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Economist Calls for Gross Receipts Tax Reform and Lower Tax Incentives; Wayne Biggs Defends Current Model

Mark Wenner argued that the 5% gross receipts tax is ineffective and that the USVI’s 90% tax abatement policy is too generous. EDA CEO Wayne Biggs countered that the tax incentives attract businesses that would not invest in the territory otherwise.

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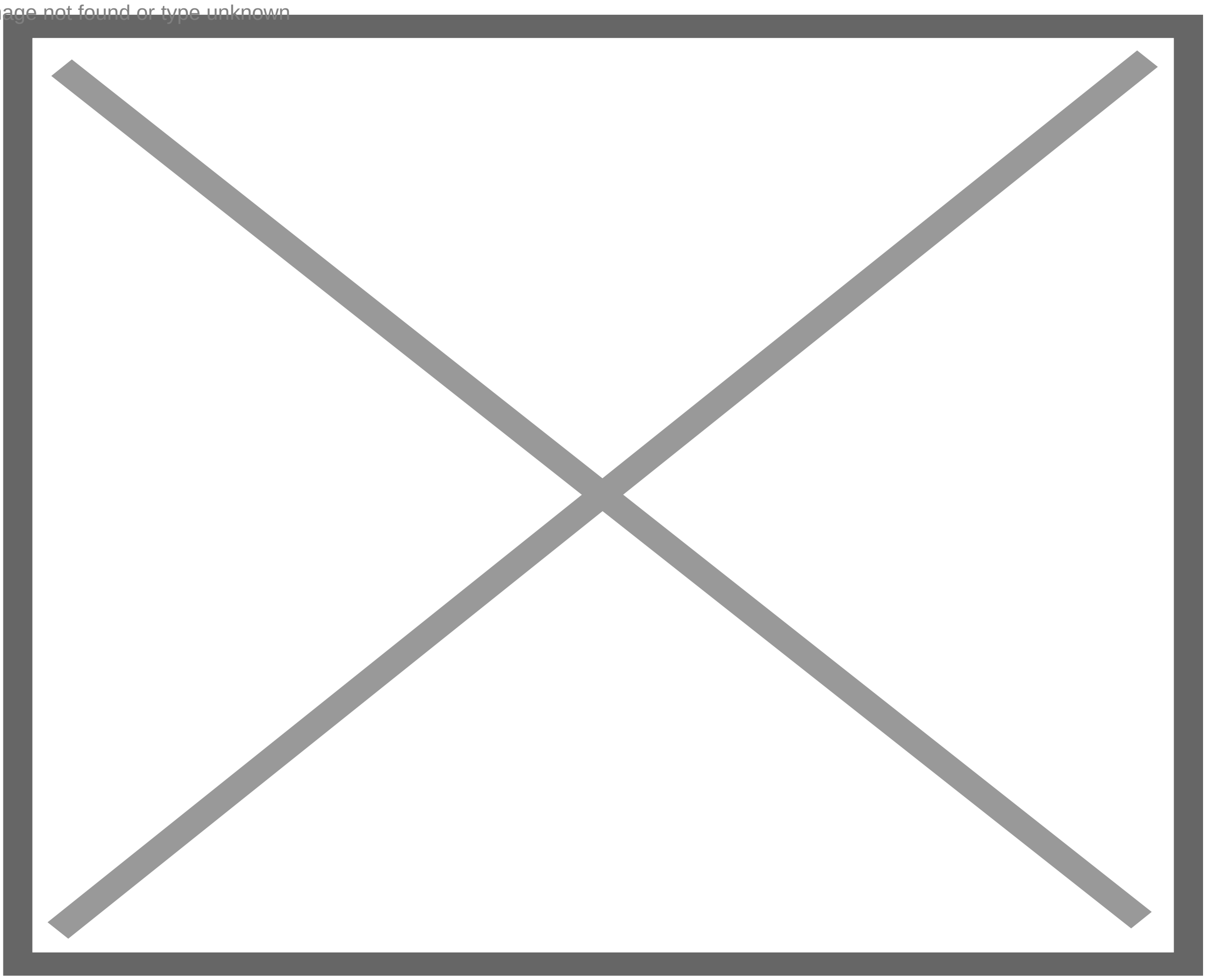

A difference of opinion on the efficacy of the territory’s tax incentives arose when the Committee of the Whole met to discuss the USVI’s cost of living crisis on Monday.

Economist Mark Wenner, in his testimony, suggested several changes that could positively impact the cost of living in the territory, including diversifying the economy and weaning it from the current reliance on the tourism sector.

The tourism sector, like the burgeoning construction sector, contributes greatly to the territory's gross receipts taxes. However, Mr. Wenner contends that a "tax structure that includes heavy reliance on a 5% gross tax receipt" is not proving particularly effective. "Great care needed to be used in studying how to replace the gross tax receipt system with a sales tax system," he offered.

Diversifying the economy will include improving the business environment climate, said Mr. Wenner. However, he told lawmakers that the "current business attraction model that is based on 90% tax abatement, is not even cost effective."

Through the Economic Development Authority, the USVI offers a series of tax incentives to qualifying businesses operating in the territory. One incentive is a reduction of up to 90% in corporate and income taxes, in the hopes that the low-tax environment would attract new businesses and foster a robust and diversified economy.

However, Mr. Wenner believes that "90% really might be just too generous." He responded to a question from Senate President Milton Potter on how the territory could "better balance tax revenue needs with economic diversification goals." According Mr. Wenner, while a business attraction model is useful, "tweaking the amount of the abatement and more conditions" is now an appropriate course of action. Wenner said the only other territory with such a high abatement rate is Puerto Rico.

"We're like prostitutes. We're trying to outbid and kill each other to attract business, and that's not wise," warned Wenner. From his economic perspective, the territories closest to the contiguous United States have become "legal tax havens for businesses from the mainland."

"There's no other municipality or state that would give a business person a 90% tax exemption [or] no property tax. It doesn't exist," Wenner said. He has appealed for the government to align with "better practices" and look closely at "what is being produced for the tax giveaway…You need to look at the two figures: how much was given away for how much is being generated."

However, Wayne Biggs, the EDA's chief executive officer, defended the incentives program. "We have to remember that these monies would not be here if it was not for tax incentives," Mr. Biggs rebutted. "It's not taxes that we would have gained providing that the companies wouldn't be here without the tax incentives. We would have zero." Mr. Biggs remained adamant about the model's benefit to the territory. "When you look at the economic impact analysis…you'll see that there's a huge impact."

"We have a little difference of opinion in reference to how we look at whether it's we're giving away or we're gaining," he told Mr. Wenner. Mr. Biggs explained that a cost-benefit analysis is conducted for each tax abatement applicant, and the authority "always looks to make sure that the territory is gaining a benefit."

He also rubbished claims that the Virgin Islands competes with Puerto Rico. "As a matter of fact, I think Puerto Rico sort of emulated our program." he contended.