

DISPOSITION OF INTERNAL REVENUE COLLECTIONS ON
ARTICLES PRODUCED IN THE VIRGIN ISLANDS

JULY 11 (legislative day, JULY 10), 1947.—Ordered to be printed

Mr. MILLIKIN, from the Committee on Finance, submitted the
following

REPORT

[To accompany S. 1014]

The Committee on Finance, to whom was referred the bill (S. 1014) to provide for the disposition of internal revenue collections on articles produced in the Virgin Islands, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and substitute the following language:

That subchapter B of chapter 28 of the Internal Revenue Code is amended by adding to section 3350 thereof the following new subsection:

"(c) Disposition of Internal Revenue Collections.—The Secretary of the Treasury shall determine the amount of all taxes imposed by and collected during the previous month under the Internal Revenue laws of the United States on articles produced in the Virgin Islands of the United States and transported to the United States. The amounts so determined less one percent and less the estimated amount of refunds or credits, shall be transferred and paid over each month to the Government of the Virgin Islands and shall be available to the Virgin Islands for expenditure as the Legislative Assembly of the Virgin Islands may provide: *Provided*, That the total amount so transferred and paid over in any one calendar year shall not exceed \$500,000."

SEC. 2. This Act shall become effective on and after the 30th day following the date of the enactment of this Act.

PURPOSE OF BILL

The purpose of the bill is to provide an additional source of revenue for the expenses of the government of the Virgin Islands. It authorizes the proceeds of taxes collected under the United States internal revenue laws on articles produced in the Virgin Islands and transported to the United States, less 1 percent for administrative expenses and less the estimated amount of credits and refunds to taxpayers, to be paid over

to the government of the Virgin Islands each month, to be spent as the legislative assembly shall provide.

Most of the Federal-aid programs extended to the States and the other Territories and possessions, such as those for vocational education and rehabilitation, soil conservation, hospital survey and construction, and highway construction, have not been extended to the Virgin Islands. The local government must itself finance any activities along these lines, and must supply other essential government services in the fields of health, education, and public welfare. The economy of the islands, because of the nature of the natural resources, has always been predominantly agricultural and does not afford opportunities for raising substantial revenues through taxation. As a result, the services rendered by the local government have been at substandard levels and many necessary projects cannot be undertaken for lack of funds. The Congress has had to make appropriations to the Virgin Islands annually to meet the deficits resulting from expenditures in excess of revenues.

In Puerto Rico, and in the Philippines before their independence, the proceeds of United States internal-revenue taxes collected on products of those areas shipped to the continental United States were made available to the local governments to meet governmental expenses. S. 1014 would adopt a similar procedure with respect to the Virgin Islands, and would permit the government of the Virgin Islands to supply essential government services on a more adequate basis. Enactment of the bill would do away with the necessity for annual deficit appropriations to the islands by the Congress. It has been thought advisable, however, to provide that not more than \$500,000 may be transferred in any one calendar year; it is estimated that the average proceeds of the internal-revenue taxes collected on products of the Virgin Islands will not exceed \$500,000 annually.

The Department of the Interior has recommended enactment of the proposed legislation and the reports of the Department of the Interior and the Department of the Treasury follow:

THE SECRETARY OF THE INTERIOR,
Washington, July 2, 1947.

HON. EUGENE D. MILLIKIN,
Chairman, Committee on Finance,
United States Senate.

MY DEAR SENATOR MILLIKIN: I am glad to respond to your request for my views on S. 1014, a bill to provide for the disposition of internal revenue collections on articles produced in the Virgin Islands. In my opinion, enactment of this proposal is highly desirable and I strongly urge that your committee recommend such action to the Congress.

The proposed bill provides that taxes collected under the Federal internal revenue laws on articles produced in the Virgin Islands and shipped to the United States, or consumed in the islands, shall be covered into the Treasury of the United States to the credit of the islands, and shall be available for expenditure there as may be provided by the local legislative assembly. I believe that this bill, if enacted, would be a major contribution to a sound economic future for the Virgin Islands. It would also grant to those islands a measure of economic justice since it proposes to adopt, with respect to the disposition of internal revenue taxes collected there, the same procedure which the Congress has in the past adopted with respect to internal revenue collections in the Philippines and in Puerto Rico.

