Memorandum. The lower income is calculated at approximately \$4,000, middle income at \$11,000 and high income at \$25,000.

**Exhibit 1**



Evidently, the true victor of this situation is the lower income earner whose effective tax rate decreases from 8.4 to nil. It is approximated that people within this income group would collectively add in the region of \$ 2 billion in additional disposable income. Access to more disposable income to this genre of people usually increases their enticement to spend as they are considered to have a lower marginal propensity to save.

Thus, increases in income results in greater spending as they now have more purchasing power and can afford to live on a bigger budget.

They may now have a chance to engage in projects which was beyond them before due to personal budget constraints. In addition, they would also be able to indulge in more material pleasures and luxuries. Hence, companies belonging to sectors such as Trading & Manufacturing Sectors as well as the Conglomerates are likely to reap the rewards of this additional expenditure.

On the Conglomerate side for example, Neal & Massy's retail/distribution outlets such as HiLo should see increased revenue while Ansa McAl's manufacturing sector which include companies such as Abel and Penta Paints and of course, their brewing sector should indirectly profit from this tax reformation.

In relation to the Trading sector, companies such as Agostini's Limited should continue to record growth in their pharmaceutical divisions, grocery and interiors. Prestige Holdings, a company that is continuously making investments in franchises, and the company that owns the franchise for one of the nation's favourite form of fast food, KFC should also witness a considerable amount of growth stemming from this tax break.

In a country that is known as a party nation and also has the distinction of hosting the 'greatest show on earth' it is indisputable that manufacturing companies such as Angostura Holdings and West Indian Tobacco would thrive from increased consumption of their products. Trinidad Cement Limited would receive additional income from renovations and additions to already existing houses.

Middle income earners however, will on average not reap any reward as their effective tax rate increases minimally from 11.1 per cent to 11.4 per cent. Citizens within the high income bracket will see somewhat of an improvement in the effective tax rate. People within these income groups are the ones who are more prone to saving or investing any additional disposable income. Hence, it is from the actions of these citizens that the banking sector and the insurance companies of the non banking sector would stand to prosper. Investments in the stock market and the real estate market are also likely to benefit.

The reduction in the corporate tax rate from 30 per cent to 25 per cent would directly benefit the Trinidad domiciled listed companies in two ways. That is there would not only be a 5 per cent reduction in their tax charge but also companies with large deferred tax liabilities and account for it using the liability method would see a consequential tax credit recorded in their earnings statement. Republic Bank in its Annual Report for the Year Ended September 30, 2005 recorded a tax credit of \$52.685 million due to the change in tax rate. Neal & Massy, in their year end report for September 2005 has stated the effect of changes in tax rate as \$3.667 million while Scotiabank (T&T) Limited has stated their deferred tax income resulting from reduction in tax rate as \$2.457 million. In its Interim Financial Report for the Nine Months Ended September 30, 2005 Trinidad Cement Limited recorded a deferred tax credit of \$24.6 million.

We can now look forward to many companies with December year ends releasing results which would reflect equally large deferred tax credits. Some of these are ANSA Mc Al Limited, Angostura Holdings Limited, Trinidad Cement Limited and West Indian Tobacco.

It is without a doubt that increased spending in conjunction with the reduction in the corporate tax rate would result in fairer seas for a vast amount of the companies listed on the Trinidad and Tobago Stock Exchange. Their bottom line is likely to be positively impacted resulting in an increase in the earnings per share thereby increasing the current market value of the companies. However given the current bear run in the market it is left to be seen how much of an impact the tax rate reduction would have on share prices. Undoubtedly in the medium term there would be a very positive impact.