

The Virgin Islands Consortium

American Companies Finding It Less Attractive To Be Headquartered Outside U.S., Potentially Hurting EDA Program

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Ernice Gilbert **August 08, 2019**



The Virgin Islands Economic Development Authority, in simple terms, was created to attract businesses to the territory by offering tax-driven incentives through its Economic Development Commission (EDC) program, which sees operations that set up shop here paying little to no taxes. According to the authority's website, EDA offers businesses willing to come to the USVI the following:

- 90% reduction in corporate income tax
- 90% reduction in personal income tax

- 100% exemption on excise tax
- 100% exemption on property taxes and gross receipts tax
- Imported goods pay only 1% duty in comparison to the statutory 6% customs rate

Some other jurisdictions, like neighboring Puerto Rico, offer even more attractive packages in an attempt to lure businesses.

During [a press conference](#) held at Government House on St. Croix last month, EDA CEO Kamal Latham, citing a study performed by the University of the Virgin Islands Institute for Leadership and Organizational Effectiveness, said the report indicated that the EDA's EDC program had an overall economic impact of \$9.6 million in charitable contributions, more than \$300 million in taxes and duties collected, \$1 million in wages and salaries, and \$1.4 billion in total economic output during the years 2013 through 2015.

Additionally, more than 19,000 jobs were directly tied to the EDC program during the 3-year period, Mr. Latham said.

"The Economic Development Commission is a very key part in terms of growing the economy here in the U.S. Virgin Islands. It is something that we do cherish. It is something that is important," the CEO said.

The EDA has 71 companies in the EDC program. "Our goal is to grow the program over the next two years by recruiting 50 new companies," Mr. Latham said, with the EDA targeting hotels and resorts, financial services firms and manufacturing companies.

But the EDA's new, aggressive goal may face some roadblocks, as U.S. companies, once looking to escape high corporate taxes from the mainland, are finding it less attractive to be headquartered outside the continent. Why? Tax lawyers told the Wall Street Journal recently that the Trump corporate tax cuts, which took effect in 2017, made the edge small enough that it might not be worth the reputational and political costs to move outside the mainland.

[\[Going out of Style: Tax-Driven Deals to Move Corporate HQs Outside U.S.\]](#)

According to WSJ, tax changes might deter new inversions and cause inverted companies to retake U.S. addresses if other business reasons warrant such a move. Inversion deals were particularly hot from 2012 to 2015, as companies such as Eaton Corp. and Medtronic PLC took foreign addresses, WSJ said.

"Transactions that historically would have been structured as inversions are no longer being structured that way, even when the opportunity to do it is clearly there," said Robert Willens, a New York tax analyst. "Before, there was such a clear economic advantage to structuring as an inversion that you were willing to withstand the negative aspects."

WSJ said that earlier this decade, companies had strong incentives to take non-U.S. addresses. U.S. companies owed the full 35 percent tax rate on their world-wide income, though they got credits for foreign taxes and deferred the U.S. layer until they repatriated money.

Foreign-based companies didn't face that second tax layer. And they could use a technique called earnings stripping, loading U.S. operations with deductible expenses

and pushing profits into lower-taxed jurisdictions.

According to WSJ, Obama administration regulations curbed some benefits. Then, the 2017 law cut the U.S. corporate tax rate to 21 percent from 35 percent, reducing incentives for profit shifting and using foreign-parented companies.

"The Trump administration's response to this whole situation was to cut corporate taxes enough that corporations don't really need to try that hard to avoid them," Mr. Wamhoff said.

The law also aimed at earnings stripping by adding a tax on certain cross-border transfers within companies, WSJ said.

"It's too early to say definitively that the playing field is level, but it is more level today than it was," said Bret Wells, a law professor at the University of Houston, according to WSJ.

Because companies changed addresses without necessarily moving jobs or operations, inversions had limited economic effects. But the moves reduced federal revenue and disadvantaged U.S. companies competing against inverted firms.

Mr. Latham said the E.D.A. will continue to push for companies to be established in the territory. He said a new website, [Invest U.S. Virgin Islands](#), is focused on the hotel and resort attraction effort. "We have approximately 50 properties that are listed that are available for hotel and resort investment," he said.

During an interview with the Consortium Wednesday, Caribbean Hotel and Tourism Association CEO and Director Frank Comito, said St. Croix is in desperate need of new hotel development, which Mr. Camito said would help enhance the island's experience as a destination.

Governor Albert Bryan, a former CEO of the EDA, also stressed the importance of the EDC program and its benefits to the government's tax coffers. "For 2017 there were 34,900 tax filers, of those 34,900, tax filers, 89 people paid 66 percent of taxes," Mr. Bryan said. It was not clear as to whether corporations operating in the USVI were being categorized as persons, as they sometimes are, which would skew the figures Mr. Bryan divulged. Even so, he said the numbers would not be drastically different relative to the ratio of persons who bore the brunt of the territory's tax burden.

"The EDC program is perhaps our greatest opportunity to quickly allow [companies] to enter into our market, benefit from our tax incentives and pay their worldwide taxes at full 23 percent of the corporate rate -- growing our economy," Mr. Bryan said.

Correction: August 8, 2019

A previous version of this story misspelled the EDA CEO's name. It's Kamal Latham, not Nathan Latham.