The Virgin Islands Consortium

Some Local Businesses Stealing Millions In Gross Receipts Tax By Funneling Money Outside Territory

Business / **Published On June 01, 2015 06:17 PM /**

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The territory is losing large amounts of money from businesses that are funneling revenues made here to other jurisdictions, withholding millions of dollars in tax obligations from the Government of the Virgin Islands (GVI), Marvin Pickering, Director designee of the territory's Bureau of Internal Revenue (BIR) told *VI Consortium* in an interview this afternoon.

It's called the underground economy, also referred to as the informal economy according to Pickering, and it includes businesses that conduct mostly cash-based transactions, making it easy for these businesses to withhold total earnings, hence "avoiding payment of various taxes, such as the gross receipts tax," Pickering said.

"We are investigating the businesses that may be reporting their sales outside of the territory, hence escaping the tax filing and payment obligations," he added.

Pickering said one of the tasks he took on from the moment he was nominated director of BIR, was to identify companies violating tax reporting and payment laws of the territory.

The director added that while BIR have identified some of the companies that are part of the underground economy, their names are being withheld because the investigation is ongoing.

He did, however, give examples of businesses that participate in the illegal activity.

"There are a lot of them," Pickering began, estimating that about 40 percent of the territory's businesses may be involved in the scheme. "There are convenience stores, gas stations -- we've heard that some tourist-oriented businesses, particularly in St. Thomas and with credited card sales -- are being registered outside the Virgin Islands."

What BIR found out, according to Pickering, was that patrons who've purchased items at some jewelry stores in St. Thomas, upon receiving receipt of said purchase, notice that the receipt includes information from banks in Miami, Florida and St. Marten -- but not the Virgin Islands.

Aside from gas stations, convenience stores and some St. Thomas jewelry stores, the underground economy is particularly widespread in other industries where the use of cash is common, including hospitality and construction businesses, to name a few.

In 2013, the underground economy accounted for $2 trillion in business transactions in the U.S. However, whatever the loss may be for the territory, Governor Kenneth Mapp has made it his priority to capture the funds moving forward.

"A determined effort is underway to enhance all tax collections, but especially from gross receipts, individual and corporate income taxes, and real property taxes," Mapp said in his 2016 fiscal budget transmittal letter to the 31st Legislature. "

So far, the heightened effort has paid off. On May 28, the governor revealed that his administration would be releasing $5 million in tax refund checks to the territory's residents. He praised the efforts of Pickering and Finance Commissioner designee Valdamier Collens for actions their departments have taken in reducing the government's deficit by some $26 million.

Pickering told *VI Consortium* that the amount of tax dollars collected this year has been on par with what was garnered in 2014. However, his department has been going after some major accounts that have remained delinquent for years.

That, along with the newly-launched investigation into local underground economy businesses, the administration is hoping to make an even greater dent in the territory's deficit.