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# Investing in U.S. Virgin Islands

The U.S. Virgin Islands (USVI) has long been an attractive location for businesses and individuals to establish operations and benefit from the favorable tax regime. In addition to favorable tax benefits, USVI also has the advantages of having the U.S. dollar and U.S. political and economic stability. This month LM talks with Marjorie Rawls Roberts who has, for the last 26 years, practiced tax law in USVI and is the founding partner of Marjorie Rawls Roberts, P.C. The firm specializes in providing business and tax planning services to individuals and entities seeking to relocate to or establish operations in the USVI.

**What are the main advantages of investing in the U.S. Virgin Islands? What makes it preferable to other countries?**

The USVI is a great investment location for a variety of businesses, from hotels and other tourism related businesses to fund managers, family offices, and private equity firms. The USVI also seeks manufacturing companies and other businesses that will expand the USVI economy by bringing services and visitors to the Territory that would not otherwise come. The RTPark Program was established to bring research and technology companies to the Territory.

The USVI offers substantial economic incentives to persons and entities that qualify as beneficiaries under the EDC or RTPark Programs. In most cases the beneficiary is eligible for a credit equal to 90 percent of the otherwise applicable income tax,

which applies both to the business receiving the benefits on income from the benefitted business, and to USVI resident owners on their allocations or dividends. Beneficiaries can be any type of entity – corporation, limited liability company, partnership, trust, or sole proprietorship. Benefits also include a reduction in customs duties on raw materials from 6% to 1% and a 100% exemption from excise taxes on raw materials and building materials. These benefits are particularly important to manufacturers in the USVI, such as watch manufacturers, boat manufacturers, and rum distillers. Businesses also receive exemptions for USVI property taxes and gross receipts taxes, which in the latter case are otherwise imposed at a rate of five percent. Corporations receiving benefits under the EDC and RTPark Programs pay a reduced 3.85% tax on corporate income while tax rates for their individual owners, who receive benefits on their dividends or distributions, are

capped at 3.96 percent on short term capital gains and ordinary income and 2 percent on long term capital gains.

In addition to the tax benefits offered under the EDC and RTPark Programs, the USVI offers the added benefits of the U.S. Flag, U.S. currency, and a nonvoting delegate to the U.S. House of Representatives to advocate favorable legislation. The USVI has a Federal District Court with two Federal judges and is in the Third Circuit Court of Appeals along with Pennsylvania, Delaware, and New Jersey. It also has a robust local court system with Superior Courts and the USVI Supreme Court. The USVI is covered by the United States' extensive network of bilateral investment treaties and treaties of friendship, commerce, and navigation, but not tax treaties.

**What expertise do you offer local and foreign clients?**

My firm focuses almost exclusively on addressing tax, business and investment issues facing individuals and entities in the USVI. Our firm has experience representing a diverse range of clients such as manufacturers, hotels, fund managers, investment banking operations, management and consulting firms, family offices, internet-based businesses, telecommunications companies, financial institutions, major accounting firms, commercial water suppliers, real estate developers, restaurants, shopping centers, marine businesses and tourist attractions. We bring a variety of perspectives to our clients – from experience in relevant government agencies such as the U.S. Treasury Department, the Internal Revenue Service, and the USVI Bureau of Internal Revenue, to extensive tax controversy and litigation experience, to Federal clerkships in the USVI, to graduate tax degrees

from New York University. We also provide advice on the legal requirements for establishing and maintaining residency in the USVI and can also advise on residency requirements in the states where our attorneys are admitted, such as California and New York. Attorneys in the firm are widely published in tax and investment publications and speak at conferences in the USVI and mainland United States.

**What are the main challenges and complexities facing foreign companies wishing to invest in the U.S. Virgin Islands? How can your firm help them navigate these complexities?**

Foreign companies seeking to invest or start a business in the USVI require a multi-faceted approach combining tax and business planning with comprehensive advice on the local economic incentive programs (where relevant) and ongoing legal support. Our firm has established deep and long lasting relationships with local regulators and community stakeholders and we provide full support in all related transactional, corporate, and real estate issues that may arise in connection with relocating a business to the USVI.

**How will the U.S. Virgin Islands business environment develop over the next 3-5 years and what should foreign investors be aware of?**

The USVI has a stable business climate and a diversified modern economy. Tourism, trade, and other services are the primary economic activities, accounting for about 57 percent of GDP and about half of total civilian employment. Goods-producing industries account for 23 percent of GDP. Over the next three to five years we anticipate continued economic growth buoyed by strong government support of private

businesses and the continued success of the EDC and RTPark Programs in attracting new businesses to the USVI that hire and train local residents, invest in the Territory and diversify the economy. We also provide advice to businesses seeking to expand into the USVI and serve the Territory's residents in a wide variety of fields and, although they do not qualify for tax incentives, they still require high level and detailed professional advice for structuring their operations.

**How healthy is the current M&A market in the U.S. Virgin Islands at the moment? How much did the global recession affect the U.S. Virgin Islands?**

In our experience, M&A activity in the USVI has begun to accelerate over the past year, especially in the hospitality and service sectors. We believe that trend is poised to continue. Although the global recession did affect the USVI, the USVI is recovering steadily as the economic outlook continues to improve in the United States. Also, in the hospitality sector, the USVI does not require a passport to visit and people stay closer to home in tough economic times, so the USVI has been the destination for tourists who might otherwise have headed farther afield.

**What are the future goals of your firm?**

Our firm aims to continue providing tax, economic incentive and business planning advice at the highest possible level in the USVI. The firm also aims to promote the USVI as a leading destination for offshore investment and to highlight the benefits of the alternative energy sector in the Territory. We are committed to the USVI, since it is our home, and excited about the possibilities that it offers to a myriad of businesses seeking an attractive near-shore, U.S. flag investment destination. **LM**