Basically, the economy of the Virgin Islands is agricultural. Many factors, such as inadequate rainfall, depleted soil, and lack of adequate Federal agricultural aids, have contributed to making agriculture in the islands a poor economic base. None of the other economic possibilities of the islands—tourist trade, small

industry, handicrafts—is as yet so developed, or appears likely to be sufficiently developed in the immediate future, as to provide the islands with a revenue-producing base capable of making them self-supporting. This situation has existed for some time, and as a result, the revenues available through local taxation for meeting the costs of government are so meager that essential governmental services have had to be maintained at substandard levels. The municipalities of the islands, for example, have consistently devoted every available dollar, year after year, to providing aid to their needy. In the last 12 years annual budget allocations for such aid have more than doubled. The proportion of annual public expenditures devoted to health, education, and welfare, which is more than 50 percent, compares favorably with the mainland average. Despite these efforts, however, public assistance grants to the needy in the islands are almost unbelievably low—a person qualifying for welfare aid receives an average of approximately \$4.62 per month.

In view of the limited financial resources of the municipalities, the Congress, since the purchase of the islands in 1917, has made appropriations for the conduct of the government of the Virgin Islands. These appropriations have included yearly sums to cover the salaries of administrative officers, and to make up local deficits caused by the excess of current expenditures over current revenues. In addition the Congress has appropriated sums for public works, relief, and other activities for the benefit of the islands.

With the repeal of prohibition in 1934, and the revival of the rum industry, the islands for the first time began to contribute funds to the Federal Treasury in the form of internal revenue collections. As of December 1946, the total of these collections on articles produced in the islands, some \$56,000,000, was approximately \$7,000,000 more than the total amount spent by the United States for purchase of the islands, deficit and other annual appropriations for the local government, public works, relief grants and other Federal activities. It is significant to note that the Virgin Islands have not enjoyed the benefits of the overwhelming majority of Federal-aid programs made available to the 48 States and to the other Territories and possessions. The islands receive no Federal aid under the Federal Airport Act, the Soil Conservation Act, the Vocational Education Act, the Vocational Rehabilitation Act, the Hospital Survey and Construction Act, or the Federal Highway Act. None of the titles of the Social Security Act are applicable to the islands, except title V, which did not take effect there until January 1 of this year.

Enclosed are a number of tables showing the amounts spent by the Federal Government on behalf of the Virgin Islands, the amounts collected there under the Federal internal revenue laws, and other related figures. As indicated by these tables, internal revenue collections increased abnormally during the war years, primarily because of the unusually good market for rum during that period. It is anticipated that in the postwar period the average annual internal revenue collections will be about \$400,000 to \$500,000, a level higher than the average in the immediate prewar period.

I believe that the Congress should, by enacting S. 1014, make future internal-revenue collections available for meeting the expenses of the government of the Virgin Islands. Such action would make it possible for the government of the islands to maintain its essential services on a standard more in keeping with those expected of American communities. It would mean that the people of the islands could depend, for the support of their government, on revenues resulting from their productive efforts rather than on indefinite grants of Federal appropriations. It would also be in keeping with the congressional policy under which the Philippines and Puerto Rico have been permitted to retain internal-revenue collections.

I have stressed on many occasions my belief that a basic policy of this Nation toward its possessions should be to help those areas along the road to self-sufficiency. Legislation such as S. 1014 affords excellent opportunity to implement that national policy.

Since it is my understanding that your committee desires an immediate report on this bill, this report has not been submitted to the Bureau of the Budget for its consideration. I am unable to state, therefore, the relationship of the foregoing views to the program of the President.

Sincerely yours,

OSCAR L. CHAPMAN,
Under Secretary of the Interior.

Virgin Islands—Rum exports, estimated rum tax collections, and deficiency appropriations

Year	Proof gallons	Federal internal revenue collections (estimates) ¹	Deficiency appropriations	
			St. Thomas and St. John	St. Croix
1935.....	64,844	\$129,688	\$90,000	\$82,600
1936.....	96,555	\$193,110, at \$2 per proof gallon.....	80,000	95,000
1937.....	163,723	\$327,446	70,000	60,000
1938.....	127,322	\$270,559, at \$2 and \$2.25.....	60,000	50,000
1939.....	181,204	\$407,709, at \$2.25.....	40,000	80,000
1940.....	383,810	\$1,007,501, at \$2.25 and \$3.....	15,000	50,000
1941.....	641,854	\$2,086,023, at \$3 and \$4.....	44,933	103,500
1942.....	808,125	\$3,506,023, at \$4 and \$6.....	0	130,000
1943.....	1,725,533	\$10,353,198, at \$6.....	0	159,800
1944.....	2,661,248	\$21,219,807, at \$6 and \$9.....	0	140,000
1945.....	929,912	\$8,369,208, at \$9.....	0	² 49,000
1946.....	690,945	\$6,218,505, at \$9.....	0	150,000

¹ These collections are turned in to the general funds of the U. S. Treasury and are not separately accounted, hence accurate figures are not available.

