

The Virgin Islands Consortium

Bill That Creates 'Virgin Islands Sin Tax Fund' By Raising Cigarette Tax To 45 Percent Moves Forward

VIC News / **Published On February 10, 2016 11:45 AM /**

Ernice Gilbert **February 10, 2016**



ST. CROIX -- A bill sponsored by Senator Sammuel Sanes won the approval of most senators who make up the Committee on Rules and Judiciary on Tuesday at the Fritz E. Lawaetz Legislative Hall.

Bill no. 31-0023 seeks to raise the tax percentage of imported cigarettes from 35 to 45 percent, a move that would append around half a million dollars to the territory's coffers. The measure would also create a "Virgin Islands Sin Tax Fund," with 95 percent of proceeds going to the government's general fund, while the remaining 5 percent would be allocated to the Virgin Islands Council on Alcoholism and Drug Dependency (V.I.C.A.D.D.) for the purpose of treatment and prevention programs.

Senators were generally in alignment with the bill, with Novelle Francis contrasting the price of cigarettes here to what is being paid in other jurisdictions. "I often hear [visitors] make reference to paying almost two and a half to three times the amount in some states, to include New York and elsewhere," he said. "So I don't see this being a major effect in terms of their ability to pay a little bit more," Mr. Francis added, referring to tourists.

Mr. Francis was concerned, however, that only 5 percent of the taxed funds would go to V.I.C.A.D.D., stating that senators "could have done a little bit better in that area."

And Senator Janette Milling Young, who made clear her disdain for smoking, expressed her opposition because of how high the products will be taxed if the measure is signed into law.

"It's high as it is, to tax it more just because some claim that this is bad behavior... Well, we have a lot of bad behaviors that we can't even begin to want to tax," she said.

Even so, the measure was forwarded to the full Senate with Senators Kenneth Gittens, Jean Forde, Justin Harrigan and Mr. Francis voting yes. Senators Nereida Rivera-O'Reilly and Neville James were absent, and Mrs. Millin Young voted no.

The committee also approved a measure that would allow free smoking of cigars and tobacco products at designated "cigar factories." The bill repeals the tax exempt status on cigars and was amended on Tuesday to raise the newly added excise tax to 25 percent, and requires signs that clearly states the dangers of smoking.

The measure was forwarded to the full body without opposition.

When the cigarette tax increase was heard in April of 2015 [during a Committee on Finance hearing](#), Mr. Sanes, while acknowledging that the amount raised from the tobacco tax hike would not add much to the general fund, said the territory needed every bit of money that it could collect, and mentioned the Virgin Islands Police Department, Waste Management Authority and the territory's hospitals as entities all cash-strapped — and all in need of financial injection.

During the hearing, Finance Commissioner Valdamier Collens testified in support of the bill, however he highlighted the predicament of less sales, which he contended would lead to a decrease in generated revenues. The tax hike would increase revenues by \$443,000, Mr. Collens said, but whether or not that amount would be more than what the territory stands to lose if sales fall remained uncertain.

There was also push back from Richard Berry of Leeward Islands Management Company, who testified against the bill and contended that it would only hurt the company he represents in an already anemic economy. Mr. Berry warned that if the bill is approved, the local tobacco industry would lose ground to St. Marten, which he suggested would become an attractive alternative to the Virgin Islands.

Mr. Berry also argued that the territory's allotment of the 1998 Master Settlement Agreement with tobacco companies would be lessened if the bill becomes law, stating that the funds are allocated based on the amount of tobacco imported into the islands.

[The Master Settlement Agreement](#) (MSA) “is an accord reached in November 1998 between the state Attorneys General of forty-six states, five U.S. territories, the District of Columbia and the five largest tobacco companies in America concerning the advertising, marketing and promotion of tobacco products,” according to [Public Health Law Center](#). “In addition to requiring the tobacco industry to pay the settling states approximately \$10 billion annually for the indefinite future, the MSA also set standards for, and imposed restrictions on, the sale and marketing of cigarettes by participating cigarette manufacturers.”

Contrary to Mr. Berry’s testimony, the MSA gives each state a fixed percentage of the full payment.

Budget Director nominee Nellon Bowry, also present at the April 2015 hearing, suggested that an economic impact study be conducted on the measure before any final decision is reached, and in a show of support for Mr. Bowry’s suggestion, Mr. Sanes asked the Bureau of Economic Research (B.E.R.) to collect data capable of determining the bill’s impact before being sent to the Committee on Rules and Judiciary for consideration.

At yesterday's hearing, B.E.R. concluded that increasing taxes on cigarettes "is unlikely to result in drastic changes in demand or shifts in cross-country purchases," because "cigarette demand is largely inelastic to price change."