



VIRGIN ISLANDS
INTERNATIONAL TAX AUTHORITY
INTEGRITY | TRANSPARENCY | ACCESSIBILITY

ANNUAL *REPORT* 2021

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INTRODUCTION

CHAIRMAN'S MESSAGE

I am pleased to present the 2021 Annual Report for the International Tax Authority (“ITA”).

By now, the ITA has become comfortable with its status as a statutory body and operational practices are becoming more settled. In the circumstances, this was an opportune time for the organization to put forward several policies and procedures for consideration by the Board. These included an Employee Handbook as well as policies on travel, technology, complaints and, of course, working-from-home.

As part of the maturing of the ITA, the organization also began to explore revenue-raising initiatives as, up to this point, the ITA had not been passing on any portion of its growing overheads costs, including cost of technological advances to comply with various OECD schemas and other requirements which refine filing requirements.

Annual economic substance filings entered into their second round since the regime began. Much experience was gained from the earlier tranche of filings which led to improved laws and technology during 2021. The OECD again assessed the Virgin Islands as having a Fully Effective Monitoring Mechanism. The review entailed suggestions for further improvements which the organization has taken on-board.

I wish to take this opportunity to thank my colleagues on the Board for their steadfast dedication and support.

It is my pleasure to present this report.

Lisa E Penn-Lettsome

Chairman

DIRECTOR'S MESSAGE

The focus of the International Tax Authority (“ITA”) for 2021 was compliance and operations. Significant strides have been made with developing and introducing policies and procedures that would not only ensure the confidentiality and protection of the data managed by the ITA, but also to ensure that the organization is compliant with applicable laws and regulations. This was a small but important part of the 2021 workplan for the ITA and was the first step to ensuring that the rules, standards and values of the ITA are clearly defined and adhered to.

2021 brought forth important amendments to the International Tax Authority Act, 2018 (ITA Act) and the Mutual Legal Assistance (Tax Matters) Act, 2003 (“MLA”). The ITA Act amendments increase the compliance powers of the ITA and extends them to all relevant persons whether legal or natural. It also introduced the ability of the ITA to administer administrative penalties and fines for non-compliance with any Mutual Legal Assistance legislation. These are important steps to ensure that the Virgin Islands is able to meet its international obligations.

At the end of 2021 an amendment to the Beneficial Ownership Secure Search System Act, 2017 (“BOSSs”) streamlined the reporting requirements of all corporate and legal entities with the compliance regime for economic substance. This amendment will have a significant effect on the ability of the ITA to carry out its compliance inspections in reference to financial periods beginning in 2022. The recognition of the OECD in assessing the Virgin Islands as having a Fully Effective Monitoring Mechanism is promising and the ITA will continue to work to ensure that this determination is maintained.

Compliance strategies in reference to Automatic Exchange of Information (“AEOI”) have also been introduced and strengthened as the ITA works toward ensuring compliance with the international standard on AEOI. The remit of the ITA continues to grow as the international climate continues to develop and 2021 has shown a dedication of the Government of the Virgin Islands to ensure that the ITA is equipped to meet and respond to these changes in a positive way.

Once again, I wish to applaud and express my gratitude to the staff of the ITA for their continued hard work and dedication during the year 2021.


LaToya James
Director

GLOSSARY OF TERMS

AEOI	Automatic Exchange of Information
BEPS	Base Erosion & Profit Shifting
BVIFARS	British Virgin Islands Financial Account Reporting System
CbCr/CBC	Country by Country Reporting
CRS	Common Reporting Standard
CTS	Common Transmission System
DTA	Double Taxation Agreement
EOIR	Exchange of Information on Request
ES	Economic Substance
EU	European Union
US FACTA	Financial Account Tax Compliance Act
G20	Group of 20 (countries)
ICU	International Co-operation Unit
IC	International Co-operation
IRS	Inland Revenue Service
IT	Information Technology
ITA	International Tax Authority
OECD	Organization for Economic and Co-operation Development
SSU	Support Services Unit
TIEA	Tax Information Exchange Agreement