² \$100,000 appropriated; \$51,000 returned.

Comparison of internal-revenue taxes collected on rum imported into the United States from the Virgin Islands and paid into the Federal Treasury since 1934 with cost of the islands plus Federal-aid expenditures

1. Internal-revenue collections on rum imports, 1934 through December 1946.....	¹ \$55,933,285
2. Purchase price of islands.....	\$25,000,000
3. Federal-aid expenditures: Direct congressional appropriations: Under naval administration, 1918-31.....	\$4,074,620
Under civil administration, 1931-47.....	6,263,424
Public works, 1945-46.....	10,338,044
Federal-aid grants, 1933.....	2,210,005
Ordinary expenditures by regular Federal departments and offices, 1934-46 ²	11,048,919
	585,852
4. Total of items 2 and 3.....	49,182,820
5. Excess of item 1 over item 4.....	6,750,465

¹ Estimate. These collections are turned into the general funds of the U. S. Treasury and not separately accounted for.

² Does not include expenditures by Army and Navy.

Direct Federal appropriations for the government of the Virgin Islands

Year	Central administration	Agricultural station	Deficit, St. Thomas and St. John	Deficit, St. Croix	Other purposes	Total
1933.....	\$150,613	\$25,000	\$112,032	\$124,355	-----	\$412,000
1934.....	134,750	25,000	98,500	98,500	\$15,000	371,750
1935.....	117,840	29,968	90,000	82,600	14,350	334,758
1936.....	131,500	35,000	80,000	95,000	-----	341,500
1937.....	130,000	35,000	70,000	60,000	-----	295,000
1938.....	120,250	35,000	60,000	50,000	-----	265,250
1939.....	127,250	38,000	40,000	80,000	-----	285,250
1940.....	127,250	38,000	15,000	50,000	-----	230,250
1941.....	142,255	41,150	44,933	103,500	-----	331,839
1942.....	151,075	45,650	0	130,000	-----	326,725
1943.....	167,230	40,140	0	159,800	-----	367,170
1944.....	186,820	46,815	0	140,000	-----	373,635
1945.....	208,375	47,260	0	¹ 49,000	-----	304,635
1946.....	203,820	36,600	0	150,000	² 2,210,005	2,600,425
1947.....	228,015	45,300	0	135,200	² 993,795	1,402,310

¹ \$100,000 appropriated; \$51,000 returned.

² For public works projects authorized by the act of Congress of Dec. 20, 1944 (Public, 510).

1947 Budget

	St. Croix		St. Thomas and St. John	
	Amount	Percentage	Amount	Percentage
Legislature.....	\$9,410	2.37	\$29,020	3.29
Police courts.....	5,650	1.41	6,960	.79
Police and prisons.....	32,810	8.26	62,010	7.02
Penitentiary.....	9,020	2.27	—	—
Harbor.....	150	.04	27,285	3.09
Health.....	102,976	25.94	138,055	15.63
Lepers.....	16,980	4.28	(1)	(1)
Home for indigents.....	31,648	7.97	6,260	.71
Welfare.....	22,040	5.55	54,700	6.19
Pension fund.....	5,000	1.26	25,140	2.85
Education.....	75,200	18.94	217,324	24.60
Public works.....	49,744	12.59	118,295	13.39
Fire.....	1,500	.38	—	—
Cemeteries.....	2,700	.68	—	—
Telephones.....	14,700	3.70	—	—
Library.....	3,180	.80	6,796	.77
Electoral board.....	1,300	.30	600	.07
Miscellaneous.....	10,380	2.62	14,107	1.60
Contingent.....	1,500	.38	2,500	.28
Finance.....	—	—	13,520	1.53
Printing.....	1,000	.25	4,480	.51
Recreation.....	—	—	11,860	1.34
Wages and hours.....	—	—	3,700	.42
Juvenile school.....	—	—	15,380	1.74
Agriculture.....	—	—	4,460	.50
Homestead.....	—	—	1,180	.13
Home guard.....	—	—	2,586	.29
Water commission.....	—	—	7,140	.81
Salary increases.....	—	—	110,000	12.45
Total.....	397,018	100.00	883,358	100.00

¹ Included in above.

