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**TESTIMONY OF JOEL A. LEE, CPA  
DIRECTOR OF THE  
VIRGIN ISLANDS BUREAU OF INTERNAL REVENUE  
BEFORE THE COMMITTEE OF THE WHOLE  
36<sup>TH</sup> LEGISLATURE OF THE VIRGIN ISLANDS**

**MARCH 4, 2025**

Greetings Honorable Milton Potter, President of the 36<sup>th</sup> Legislature and all the honorable Senators present here today. Greetings to persons present in the chambers and the listening and viewing audience. I am Joel A. Lee, Director of the Virgin Islands Bureau of Internal Revenue. I appear before you today to share my thoughts on the topic of Sales Tax versus Gross Receipts Taxes.

Just to set the record straight from the beginning, I want to point out that these two taxes can be administered simultaneously. There is no rule that would indicate that we need to choose between the two taxes. However, it is important to note that the Virgin Islands has always been marketed as a duty-free destination, so we should keep that in mind as we consider the impact that this may have on our tourism market especially as we compete with other Caribbean destinations.

As you are aware, sales tax is added to the end user's bill, also known as the customer's bill, so it is collected by the retailer and would be remitted to the Bureau. In this instance, the retailer is treated as a third-party custodian, charged with the collection of taxes for the government. This is unlike the gross receipts tax, where the actual tax is the responsibility of the retailer, and cannot be passed on to the end user/customer.

The justification for being able to charge a sales tax in the territory is simply based on the fact that the sales transactions occur within the Virgin Islands. This potential sales tax will also be applied to online sales and mail order sales. The reasoning for including online sales is based on a minimum number of sales transactions in the territory and/or the amount of gross or taxable sales in a year. This is known as the threshold value. The average thresholds are 200 transactions and/or \$100,000 in taxable sales per retailer based on a review of several states' sales tax thresholds.

Please be aware that the implementation of this sales tax will require funding; as this will be a new revenue source, it will require software, hardware and an entirely new department within the Bureau.

The VI Code will have to clearly identify which goods, services, sales and transactions will be applicable to this proposed sales tax and clearly state the goods and services that will be exempt from it. The least ambiguity that exists in these

areas will reduce the administrative burden inherent in tax law where the taxpayer is not clear what his tax liability should be.

There is a trend in the US to allow for the comprehensive implementation of sales tax across most states. 44 states and DC have sought to simplify and make a uniform process for the benefit of both the states and the taxpayers. The Streamlined Sales and Use Tax Agreement assists retailers who operate in multiple states, as well as remote sellers, by allowing for a software system that collects the tax and remits it to the state in which the sale takes place. The software is paid for by those states that have joined in this agreement, and the taxpayers use it to comply with the law. If there is a sales tax implemented in the Virgin Islands, it will come with a cost to the Government, so that the companies can register and have the taxes collected in a simplified manner. It will also come with an expense to local businesses, who will now have to purchase the software that will be used to track the sales, possibly update their entire cash register services, monitor their inventory and remit the collections of the sales tax.

The Bureau's data does not allow me to determine what the end user/customer sales are, since our current gross sales figures include total sales between the various wholesalers and retailers. Unfortunately, without being able to isolate the sales to the end users, I do not have a real figure to use to calculate the rough estimate of the additional revenues that we would receive from a potential sales tax.

As it relates to any recommendations for tax reform or adjustments, I would remind this body that the Tax Study Commission is charged with providing a comprehensive review of the tax laws and should be consulted prior to any isolated changes to the tax code. This commission will soon begin its review and will be able to provide this body with a full review of the tax code. As a final note, I would remind you that the Gross Receipts tax is tied to our bond covenants, and as such, we are prohibited from altering or reducing our ability to collect the full amount of gross receipts taxes.

Senator Potter, thank you and other members of this body for affording me the opportunity to provide insight on this topic. I am available to answer any questions that you may have at this time.