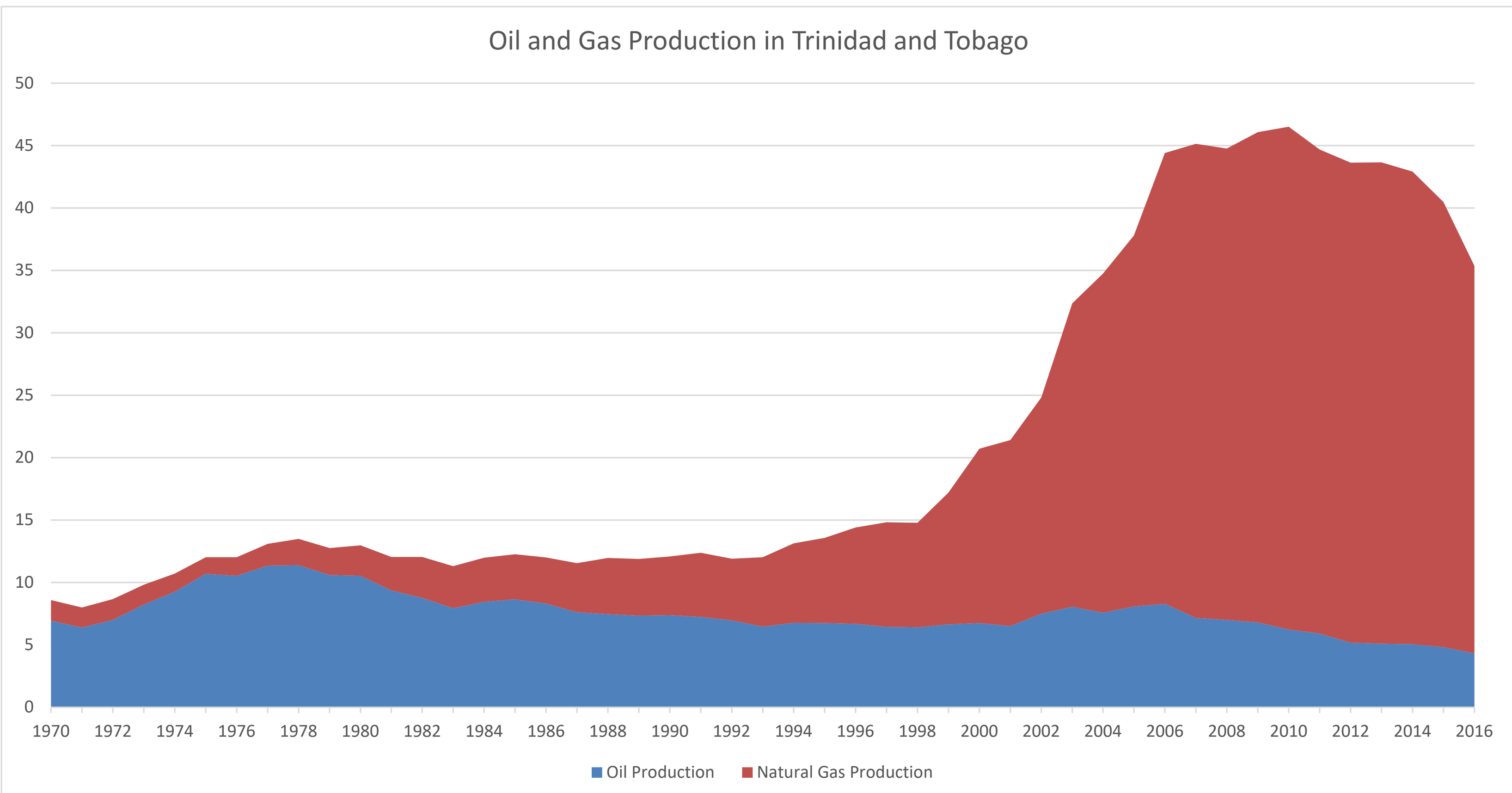
Evaluating Trinidad and Tobago Oil and Gas Tax Policy: Is the Current Tax Regime in need of Urgent Reform?

Ashani Bartley

1495 UNIVERSITY OF ABERDEEN

Motivation

As the production levels of oil and gas fall in Trinidad and Tobago, the taxing regime must be analysed to determine if it is currently playing a significant role in stifling the oil and gas industry.
This is necessary as the oil and gas industry contributes approximately 35% to the Trinidadian annual Gross Domestic Product and a crippling of the industry could lead to a crippling of the entire economy.



