

The Virgin Islands Consortium

Financial Crisis: Tax Refunds May Not Be Issued For A long Time

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The Internal Revenue Service (IRS) began processing tax returns for U.S. mainland citizens on January 24, 2017, for taxes paid/owed in 2016. In general, the IRS says that returns with refunds are processed and payments issued within 21 days, though paper filers may have to wait much longer.

But that's for U.S. taxpayers. In The U.S. Virgin Islands, where tax refunds can take years to come by, residents will have to brace themselves for long waits again, following brief relief from the Mapp administration in 2015 and 2016, when many residents received refunds dating back to 2012.

"We are pleased to say to the public that the wholesale halting of tax refunds, we're going to lift that veil and we'll start releasing some of these monies because we know most of these funds are going to end right back up in the economy. People have bills to pay, they certainly have spending that they want to do," Mr. Mapp [said in February 2015](#).

But with the territory's financial crisis currently in motion, Cherie Munchez, Mr. Mapp's communications director, told The Consortium this afternoon that it would be reckless of her to talk about tax refunds when the government is struggling to collect monies for day-to-day operations.

"Everyday the government is collecting and spending money. We're running at a deficit at this point; it would be irresponsible of me at this time to make a comment about when we're releasing tax refunds, because we're right now in a liquidity crisis. Liquidity means cash, so we have to have the cash in order to issue the checks," Ms. Munchez said. She said it was not certain that the government would make the next payroll. However, the administration has been working with local banking partners to secure a short-term Revenue Anticipation Note loan, which is backed by real estate property taxes, to meet its obligations.

Ms. Munchez's comments follow Valdamier Collens's assessment in a recent [wide-ranging exclusive interview](#) with The Consortium, where the Dept. of Finance commissioner and Public Finance Authority executive director said the government may have to push back paying tax refunds as part of a broader cost-cutting effort to keep the government operational.

"I would love to pay tax refunds, and I know I owe it, but I can defer paying those until the cashflow builds up. There's various things that we can do to try, but I think it's a combination of all of that: deferment, reductions, trying to pursue other facilities that might provide cash — it's a combination of things that we are working to achieve," Mr. Collens said.

Residents have consistently complained about the slow pace in which the local government issues tax refunds, and decisions by the Mapp administration -- the most recent grievance being [the flaunting of a brand new fleet of vehicles, including two Tahoe Suburbans](#) costing over \$200,000 in total for St. Croix, and \$400,000 territory-wide to transport the governor and Lieutenant Governor Osbert Potter -- have not helped.

Virgin Islanders ripped into the governor today on various Consortium platforms, including the company's Facebook and website properties.

"Spend, spend, spend, and now there's no money. Roads are terrible, the workers can't be paid and the people can't get their money from last years tax refund. But I'm glad to see you got your housing, linens, new cars, retirement. Perfect! Just what we expect from you," said someone who goes by the moniker "Crime Victim", on The Consortium's website, the last part of the reader's comment being satirical.

On VIC's Facebook platform, Roger Powell Jr. [said](#), "Wow. I hope he was not planning to run for a second term because this alone would cause him to lose. Just the other day they said that [they] have two days of monies left and now they are showing off new vehicles?"

Meanwhile, the government, according to Ms. Munchez, has moved from two days cash on hand to operating on a day-to-day basis. She said while collections at the Bureau of Internal Revenue has seen a 12 percent year-over-year increase in collections, it would be "speculative" to make any promises relative to payroll.

"Obviously we don't know what the income is and we're making cutbacks as we speak, so we're trying to continue to adjust for that," she said, referring to payroll.

Just [over a week ago](#), Mr. Mapp directed members of his cabinet who lead the various government departments and agencies to cut their operations by 10 percent, citing a ballooning budget deficit that was \$98 million as of January 31.

The 10 percent trimming was described as "preliminary reduction measures" identified by department and agency heads, as the government struggles with liquidity and must take action to mitigate the 2017 budget shortfall of \$110 million.

The announcement came after Mr. Collens told this publication that the Mapp administration would begin taking drastic steps to offset the \$110 million shortfall.

"It's not even an assumption anymore, we have to act in a way in which we don't have access until we demonstrate to ourselves — not to the bond market — that we want to fix our structural deficit. So for starters we know \$110 million is out of the budget, and so we have to act accordingly to adjust and revise our budget," Mr. Collens said.

Mr. Collens said the territory would not even attempt to access the market anytime soon, whether or not the 32nd Legislature passed the governor's proposed five-year economic recovery sin tax measure. And even if the measure were to become law, both the bond market and the government would wait up to a full year or more before restarting negotiations. The commissioner's words were a blunt and sobering acknowledgement that the financial collapse was no longer going to happen, but is now in play.