SUPPORT SERVICES UNIT (“SSU”)

STAFFING

For 2021, the SSU was focused on ensuring that the ITA was fully staffed and, in a position to meet its international obligations. By the end of 2021, the ITA’s staff complement had increased to twenty-eight (28) persons. The hiring exercise in 2021 saw the introduction of one (1) Compliance Examiner and two (2) Senior Compliance Officers in the Compliance Unit, which, at the time, completed the staffing requirements for that Unit. Other new hires included one (1) Senior Administrative Officer in the Support Services Unit and one (1) International Cooperation Officer within the International Cooperation Unit.

SEPARATIONS/PROMOTIONS

Since its establishment in 2018, one employee separated from the ITA in mid-2021. Although sudden, the separation introduced an opportunity for upward mobility and saw an existing employee within the Support Services Unit promoted to join the Compliance team as Compliance Examiner.

INFORMATION TECHNOLOGY (IT)

DATA SECURITY/WEBSITE

The ITA embarked on a journey to implement measures that would ensure that its data was secured and protected from any possible cyber-attacks. This step demonstrated our commitment to ensuring the information maintained and managed by the ITA is kept secure and confidential in line with the international standards.

This was achieved by utilizing penetration testing which was the first step in identifying weaknesses within the current network. Any deficiencies identified were recorded and actions were taken or planned to remedy those deficiencies. Additionally, a breach detection system was successfully implemented to provide for 24-hour monitoring of network traffic and to flag all suspicious activities occurring within the network.

The ITA has also joined the Information Security Management (“ISM”) Network through the Organization for Economic and Co-operation Development (“OECD”) which offers training and panel discussions on how Tax Authorities can stay up to date and strengthen their Confidentiality and Information Security Management Systems.

The ITA website remains the hub for all information and updates relating to filing and reporting obligations. It is also the best source for new announcements and changes to the legislative framework that govern the work of the ITA.

MEETINGS/TRAINING/RESOURCES TOOLS

Training continues to be a focus especially due to the growth experienced in 2021. Despite the residual effects of the COVID 19 pandemic employees were able to continue to engage in professional development by attending training seminars and meetings virtually. In House training and discussion sessions had increased in 2021 also to ensure consistency in the application across units. The training seminars and meetings for 2021 included:

- Intro to Cryptocurrencies, Verification, Risk, Reporting and Compliance;
- Common Transmission System Summit;
- Tracing Illicit Financial Flows – A Public & Private Approach;
- Vizor AEOI Analytics Administrator Training Webinar;
- The Ever-Evolving Role of an AEOI Responsible Person;
- MAP Workshop;
- Virtual Training on Beneficial Ownership and EOIR Assessments;
- Human Resources & Compensation Committee Certification;
- 17th Annual UK AML & Financial Crime Seminar;
- Network of Tax Organizations (NTO) Technical Conference;
- Information Security Management (ISM) Network training;
- 8th Global Forum Competent Authority Conference;
- OECD (CA) - Global Forum on Transparency and Exchange of Information for Tax Purposes;
- OECD workshop on the effective use of AEOI data (October 2021); and
- BVIFARS and BOSS [ES] Training seminars – Internal.

GENERAL OPERATIONS

TEMPORARY OFFICE CLOSURE DUE TO COVID-19/ADJUSTMENTS

The Offices of the ITA were closed temporarily in January 2021 due to the spike in Covid-19 cases in the Territory, which also affected a few staff members. The one-week closure allowed for the persons affected by the virus to recover and allowed an opportunity for the building to be sanitized for the return of those members of staff that were able to.

Adjustments were also made to the ITA's operations where external personnel such as courier and messenger services utilized a drop box system to minimize the exposure of the staff from members of the public.

