

The Virgin Islands Consortium

Coalition Of Business Organizations Opposes Sin Tax Measure; Unveils Alternative Ideas

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A coalition of business organizations, to include the St. Croix, St. Thomas and St. John Chambers of Commerce, the USVI Hotel and Tourism Association, the St. Croix Hotel Association, the St. Croix Retail and Restaurant Association and the American Resort Development Association, on Friday issued joint documents stating in detail clear reasons as to why they oppose Governor Kenneth Mapp's five-year economic growth bill, dubbed the "sin" tax measure, while proposing alternative ideas in intricate detail.

The group's main concern with the governor's measure -- which, if ratified by the Legislature and signed into law by Mr. Mapp, will increase or introduce new taxes to tobacco products, rum, beer, sugary drinks, as well as timeshare unit owners and internet

purchases -- is the negative impact it would have on an economy that's struggling to recover, by taxing the very people who are aiding the recovery. The coalition also contends that the bill would work against the territory's thriving tourism industry, which is mostly based in St. Thomas.

The group called for the Mapp administration to implement austerity measures in an effort to curb government waste.

"These new taxes will take money out of the pockets of Virgin Islanders, undermine economic development, damage our critically important tourism industry and not be accompanied by the serious reductions in recurring expenditures that we believe are vital to addressing financial sustainability," the coalition said. "The private sector proposes consideration of an alternative set of revenue and expenditure measures in lieu of the proposed increases in sin taxes, and believes the quid pro quo for agreeing to absorb any new revenue measures must a real, and accountable commitment to a broad reaching and sustainable rightsizing of the government. Without such a real and sustainable reduction in spending, the future financial viability of the private sector, the government and its responsibility to the Government Employees Retirement System are at peril."

The coalition's response to the Mapp administration's five-year plan comes on just before the State of the Territory Address, which government insiders say the administration is still working on two days before the governor's speech. There's also talk of 4-day work weeks and the furloughing of government employees in light of the government's worsening financial condition, measures the government must take if access to the bond market remains closed, as investors become more wary about the territory's ability to continue paying its debt, and its annual structural deficit of more than \$100 million (this year it's about \$110 million), that lawmakers have yet to address.

The coalition also chastised those who insist that the government is not bloated; that it is operating at bare-bone levels, and that additional cuts as an option should not be considered. They are "simply not recognizing the seriousness of the challenges that we face," said the coalition of business organizations. "The question is not how many people we want to employ, but what can we afford. Reducing existing level of services at the margins is no longer possible. The decision before the community is what services can continue to be funded and what must be eliminated and/or re-designed in their delivery to achieve deep operating cost reductions to achieve an operating balance in the general fund."

The coalition does not believe that Mr. Mapp's sin tax measure will be enough to allay bondholders' apprehension about buying the government's bonds. Instead, the group suggests that the territory should brace for impact, while doing its best to prevent the "worst consequences."

"It has long been said that the public, and most importantly the Government employees, will not believe that the Government's financial challenges are real until the payday comes when salaries are not paid," the coalition said. "Similarly, many say that people will not believe the extent of the crisis facing GERS until the day comes when retirement paychecks are not sent out. Those of us in the private sector know well that access to credit can cease and that a business can run out of money, at which point people are no

longer paid. That reality is true of our Government, and it is true of GERS. The private sector wishes to avoid this outcome."

It added: "News reports suggest that market participants are coming to believe that the day of reckoning will soon be upon the U.S. Virgin Islands, and that a PROMESA event lies in our future that will ultimately involve a haircut, or reduction in value, being imposed on all creditors of the Government. In that environment, no rational investor would lend money, if they believe that they will in short order be told by an intervening authority that they must accept less than repayment in full for the money they have lent."

The coalition of organizations introduced its own ideas that it hoped the 32nd Legislature and governor would consider. In a conversation last week with The Consortium, Senator Samuel Sanes said Democrats were awaiting the private sector's ideas -- which they now have -- before moving forward with any counter to the governor's plan.

Below, detailed intricately, are the coalition's ideas not to stave off the incoming financial crisis, but to mitigate its impact on the USVI:

Increase filing fee for Division of Corporation and offer same day and same hour options.

- Increase the filing fees for the Division of Corporations and Trademarks in the Office of the Lieutenant Governor
- The new formation of Corporations and LLCs in the Territory require you to pay the first year franchise taxes up front so there is nothing to wait on. Try to streamline the government processes to expedite them – business licenses, Coastal Zone Management permits, Economic Development Commission applications, and trade name clearance for entity formation.

