

**THE UNITED STATES VIRGIN ISLANDS**  
**OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL**



**AUDIT OF THE ADMINISTRATION  
OF THE HOTEL ROOM TAX**

**ILLEGAL OR WASTEFUL ACTIVITIES SHOULD BE REPORTED TO  
THE OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL BY:**

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**Sending Written Documents to:**

**Office of the Virgin Islands Inspector General  
No. 75 Kronprindsens Gade  
St. Thomas, Virgin Islands 00802**



GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS  
**OFFICE OF THE V. I. INSPECTOR GENERAL**  
No. 75 Kronprindsens Gade, Charlotte Amalie, St. Thomas, V.I. 00802

STEVEN VAN BEVERHOUDT  
V.I. INSPECTOR GENERAL

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## **EXECUTIVE SUMMARY**

The following summarizes the major findings resulting from the Audit of the Administration of the Hotel Room Tax (AR-01-27-02).

### ***Finding 1: Calculation of the Hotel Room Tax (pages 4 to 6)***

- Hotels were using different methods in arriving at room revenues subjected to the Hotel Room Tax.
- Some hotels were using incorrect “gross room revenue” amounts in the computation of the Hotel Room Tax.
- At least \$241,497 in Hotel Room Taxes were not assessed, collected nor remitted to IRB.

### ***Finding 2: Remittance of Hotel Room Tax (pages 7 to 8)***

- Some hotels were not remitting the total amount of Hotel Room Taxes collected from hotel guests.
- The Virgin Islands Government did not receive \$106,580 in taxes during 2000.

### ***Finding 3: Late Filing Penalties and Interest (pages 9 to 10)***

- IRB did not assess penalties and interest for Hotel Room Tax returns that were filed late.
- Interest and penalties totaling \$99,828 were not assessed from hotels selected for review.

### ***Finding 4: Vacation Rental Homes (pages 11 to 13)***

- Rental management companies were in general compliance with the Hotel Room Tax provisions of the Virgin Islands Code.
- There were instances, however, where individual property owners were not remitting taxes collected from their guests.
- A total of \$10,087 in taxes collected but not remitted to IRB were identified from several vacation homes.
- Some Hotel Room Tax returns were filed late, however, no penalties nor interest were paid.

- Some rental management companies were consolidating their rental homes on one return, preventing the identification of the homeowners.

***Finding 5: IRB Oversight (page 14)***

- IRB did not have a system in place to monitor the filing of Hotel Room Tax returns, and the payment of taxes.
- There was no assurance that all hotels, inn, rental management companies and individual vacation homes were filing and paying the appropriate Hotel Room Taxes.

***Finding 6: Hotel Occupancy Reports ( pages 15 to 16)***

- Hotels were submitting inaccurate hotel occupancy reports to BER.
- Hotels were overstating their discounted room rates, resulting in the over-estimation of Hotel Room Tax collections.



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June 7, 2002

Honorable Charles W. Turnbull  
Governor of the Virgin Islands  
Government House  
21-22 Kongens Gade  
Charlotte Amalie  
St. Thomas, Virgin Islands 00802

Honorable Almando Liburd  
President, 24<sup>th</sup> Legislature  
Capitol Building  
Charlotte Amalie  
St. Thomas, Virgin Islands 00802

Dear Governor Turnbull and Senator Liburd:

Attached is the final report of our audit on the administration of the Hotel Room Tax.

The objectives of the audit were to determine if: (i) the Hotel Room Tax was being assessed by the hotel keepers and innkeepers as prescribed by the VI Code; (ii) the Hotel Room Tax collections were being properly remitted to the Government; (iii) the VI Bureau of Internal Revenue (IRB) was properly administering the reporting and collection of the Hotel Room Tax; and, (iv) hotel occupancy reports submitted to the Bureau of Economic Research (BER) by the hotels and inns were properly prepared and reflected the true occupancy rates of the various businesses.

Our audit revealed that the 8% Hotel Room Tax was not assessed on about \$4.5 million in gross room revenues. This resulted in at least \$358,194 in Hotel Room Taxes that were not assessed nor collected in Calendar Year 2000.

Specifically, we found that: (i) hotels/inns were using different methods in determining gross room revenues subjected to the Hotel Room Tax, resulting in \$241,497 in unassessed and uncollected taxes; (ii) some hotels/inns did not remit to IRB, \$106,580 in Hotel Room Taxes collected; (iii) some hotels/inns filed the monthly Hotel Room Tax returns late, but were not assessed penalties and interest; (iv) individual vacation homeowners did not remit at least \$10,087, to IRB in Hotel Room Taxes collected, nor were penalties and interest assessed on delinquent returns; (v) IRB did not have an adequate system in place to properly monitor compliance with the Hotel Room Tax provisions of the Code; and, (vi) hotel/inns were filing inaccurate Hotel Room Occupancy reports to BER.

Exit conferences were held with officials from IRB, BER, and the Department of Tourism. They all concurred with the recommendations made in the report. A copy of the responses from IRB and BER are included as Appendix I, beginning on page 17 and Appendix II, beginning on page 24, respectively.

If you or staff require additional information, please call me at 774-6426.

