

**UVI Research & Technology Park  
Legislative Framework - Proposed Tax Benefits  
As Approved by the Board of Trustees  
June 2, 2001**

Introduction

This document presents United States Virgin Islands (USVI) tax benefits under current law and proposed tax benefits for physical and virtual Park residents.

Current USVI Law

The USVI has been given the authority by the U.S. Congress to reduce or remit taxes on income from USVI sources or on income that is effectively connected with the conduct of a trade or business within the USVI as set out in Section 934 of the Internal Revenue Code of 1986, as amended.

Under this Federal "umbrella" the USVI Legislature has enacted several tax benefit programs, of which the Economic Development Program is the most widely known and utilized. (There are also tax benefit programs for farmers and fishermen, businesses locating in certain enterprise zones, the construction of affordable housing, and casinos.) Under Act No. 6390, which was signed into law on February 1, 2001 and restructured the territory's economic development agencies as of March 1, 2001, a beneficiary of the Economic Development Program can receive the following tax benefits:

- 90 % reduction of its tax liability on income for the business for which benefits are granted (resulting in an effective tax rate of approximately 4%).
- ◆ Exemption from real property taxes, otherwise imposed at a rate of 0.75 percent of the fair market value of property;
- ◆ Exemption from gross receipts taxes, otherwise imposed at a rate of four percent;
- ◆ Exemption from excise taxes on building materials, tools, pipes, pumps, conveyor belts or other appliances, materials and supplies necessary for use in the construction, alteration, reconstruction, or extension of the physical plant or facilities of the applicant and an exemption on raw materials and component parts brought into the USVI for the purpose of producing, creating or assembling an article, good or commodity as a result of industrial or manufacturing processing of such raw materials and component parts.
- ◆ A reduction in customs duty from six percent to one percent on raw materials and component parts brought into the USVI by a beneficiary for the purpose of producing, creating, or assembling an article, good or commodity as a result of industrial or manufacturing processing such raw materials or component parts.

- ◆ A reduction in withholding tax on dividends from 10 percent to four percent and an exemption from withholding tax on interest. All other payments of passive income (such as rents) are subject to a withholding tax of 10 percent.

The initial period of benefits is either 10 or 15 years depending on the location of a beneficiary; the first extension is for 10 years for beneficiaries applying on or after February 1, 2001. Under the previous statute, the first extension is for 5 years. It now appears that after the first 10-year extension, subsequent extensions will be in 5-year increments and will require a showing of economic hardship or additional investment or expanded employment requirement. Benefits are granted for an initial period of 15 years in the town or country district of Frederiksted, St. Croix, and for any other town or country district of the territory declared by the EDC to be economically depressed.

#### Proposed Legislation for UVI Research & Technology Park

- ◆ With one exception, the proposed Park tax benefits for the UVI Research Park are the same as those available from the Economic Development Commission.
- ◆ The single exception relates to providing for a reduction in withholding tax on **royalty payments** from 10 percent to four percent in addition to the EDC provision already in effect for withholding tax reduction on dividends and an exemption from withholding tax on interest.
- ◆ The reduction of withholding tax on royalties will encourage the transfer of intellectual property such as patents to Park businesses since the owners of such intellectual property will be subject to reduced withholding tax on any royalty payments they will receive.
- ◆ The Period for Benefits would be fifteen years with automatic extensions of 10 years initially and five years subsequently, which require that the business be in good standing and meet any criteria negotiated between the business/cell and the Park. Protected cells receive benefits for 15 years with similar extensions.

#### CERTIFICATION

The foregoing is an exact copy of a document adopted and approved by the Board of Trustees of the University of the Virgin Islands at its meeting on May 2, 2001, as recorded in the minutes of said meeting.

*Orville Kean*

Secretary of the Board

6/4/01