



**6115 Estate Smith Bay
St. Thomas, VI 00802
Phone: (340) 715-1040
Fax: (340) 774-2672**



**4008 Estate Diamond Plot 7 B
Christiansted, VI 00820-4421
Phone: (340) 773-1040
Fax: (340) 773-1006**

**TESTIMONY OF JOEL A. LEE, CPA, DIRECTOR
VIRGIN ISLANDS BUREAU OF INTERNAL REVENUE
BEFORE THE COMMITTEE ON BUDGET,
APPROPRIATION AND FINANCE
35th LEGISLATURE OF THE VIRGIN ISLANDS**

June 20, 2023

Greetings Honorable Donna Frett Gregory, Chairwoman of the Committee on Budget, Appropriation and Finance and other honorable committee members. Greetings to the honorable members of the 35th Legislature present, as well as the listening and viewing audience. My name is Joel A. Lee, and I am the Director of the Virgin Islands Bureau of Internal Revenue. Here with me today are members of my management team: Ms. Le'Tishma Smith, Deputy Director of Operations; Ms. Cherima Hughes, Chief Financial Officer; Attorney Tamarah Smalls, Chief Counsel; Ms. Ophelia Hector, Director of Human Resources; and Mr. Tavis DeWindt, Chief of Information Technology.

We are here today to present the Bureau's proposed Fiscal Year (FY) 2024 budget of \$13,818,313.00; which is fully funded from the General Fund. The FY

2024 budget represents a decrease of 6.0% from the Bureau's FY 2023 revised budget of \$14,333,921.00. The Bureau's FY 2023 budget was increased in March by \$758,790.00 to fund the negotiated wage increases. At the time of budget preparation, this amount had not been finalized, so the Bureau did not include this amount in personnel costs. Therefore, we are requesting that the FY 2024 personnel costs be increased by the same amount, which is comprised of \$578,567.00 for personnel and \$180,223.00 for fringe benefits.

Based on the Bureau's budget as presented in the budget book, the FY 2024 budget request is comprised almost entirely of personnel costs: \$6,628,998.00 for personnel and \$3,618,685.00 for related fringe benefits, for a total of \$10,247,683.00; with the remaining attributed to supplies of \$321,200.00; other services and charges of \$2,679,430.00; utilities of \$380,000.00; and capital expenditures of \$190,000.00.

PERSONNEL SERVICES

FY 2024 request of \$6,628,998.00 for personnel services funds a total of 157 positions. 105 of those positions are on St. Thomas, 50 on St. Croix and 2 on St. John. For this fiscal year, we had 2 new hires, 2 promotions, 8 resignations and 6 retirements. Included in the total funded positions are 33 vacancies. We currently have 2 Fellows, one on each island.

FRINGE BENEFITS

The related fringe benefits cost for personnel is \$3,618,685.00 This amount covers Social Security tax, Medicare tax, the employer's contribution to the Government Employees Retirement System, and the employer's share of the group health insurance premiums, and workers compensation.

FISCAL YEAR	PERSONNEL COSTS	FRINGE BENEFITS
2024	\$6,628,998	\$3,618,685
2025	\$6,628,998	\$3,668,381

SUPPLIES

The supplies amount of \$321,200.00 is comprised of day to day office and operating supplies, repair and maintenance supplies, small tools and minor equipment, and data processing software.

FISCAL YEAR	SUPPLIES
2024	\$321,200
2025	\$321,200

OTHER SERVICES AND CHARGES

Operational costs for Fiscal Year 2024 are budgeted at \$2,679,430.00. The major expenses in this category include:

REPAIRS AND MAINTENANCE

Repairs and Maintenance of \$310,000.00 is comprised of IT maintenance support, elevator maintenance, vehicle maintenance, and the maintenance of the Bureau's machines and equipment, to include our postage meters.

FISCAL YEAR	REPAIRS AND MAINTENANCE
2024	\$310,000
2025	\$310,000

RENTAL OF LAND/BUILDINGS

The rental obligations cover four rentals on the island of St. Thomas and two rentals on the island of St. Croix for a total cost of \$831,665.00 for FY 2024. The sum of \$654,383.00 is allocated for the main office in St. Thomas which is located at East End Plaza in Red Hook. This office is comprised of 21,800 square feet of space. The Nisky Center rent is \$51,463.00 which is comprised of 2,300 square feet of space; \$97,380.00 covers the cost of the Fortress storage location which is 9,200 square feet of off-site storage; and \$12,000.00 covers the cost of the new excise tax office located at the Sandfill, which is comprised of 418 square feet of space.

