74TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
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ESTABLISH AN ASSESSED VALUATION REAL PROPERTY TAX IN THE VIRGIN ISLANDS OF THE UNITED STATES

JULY 22, 1935.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed

Mr. KOCIALKOWSKI, from the Committee on Insular Affairs, submitted the following

REPORT

[To accompany H. R. 8287]

The Committee on Insular Affairs, to whom was referred the bill (H. R. 8287), a bill "To establish an assessed valuation real property tax in the Virgin Islands of the United States", after careful consideration, report favorably thereon with the recommendation that the bill do pass the House.

In brief, this bill establishes a uniform real property tax based on assessed valuation, in each of the two municipalities of the Virgin Islands. The existing real property-tax laws, which the new tax would replace, are inequitable in their application and tend to fall least heavily on land held in idleness, and to encourage the holding of land for speculative purposes.

Also, the bill authorizes the Virgin Islands Co., which has been held by the Comptroller General to be an agency of the Federal Government, to pay annually into the colonial treasuries of the Virgin Islands a sum or sums equivalent to the taxes which a private corporation similarly situated would pay.

Further facts relating to the proposed legislation are set forth in two letters from the Secretary of the Interior to the chairman of the committee, which letters are set out in full hereafter and made a part of this report, as follows:

DEPARTMENT OF THE INTERIOR,
Washington, April 23, 1935.

Hon. LEO KOCIALKOWSKI,
House of Representatives.

MY DEAR MR. KOCIALKOWSKI: I am sending you herewith a bill for taxation reform in the Virgin Islands. This bill is the result of careful study, and seeks to remedy a situation which has been the target of criticism of all competent observers since the Virgin Islands came under the American flag.

The present system of taxation in the Virgin Islands discourages productive agricultural enterprise. Although the rates vary, with each island, they are approximately as follows: For bushland, 5 to 12 cents per acre; for grassland, 13 to 26 cents per acre; for cultivated land, 45 to 80 cents per acre. Thus the present system heavily penalizes the man who cultivates his land and puts a premium on leaving it idle.

The consequence of this system has been the concentration of land in the hands of a few large holders who prefer to keep the land idle rather than to produce something on which they would be taxed. The result is that much that could be grown in the islands is imported from the neighboring British islands.

With the exception of a few small parcels, most of the land in St. Thomas and St. John is held by five landlords. There is a corresponding concentration in St. Croix.

In the British Virgin Island of Tortola, adjacent to St. John, taxation is based on value. There innumerable small landholders grow the products they need for their own consumption and sell the surplus to their cousins on the islands of St. Thomas and St. John. These islands have hitherto produced little, although the soil is just as good as that of Tortola. The natives of St. Thomas and St. John are no lazier and no less energetic than those of Tortola. Indeed, they are of the same general type. They have close blood ties and not infrequently intermarry. The natives of St. Thomas and St. John cannot buy land for cultivation, because it is held at high values. The asking price for bushland is higher than for cultivated land in New York State.

This system of taxation leads to some odd situations. The largest estate owner in St. Thomas gives away free fruit that grows on his estate, but will not sell it because he might be taxed. An American business man who is trying to develop a fruit-packing and conserve industry in St. Thomas cannot get a sufficient supply of fruit on our Virgin Islands for these reasons. The land-tax situation definitely impedes his building up a profitable enterprise that would be useful in giving employment and in developing the products which grow naturally in the islands. He has to buy much of his fruit in the neighboring British islands. There is an estate on St. John that produces a bay tree which yields the finest and highest content of bay oil in the world. The owner has 1,300 acres on which he pays $100 per annum in taxes. He declines to cultivate. The government tried to buy for development, but he has asked $120 per acre for the land. It is undoubtedly worth very much less.

The present system permits these landlords to sit tight and do nothing while the government increases the value of the land through improvements. This situation should be remedied as an essential part of the administration's program to make the islands self-sufficient and self-sustaining.

