

EY warns proposed tax changes could squeeze business profits

By Vishanna Phagoo

vishanna.phagoo@trinidadexpress.com

BUSINESSES could face higher tax costs and reduced profitability under proposed changes to tax-loss relief and the taxation of payments to overseas service providers in the 2026/2027 national budget, EY tax partner Colin Ramsey has warned.

The measures could have significant implications for companies, particularly those in manufacturing, retail and distribution, as they adjust to changes in how taxable profits and certain expenses are calculated.

Ramsey made the statement while speaking at the Trinidad and Tobago Manufacturers' Association's (TTMA) post-budget discussion at the Hyatt Regency Trinidad, Wrightson Road, Port of Spain last week.

"There are quite a number of measures that could potentially impact your effective tax rate, and by extension, your overall profitability," Ramsey said. One of the key proposals would restrict the use of accumulated tax losses, limiting the amount businesses could offset against chargeable profits in any income year.

Currently, companies in Trinidad and Tobago can generally carry forward tax losses indefinitely and use them to offset profits in subsequent years without an annual restriction. A similar limitation was introduced for the oil and gas sector several years ago, restricting the amount of profits that could be offset by losses to 75%.

In the 2026/2027 budget, Finance Minister Davendranath Tancoo proposed extending that restriction to all businesses, effective January 1, 2027.

During his budget presentation on Monday, Tancoo said: "Currently, businesses may carry forward accumulated losses to reduce taxable profits in subsequent years. While the Government recognises the importance of this provision to allow businesses to recover from periods of financial difficulty, we also believe that there should be an appropriate balance in the amount of accumulated losses applied in any one year." Ramsey noted that the proposal did not appear to impose a time limit on carrying forward unused losses. However, businesses would no longer be able to use accumulated losses to eliminate their taxable profits entirely in a given year.

"In terms of utilising all of your losses against your profits, or reducing your profits to zero, thereby being subject to just business levy being incurred, that is pretty much not going to happen anymore with this proposed measure," he said.

Ramsey said similar restrictions applied in Barbados, Guyana and Jamaica, where companies were generally allowed to offset 50 per cent of profits against losses.

Overseas services could cost more

Another significant proposal concerns withholding tax on payments to non-residents for services, including management fees and technical services.

Ramsey said the change would alter the longstanding treatment of payments to overseas service providers, potentially affecting businesses that engage foreign consultants or technical specialists who work remotely.

"This proposed measure seeks to change that long-standing position and essentially apply withholding tax on payments made to non-residents, irrespective of where the services are performed," he said.

The measure could increase costs for local companies, particularly where contracts require them to ensure that overseas providers receive the full amount agreed, after taxes.

In such cases, the local business may have to absorb the withholding tax rather than deduct it from the provider's payment.

"In cases where, for example, the non-resident puts in the contract that they are to be made whole, this now becomes a cost to you because there's a gross-up of the withholding tax calculation in order to arrive at payment made to the non-resident to make the non-resident whole," Ramsey said.

A gross-up increases the payment amount so that the recipient receives the agreed net sum after tax has been deducted. That can raise the total cost to the local business.

Tancoo also proposed increasing withholding tax on distributions to nonresidents.

"I propose to increase the withholding tax on distributions made to non-resident individuals and companies from 8% to 10%, while the rate on distributions to non-resident

parent companies will increase from 3% to 5%," he said during the budget presentation.

The increases are scheduled to take effect on January 1, 2027.

Ramsey also raised concerns about the proposed treatment of expenses associated with income that is not subject to further taxation in Trinidad and Tobago.

He said clarification was needed on how the measure would apply to businesses operating across the Caribbean, particularly where income may be treated differently under

regional arrangements, including the Caricom Treaty.

"Generally speaking, dividend income from a personal company and other sources of tax-exempt income, you would typically treat those expenses as being non-deductible in the production of income. What is of concern with this measure is how you treat other sources of income that may not be taxable," Ramsey said.

In some cases, he explained, tax may already have been paid in the jurisdiction where the income was earned, leaving Trinidad and Tobago with no further right to tax that income.

The concern is whether expenses incurred to generate such income would consequently be treated as non-deductible when calculating local taxable profits.

The implications will depend on the final rules and how the measure is applied to different categories of income.

VAT refunds remain unresolved

Ramsey said other proposed measures involving value-added tax (VAT), including penalties and additional charges, could increase government revenue.

However, he noted that the budget had not provided a clear solution to the longstanding problem of VAT refunds owed to businesses.

"There wasn't much mention of the VAT refunds, and we plan to divide the billions of dollars owed to taxpayers for all these VAT refunds," he said.

The Government also decided against proceeding with a proposed replacement of VAT with a sales tax following further review and discussions with international partners.

Ramsey said the priority should now be to improve the efficiency of the existing system, including addressing delays in refunds and other payments.

For businesses already managing changes to their tax obligations, the treatment of accumulated losses, overseas service payments and deductible expenses could add to the importance of reviewing contracts and tax positions ahead of the proposed implementation dates.