Tax Incentives: How Do They Work?

To demonstrate how the U.S. Virgin Islands' tax exemptions apply, consider the hypothetical scenario of Sunseeker, Inc. Sunseeker, Inc. is a manufacturing company doing business exclusively in the USVI with annual sales of $1 million, which is a U.S. subsidiary of a U.S. corporation. Sunseeker, Inc. exports its products to the United States and utilizes foreign components and parts.

Sunseeker, Inc's Benefits

1. Gross Receipts Tax Exemption

Annual Gross Sales	$1,000,000
Tax Due (at a 5% rate)	$50,000
100% Gross Receipts Exemption	$50,000

This exemption does not extend to the gross receipts of businesses operated by concessions on the premises of beneficiaries, and may be further narrowed in a beneficiary's contract with the Economic Development Commission (EDC).

2. Property Tax Exemption

Real Property Market Value (land, buildings)	$300,000
Assessed Value (60% market value)	$180,000
Tax Due (1.25% assessed value)	$2,250
100% Property Tax Exemption	$2,250

The real property tax exemption applies only to the property owned by the beneficiary and used in the specific business or industry for which an Economic Development Contract has been granted.

3. Excise Tax Exemption

Value of Imported Materials & Components	$300,000
Excise Tax Assessed on 1.05% market value	$315,000
Excise Tax Imposed (4% for most items)	$12,600
100% Excise Tax Exemption	$12,600

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The excise tax exemption applies to equipment, raw materials and component parts used for manufacturing or assembling a product and to building materials, machinery and equipment for use in constructing the beneficiary's physical plant. Other items used by a beneficiary, such as hotel furnishings, are not exempt from excise tax.

4. Reduction of U.S. Virgin Islands Customs Duties

Landed Cost for Foreign (non-US) items	$150,000
U.S. Virgin Islands Customs Duties Due (6%)	$9,000
Beneficiary's Liability at 1% Rate	$1,500
Virgin Islands Customs Duty Reduction	$7,500

The Customs duty reduction applies to raw materials and component parts imported into the U.S. Virgin Islands from non-U.S. sources for the purpose of producing, creating or assembling an article. No customs duty applies to such materials and parts imported into the U.S. Virgin Islands from U.S. sources.

5. Duty-Free Imports into the United States

Landed Cost for Foreign (non-US) items	$150,000
US Customs Duty (assuming an avg. of 70%)	$10,500
US Customs Duty Reduction	$10,500

Under General Note 3(a)(iv) of the U.S. Customs Law, items manufactured or produced in the U.S. Virgin Islands for export to the United States may contain up to 70% of the finished product (50% for textiles, apparel and leather) on foreign materials, components, or parts and avoid U.S. customs duties.

6. Income Tax

Annual Gross Sales	$1,000,000
Deducted Business Expenses	$800,000
Tax on $200,000 Taxable Income	$61,250
Corporate Surcharge (10%)	$6,125
Total Tax	$67,375
90% Reduction	$60,638
Net Tax (Effective Tax Rate of 3.37%)	$6,737

A 90% exemption also applies to the individual income tax liability of stockholders who are bona-fide U.S. Virgin Islands residents on income derived from the dividends of the corporation or, for S corporation or partnership distributions.

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How the Sunseeker Scenario Adds Up

U.S. Virgin Islands Benefits

Net Tax (effective tax rate of 3.37%)	$6,737
Gross Receipts Tax Exemption (100%)	$50,000
Property Tax Exemption (100%)	$2,250
Excise Tax Exemption (100%)	$12,600
U.S. Virgin Islands Customs Duty Reduction	$7,500
U.S. Virgin Islands Income Tax Reduction (90%)	$60,638
Total	$132,988

NOTE: Calculated on $193,263 in net income after taxes, minus 4% withholding tax (or $7,730) on dividends paid to U.S. parent corporation with 35% corporate income tax bracket.

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