There will doubtless be some opposition on the islands to this reform, and I am enclosing herewith, in addition to the bill itself, a justification therefor, with some data prepared by a committee of Government officials appointed by the Governor, to study the matter.

Sincerely yours,

HAROLD L. ICKES,
Secretary of the Interior.

DEPARTMENT OF THE INTERIOR,
Washington, May 24, 1935.

Hon. LEO KOCIALKOWSKI,
Chairman Committee on Insular Affairs,
House of Representatives.

MY DEAR MR. CHAIRMAN: I am submitting herewith for your consideration an amendment to the proposed bill "To establish an assessed valuation real property tax in the Virgin Islands of the United States."

On April 23 I sent you an original draft of the proposed bill along with a covering letter recommending the enactment of the measure. Recent communications from the Virgin Islands suggest the desirability of amending the proposed bill to include a provision permitting the Virgin Islands Co. to pay into the treasuries of the municipality of St. Croix and the municipality of St. Thomas and St. John sums in lieu of taxes. It is to accomplish this purpose that the present amendment has been drafted.

The Virgin Islands Co. was chartered by special act of the colonial council of St. Thomas and St. John, Virgin Islands of the United States, "in order to aid in effecting the economic rehabilitation of the municipality of St. Thomas and St. John and of the Virgin Islands of the United States." Although the Virgin Islands Co. has the usual corporate powers of a business corporation, it is unusual in that its charter contains the following important limitation upon the expenditure of its earnings:

"No dividends, salaries, or profits of any type or description whatever shall ever be issued, paid, or made available to any of the incorporators or holders of the said stock or to anyone on their behalf, but all of the earnings, income, and profits which may be derived by the corporation from the operations of any of its powers hereunder, shall be expended in effecting the economic rehabilitation of the Virgin Islands of the United States and in promoting the general welfare of the inhabitants of the Virgin Islands of the United States."

Moreover, corporate activities are controlled through the holding of its stock—only three shares are authorized to be issued—by the Secretary of the Interior, the Assistant Secretary of the Interior, and the Governor of the Virgin Islands.

The important functions which a body so created and controlled is able to perform in the Virgin Islands appear when the economic condition of the islands is considered.

At no time since the United States purchased the Virgin Islands from Denmark in 1917 have the people of the islands prospered. Sugarcane is the basic crop. For years there has been no substantial industrial activity in the islands. Emigration and decrease of population, which characterized the period of Danish control, has continued under the sovereignty of the United States. Indeed, the report of the Governor of the Virgin Islands for the fiscal year ending June 30, 1932, shows only about 22,000 inhabitants in the islands and only about 10 percent of these with sufficient property or income to be subject to taxation. So small is the revenue derived by the local government from taxation that Congress is forced to contribute some $200,000 annually toward the expenses of the local political subdivisions. There is very little capital in the islands and capital from the United States has not been interested in the development of agriculture or industry there.

In this situation, with valuable sugarcane lands—the principal natural resource of the islands—reverting to jungle and with mills and sugar factories lying idle and in need of repair or replacement, the Public Works Administration has undertaken to restore a number of agricultural and industrial properties to productive status. It is these rehabilitated properties which the Virgin Islands Co. has been authorized to operate by license of the Public Works Administration.

Utilizing the properties thus placed in its possession the Virgin Islands Co. is undertaking the cultivation of cane lands, the manufacture of sugar and the manufacture of rum as enterprises calculated to contribute substantially to the relief of unemployment and the restoration of the local economy. In order to remove a substantial number of persons from the relief rolls the Federal Surplus Relief Corporation has loaned $150,000 to the Virgin Islands Co. Relief labor is now being employed and the operations of the company are income producing. The company is meeting its current obligations under the loan. This phase of the undertaking is, I believe, of great significance as a demonstration that Federal funds made available for work relief may be expended upon a basis which makes relief a self-liquidating enterprise.