On St. Croix, \$4,440.00 is allocated for the cost of Sun Self Storage which is used for off-site storage, and is 250 square feet; and \$12,000.00 covers the cost of

the new excise tax location at the Molasses Pier comprising of approximately 360 square feet of space. Also, it is important to note that there is no rent due for our main St. Croix office.

FISCAL YEAR	RENTAL OF LAND/BUILDINGS
2024	\$831,665
2025	\$854,510

MACHINE RENTALS

Machine rentals of \$144,290.00 covers the cost of the leases of the Bureau's copiers and printers, and the rental of the postage machines.

FISCAL YEAR	MACHINE RENTALS
2024	\$144,290
2025	\$144,290

PROFESSIONAL SERVICES

Professional Services of \$492,580.00 includes janitorial services, annual upgrades and maintenance to the Bureau's income and excise tax systems, and the costs for extermination. This category has been increased significantly, in the amount of \$340,000.00, to accommodate the anticipated maintenance and upgrade costs of our online tax filing platform for gross receipts and income taxes.

FISCAL YEAR	PROFESSIONAL SERVICES
2024	\$492,580
2025	\$492,580

SECURITY SERVICES

The security services expenditure of \$160,000.00 covers armored transportation services and on-site security for the Bureau’s properties.

FISCAL YEAR	SECURITY SERVICES
2024	\$160,000
2025	\$160,000

COMMUNICATION

Our communication expense of \$310,000.00 includes postage for mailing tax bills and other correspondence to taxpayers, as well as payments for our dedicated computer and telephone lines, as well as internet services.

FISCAL YEAR	COMMUNICATION
2024	\$310,000
2025	\$310,000

TRAINING, ADVERTISING, PRINTING & TRAVEL

The expenses for training of the staff, travel and cash advances, advertising; and printing of envelopes are as follows: travel and cash advances are budgeted at \$175,000.00; advertising is budgeted at \$15,000.00 and printing costs are budgeted at \$20,000.00. The noted increase in training and travel costs is due to the

requirement for off-island travel to meet the training needs of the staff. This will allow for the increase of their knowledge base, and provides an opportunity for advancement, which mirrors the IRS' regulations for promotion and retention. Other forms of remote learning have not been offered by the IRS, and we have been unsuccessful in securing trainers to come to the territory.

FISCAL YEAR	ADVERTISING	PRINTING	TRAINING
2024	\$15,000	\$20,000	\$175,000
2025	\$15,000	\$20,000	\$175,000

OTHER SERVICES N.O.C.

Other services of \$20,000.00, Not Otherwise Categorized, will cover various contingency costs associated with the new excise location at Crown Bay Seaport and to retrofit of the Nisky Center office to create a more dedicated customer service center, and the resources needed to maintain these additional services. This is the same amount requested last year, because we have not been able to occupy the premises as yet. Currently, we are awaiting completion of the premises, which is overseen by VI Port Authority.

FISCAL YEAR	OTHER SERVICES N.O.C.
2024	\$20,000
2025	\$20,000

UTILITIES

The allocation to the Bureau for utilities is \$380,000.00 for each fiscal year based on a historical average. Although not paid directly by the Bureau, it is being reflected since this is an important operational cost.

FISCAL YEAR	UTILITIES
2024	\$380,000
2025	\$380,000

CAPITAL PROJECTS

Our capital expenditures total is \$190,000.00. The primary reason for this one time increase is to relocate and expand the excise tax office to the Crown Bay Seaport. The Bureau secured offices at that location and will use the additional funds to retrofit the offices so that taxpayers who prefer to clear shipments and clear customs in one location can do so, as was done many years ago. This move will then allow for the Nisky Center office to be retrofitted to serve as a customer service hub, utilizing that current foot print to provide collections, audit and taxpayer

services to taxpayers in the town area. We recognize the hardship that some taxpayers face having to traverse all the way to the East End during business hours, and this expansion of our services at Nisky Center will allow for the Bureau to respond to the needs of our taxpayers in a more convenient location. This cost will also include operating equipment and supplies for both locations.