Sincerely,



Steven van Beverhoudt, CFE, CGFM  
VI Inspector General

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# INTRODUCTION

## BACKGROUND

Title 33 Section 680 of the Virgin Islands Code (Code) created the Virgin Islands Bureau of Internal Revenue (IRB), as a separate agency of the Virgin Islands Government (Government), with the responsibility of administering and collecting most taxes for the Government. Among the taxes under the jurisdiction of IRB is the Hotel Room Tax.

Established by Title 33 Section 54(b) of the Code, the Hotel Room Tax provides that, “every guest of a hotel ... shall pay to the Government of the United States Virgin Islands a tax to be collected and remitted to the Government by the hotelkeeper or innkeeper at the rate of eight percent (8%) of the gross room rate or rental. For the purpose of this section, ‘gross room rate or rental’ shall include the room rate plus any additional charges, such as an energy surcharge or a maintenance fee.” Section 54(f) also states; “Returns and payments of a hotelkeeper or innkeeper shall be due within thirty (30) calendar days following the last day of the calendar month concerned.”

The Bureau of Economic Research (BER), now under the Government Development Bank, was created to, among other things, monitor the occupancy rates at the various hotels and inns in the Virgin Islands, and to forecast the number of tourists who visit the territory, along with the amount of taxes that can be collected.

Based on information maintained by IRB, BER, and the Department of Tourism, there were a total of 119 hotels/inns and rental management companies in the Virgin Islands during calendar year 2000, with a total of 5,658 rooms. The number of hotels/inns, available rooms, and the occupancy rate during this period were disbursed between the Virgin Islands as follows:

|                             | <u>St. Croix</u> | <u>St. John</u> | <u>St. Thomas</u> |
|-----------------------------|------------------|-----------------|-------------------|
| Number of Hotels/Inns       |                  |                 |                   |
| Management Rental Companies | 34               | 38              | 47                |
| Number of Available Rooms   | 1,380            | 1,097           | 3,181             |
| Occupancy Rate              | 53%              | 73%             | 60%               |

Total Hotel Room Tax collections from fiscal year 1998 through 2001 were as follows:

|                     | <u>1998</u> | <u>1999</u>  | <u>2000</u>  | <u>2001</u>  |
|---------------------|-------------|--------------|--------------|--------------|
| Hotel Occupancy Tax | \$9,716,240 | \$10,996,429 | \$11,792,737 | \$11,336,301 |

## **OBJECTIVES AND SCOPE**

The objectives of the audit were to determine if: (i) the Hotel Room Tax was being assessed by the hotel keepers and innkeepers as prescribed by the Code; (ii) the Hotel Room Tax collections were being properly remitted to the Government; (iii) IRB was properly administering the reporting and collection of the Hotel Room Tax; and, (iv) hotel occupancy reports submitted to BER by the hotels and inns were properly prepared and reflected the true occupancy rates of the various businesses.

As part of our audit we reviewed reports, documents, and financial records maintained by IRB, BER, Tourism and selected hotels, inns, and rental management companies. Our audit covered the period January through December 2000. We selected 19 hotels territory-wide and 7 rental management companies with a total of 229 rental homes for detailed reviews. These reviews included the analysis of the occupancies during the period, in-depth reviews of selected guest folios, revenues subject to the Hotel Room Tax and adjustments made to the revenues. We also verified Hotel Room Tax collections reported by the hotels/inns and other reporting requirements as required by established laws and procedures. We performed audit tests and procedures to the extent necessary to accomplish the audit objectives. Weaknesses in internal controls identified during the review are discussed in the Audit Results section of this report. The audit was performed in accordance with "Government Auditing Standards" issued by the Comptroller General of the United States.

## **PRIOR AUDIT COVERAGE**

We are unaware of any prior audits of Hotel Room Taxes conducted in the past five years.

# AUDIT RESULTS

## CONCLUSIONS

Our audit disclosed that the 8% Hotel Room Tax was not assessed on about \$4.5 million in gross room revenues. This resulted in at least \$358,164 in Hotel Room Taxes that were not assessed nor collected in Calendar Year 2000.

Specifically, we found that: (i) hotels/inns were using different methods in determining gross room revenues subject to the Hotel Room Tax, resulting in \$241,497 in unassessed and uncollected taxes; (ii) some hotels/inns did not remit to IRB, \$106,580 in Hotel Room Taxes collected; (iii) some hotels/inns filed the monthly Hotel Room Tax returns late, but were not assessed penalties and interest; (iv) individual vacation homeowners did not remit at least \$10,087 to IRB in Hotel Room Taxes collected, nor were penalties and interest assessed on delinquent returns; (v) IRB did not have an adequate system in place to properly monitor compliance with the Hotel Room Tax provisions of the Code; and, (vi) hotels/inns were filing inaccurate Hotel Room Occupancy Reports to BER.

## **FINDING 1: CALCULATION OF HOTEL ROOM TAX**

Hotels/inns were using different methods in arriving at room revenues subject to the Hotel Room Tax. These differences led to them using incorrect “gross room revenue” amounts in the computation of the Hotel Room Tax. As a result, at least \$241,497 in Hotel Room Taxes were not assessed, collected, nor remitted to IRB.