FEE IMPLEMENTATION

In an effort to become more self-sufficient the ITA sought and was granted approval by the Board to implement an annual filing fee in the amount of \$185 for use of the BVI Financial Accounts Reporting System ("BVIFARs") by each relevant entity under the Common Reporting Standards ("CRS") and Foreign Account Tax Compliance Act ("FATCA") and

constituent and other reporting entities under Country-by-Country reporting (“CbCr”). The proposed timeline for the implementation of the fee is the end of 2022.

FINANCE

The International Tax Authority continues to be supported financially by the Government of the Virgin Islands through an annual subvention. For the fiscal year 2021 the ITA received subventions totaling \$2.4 million dollars.

INTERNATIONAL CO-OPERATION UNIT (ICU)

The focus of the ICU for 2021 was to streamline its process and procedures in relation to Exchange of Information upon request (“EOIR”), Automatic Exchange of Information (“AEOI”) and Spontaneous Exchange of Information (“SEOI”). This meant updating guidance, process and IT capabilities to meet the ever-growing requirements of the Unit.

CASE-FILE MANAGEMENT SOFTWARE

The Electronic Management & Monitoring Application (“EMMA”) has been in use by members of staff since 2015. Given the increase in staff certain aspects of EMMA have been reviewed and a decision to update these to improve efficiency had been made. The processing of a request begins and ends in EMMA. EMMA offers a single glance view of each officer’s cases on a dashboard layout. This dashboard provides information such as the timeframe that a request is open, the status of request, due dates for follow ups to be issued, if needed and it allows the officer to create or monitor other actions. EMMA promotes the effective and efficient exchange of information in a timely manner. More importantly, EMMA is the means by which parameters are set and monitored for Officers to meet quarterly goals set by the Head of the International Cooperation Unit.

Given the introduction of a legal counsel to the ITA, EMMA is also being updated to include a dashboard for that officer and the process of prosecutions, legal challenges and judicial review.

EXCHANGE UPON REQUEST (EOIR)

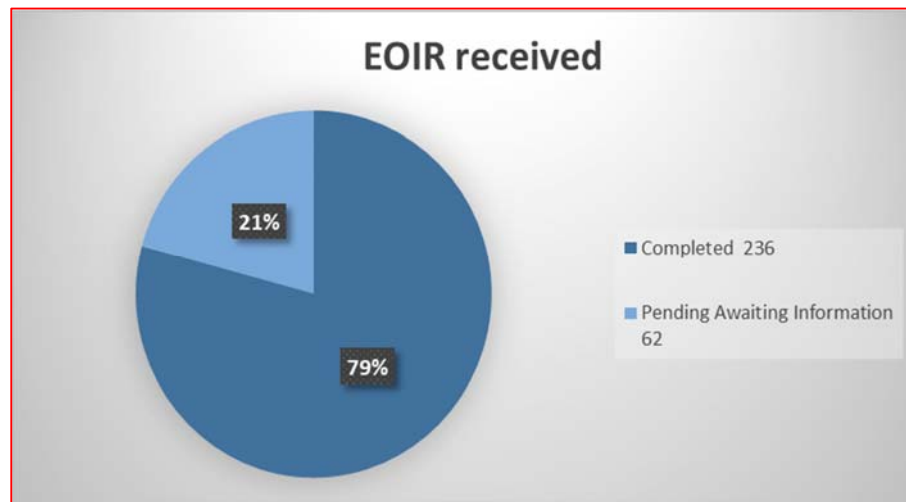
EOIR consistently accounts for a significant portion of the work conducted within the ICU.