THE SECRETARY OF THE TREASURY,
Washington, July 2, 1947.

HON. EUGENE D. MILLIKIN,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

MY DEAR MR. CHAIRMAN: Further reference is made to your letter of April 3, 1947, with which you enclosed a copy of bill S. 1014, Eightieth Congress, first session, "To provide for the disposition of internal revenue collections on articles produced in the Virgin Islands," and requested a statement of this Department's views on this proposed legislation.

S. 1014 provides that all taxes collected under the internal revenue laws of the United States on articles produced in the Virgin Islands and transported to the United States, or consumed in the Virgin Islands, shall be covered into the Treasury of the United States to the credit of the Virgin Islands and shall be available to the Virgin Islands for expenditures as the Legislative Assembly of the Virgin Islands may provide. It is further provided that all acts or parts of acts inconsistent with the terms of the bill are repealed to the extent of such inconsistency.

Section 3350 of the Internal Revenue Code provides as follows:

"(a) Taxes Imposed in the United States.—Except as provided in section 3123, there shall be levied, collected, and paid in the United States, upon articles coming into the United States from the Virgin Islands, a tax equal to the internal revenue tax imposed in the United States upon like articles of domestic manufacture.

"(b) Exemption From Tax Imposed in the Virgin Islands.—Such articles shipped from such islands to the United States shall be exempt from the payment of any tax imposed by the internal revenue laws of such islands."

It is the understanding of the Department that, insofar as S. 1014 relates to the internal revenue taxes collected upon articles produced in the Virgin Islands and transported to the United States, the tax proceeds segregated by the bill to the Virgin Islands are taxes collected under the authority of section 3350 of the code; that is such taxes as are due and payable at the time the Virgin Islands article is withdrawn from customs for consumption or sale in the United States. It is the

further understanding of the Department that the bill does not cover taxes collected with respect to Virgin Islands articles after they have entered within the United States; that is, that the bill does not cover such taxes as Federal retail sales taxes collected with respect to Virgin Islands articles sold at retail in the United States, nor the tax on manufactured sugar which may be paid by the manufacturer under section 3490 of the Internal Revenue Code with respect to Virgin Islands raw sugar refined in the United States.

It is to be noted that S. 1014 is quite similar to section 3360 (c) of the Internal Revenue Code which provides that all taxes collected under the internal revenue laws of the United States on articles produced in Puerto Rico and transported to the United States, or consumed in the islands, shall be covered into the Treasury of Puerto Rico. This provision of law with respect to Puerto Rico is related to section 3360 (a) of the code which applies to Puerto Rican articles a rule quite similar to that applied to Virgin Islands articles by section 3350 of the code, quoted above. The views expressed above as to the internal revenue taxes covered by S. 1014 are the construction which the Department has given to section 3360 (a) of the code in the case of internal revenue taxes segregated to Puerto Rico.

As the provisions of S. 1014 are directly related to section 3350 of the Internal Revenue Code, and as it is desirable to have all provisions of law relating to internal revenue taxes made a part of the Internal Revenue Code, the Department urges if consideration is to be given to the enactment of S. 1014 that its provisions be made subsection "(c)" of section 3350 of the Internal Revenue Code. This would be consistent with the treatment accorded like provisions of law applicable to Puerto Rico and similar provisions of law (secs. 3340 and 3343 of the Internal Revenue Code) which were applicable to the Philippine Islands prior to July 4, 1946. Subject to the foregoing comment the Department interposes no objection to the enactment of S. 1014.

Due to the expeditious nature of this report, the Department has not been advised by the Bureau of the Budget as to whether the proposed legislation is in accord with the program of the President.

In the event that further correspondence relative to this matter is necessary, please refer to the symbols CC:L&R:EFB, A-412887.

Very truly yours,

JOSEPH J. O'CONNELL, Jr.,
Acting Secretary of the Treasury.