Expand the authority to settle Bureau Internal Revenue debts for immediate collection.

- It is currently difficult to settle amounts owed to BIR
- Waive penalties and require immediate payment

Obtain a list of registered companies from Division of Corporations and Trademarks and the Department of Licensing and Consumer Affairs and compare those lists against a list generated by the BIR of companies that are filing 720s, 941s and corporate or entity tax returns.

- The companies that are incorporated or organized in the USVI that are not appearing on the BIR list (for either gross receipts or income tax) become a targeted class.

Streamline EDC process by revising application process to shorten the statutory time periods that have extended the application process with respect to amendments; with automatic renewal if no action is taken within 6 months of renewal date

Legalize and Tax Marijuana

- Revenue Enhancing

- While the Bill recently defeated relating to cannabis legalization is unlikely to create many jobs or new tax revenues, it is also not likely to be self-funding with respect to the development and operation of a proper regulatory infrastructure. However, work being done on a new bill is likely to result in a self-funding regulatory infrastructure, many new jobs, and substantial tax revenue from tourists and other visitors.

- There are several revenue sources relating to cannabis.

1. Licensing and related fees – should self-fund the initial regulatory infrastructure
2. Sales and Excise taxes on sales of pre-processed and processed products
3. Employee related taxes on new jobs

- Net new dollars equals net new construction, employment and related spending (tax) revenues

IRB must collect hotel tax from AirBnB and VRBO rooms

- Immediate revenue enhancing impact

- In addition to collecting Room Tax there should be cross referencing with Airbnb and VRBO “Owners” and “Hosts” and their LLC names with Gross Receipts and/or Taxable Income Revenue on individual tax returns. We have the list of LLC and Condo Owner names

Amnesty for income tax to the extent allowable under the law (similar to recent BIR initiative with gross receipt tax)

- Accounts Receivable/Collections

Require casinos to pay gross receipt tax

- Revenue Enhancing

Require the proposed Racino to pay gross receipt tax

- Revenue Enhancing

Sell outstanding accounts receivable to collection firm

- Accounts Receivable/Collections

Property Tax agreement for timeshares

- Immediate revenue enhancing impact Rescind the "Personal Use Tax Loop Hole" on imported products • Intermediate term revenue enhancing impact

- Eliminate the Personal Use Exemption Loop Hole and institute a 5% Port Use Fee to make up for lost GRT revenue on inbound shipments purchased by individuals from off island companies

- If the Personal Use Exemption Loop Hole cannot be rolled back because of legal reasons (unconstitutional) institute a proposed Port fee tax of 10% (building materials).
- The government would get the GRT and Excise Tax it currently loses on imported building materials bought by individuals from off island companies or for inbound 7 shipment s by individuals that cannot provide a letter of good standing showing that they are a business and current in paying their gross receipts taxes.

Require the government to buy local along the same terms as EDC companies.

- Immediate economic development and revenue enhancing impact

Every commercial vehicle including Taxi's must pay a road tax every year based on the miles driven. This can easily be administered by DMV as they have the miles every year the vehicle is renewed.

- Immediate revenue enhancing impact

Increase property tax rate by a small percentage

- Immediate revenue enhancing impact
- Exception for local families with land who have seen huge assessments in value; any deferred taxes would be due when land is sold

Income Tax surcharge

- Significant revenue impact on multi-year plan
- Implementation tied to strict revenue reduction measures

Proposed Expenditure Measures and Other Actions

The development of a multi-year plan must include enforceable expenditure reduction goals. We suggest at a minimum the following:

Government right-sizing and reduction in recurring expenditures

- Assessment of every department staffing levels over a ten-year period, and reduction of staffing to be in line with lowest level of appropriate service metric over the ten-year period.
- Further staffing reduction of 10% below the historical level calculated above.
- Implementation of recommended actions of GERS reform plan presented to the legislation two years ago.

Full and fair federal funding

- Work with Congress and the Executive Branch departments to achieve equitable parity of funding under federal programs based upon the same formula as small states receive, most notably with respect to Medicaid, SSI, as well as to have the territories compensated for the costs of Earned Income Tax Credit, Child Tax Credit and other tax

credits and federal tax measures that have negatively impacted Government revenues through the mandatory application of the mirror tax system

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