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Senator Pushes for Oversight of Cash-Only Businesses During USVI Sales Tax Talks

As lawmakers debated a potential sales tax, Sen. Francis stressed the need to monitor cash-only businesses, warning that unrecorded transactions could deprive the government of revenue. He urged BIR to ensure “what’s due to Caesar is paid unto Caesar."

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Nelcia Charlemagne March 05, 2025

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The idea of introducing a sales tax in the U.S Virgin Islands was the center of discussion during a Committee of the Whole session to pinpoint the causes of the territory’s high cost of living. The conversation, which began on Monday, continued in St. Thomas on Tuesday, this time with testimony from the Bureau of Internal Revenue alongside the Energy Office and Department of Licensing and Consumer Affairs.

During Monday’s meeting, economist Mark Wenner suggested that a sales tax could be used in lieu of gross receipt taxes on businesses. While the economist acknowledged that “great care needed to be used in studying how to” accomplish that feat, BIR director Joel Lee warned that “going from our current structure of gross receipts to only sales tax, the government will receive less money.”

Pointing out that the two taxes could co-exist, Mr. Lee nevertheless argued that the territory has been historically marketed as a duty-free destination. Therefore, when thinking about levying a sales tax, it is important to “consider the impact that this may have on our tourism market, especially as we compete with other Caribbean destinations.”

Among the benefits of introducing a sales tax in the territory would be the additional revenue generated by the government’s ability to tax online and mail order sales, something it is currently unable to do. Any potential benefits, however, would come only after the costly process to bring the tax into being. “Implementation of this sales tax will require funding,” Mr. Lee explained. “It will require software, hardware and an entirely new department within the Bureau.” The Virgin Islands Code will also require amendments to “clearly identify which goods, services, sales and transactions will apply to this proposed sales tax and clearly state the goods and services that will be exempt from it.”

Local businesses, too, would incur costs, having to “purchase the software that will be used to track the sales, possibly update their entire cash register services, monitor the inventory and remit the collection of the sales tax,” Mr. Lee noted.

Tuesday’s conversation on the possibility of implementing a sales tax in the USVI was simply that – a conversation. Lawmakers had been advised by Mr. Lee that the Tax Study Commission, a body created by law, is tasked with “providing a comprehensive review of the tax laws and should be consulted prior to any isolated changes to the tax code.” Senator Angel Bolques Jr. agreed. “I believe the tax study commission is better suited to recommend the changes based on their research and data,” he concurred.

Senator Milton Potter urged that commission to meet soon. “It is an absolute priority,” he declared. “We also need to make sure that the Commission is functioning and doing its job.” Lawmakers learned that tax study commissioners have not met since Kevin McCurdy – a voting member of the Tax Study Commission by virtue of his office – took up the post of Commissioner of Finance.

Senator Kurt Vialet was not particularly enthusiastic about the outcome of future tax study meetings. “I'm leery that we might have some recommendations coming in that might not be in the best interest of the Government of the Virgin Islands, but in the best interest of the private sector,” he admitted. “The Government of the Virgin Islands could literally collapse…We gotta be careful,” Vialet warned.

With no work conducted by the Commission thus far, the Office of Management and Budget has stepped in to assess how the territory’s revenue collection can be enhanced. “We started a process where we started to look at gross receipts. We started looking at even up to Airbnb, where we're not capturing revenues,” said OMB’s new director, Julio Rhymer.

Mr. Rhymer, for his part, did not seem keen on switching over to a sales tax model. “Despite being regressive," he said of the Gross Receipt Tax, "it generates probably 40% of our revenue…Even if you reduce [the rate by] 1%, 20% of your revenue goes away for the government.” For Mr. Rhymer, “that's something that we really need to not touch unless we do a comprehensive study going forward in regards to a sales tax."

The Legislature was also encouraged to be guided by the knowledge that "the gross receipts tax is tied to our bond covenants," making it difficult to amend the gross receipts system without the approval of bond holders.

That revelation caused Senator Marise James to wonder whether the entire conversation on moving from a gross receipt system to a sales tax model was "futile." Mr. Lee clarified by replying that "there's always an opportunity to approach the bond holders and renegotiate a future path, but that would depend on their acceptance of it."

With the conversation set to continue outside of Legislative sessions, Senator Novelle Francis, who chairs the Committee on Budget, Appropriations, and Finance, urged the government's financial team to pay close attention to cash-only businesses, "making sure that what's due to Caesar is paid unto Caesar." It's something that the GVI is currently unable to monitor. "If a cash sale happens, if there's no transaction recorded, that cash goes, quite frankly, under someone's mattress or in their safe," said Mr. Lee.

Tuesday's meeting included no clarity on when the Tax Study Commission will convene – or even be populated. Senator Carla Joseph has urged Governor Albert Bryan to "vet and send down those names, because this is an urgent matter."

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