FISCAL YEAR	CAPITAL PROJECTS
2024	\$190,000
2025	-0-

FY 2022/2023 ACCOMPLISHMENTS

INCOME TAX REFUNDS

Last fiscal year, we paid refunds to 70,768 taxpayers in the amount of \$123,195,632.18. Included in the refund payments are Recovery Rebate credits of \$8,555,942.95 and Child Tax Credits of \$238,346.00.

So far this fiscal year, the Bureau has processed and transmitted to the Department of Finance \$24,343,324.61 million dollars of refunds to a total of 7,592 taxpayers. Included in the refund payments are Recovery Rebate credits of \$2,418,555.93, Child Tax Credits of \$461,401.00, and the Earned Income Tax Credit in the amount of \$ 1,982,478.00. As of today, the Bureau has \$67,908,072.47 dollars

of refunds awaiting payment. This number does not include refunds that are in audit, in error status or require further analysis.

REVENUE COLLECTIONS

I am happy to state that we continue to achieve record revenue collections despite the many challenges faced over the last 4 ½ years. Collections for Fiscal Year 2022 total \$898 Million, which represents \$834.3 Million for the General Fund and \$63.7 Million for Special Funds. The breakdown for the FY 2022 collections and FY 2023 collections to date are as follows:

Tax Category	FY 22	FY 23	FY 23
	Actual	Actual	Projected
	Collections	Collections thru 5/31/23	Collections
Individual Income	\$457 Million	\$332 Million	\$465 Million
Corporate Income	\$ 109 Million	\$ 61 Million	\$ 95 Million
Gross Receipts	\$226 Million	\$145 Million	\$268 Million
Excise	\$ 37 Million	\$ 25 Million	\$ 38 Million
Other Misc taxes	\$ 7 Million	\$ 4 Million	\$ 5 Million
Special Funds	\$ 63 Million	\$ 38 Million	\$ 43 Million
Total	\$899 Million	\$605 Million	\$ 914 Million

As it relates to the area of hotel room tax, we acknowledge the new law that requires online platforms to collect hotel room tax from the guests. We are facing challenges in meeting this mandate, as there is no jurisdictional authority to require these persons not present in the Virgin Islands to engage in the agreements in the Virgin Islands. And as a final reminder, it is the guest who is responsible for the payment of the hotel room tax, not the hotel nor the online platform. The hotel and online platform are considered third party custodians, as they are asked to collect the tax on behalf of the government and remit the tax to the Bureau.

KEY PERFORMANCE INDICATORS

At the time the FY 2024 budget was uploaded, the Bureau did not have its Key Performance Indicators readily available. We therefore provide the data for your review on the specific KPIs indicated in the budget book.

Activity Cent	KPI Name	Unit	Target	Result	Variant
Director's Office	Percentage of collection cases closed	Percent	100.00	50.00	Negative
	Percentage of appeals in favor of the taxpayer	Percent	15.00	25.00	Negative
	Employee turnover rate	Percent	2.00	8.00	Negative
	Average days to onboard an employee (from selection to filled seat)	Days	30.00	10.00	Positive
	Average days to process vendor payments	Days	30.00	10.00	Positive
	Percentage of appealed audit cases closed	Percent	100.00	100.00	Positive
Audit	Number of field audits conducted	Number	1500.00	1050.00	Negative
	Dollar amount of deficiencies	Dollars	\$7,000,000.00	\$ 2,470,988.00	Negative
	Number of cases closed	Number	1600.00	1180.00	Negative
	Average days to audit returns	Days	180.00	180.00	Positive
	Number of office audits conducted	Number	500.00	130.00	Negative
Delinquent Accounts	Dollar amount of delinquent returns secured	Dollars	\$10,000,000	\$ 4,515,419.62	Negative
	Number of delinquent accounts secured	Number	2500.00	1341	Negative
	Average age of collection cases	Years	4.50	4.50	Positive
	Number of collection cases closed	Number	2500.00	1370.00	Negative
	Average number of days to complete tax clearance application	Days	10.00	10.00	Positive
	Number of Installment Agreements	Number	500.00	375.00	Negative
	Dollar amount of collection from delinquent accounts	Dollars	\$35,000,000	\$ 32,717,007.14	Negative
Processing	Average days for returns corrected within receipt of tax information	Days	90.00	77.00	Negative
	Percentage of taxpayers who filed w/payment returns on time (gross receipts)	Percent	90.00	50.00	Negative
	Percentage of businesses who filed w/payment payroll taxes on time (payroll)	Percent	90.00		N/A
	Percentage of dishonored checks collected	Percent	85.00	76.00	Negative
	Percentage of income tax returns filed	Percent	70.00	49.00	Negative
	Percentage of gross receipts returns filed	Percent	80.00	52.00	Negative
	Percentage of withholding tax returns filed	Percent	90.00	13.00	Negative
	Percentage of hotel room tax returns filed	Percent	90.00	12.00	Negative
	Average cycle time (time in which customer's return is processed)	Days	45.00	81.00	Negative
Computer Operations	Site downtime percentage per month (external)	Percent	5.00	5.00	Positive
	Percentage of IT tickets resolved	Percent	100.00	86.00	Negative
	Site downtime percentage per month (internal)	Percent	5.00	5.00	Positive

