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Consumption Tax Proposal Draws Pushback During Economic Development Hearing

Bureau of Economic Research Director Haldane Davies said a phased consumption tax could raise 2% to 3% in dedicated revenue, but lawmakers and agency heads warned that new charges could hurt residents, investors and the territory's competitiveness.

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A proposal to consider a consumption tax on sales and services, potentially dedicated to specific purposes such as infrastructure and energy needs, became a central point of debate during Friday's meeting of the Committee on Economic Development, where lawmakers and agency officials were examining paths to economic growth.

The discussion emerged from testimony by Bureau of Economic Research Director Haldane Davies, who described the Virgin Islands economy as stable and resilient but warned that long-term sustainability remains threatened by high energy costs, a shrinking labor force, and natural disasters. His suggestion drew immediate concern from lawmakers and economic officials, who questioned whether adding taxes to residents, visitors, or investors would do more harm than good.

The question before the committee was whether Virgin Islanders would be willing to pay a consumption tax on sales and services for a set period of time, with the proceeds dedicated to specific uses.

That idea surfaced during Davies's broader assessment of the territory's economic condition. In his testimony, he said "the economy is stable and resilient," pointing to strong visitor arrivals, "persistent low employment," and significant infrastructure development.

At the same time, Davies cautioned that long-term stability is "tempered by high-energy cost, labor shortage from a dwindling population" and natural disasters. He said the territory must improve cash flow, "better manage expenditure, and reduce revenue leakage through stronger regulated enforcement of shared services."

He also said the Virgin Islands must focus "more on real property appraisal, revenue collections, parity in maritime opportunities…and the possible phased implementation of a consumption tax on sales and services."

That last recommendation drew the attention of committee chair Senator Hubert Frederick.

According to Davies's testimony, a consumption tax would "help to further capture an additional 2% to 3% of revenue" that would be "dedicated to specific purposes for a determined period, from visitors and residents, while making our energy systems more cost-effective."

Based on his remarks, the funds could potentially be used to help support the struggling Water and Power Authority.

"We need to ensure that our infrastructure is in place, our roads kept up to date…," Davies explained when Sen. Frederick asked for more details. "Having close to 3 million or 2.7 million persons participate…I think that is going to be quite meaningful for us." He was referring to both residents and visitors paying the proposed tax.

"If this territory feels that it's important to transition to another form of revenue generation, then that could be considered…within the confines of the law," Davies went on.

Senator Frederick was not persuaded. "We currently tax a lot of things right now. Too many things," he said. He expressed concern that additional taxes could undermine incentive programs such as those offered by the Economic Development Authority.

Even so, Davies argued that a phased or graduated rollout could still be useful, especially given what he described as significant tax "leakage" in the territory's current system. "It's a difference between what's assessed and what's received," he told the senator.

For Senator Frederick, however, increasing taxes on residents and visitors "because of our inability to capture the current taxes" seemed "unreasonable."

Wayne Biggs, director of the Economic Development Authority, shared concerns about the idea. “I think additional charges in some areas will make the program more difficult to sell,” he said.

The EDA, he noted, offers tax exemptions to investors, including waiving gross receipts taxes. “If we created additional taxes on my program, I think you’ll have difficulty,” Biggs stated.

The discussion also turned to how taxes affect the broader economy. Tax exemptions, officials noted, help attract investors, while reasonable taxes can influence how travelers choose destinations.

“I think there would be an effect,” said Tourism Commissioner Jennifer Matarangas-King. “We’re in a very competitive environment. I think we need to realize we’re not just competing with the Caribbean. We’re competing with the world.”

Biggs has proposed a study to determine whether the territory’s tax model should be based on a consumption tax or a gross receipts tax. Davies agreed that any such decision should be “done within the context” of a study, and said the interests of the people of the Virgin Islands must remain “at the forefront of everything.”