The entire enterprise has taken some 3,000 acres of land and the earnings therefrom out of taxable status. I believe that this situation tends to postpone the day when the local economy in the Virgin Islands can support the cost of local government.

If the corporation is authorized to pay sums in lieu in taxes, it will not be necessary to appropriate money for that purpose out of the Treasury of the United States. The operations of the company are already productive of substantial income, and it is contemplated that the proposed payments will be made out of that income. Under any circumstances sums so paid would diminish the amounts which Congress now finds it necessary to appropriate annually to defray the deficits in the treasuries of the two local political subdivisions.

In these circumstances I believe that this amendment merits favorable action by your committee and by the House of Representatives. If you desire a more detailed presentation of the matter involved in the proposed amendment and of the views of this Department thereon, I shall be glad to have a representative of the Department appear before your committee.

Sincerely yours,

T. A. Walters,
Acting Secretary of the Interior.

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No dividends, salaries, or profits of any kind or description whatever shall ever be issued, paid, or made in relation to any of the incorporators or holders of the said stock or to anyone on their behalf, but all of the earnings, income, and profits which may be derived by the corporation from the operations of any of its powers hereunder shall be expended in effecting the economic rehabilitation of the Virgin Islands of the United States and in promoting the general welfare of the inhabitants of the Virgin Islands of the United States.

Moreover, corporate activities are controlled through the holding of its stock, the shares of which are authorized to be voted by the Secretary of the Interior, the Assistant Secretary of the Interior, and the Governor of the Virgin Islands.

The important functions which a body so created and controlled is able to perform in the Virgin Islands appear when the economic condition of the islands is considered.

At no time since the United States purchased the Virgin Islands from Denmark in 1917 have the people of the islands prospered. Sugarcane is the basic crop. For years there has been no substantial industrial activity in the islands. Unemployment and distress of population, which characterized the period of Danish control, has continued under the sovereignty of the United States. Indeed, the report of the Governor of the Virgin Islands for the fiscal year ending June 30, 1935, shows only about 22,000 inhabitants in the islands and only about 10 percent of these with sufficient property or income to be subject to taxation. So small is the revenue derived by the local government from taxation that Congress is forced to contribute some $200,000 annually toward the expenses of the local political subdivisions. There is very little capital in the islands and capital from the United States has not been interested in the development of agriculture or industry there.

In these islands, with valuable sugarcane lands—the principal natural resource of the islands—reverting to jungle and with mills and sugar factories lying idle as a result of many years of mismanagement, the Public Works Administration has undertaken to restore a number of agricultural and industrial properties to productive status. It is these rehabilitated properties which the Virgin Islands Co. has been authorized to operate by lease of the Public Works Administration. Utilizing the properties thus placed in its possession the Virgin Islands Co. is undertaking the cultivation of cane lands, the manufacture of sugar and the manufacture of rum as enterprises calculated to contribute substantially to the relief of unemployment and the restoration of the local economy. In order to employ a substantial number of persons from the relief rolls the Federal Surplus Relief Corporation has loaned $150,000 to the Virgin Islands Co. Relief labor is now being employed and the operations of the company are income producing. The company is meeting its current obligations under the loan. This phase of the undertaking is, I believe, of great significance as a demonstration that Federal funds made available for work relief may be expended upon ventures which make relief a self-liquidating enterprise.

The entire enterprise has taken some 3,000 acres of land and the buildings thereon out of taxable status. I believe that this situation tends to postpone the day when the local economy in the Virgin Islands can support the cost of local government.

If the corporation is authorized to pay sums in lieu of taxes, it will not be necessary to appropriate money for that purpose out of the Treasury of the United States. The operations of the company are already productive of substantial income, and it is contemplated that the proposed payments will be made out of that income. Under any circumstances sums so paid would diminish the amounts which Congress now finds it necessary to appropriate annually to defray the deficits in the treasuries of the two local political subdivisions.

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