### **Gross Room Rate or Rental**

Title 33 Section 54(b) of the Code requires every hotel guest to pay a Hotel Room Tax of 8% of the “gross room rate or rental”. The Code further states that “. . . ‘gross room rate or rental’ shall include the room rate plus any additional charges, such as an energy surcharge or a maintenance fee.” We discussed this definition with officials from IRB, and were told that “gross room rate or rental” includes not only the basic room rate, but also any other fees or charges, whether they are determined as a percentage of the basic room rate or are a fixed fee.

As part of our audit, we selected 19 hotels territory-wide to determine if the 8% Hotel Room Tax was being properly assessed, collected and remitted to IRB. Of the 19 hotels reviewed, we determined that 11 of them (58%) did not base the tax on the “gross room rate or rental” as defined by the Code, but rather used the basic room rate. This resulted in \$3,018,702 in “additional charges” not being taxed. From January through December 2000, the Government lost \$241,497 in Hotel Room Taxes.

Most of the sampled hotels were using different methods in charging additional fees to the guests, and not including these fees as revenues when computing the Hotel Room Tax. For example:

- Several hotels charge a flat daily “resort fee” in addition to the room rate. This daily fee ranged from \$10 to \$12 per day.

- Other hotels charge a separate 5 to 10% energy surcharge or maintenance fee in addition to the basic room rate.

- Another hotel claims about 40% of the daily guest rate as a “resort fee”, and did not include any of it in the computation of the Hotel Room Tax.

- One hotel started charging guests a surcharge during the month of December 2000; however, no taxes were assessed on the charges.

The following schedule shows the taxes lost from the 11 hotels who under-assessed the tax based on this incorrect application of the Code.

| <u>Hotel</u> | <u>Additional Charges Not Taxed</u> | <u>Hotel Room Tax Not Assessed</u> |
|--------------|-------------------------------------|------------------------------------|
| 1            | \$1,710,145                         | \$136,812                          |
| 2            | 483,713                             | 38,697                             |
| 3            | 213,140                             | 17,051                             |
| 4            | 200,173                             | 16,014                             |
| 5            | 116,396                             | 9,312                              |
| 6            | 101,655                             | 8,132                              |
| 7            | 72,913                              | 5,833                              |
| 8            | 50,077                              | 4,006                              |
| 9            | 39,608                              | 3,169                              |
| 10           | 18,187                              | 1,455                              |
| 11           | <u>12,696</u>                       | <u>1,016</u>                       |
|              | <u>\$3,018,703</u>                  | <u>\$241,497</u>                   |

A 12<sup>th</sup> hotel charged additional fees to guests; however, based on the documentation reviewed, we could not determine the “gross room revenue”. We have recommended that IRB audit this particular hotel to determine the correct “gross room revenue” and if there were any taxes that may have been lost.

Most officials at the hotels visited indicated to us that they have never seen the law as it relates to the Hotel Room Tax, and have never received instructions from IRB regarding what constitutes “gross room revenue”. The area of IRB monitoring and oversight will be discussed later in this report.

Using the information obtained from the 2000 year review, we know that the Government loses revenues annually in unassessed Hotel Room Taxes. In 2000, the losses exceeded \$200,000. However, since the hotels\inns did not collect the additional taxes from the hotel guests, it is our opinion that IRB not assess nor penalize hotels\inns for the under-assessments of the past. However, we do feel that IRB should meet with hotel, inn and rental management company officials to explain the requirements of the Hotel Room Tax.

### “No-Show” Revenues

During our review of the 19 selected hotels, we noted that some hotels included “no-show” revenues in the computation of the Hotel Room Tax, while others did not. “No-show” revenues are deposits submitted by potential hotel guests who, for various reasons, cancel their stay. Most hotels require a non-refundable deposit if cancellation is not made by a certain time before the hotel stay. Although the hotels that included the “no-show” revenues in their computation of the Hotel Room Tax did not collect the tax from the potential hotel guest, it was included in the computation of the monthly tax return prepared by the hotel.

Based on the 19 hotels reviewed by us, we identified only \$721,000 in “no-show” revenues out of \$125,859,229 in total room revenues reported, or 0.5% of the total room revenues. Our review

also showed that almost 90% of the “no-show” revenues were reversed at some time when the credit card companies challenged the charges to their clients. Hotels officials indicated to us that it was better public relations to make the reversal in the hope that the potential guest would return at a later date.

IRB has no written policy relating to “no-show” revenues and whether they should be included in the computation of the Hotel Room Tax. However, we do note that some jurisdictions in the United States include “no-show” revenues in the computation of their room tax. IRB officials should review the pros and cons of taxing “no-shows”, while taking into consideration that the charges are frequently reversed.

### **Recommendations**

We recommend that the Director of IRB:

1. Meet with officials of the various hotels, inns and rental management companies to clarify the Code definition of “gross room rental”, and what should be included in the computation of the Hotel Room Tax.
2. Develop specific guidelines to be used in the computation, assessment and collection of the Hotel Room Tax.
3. Have an Internal Revenue Agent audit the books and records of Hotel #12, identified in this report, whose records could not be used in determining the amount of “gross room revenue” collected, and the amount of taxes that could have been lost.
4. Develop a policy on the treatment of “no-show” revenues, so that all hotels/inns can be uniform in the inclusion or non-inclusion in the computation of the Hotel Room Tax.