Methodology

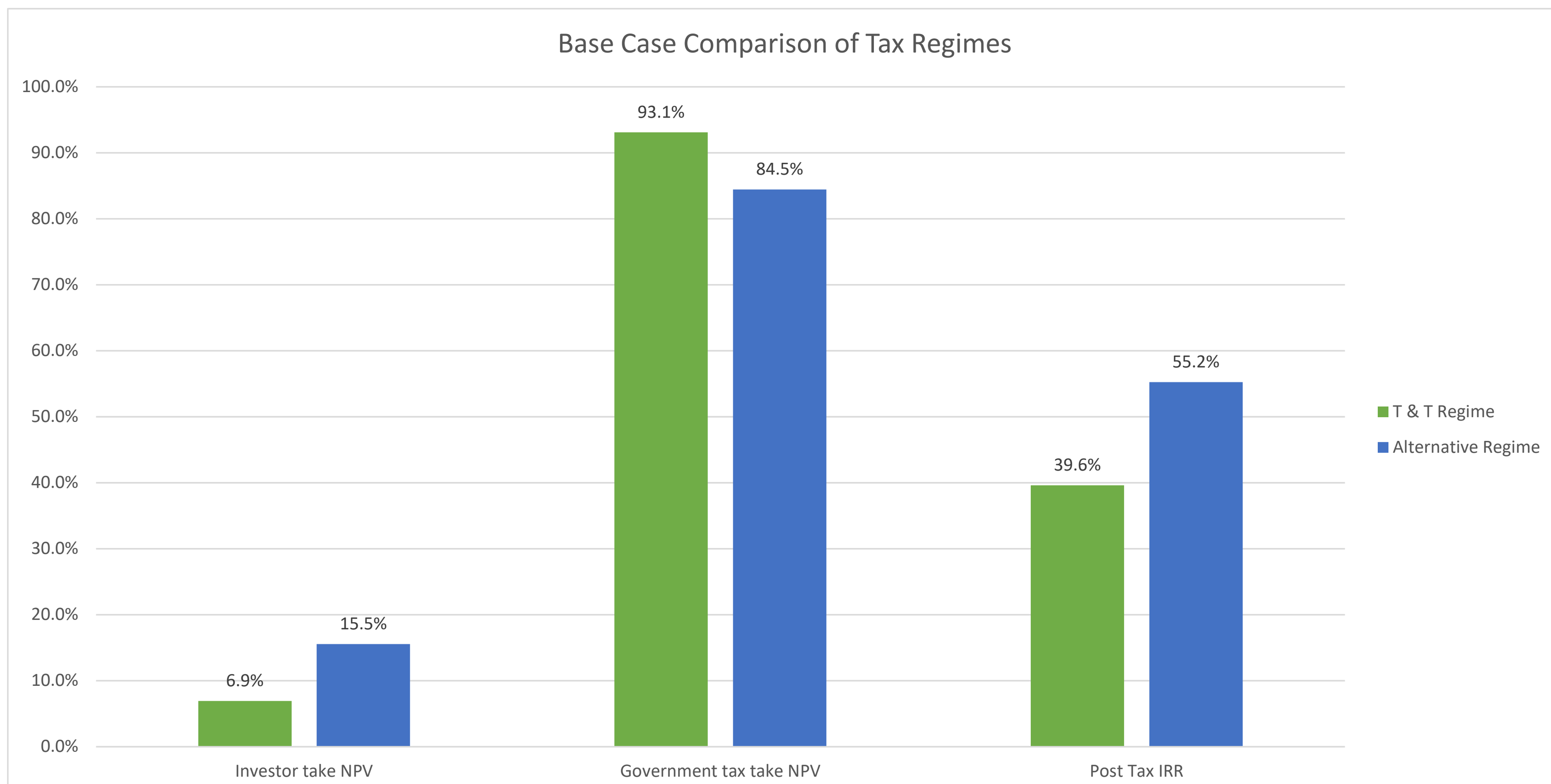
Through financial modelling, a base case scenario was calculated on several indicators such as the government take and net present values etc. Given the fact that the Supplemental Tax has the power to make investments uneconomical when it is triggered, this tax threshold was varied to a low ($60), medium ($70) and a high ($80) oil price per barrel. This was done to ascertain the impact of these variations on the aforementioned indicators.

Indicators for an alternative tax regime were also calculated for comparative purposes to the T & T regime.

Monte Carlo simulations were done in order to ascertain the possible returns to both the government and the investor and was conducted on the different variations of the T & T regime as well as the alternative regime. 2500 simulations were conducted in order to account for any uncertainty in the data