TIEA/EOIR CHART

During the 2021 year the Virgin Islands had agreements in place with approximately 117 jurisdictions and one pending agreement, the negotiation of which was initiated in 2021. There are currently 28 bilateral Tax Information Exchange Agreements (“TIEAs”), and 112

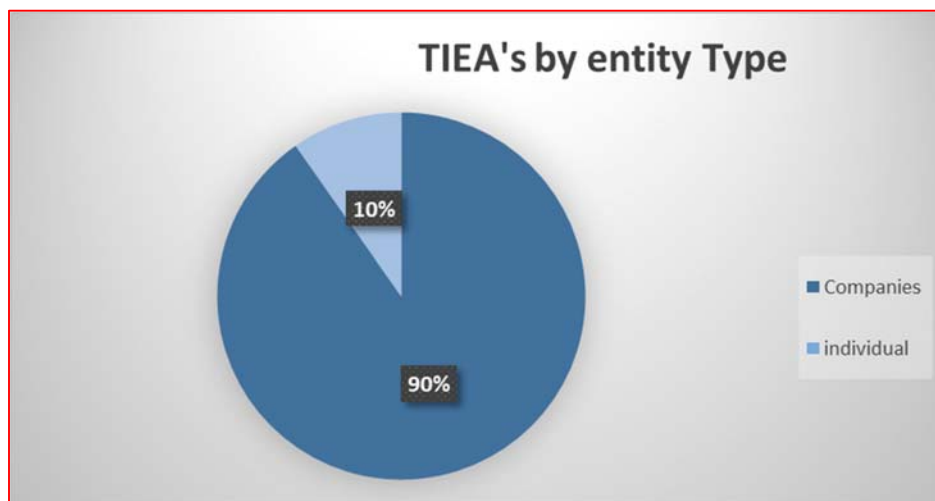
relationships under the Convention on Mutual Administrative Assistance in Tax Matters (“MAAC”) (Many of the jurisdictions that have a TIEA with the Virgin Islands also have a relationship with the Virgin Islands under the MAAC). During the year 2021, the ITA received requests from 33 jurisdictions that totaled 298 requests. Of the 298 received in 2021, 62 requests remained pending at the end of the year. The chart below depicts the number of requests received and processed in 2021.

Statistical Chart depicting completed and outstanding requests in 2021.



Many of the requests received in 2021 related to British Virgin Islands Business Companies (“BVI Business Companies”), which accounted for 90% of all requests received. Requests relating to Trusts accounted for approximately less than 1% of the total requests received; and requests relating to individuals accounted for 10% of the total requests received.

The statistical chart below depicts the type of request received during the year 2021



Requests for information received by the ITA may either be criminal, civil, or a combination of both. During 2021, 242 requests were civil, 17 requests were criminal, and 39 requests were both criminal and civil.

To process a request for information to provide information to a requesting jurisdiction requires the ITA to issue Notices to Produce information. In some cases as requests relate to more than one BVI Business Company this may mean issuing different notices to different companies. In 2021, the ITA issued over 600 Notices to Produce information to Registered Agents, Banks, Companies and Government Entities and Bodies to collect the information required to be exchanged. The procedures introduced due to COVID 19 continued in 2021 which meant that these Notices to Produce were issued electronically and information in response to the same were also received electronically. The ITA also began to exchange information with jurisdictions electronically, which before the pandemic was rare. The electronic communication made the process more efficient and increased the communication with many peers.

US FACTA AND CRS EXCHANGE MECHANISM

At the end of 2021, there has been approximately 12,448 filings received from financial institutions for the reporting period of 31/12/2021. This number is not the final number as this report is written before the filing deadline which is 31 May 2022. These filings will be exchanged with partner jurisdictions on or before 30 September 2023. Before exchanges occur in September the ICU carried out a review of filings made to ensure consistency with CRS and FATCA requirements. Any filings that were found to be deficient had to be corrected by FIs in order for them to be exchanged by the September deadline. The results of this exercise are also communicated to the Compliance Unit and informs their risk rating strategy as it relates to CRS and FATCA.

BEPS INITIATIVES

CBCR

The CBCR regime continued to be developed and measures were put in place to ensure compliance with the Action 13 Base Erosion and Profit Shifting (“BEPs”) minimum standard. For 2021, there has been 59 filings for the year ending 2020 which become due to be exchanged by 31 December 2021 (depending on the financial year of the relevant MNE group). Exchanges continue to be monitored and prepared for exchange in line with the standard. Additionally, the ITA has finalized the process to ensure the timely and accurate exchange of information which is managed through BVIFARs.