### **VI Bureau of Internal Revenue’s Response**

The Director of IRB, in his May 31, 2002 response, agreed with the four recommendations made. He indicated that by the end of the 2002 Fiscal Year, Hotel Room Tax guidelines will be finalized. The issue of “no-show” revenues will be addressed and the guidelines will be discussed with the members of the Hotel Association.

Regarding the recommendation that a particular hotel be audited, the Director indicated that it has been assigned to an Internal Revenue Agent for review.

### **VI Inspector General’s Comments**

The responses submitted by the Director of IRB are sufficient for us to consider them resolved. As suggested by the Director, at a later date, we will review the status of the improvements to the assessment of the Hotel Room Tax.

## **FINDING 2: REMITTANCE OF HOTEL ROOM TAX**

Some hotels/inns did not remit to IRB the total amount of Hotel Room Taxes collected from their guests. This resulted in the Government not receiving \$106,580 in taxes during 2000.

Of the 19 hotels audited, there were four with outstanding balances due to the nonpayment of taxes collected. One hotel accounted for 67% of the total taxes outstanding. The reasons for the failure to remit the taxes could not be determined. Officials from one of the four hotels confirmed the delinquency; however, due to a change in personnel, could not explain the cause of the outstanding balance. In another instance, the hotel's records, when audited, did not reflect the gross revenues reported on the tax return, nor the taxes actually paid. The gross revenues reported for the month in question could not be corroborated because the hotel was not able to produce the summary for that month. Finally, another hotel's records indicated the underpayment of the taxes; however, we could not determine the reason for the failure to remit the funds collected.

The following summarizes the Hotel Room Taxes that were outstanding from the four hotels and the associated room revenues:

| <b><u>Hotel</u></b> | <b><u>Room Revenue</u></b> | <b><u>Hotel Room Tax Not Remitted</u></b> |
|---------------------|----------------------------|---|
| 1                   | \$ 892,685                 | \$ 71,415                                 |
| 2                   | 193,082                    | 15,446                                    |
| 3                   | 132,632                    | 10,611                                    |
| 4                   | <u>113,844</u>             | <u>9,108</u>                              |
|                     | <u>\$1,332,243</u>         | <u>\$106,580</u>                          |

Unlike our recommendation in the first finding, that the hotels not be assessed the uncollected taxes since they were never paid by the hotel guests, the unremitted taxes in this finding were collected from the guests. Accordingly, the hotels in question should be required to remit the delinquent amounts to IRB, and they should be required to pay the appropriate penalties and interest, as discussed in the next finding of this report.

### **Recommendations**

We recommend that the Director of IRB:

- Take action to review and collect the outstanding taxes from the four hotels identified in this section of the report.

**VI Bureau of Internal Revenue's Response**

The Director agreed with the recommendation made and he assigned the task of collecting the outstanding taxes to an Internal Revenue Representative.

**VI Inspector General's Comments**

The response is sufficient for us to consider it resolved.

### **FINDING 3: LATE FILING PENALTIES AND INTEREST**

IRB did not assess penalties and interest for Hotel Room Tax returns that were filed after the due dates. We estimated that the Government lost \$86,817 in unassessed penalties and interest. In addition, penalties and interest totaling at least \$13,011 is due for the unpaid amounts identified in Finding 2 of this report.

Title 33 Section 45(a) of the Code in part states, “Every hotelkeeper or innkeeper failing to file reports or pay the total amount of tax within the time required by this chapter is subject to the payment of a penalty at the rate of fifteen percent (15%) per month or any fraction thereof, but not exceeding twenty-five (25%) in the aggregate.”

Title 33 Section 1231(a) of the Code requires a 12% interest rate to be assessed on all unpaid taxes. It states, “If any amount of tax imposed by the internal revenue laws of the Virgin Islands is not paid on or before the last date prescribed for payment, interest on such amount at the rate of 12 percent per annum shall be paid for the period from such last date to the date paid.”

As stated in the background section of this report, Hotel Room Tax Returns and the corresponding payments are due within thirty days of the end of each month. Any returns or payments made after the due dates are subject to penalties and interest as described above. Of the 19 hotels included in our review, we identified three hotels who filed and paid some of their monthly returns after the due dates prescribed by law. These three hotels were delinquent for one to eight months. When they eventually filed, no penalties or interest were included, nor did IRB assess any penalties and interest. The following details the delinquencies found:

- One hotel filed and paid three monthly returns from one to three months late. Penalties and interest totaling \$3,609 should have been assessed.

- Another hotel filed and paid four monthly returns from five to eight months late. Penalties and interest totaling \$65,300 was not assessed.

- The final hotel filed six monthly returns from one to five months late. No payment accompanied the filing and penalties and interest totaling \$17,908 were not assessed.

IRB should also collect penalties and interest of at least \$13,011 from the four hotels identified in Finding 2 of this report, who failed to remit Hotel Room Taxes of \$35,165.

#### **Recommendations**

We recommend that the Director of IRB:

1. Assess and collect penalties and interest from the three hotels, in this finding, who filed late and paid Hotel Room Taxes collected, as well as, the four hotels, in Finding 2, who were still delinquent in the payment of the taxes.

