



## [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  |



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.



## 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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**Source URL (modified on 11/03/2016 - 4:30pm):** <http://mai.vivote.gov/start-or-grow-business/edc-tax-incentives/tax-incentives-how-do-they-work>