The Virgin Islands Consortium

Mapp Says Local Vendors Losing Duty-Free Revenues To Cruise Ship Stores; Signs Sin Tax Bill Into Law

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ST. THOMAS -- Governor Kenneth Mapp signed into law a Senator Sammuel Sanes-sponsored bill that raises the tax percentage of imported cigarettes from 35 to 45 percent. The bill appends around half a million dollars to the territory's coffers, and also creates a "Virgin Islands Sin Tax Fund," with 95 percent of proceeds going to the government's general fund, while the remaining 5 percent will be allocated to the Virgin Islands Council on Alcoholism and Drug Dependency for the purpose of treatment and prevention programs.

Governor Mapp also approved Bill No. 31-0115, which repeals the exemption from excise taxes on cigars and permits smoking in cigar factories.

And in his transmittal letter to Senate President Neville James, the governor said that cruise ship passengers are purchasing liquor and cigarettes in foreign ports and cruise ship stores, in excess of what is allowed by law, which has led to a significant loss of both local and federal revenue.

“I take this opportunity to advise the Senate that some members of the St. Thomas – St. John Chamber of Commerce are reporting that many cruise ship passengers returning to the U.S. are purchasing alcohol and cigarettes/ tobacco products from foreign ports (or in cruise ship stores) in excess of the permitted duty-free allowances and mis-declaring, whether inadvertently or otherwise, where these products are being purchased,” wrote the governor. “The higher duty free allowances being claimed by many of these passengers are available only for purchases of products bought within the U.S.V.I.”

Customs and Border Protection (C.B.P.) will allow Americans to enter the U.S. with up to five liters of alcohol duty-free, as part of a $1,600 exemption, as long as at least four liters were purchased in a U.S. territory, and at least one of them is a product of that U.S. territory. Additional bottles will be subject to a flat duty rate of 1.5 percent and subject to Internal Revenue Service taxes. However, the governor said because the law has not been adequately explained, it has not been sufficiently enforced.

“On its face, this sets the stage for systemic misuse of the USVI-specific expanded customs exemptions,” the Governor wrote “Although we don’t have financial data on the actual or potential scope at this point, our brief review suggests that the loss of sales and concomitant loss of revenues, both federal and local could be substantial," Mr. Mapp said.

He added: "As a result of what we have found, my administration is now engaged in a concerted effort to address and correct this problem and protect the duty free destination advantage that the U.S. Congress has granted us. Our efforts will include: first, working with the V.I. Department of Tourism and both local Chambers of Commerce to promote the USVI shopping advantages over foreign ports and cruise ship stores.

"We will also work with our partners in the cruise industry so that adequate and accurate information is provided to the passengers, and we will work with C.B.P. to ensure improved levels of inspection services so that the U.S. government may realize the additional revenues due it, while protecting the Territory’s duty free shopping advantages granted by Congress.”

Mr. Mapp said the complaints from local businesses were “true and substantial” and that in some cases passengers are not declaring purchases at all.

“The U.S. Congress has provided the higher duty-free allowances specifically and exclusively for goods purchased within the U.S.V.I. by U.S. residents returning to the U.S. mainland,” he said. “Duty free goods purchased outside the Virgin Islands and in cruise ships stores in excess of the allowances for foreign jurisdictions, and improperly declared, are depriving both the U.S. and V.I. governments of revenues and U.S.V.I. merchants of sales. In addition, it should be noted that inaccurate declarations violate federal law.”

The governor said discussions with officials from U.S. Customs & Border Patrol confirm there is cause to investigate further and develop “appropriate governmental responses," according to the governor. He added that the problem appeared to be compounded by a lack of clear information given to cruise ship passengers or, in some cases, the absence of any information at all.