2. Assign an IRB employee to review the tax returns for 2001 and 2002. Compute and assess potential penalty and interest amounts due.

3. Establish a procedure to regularly monitor the filing of returns in order to assess penalties and interest for delinquent filers.

#### **VI Bureau of Internal Revenue's Response**

An Internal Revenue Representative was assigned the task of collecting on delinquent taxes, penalties and interest. The individual will also monitor the filing of Hotel Room Tax returns.

As part of IRB's reorganization plan, expected by September 1, 2002, an improved monitoring system will be established.

#### **VI Inspector General's Comments**

We consider the three recommendations made in this section of the report to be resolved. We will review the implementation of the improved monitoring and collection activities at a later date.

## **FINDING 4: VACATION RENTAL HOMES**

In general, rental management companies were collecting and remitting Hotel Room Tax collections from the rental of vacation homes. However, there were instances where individual property owners were not remitting to IRB the taxes collected on their behalf. We identified \$10,087 in taxes that, although collected from the rental guests, were not remitted to IRB. In addition, at least two rental management companies filed Hotel Room Tax returns late, but did not pay any penalties and interest. Finally, some rental management companies were consolidating all vacation homes into one monthly return, resulting in the individual homeowners not being identified.

### **Background**

Many private individuals rent vacation homes, mostly on a weekly basis, during time periods that they are not occupied by the owners. Weekly rentals ranged from about \$500 to as much as \$10,000 per week. The rental fees collected from these vacation homes are subject to the Hotel Room Tax. Rental management companies manage the majority of the vacation rental homes. We identified 29 rental management companies in the Virgin Islands, with 422 vacation homes available for rental at some time during the year. The majority of these rental homes are located on the island of St. John.

Since the majority of the vacation homeowners reside on the United States mainland, the rental management companies provide all services to ensure that the vacation homes are suitable for rental. Some of the services provided include; the scheduling of rental guests, accommodating the guest upon arrival in the Virgin Islands, managing repairs and maintenance of the properties, collecting rental fees and Hotel Room Taxes, and in most instances filing and remitting the taxes to IRB.

### **Hotel Room Taxes**

At least 3 vacation homeowners did not remit collected Hotel Room Taxes to IRB. As a result, at least \$10,087 in taxes remain delinquent.

As part of our review, we visited 7 rental management companies who managed 229 homes, mostly on St. John. In general, we found that the rental management companies were collecting and remitting the appropriate Hotel Room Tax. As a norm, the rental management companies collect and remit the related Hotel Room Tax amounts for the various vacation homeowners. However, we identified 6 individuals who, according to officials of the rental management companies, required that all collections, less commissions, be sent to them, indicating that they will remit the payment of taxes themselves.

Our review indicated that 3 or 50% of the individual vacation homeowners did not remit the collected taxes to IRB. As a result, at least \$10,087 in taxes for \$126,083 in rental revenues is delinquent. Some of the vacation homeowners, when contacted by us, claimed that they thought the rental management companies were responsible for the tax payments. Others claimed that cash flow

problems were the reasons for the delinquencies. Since our review was limited to the calendar year 2000, we do not know how long these individuals have collected but not remitted the Hotel Room Taxes to the Government. This information has been referred to IRB for their review.

### **Penalties and Interest**

Some rental management companies filed and remitted their Hotel Room Taxes after their due dates, however, no penalties nor interest was assessed. Two rental companies made tax payments anywhere from one to three months late, resulting in penalties and interest of \$2,186 not being assessed. We identified at least one rental management company that commingled their tax collections from one month to the next thereby giving the appearance that the tax returns filed included revenue from the current month. This commingling in effect disguised the fact that some of the tax payments were late. As a result, no penalties and interest were assessed on the late portion of the tax remittances. We also found another rental management company who was late from one to three months in the filing and payment of six months of tax collections. Again, no penalties and interest was assessed.

### **Hotel Room Tax Returns**

Rental management companies were not consistent in their reporting of Hotel Room Taxes collected on vacation home rentals. These companies manage from 6 to 76 vacation homes, and collected Hotel Room Taxes from each on a monthly basis. Some of the rental management companies prepare and file individual returns for each home rented in a given month, showing the name and tax identification number of the property owner. Other companies, however, prepare only one monthly return in the name of the rental management company, and consolidate all of the vacation homes rented for the month, without identifying the owners. In addition to the lack of a uniform method of reporting the taxes collected from these vacation homes, the filing of one consolidated return prevents IRB officials from knowing if individual property owners are current in the payment of their tax obligations.

Each vacation homeowner is required to obtain a business license from the Department of Licensing and Consumer Affairs. As a part of the licensing process the homeowner is required to get a tax clearance letter from IRB indicating that they are current in all taxes. Without the Hotel Room Tax information, any tax clearance letters issued by IRB would be incomplete. Of the vacation homes selected for our review, we identified two homeowners who did not have business licenses. In addition, as indicated in the previous paragraphs of this section of the report, several homeowners were not remitting taxes that they collected on behalf of the Government.