This means, Mr. Collens acknowledged, the furloughing of government employees, cutting back on government services, deep cuts in the budgets of all government departments and agencies, assessing positions within the government and searching for areas where excess and positions could be eliminated.

"We have to show investors that we are willing to look at new revenue enhancement measures, as well as [moderating] our expenditures. The thing is we have to realign and right-fit our budgets to ensure that this misalignment doesn't occur — because if you don't have access, well then you have to fix your budget," Mr. Collens said.

"If we are able to pass measures that investors will view as we are addressing our structural deficit, that would bode well to the investors, but they're not going to jump out tomorrow and say, 'Oh, come back to the market.' They're not going to do that," he added.

Mr. Collens likened the situation to people who lost their homes during the 2008 housing crisis and could not pay their mortgages. A wide swath of them had to foreclose on their homes.

“What that person does, they go through the foreclosure process, deleverage, fix their credit, and that takes a little bit of time. And then once all of that is corrected — which could take three months, six months, a year — that’s when you can say, ‘Okay, now I’m going to apply for a loan because I know the probability of a denial letter is low,” Mr. Collens said. He said the government shouldn’t be doing anything that is going to generate new revenue based on the market’s decision to stop lending to the territory. “We should be doing it to correct the problems that we have and once that’s done, and we feel like we have addressed a material amount of issues, it is at that point that we could then go back and approach the market for, say, capital projects, just to give you an example,” Mr. Collens said.

Asked whether that meant government employee reductions, furloughing, 4-day work weeks, and cutbacks in government services, Mr. Collens said that was “absolutely” what was going to happen.

“A combination of all of what you said is on the table because the issue, and I want to be very clear, the issue is liquidity. Cash. Do you have cash to pay for expenses that are here today, and because we don’t have access to our line of credit, because we can’t go to the bond market and get access to working capital, we’ve got to fix these things and we’ve got to develop a stringent plan,” Mr. Collens said.

Yet, on the same day the interview was published, Governor Mapp denied having any such discussion with Mr. Collens; during an interview with popular radio personality Mario Moorhead, Mr. Mapp said he [would not layoff or furlough government employees](#).

But the announcement falls in line with at least of one the actions that Mr. Collens said the Mapp administration was preparing: deep cuts at various government operations.

“Certainly we can go to each department and agency and say, ‘Listen, you come back to me as to how you’re going to reduce your existing budget by 20 percent between now and the end of the year. We have to go to each agency and do that,” Mr. Collens said in the interview. Other options, according to Mr. Collens, include deferring certain items. “I would love to pay tax refunds, and I know I owe it, but I can defer paying those until the cashflow builds up. There’s various things that we can do to try, but I think it’s a combination of all of that: deferment, reductions, trying to pursue other facilities that might provide cash — it’s a combination of things that we are working to achieve,” he said.

Government House, however, was vague on what would be included in the 10 percent operations reduction at the departments and agencies; Mr. Mapp suggested that the cutbacks would be painful, but said immediate action was needed because of the government’s current fiscal condition.

“While I am extremely empathetic about the issues raised by departments/agencies as a result of these required reductions, without the shared contribution and commitment by all branches and instrumentalities of government, our cash position will continue to erode and result in delays of government operations,” the governor said.

The assessment contradicts the rosy picture that Mr. Mapp has painted even as the territory’s financial crisis worsens. During the interview with Mr. Moorhead, the governor

highlighted what he deemed were upcoming positives, including road construction and work on the Paul E. Joseph Stadium (work on the stadium, promised to begin in January, [was pushed to March](#)), and he said high salaries of public officials [was not on his priority list](#), enlisting the ire of Virgin Islanders [near and far](#).

Mr. Mapp had said in January that the impact on the government [would be “drastic,”](#) if the Senate failed to act on his sin tax bill. But Mr. Collens explained to The Consortium that even if the measure was signed into law, it could take the Government of the Virgin Islands a full year before successfully accessing the bond market again.

“We have to adjust our budget, we have to adjust our expenditure levels, we have to employ certain measures like furloughs and other reductions across the budget to get us passed... Right now our toughest months are February and March; we get to April, because there’s usually an influx there, things may taper off. But it’s no longer an assumption. What the governor said is, ‘You need to pass some semblance of these measures that we proposed in order for us to access the capital markets, in my opinion, eventually. But if it passed even today, it’s not like the markets are going to say, ‘Okay, come back.’ Nor would I feel comfortable in saying, ‘Okay, fine. I’ll go with the rates as they are today.’ No. It’s better to wait, it’s better for us to bite the bullet now. That’s what it’s about. It’s about biting the bullet. People don’t believe and they haven’t believed for a long time,” Mr. Collens said.

Feature Image: Governor Kenneth Mapp at Bureau of Internal Revenue on St. Croix, paying taxes in January, 2015. (Credit: GVI)