MAP

In terms of Action 14, BEPs minimum standard the ITA has developed guidance to address recommendations made during its peer review process. This guidance outlines the MAP

process in the Virgin Islands and confirms the process by which a taxpayer may submit a MAP request. Once finalized this guidance will be available on the ITA's website.

ECONOMIC SUBSTANCE (ES)

The role of the ICU in the economic substance regime has been finalized. By the end of 2021 the ICU team ensured that it was able to exchange information spontaneously as required by the no or only nominal jurisdictions regime. The finalization of this process saw the exchange of information with partner jurisdictions relating to legal entities who have claimed to be tax resident in a partner jurisdiction and have been found to be non-compliant under the Economic Substance (Companies and Limited Partnerships) Act, 2018.

THE COMPLIANCE UNIT (CU)

2021 saw the Compliance Unit ("CU") meeting its full staff complement, which meant that the focus shifted to implementing and finalizing processes and procedures of the CU. This saw the introduction of a Compliance Plan. The Compliance Plan of the CU is a live document that is reviewed bi-annually. It covers Economic Substance, the Common Reporting Standard and Country by Country reporting.

The CU's approach to compliance is risk based and the risk strategy is also reviewed to ensure that it takes into consideration risks that are relevant to the Virgin Islands. It is accompanied by questionnaires, checklists and spreadsheets that have been developed to aid in the work of the CU.

The CU also formalized its information sharing processes with the ICU, the Financial Services Commission ("FSC") and the Financial Investigation Agency ("FIA"). The information provided by these agencies will aid in the identification of entities that have not complied with the relevant international standards and identifies any potential areas that may be developing to circumvent these standards.

With the aid of IT, the CU now has a dedicated resource site that houses all resources relevant for its day-to-day operations. The BOSSs portal, which is central to the work in relation to economic substance, is also being reviewed and updated to not only consider the 2021 changes to the BOSSs Act, but to also ensure that the portal allows the CU to carry out its functions effectively and efficiently.

The CU has also procured the Vizor Analytics tool which will assist in the monitoring of compliance of FIs with CRS. This tool was introduced in 2021 and its effectiveness is being monitored.

The CU also has weekly discussion sessions focused on the identification and planning of reviews. These weekly meetings are chaired by the Director and provide important guidance and a road map to achieve the compliance agenda of the unit.

ECONOMIC SUBSTANCE (ES)

The CU continued the compliance review under the economic substance regime with the focus shifting on broader compliance inspections and reviews. These included the following:

- 1) Review of declarations received for entities with the Financial Period ending 2021. The ITA received 313,594 declarations in relation to those entities which had financial periods ending in 2021. From the 348,730 submissions, 5,215 have been started;
- 2) Non-residence claims made by entities with Financial Periods ending 2021. There were 4,906 such non-residence claims made to the ITA. These non-resident claims included claims for provisional treatment; and
- 3) Processing of requests made to change the financial periods of a corporate and legal entity. A total of 4,286 requests to change the financial period of entities were received and processed in 2021.

The CU introduced a compliance manual which focused on compliance inspections to be conducted for economic substance purposes. While desk-based reviews of declarations were the focus for 2020, the focus shifted in 2021 to execute onsite inspections and educational tours where identified. With the changes to the BOSSs portal it is envisioned that the need to issue section 11 Notices would decline and the resources of the CU can be faced on inspections.

The team developed an inspection calendar developed using the risk rating.

COMMON REPORTING STANDARD (CRS)

The CU continued its review of Financial Institutions (“FIs”) during 2021. It was focused mainly on performing onsite and desk-based reviews. Based on initial findings the CU offered one on one training to a number of FIs. The first raining seminar was successfully completed in November 2021 and others have been planned for the first half of 2022.

Reviews of undocumented accounts continued in 2022 with the CU completing its review of the filings made in 2017, 2018 and 2019. Follow up action has been taken and planned for those FIs that have filed undocumented accounts with the ITA.