At a minimum, IRB should address the uniformity in filing the tax returns. Some rental management companies have indicated to us that it is very time consuming to prepare an individual return monthly for each vacation home that they manage. If IRB decides to require that only one return is required for each rental management company, a listing of all the property owners, and their tax ID number included in the particular monthly payment, should be a part of the return.

## **Recommendations**

We recommend that the Director of IRB:

1. Contact the vacation homeowners who are delinquent in filing and remitting Hotel Room Taxes to determine the extent of the delinquency for the collection of the appropriate taxes, penalties and interest.
2. Meet with officials of the various rental management companies, to explain the Hotel Room Tax, the reporting and filing requirements, and the penalties and interest that can be assessed on delinquencies.
3. Establish a reporting requirement to be used by all rental management companies. If a single monthly return is going to be accepted, at least require a listing of all of the property owners, tax ID numbers, revenue collected, and the corresponding taxes covered by the single return.

## **VI Bureau of Internal Revenue's Response**

The Internal Revenue Representative assigned to monitor Hotel Room Tax collections will also monitor vacation homes. The Director of IRB will also meet with management company representatives to discuss the Hotel Room Tax guidelines, once they have been issued. The guidelines will include reporting requirements.

## **VI Inspector General's Comments**

The responses are sufficient for us to consider the recommendations resolved. We will review the assessment and monitoring of the Hotel Room Tax at a later date.

## **FINDING 5: IRB OVERSIGHT**

IRB did not have a system in place to monitor the filing of Hotel Room Tax returns, and the payment of taxes due. As a result, there are no assurances that all hotels, inns, or rental management companies were filing and paying the appropriate taxes.

As part of our audit, we reviewed IRB's system of monitoring the filing and payment of Hotel Room Taxes. The extent of IRB's monitoring of the Hotel Room Tax is the preparation of a computer generated spreadsheet. The spreadsheet identifies the entity paying the tax and the amount paid. The last spreadsheet updated was for taxes filed through 1997. The individual previously assigned the task of entering this Hotel Room Tax information is no longer employed at IRB, and no one has been assigned the task of updating the tax filing information. In addition, tax returns filed by the various entities are not kept in a systematic way to easily locate a particular entity's return for a given month and year. There is no follow-up on delinquent returns, no assessment of penalties and interest for late filers, and no audits of returns filed.

The findings identified in this report are the results of this lack of oversight. No guidelines have been established to ensure that all entities are computing the Hotel Room Tax on a consistent basis. Entities are filing returns without submitting payments, and no steps are being taken to ensure the payment of taxes owed and the assessment of penalties and interest when needed.

IRB officials acknowledged to us that the Hotel Room Tax had been neglected for many years, mainly due to a lack of manpower. However, IRB has recently embarked on an improvement project to its automated management information system. The monitoring of the filing and payment of Hotel Room Taxes has been included in the planned improvements.

### **Recommendations**

We recommend that the Director of IRB:

- Ensure that the current improvements to the operations of IRB include procedures to properly monitor the filing, assessment and collection of Hotel Room Taxes.

### **VI Bureau of Internal Revenue's Response**

A modernization plan, which will reorganize IRB's processes, is scheduled for implementation by September 1, 2002. At such time, improved monitoring and aggressive collection of all taxes will begin.

### **VI Inspector General's Comments**

The response is sufficient for us to consider the recommendation resolved. We will review the modernization plan and its effects on the Hotel Room Taxes at a later date.

## **FINDING 6: HOTEL OCCUPANCY REPORTS**

Hotel Occupancy Reports and the average room rates provided by hotels/inns to BER were sometimes inaccurate, resulting in the possibility of incorrect information being used to project Hotel Room Tax revenues.

Each hotel, inn and rental management company is required to submit to BER a monthly report showing the number of available rooms, and the number of rooms occupied daily for the month. They are also surveyed periodically to obtain the average room rates. Based on this information, BER monitors the occupancy rates and projects the amount of taxes that can be expected. Hotel Room Taxes are deposited into the Tourism Advertising Fund, most of which is used to advertise the territory as a tourist destination.

Our review of some of the reports revealed several problems with the information submitted to BER. The first problem area dealt with the fact that some of the hotels were reporting incorrect occupancy amounts when compared to their books and records. Although the majority of the hotels correctly reported their occupancies, others did not. Some of these discrepancies resulted in overstatements/understatements of as much as 307 guests in a given month.

Another problem was the fact that some hotels were including “time-share” information as part of the regular hotel occupancy information. Until recently, “time-share” rooms were not subject to the Hotel Room Tax. In addition, the rates paid by “timeshare owners” are significantly lower than the average room rate paid by regular hotel guests. The inclusion of “time-share” information affected the projections of revenues from the collection of the Hotel Room Tax.

The final area of concern deals with the hotel room rate being supplied to BER by the various hotel and inns. These rates are used in the computation of the projected revenues from the tax. Hotels have been supplying the published room rates; however, during the course of our review we found that most hotels have been discounting their published rates even further. Based on our sample of hotels, we estimated that for the 2000 year, hotel rates have been discounted by as much as 38%; island by island, St. John hotels were discounted by an average of 28%, St. Thomas hotels by 39%, and St. Croix hotels by 45%. By submitting average room rates that exceeded the actual average, projected revenues from the Hotel Room Tax will be inflated.