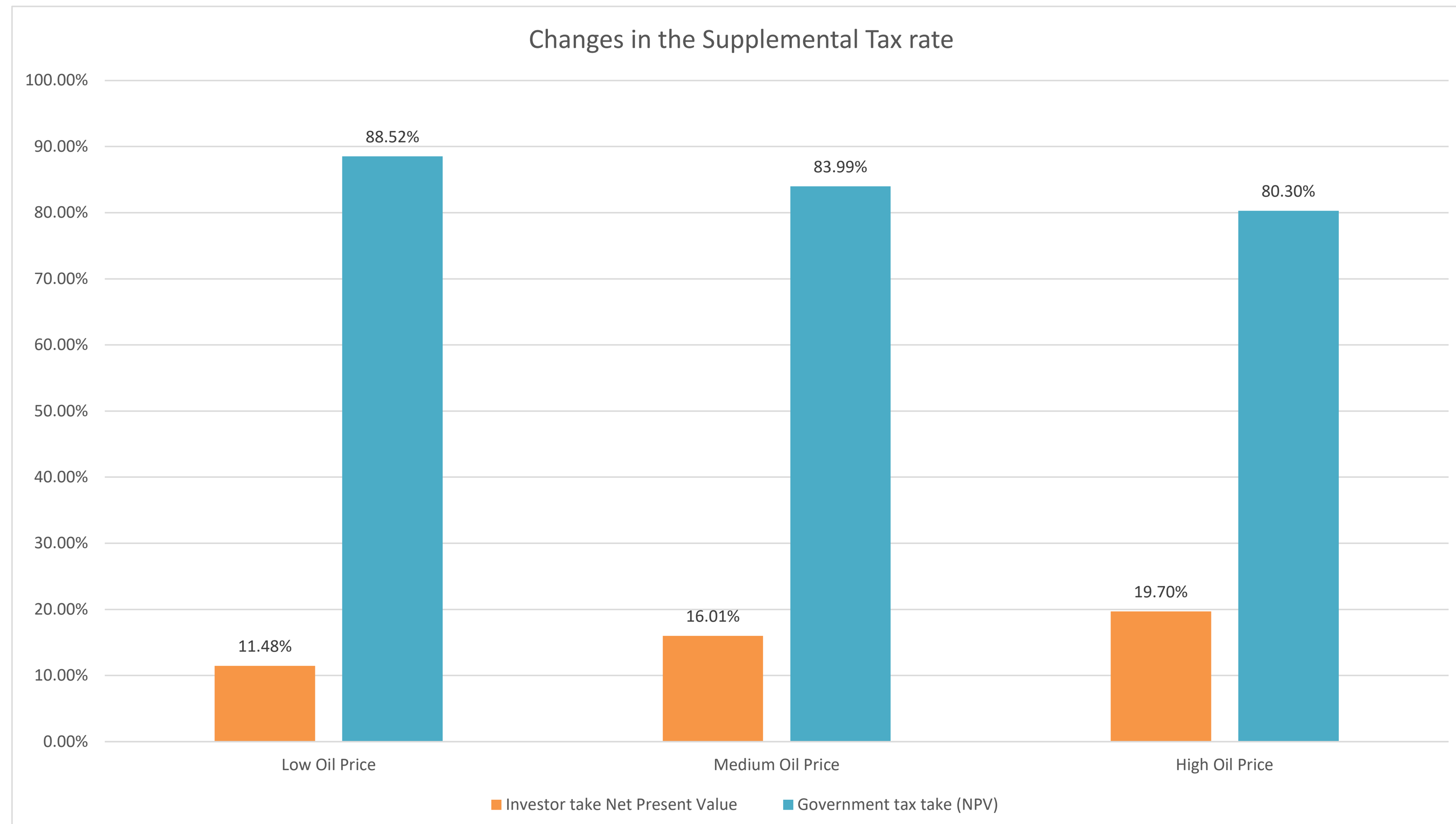
Results

Based on the initial results for the base case scenario, the investor take, government take, and the internal rate of return all indicated that the alternative tax regime would be more investor centric than the current regime being applied in T & T.



However, after the alterations to the Supplemental Tax rate, the Trinidadian regime becomes more investor centric than the alternative regime when the Supplemental Tax rate is raised to a medium ($70) and a high ($80) oil price per barrel. At a low oil price ($60) the regime becomes almost comparable to the alternative regime.

Present Value (PV) terms	Low Oil Price ($60)		Medium Oil Price ($70)		High Oil Price ($80)	
Investor NPV	403,158,799	11.48%	562,450,372	16.01%	692,075,016	19.70%
Government take (NPV)	3,109,279,447	88.52%	2,949,987,874	83.99%	2,820,363,230	80.30%
Pre Tax NPV	3,512,438,246	100.00 %	3,512,438,246	100.00 %	3,512,438,246	100.00 %
Post Tax IRR		59.94%		68.34%		70.35%
Profit/Investment ratio		2.98		4.16		5.12



Conclusion

It is evident from the results that the T & T tax regime can be considered somewhat regressive and investor unfriendly. Given the analysis performed, a changing of the Supplemental Tax threshold from $50 to $60 would be highly recommended. This is so as under Monte Carlo simulations the Profit to Investment ratio at $60 per barrel threshold would have a minimum return of $1.06 which by international standards is very acceptable.

Ashani Bartley ashani.bartley.16@aberdeen.ac.uk +44 (0) 7397-234066 www.abdn.ac.uk
University of Aberdeen, King's College, Aberdeen, AB24 3FX