THE LEGAL UNIT (LU)

During 2021, the Legal Unit focused on reviewing and managing processes within the ICU and the CU, to ensure any process introduced was in line with the legislative framework of the Virgin Islands.

The LU also provided advice on contraventions of the various ITA Legislation during 2021, some of which were themselves exacerbated by the continued challenges presented by the global COVID-19 pandemic. Based on the pragmatic stance adopted in the first quarter of 2020 with respect to Economic Substance, LU and CU reviewed a number of correspondences

pertaining to declarations for the 2020 financial period, wherein entities sought practical guidance and assistance, having failed to establish substance in the Virgin Islands for the 2020 financial period. These failings were mainly due to the COVID-19 pandemic and the imposition of worldwide travel restrictions. The LU, in conjunction with the CU, also received and reviewed a number of requests that sought permission to re-open declarations filed in the BOSSs portal for the financial periods of 2019-2020, for various reasons including incorrect classifications of corporate and legal entities and their relevant activities.

The LU encountered a marginal increase in the number of legal challenges from twenty (20) to thirty- six (36), for the year 2021, relating to the issuances of Notices to Produce Information, which remains the ITA's main information gathering power for Exchange of Information upon Request. At the end of 2021, twenty-eight (28) matters had been concluded, enforcement actions were instituted in two (2) matters, and discussions continued to be on-going in five (5) matters.

Enforcement actions were taken in thirteen (13) matters total, for failing to comply with Notices issued by the ITA. Three (3) matters were concluded whilst ten (10) matters remained pending before the Court. The end of the year also saw judgments being delivered in the High Court, in relation to the judicial review hearing held in December 2020. Most notably the judgement in Compass Star Limited and International Tax Authority Claim No. BVIHCV 2019/0037 was made. This judgement is a landmark decision in favor of the ITA. It confirms the position of the ITA to ensure that sensitive information from a Request for Information continues to be protected and that the ITA continues to provide sufficient information in its Notices.

The year 2021, continued to present unprecedented experiences for the BVI Courts, and the entire legal fraternity, as changes continued to be adopted to accommodate digital-driven Courts, pushing the boundaries of the practice of law and dispute resolution.

The ITA's logo was registered as a Trademark by the Registry of Trademarks at the Registry of Corporate Affairs in accordance with the provision of the Trademarks Act, 2003, for a period of ten (10) years from 7 July 2021. Further, legislative amendments were also made to the Economic Substance (Companies and Limited Partnership) Act (Revised Edition 2020), the Beneficial Ownership Secure Search System Act (Revised Edition 2020), the Mutual Legal Assistance (Tax Matters) Act Revised (Edition 2020) and the International Tax Authority (Revised Edition 2020). All of which combined strengthen the information gathering powers and compliance and inspection powers of the ITA relative to the different standards of exchange of information.

CHALLENGES

A few challenges were faced as early in 2021, the COVID 19 pandemic continued to produce challenges for the ITA. This made it difficult for the ITA to complete its hiring mandate as scheduled and made it difficult to have face to face meeting with the relevant industry partners. In addition, the existing regime for struck-off companies continues to affect exchange of information. Therefore, if these entities do not respond to a Notice to Produce Information issued by the ITA, no enforcement action can be taken against them. This is problematic as it hinders the ITA's ability to access an entity's accounting data once it has been struck off.

STRATEGIC AIMS

Outstanding expectations are anticipated for the year 2022 as the Authority will continue to make every effort to carry out its mandate and prepare for upcoming evaluations by advancing, contributing to, and enacting the following actions:

1. Mandatory Disclosure Rules for Common Reporting Standard;
2. Conduct ongoing reviews of the International Tax Authority's legislation;
3. Ensure that the ITA operates effectively and efficiently;
4. Raise public awareness of the ITA;
5. Provide assistance to all relevant entities and persons; and
6. Continue to make recommendations for changes, where applicable.