### **Recommendations**

We recommend that the Director of BER:

1. Meet with hotel officials to ensure that the monthly Hotel Occupancy Reports are submitted with correct information.
2. Since “time-share” units are now subject to the Hotel Room Tax, revise the Hotel Occupancy Report form to allow for the recording of “time-share” information as separate entries to the regular room occupancies.

3. Ensure that hotels provide the **actual** average hotel room rate sold for the period under review and not the published room rate.

### **Bureau of Economic Research's Response**

The Director of BER indicated, in her June 6, 2002 response, that in March 2002, an electronic version of the occupancy report was provided to the hotels. The report contains a data verification module to ensure that accuracy of the occupancy rates.

A separate occupancy report for "time-shares" will be implemented effective October 1, 2002.

A meeting is being scheduled with officials from BER, IRB, the Departments of Licensing and Tourism, and the Office of Management and Budget, to discuss methods of ensuring compliance and better reporting of occupancy and hotel rate information.

### **VI Inspector General's Comments**

The responses are sufficient for us to consider them resolved. At a later date, when we review the status of IRB's modernization plan, we will also review the effects of BER's improvement efforts.

**Director's Office**  
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**GOVERNMENT OF  
THE VIRGIN ISLANDS OF THE UNITED STATES**

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**VIRGIN ISLANDS  
BUREAU OF INTERNAL REVENUE**  
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9601 Estate Thomas  
Charlotte Amalie, St. Thomas, U.S.V.I. 00802

May 31, 2002

Stephen G. van Beverhoudt  
V.I. Inspector General  
Office of Virgin Islands Inspector General  
75 Kronprindsens Gade  
St. Thomas, Virgin Islands 00802

**RE: Draft Audit Report  
Administration of the Hotel Room Tax  
(AR-01-27-02)**

Dear Mr. van Beverhoudt:

The Virgin Islands Bureau of Internal Revenue has reviewed the above referenced audit report. As stated in the exit interview, we are aware of the present deficiencies in the local area unit, which are due primarily to the lack of human resources to properly administer these taxes.

The Bureau's reorganization and modernization plans, which have been explained to you in detail, seek to correct many, if not all, of the deficiencies cited in the report. Once fully implemented, I welcome your staff to return and review our processes, and I am confident that your agency will find that they cure the defects.

The Hotel Room Tax, while not a significant portion of the Bureau's overall annual collections, is vital to the success of our most significant industry, tourism. Each dollar collected is earmarked to advertise the Virgin Islands, ultimately resulting in an increase in our overall revenues. With this impact in mind, it is the Bureau's goal to prioritize the assessment and collection of the hotel room tax.

Enclosed is the Bureau's response to the recommendations from the agency. If you need additional information or clarification, please feel free to contact me.

Sincerely,

A large, stylized handwritten signature in black ink, appearing to read "Louis Milton Willis".

Louis Milton Willis  
Director

## **FINDING 1: CALCULATION OF HOTEL ROOM TAX**

### **Recommendations**

We recommend that the Director of IRB:

1. Meet with officials of the various hotels, inns and rental management companies to clarify the Code definition of “gross room rental”, and what should be included in the computation Hotel Room Tax.

**RESPONSE:** The Director of the Virgin Islands Bureau of Internal Revenue will meet with the members of the Hotel Association to discuss, among other things, the Bureau’s guidelines on the definition, computation, assessment and collection of hotel room tax. This will occur within the fourth quarter of Fiscal Year 2002.

2. Develop specific guidelines to be used in the computation, assessment and collection of the Hotel Room Tax.

**RESPONSE:** The first draft of the hotel room tax guidelines is in its final stage and should be reviewed by the Processing and Audit Branches within thirty (30) days. It is the Bureau’s goal to finalize the regulations by September 30<sup>th</sup>. At that time, copies will be sent to all listed hotels, guest homes and management companies.

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3. Have an Internal Revenue Agent audit the books and records of Hotel #12, identified in this report, whose records could not be used in determining the amount of “gross room revenues” collected, and the amount of taxes that could have been lost.

**RESPONSE:** The audit of Hotel # 12 has been assigned to a Revenue Agent to determine the correct amount of gross room rental and the hotel tax due to the Virgin Islands Government.

4. Develop a policy on the treatment of “no-show” revenues, so that all hotels/inns can be uniform in the inclusion or non-inclusion in the computation of the Hotel Room Tax.

**RESPONSE:** The “No Show” policy will be incorporated into the regulations, mentioned in Response # 1.

## **FINDING 2: REMITTANCE OF HOTEL ROOM TAX**

### **Recommendations**

We recommend that the Director of IRB:

Take action to review and collect the outstanding taxes from the four hotels identified in this section of the report.

**RESPONSE:** The Director of the Virgin Islands Bureau of Internal Revenue has assigned the task of collecting the outstanding taxes from the four hotels to a Revenue Representative. The Revenue Representative will initiate collection methods for the tax and the applicable interest and penalties thereon.

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**FINDING 3: LATE FILING PENALTIES AND INTEREST**

**Recommendations**

We recommend that the Director of IRB:

1. Assess and collect penalties and interest from the three hotels, in this finding, who filed late and paid Hotel Room Taxes collected, as well as, the four hotels, in Finding 2, who were still delinquent in the payment of the taxes.