NOTED ACCOMPLISHMENTS

Despite a challenging year, I am happy to point out some notable accomplishments during this fiscal year:

1. This past March, the Bureau had a soft launch of the online Gross Receipts Tax platform. Thus far, approximately 239 returns have been filed and paid using this online system.
2. The Bureau is currently beta testing its online income tax return filing system, which we hope to have ready for the tax year 2023 filing season.
3. To date this fiscal year, the Bureau processed U.S. claims returns, which were then sent to the Internal Revenue Service, resulting in the “cover over” of \$7.8 Million of taxes for Virgin Islands residents. As a reminder, this cover over mechanism represents withholding payments of Virgin Islands residents by US employers.
4. This year, the Bureau conducted the annual Taxpayer Assistance Program. We were able to assist 627 residents in the filing of their tax returns.
5. New telecheck machines were deployed and are being used at the Bureau, minimizing the number of return checks we receive.
6. Three new customer service agents were hired last fiscal year in order to meet the growing demands of telephone calls we receive. As such, we

have seen a reduction in complaints about the phone service, and hope to continue this trend by also being available and responsive to the taxpaying community.

The Bureau continues to face some systemic challenges, many of which you have heard about before. The issue of error returns has been discussed for several budget cycles. The current number of error returns is 23,000. The simple explanation is that as long as there are tax returns filed, there will be error returns. Error returns stem from some form of oversight by the taxpayer, the omission of a W-2 or a required schedule, incorrect social security number, and simple math errors, or data entry errors. As the errors are found, letters are sent out to taxpayers to provide the required information. Sometimes, taxpayers do not respond. The IRS has the same issue, and they rely on the use of notices to communicate with taxpayers about these errors. Included in error returns are refunds and bills alike.

The Bureau must continue to grow to meet the demands of the taxpaying public. As you are aware, we are now seeing taxpayers utilizing creative and complex business structures, as well as the use of crypto currency. As we recruit our employees, particularly those in the audit and collection divisions, we must ensure that they are given the training resources to examine these complex cases, as

well as assisting them to be successful in these positions. We have requested training from the Internal Revenue Service for the Revenue Agents and the Revenue Officers and are awaiting information about the training for this year.

As we begin to rely on the online filing technology, we are aware that we must be able to timely pay for the costs of maintenance and upgrades in order to meet the security demands required, as well as the needs of the taxpayers who will rely heavily on these online tools. Once we fully launch both the GRT and the income tax online services, we must provide the necessary safeguard tools and security needed to protect taxpayer information.

As a final note, we are reaching the end of the useful life of our current tax system, and wish to move forward with acquiring the next tax system for Virgin Islands residents. This will be a huge undertaking, as the Bureau's current system was implemented back in year 2000, over 20 years ago. Our IT staff has done extensive research and we must begin to explore our options to pursue this huge endeavor.

CONCLUSION

As I conclude, I wish to thank the staff of the Department of Finance for their continued assistance in processing the refund checks. Thank you!

Continued prayers and thanks go out to our contractor Cliff Parker, who has been diligent in his efforts to ensure that the Bureau's tax system remains one of the best there is. Words cannot express the degree of dedication that Mr. Parker has displayed in more than 20 years of work with the Bureau.

Finally, I thank the staff of the Bureau. They come to work daily to ensure that taxpayers' returns are processed, payments are deposited timely and collection efforts continue, so that the Government can meet its financial obligations. Thank you staff for all that you do.

Madame Chairwoman, this concludes my testimony. My staff and I are now ready to respond to any questions that you and other members of this body may have.