

# Caribbean Tax Haven Begins to Bounce Back After Irma

By Tom Metcalf, Ezra Fieser, and Lynnley Browning

September 15, 2017, 12:00 PM GMT+2

- Corporate registry up and running for British Virgin Islands
- Damage to the territory from Irma estimated at \$1.4 billion

It took two days after Hurricane Irma ripped through the British Virgin Islands, damaging or destroying an estimated 70 percent of the territory's buildings, for the Caribbean tax haven to start piecing back together its lucrative corporate-registry business.

Running off a giant backup generator, the registry's government buildings, mostly unscathed by the storm, opened shop on Monday, days after the costliest storm in the region's history, said Lorna Smith, interim executive director of BVI Finance.

Some key functions were moved to offices in Hong Kong and London, Smith said. The online system to incorporate new businesses, VIRRGIN, was reopened. And court business will be shifted to a temporary location in nearby Saint Lucia within two weeks due to damage to court buildings, she said.

"In terms of the ability of BVI's financial sector to operate, we don't need buildings in any one location," Smith said. She rode out the storm in her bathroom with five people and a dog as Irma tore the roof from her home and blew in the front door. She said she's staying at a hotel in Road Town, the capital.

The British Virgin Islands starts cleaning up after a storm that shredded homes, left hundreds without basic necessities and wrecked the tourism industry for what may be years. Getting the financial sector up and running is essential to its future. Finance makes up about one-third of the island territory's roughly \$1 billion economy, accounts for three-fifths of government revenues, and supports more than 5,000 jobs, according to a report this year by Capital Economics, a London research firm.

## Tax Rules

Thanks to its advantageous tax rules, the British Virgin Islands play a role in the global financial system much bigger than the population of 30,000 might indicate. The territory is home, at least on paper, to more than 400,000 businesses that hold about \$1.5 trillion in assets, according to Capital Economics.

Disruption to the system proved unavoidable as Irma caused an estimated \$1.4 billion in damages in the British Virgin Islands, according to the Germany-based Center for Disaster Management and Risk Reduction Technology. The storm caused about \$12.65 billion in damage in the Caribbean, the center said.



Destruction in Road Town, Tortola, on Sept. 10. Photographer: Joel Rouse/MOD via AP Photo

Irma left Road Town, where most businesses are clustered, deserted as companies evacuated workers and set up other arrangements. The Scotia Bank branch is roofless and flooded, while a 56-foot catamaran blocks the entrance to the marina, according to Christine Perakis, a business consultant who lives on the main island of Tortola and stayed through the storm.

"The trees are demolished, there's not a branch or leaf left," Perakis said. "It looks like skeletal remains."

## American Expatriates

For some U.S. expatriates, heading to the safety of the U.S. might have tax implications. While the U.S. taxes its citizens on their worldwide income, expats that work abroad can exclude as much as \$116,394 from tax this year.

The catch is they have to either live in a foreign country for an entire tax year or 330 days out of 365 days in 12 consecutive months. They can only take short trips out.

"Someone who had already spent 30 days in the U.S. prior to the hurricane and then evacuated to the U.S. for one week would have spent fewer than 330 days outside of the U.S. and may lose this benefit," said David McKeegan, co-founder of accounting firm Greenback Expat Tax Services.

A spokesman for the Internal Revenue Service, which collects U.S. taxes, declined to comment.

With no taxes on corporations, dividends, capital gains, inheritances or gifts, the British Virgin Islands regularly makes lists of the most popular offshore tax havens. The territory gained notoriety last year as the world capital of shell companies after the release of the so-called Panama Papers.

More than half the companies linked to the articles by the International Consortium of Investigative Journalists, based on leaks from a secretive Panamanian law firm, were said to have been incorporated in the British territory.

## Untaxed Profits

The left-leaning Citizens for Tax Justice, using data from the IRS, United Nations and World Bank, estimated that U.S. corporations reported more than \$10 billion in profits from British Virgin Islands subsidiaries in 2010.

Fallout from the articles has cut into the offshore industry and the islands in particular. The number of new BVI-incorporated companies dropped by nearly a third last year, to about 32,000, after falling since 2012, according to the British Virgin Islands Financial Services Commission. Negative publicity from the Panama Papers helped cause the British territory to fall from first to third in a ranking of incorporation jurisdictions, behind the U.K. and Hong Kong, according to Jonathon Clifton of Vistra Group.

## Disclosure System

A new global financial-disclosure system takes effect this month that undermines the privacy and anonymity many offshore centers can offer clients, putting additional pressure on the British Virgin Islands to make a case as an attractive jurisdiction.



Aftermath of Hurricane Irma in Virgin Gorda's Leverick Bay on Sept. 8. Source: Caribbean Buzz

Helicopters via AP Photo

Meanwhile, many financial workers have been shifted to other offshore centers. Narinder Hargun, co-chairman of Bermuda-based law firm Conyers Dill & Pearman, said British Virgin Islands staff relocated to Bermuda and the Cayman Islands, which were largely spared Irma's wrath.

A Sept. 8 email to clients of Trident Trust, one of the oldest and largest trust companies in the BVI, said its British and U.S. Virgin Islands offices were closed and communications with both locations extremely limited.

"If I needed to start a BVI company today, I doubt I could," said William Blum, an international tax and business lawyer at Solomon Blum Heymann LLP in New York, whose company's St. Thomas office in the neighboring U.S. Virgin Islands is closed with the local population under a curfew.

Even in the relatively unaffected Cayman Islands, there were slowdowns as workers took shelter from the storm.

## Insight in Your Inbox

Subscribe to Share The View

[Sign Up](#)

Irma's destructive path is a reminder of the vulnerability to tropical storms that haunt financial centers and their clients. Irma closely followed Hurricane Harvey, which devastated southeast Texas. But even before the pair arrived, Atlantic storm activity had already outpaced the 30-year average. The U.S. National Oceanic and Atmospheric Administration increased its forecast last month to as many as 19 Atlantic storms.

"People are jurisdiction shopping, and this would be something to add to the criteria," said David Richardson of Bahamas-based Mid-Ocean Consulting Ltd.

— With assistance by Sonali Basak