**RESPONSE:** The Director has assigned this specific task to a Revenue Representative to initiate collection activity.

2. Assign an IRB employee to review the tax returns for 2001 and 2002.  
Compute and assess potential penalty and interest amounts due.

**RESPONSE:** The Revenue Representative assigned to collect the hotel room taxes will remain on this detail to monitor and review hotel tax returns. Upon determination that an audit may be needed, the Revenue Representative has been instructed to forward the recommendation to the Audit Branch.

This measure is temporary. When the Bureau's reorganization is finalized, the local tax unit will be fully staffed and operational to review, assess and collect the hotel room taxes as required by law.

3. Establish a procedure to regularly monitor the filing of returns in order to assess penalties and interest for delinquent filers.

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**RESPONSE:** The Bureau agrees that there must be established procedures for the overall processing of local taxes. This should be corrected with the implementation of the Bureau's reorganization plan.

**FINDING 4: VACATION RENTAL HOMES**

**Recommendations**

We recommend that the Director of IRB:

1. Contact the vacation homeowners who are delinquent in filing and remitting Hotel Room Taxes. Determine the extent of the delinquency and collect the appropriate taxes, penalties and interest.

**RESPONSE:** The Revenue Representative who has been assigned to handle the hotel room collections will also be monitoring the hotel room filings of the vacation homeowners.

2. Meet with the official of the various rental management companies, explaining the Hotel Room Tax, the reporting and filing requirements, and the penalties and interest that can be assessed on delinquencies.

**RESPONSE:** The Director will be contacting the representatives of management companies regarding the issuances of the regulations and the reporting and filing requirements.

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3. Establish a reporting requirement to be used by all rental management companies. If a single monthly return is going to be accepted, at least require a listing of all the property owners, tax ID numbers, revenue collected, and the corresponding taxes covered by the single return.

**RESPONSE:** The Virgin Islands Bureau of Internal Revenue agree that a reporting requirement is needed. This information will be incorporated in the regulations being drafted.

#### **FINDING 5: IRB OVERSIGHT**

##### **Recommendations**

We recommend that the Director of IRB:

Ensure that the current improvements to the operations of IRB include procedures to properly monitor the filing, assessment and collection of Hotel Room Taxes.

**RESPONSE:** The Virgin Islands Bureau of Internal Revenue has embarked on a modernization plan, which seeks to reorganize the Bureau's processes. Integral in this process is the implementation of the utilization of scanners. Local tax returns will be scanned and processed in a matter of minutes. Consequently, assessments too, will occur regularly and aggressive collection will begin. Our expected date of implementation is September 1, 2002.

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**FINDING 6: HOTEL OCCUPANCY REPORTS**

**Recommendations**

We recommend that the Director of Bureau of Economic Research:

1. Meet with hotel officials to ensure that the monthly Hotel Occupancy Reports are submitted with correct information.

2. Since “time-share” units are now subject to the Hotel Room Tax, revise the Hotel Occupancy Report form to allow for the recording of “time-share” information as separate entries to the regular room occupancies.

3. Ensure that hotels provide the **actual** average hotel room rate sold for the period under review and not the published room rate.

**RESPONSE:** While this section is not applicable to the Bureau, the Bureau agrees that all agencies of the Virgin Islands Government should receive accurate information to allow for the proper forecasting of revenues.



**GOVERNMENT DEVELOPMENT BANK  
BUREAU OF ECONOMIC RESEARCH**

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June 6, 2002

Steven van Beverhoudt, CFE, CGFM  
VI Inspector General  
Office of the VI Inspector General  
US Virgin Islands

Dear Mr van Beverhoudt:

The Bureau of Economic Research is pleased to respond to the recommendations made in the Office of Inspector General's audit report on the administration of the hotel room tax.

The Bureau has met on a number of occasions with members of the St. Thomas and St. John Hotel and Tourism Association. During these meetings we outlined the problems we have experienced with the hotel occupancy reports and emphasized the importance of receiving accurate and reliable data. We will meet with the Association in the immediate future to again address this issue and to ensure the receipt of accurate data.

The Bureau has taken action to improve the quality of data we are receiving from the hotels. Beginning in March 2002, we have provided an electronic version of the occupancy reports to the hotels. We have included in that report a built-in data verification module so that accurate occupancy rates are calculated. We are encouraging all hotels to use this electronic version of the hotel occupancy reports.

Your second recommendation with respect to time-share is an excellent one. The Bureau will implement a separate occupancy report for time-share beginning October 1, 2002.

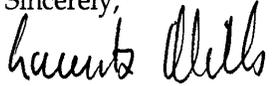
We will request from the hotels the actual average hotel room rate; however, since this is self-reporting and voluntary, it will be difficult to ensure the accuracy.

The Bureau is also exploring other options we can use to encourage the submission of occupancy reports. A meeting is being scheduled between this

office and IRB, Licensing and Consumer Affairs, OMB and the Department of Tourism to discuss methods by which we can encourage compliance and better reporting.

The staff of Bureau of Economic Research would like to express our appreciation for the assistance we have received from your office on this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Lauritz Mills".

Lauritz Mills

Director, Bureau of Economic Research

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