INTERNATIONAL TAX AUTHORITY

Financial Statements
For the period from 3 December 2018,
the date of commencement of operations, to 31 December 2019

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Authority Directory
At 31 December 2019

Board

Executive Director – International Business
Attorney General
Managing Director – Financial Services Commission
Director – Financial Investigation Agency
Director – International Tax Authority

Registered Office

Peach House
Pickering Drive
Road Town, Tortola, VG 1110
British Virgin Islands

Bankers

CIBC FirstCaribbean International Bank
Wickhams Cay 1
P.O. Box 70
Road Town, Tortola VG 1110
British Virgin Islands

Banco Popular de Puerto Rico
Wickhams Cay 1
P.O. Box 67
Road Town, Tortola VG 1110
British Virgin Islands

Chartered Accountants

PO Box 650
Tropic Isle Building
Nibbs Street
Road Town, Tortola VG 1110
British Virgin Islands

T: +1 284 494 5800
F: +1 284 494 6565

info@bakertilly.vg
www.bakertilly.vg

INTERNATIONAL TAX AUTHORITY

INDEPENDENT AUDITOR'S REPORT TO THE AUDITOR GENERAL

GOVERNMENT OF THE BRITISH VIRGIN ISLANDS

Opinion
We have audited the financial statements of the International Tax Authority (the "Authority") which comprise the statement of financial position as at 31 December 2019 and the statements of comprehensive income, changes in reserves and cash flows for the period from 3 December 2018, the date of commencement of operations, to 31 December 2019, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at 31 December 2019 and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Authority in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the British Virgin Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Information
This report is made solely to the Auditor General, Government of the British Virgin Islands (the "Auditor General"), in accordance with the International Tax Authority Act. Our audit work has been undertaken so that we might state to the Auditor General those matters we are required to state to the Auditor General in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Auditor General, as a body, for our audit work, for this report, or for the opinion, we have formed.

Baker Tilly (BVI) Limited

Chartered Accountants
Tortola, British Virgin Islands
19 January 2023

INTERNATIONAL TAX AUTHORITY

Statement of Financial Position
At 31 December 2019
Expressed in U.S. Dollars

	Note	2019
Non-current assets		
Fixed assets	3	138,991
Intangible assets	4	328,690
Total non-current assets		467,681
Current assets		
Cash and cash equivalents		2,375,969
Prepayments		76,635
Leasehold deposits		78,831
Total current assets		2,531,435
Total assets		$ 2,999,116
Current liabilities		
Accounts payable		270,217
Total liabilities		270,217
Reserves		
General reserves	5	2,728,899
Total Equity		2,728,899
Total liabilities and equity		$ 2,999,116

INTERNATIONAL TAX AUTHORITY

Statement of Comprehensive Income
For the period from 3 December 2018, the date of commencement of operations, to 31 December 2019
Expressed in U.S. Dollars

	Note	2019
Income		
Subvention from:		
British Virgin Islands Government	6	3,978,856
		3,978,856
Expenses		
Personnel costs	7	734,337
Rentals		169,633
IT support and maintenance		102,633
International membership fees		58,206
Repairs and maintenance		46,657
Depreciation	3	29,755
Postage and delivery		26,003
Utilities		20,099
Travel and entertainment		19,772
Computer and internet expenses		15,808
Office supplies		9,201
Professional fees		9,167
Insurance expense		5,520
Bank charges		1,561
Recruitment and training expense		1,435
Automobile expense		534
Total expenses		1,250,321
Net income from operations		2,728,535
Other income		
Interest income		364
Net income before taxation		2,728,899
Taxation	8	—
Total comprehensive income		$ 2,728,899

INTERNATIONAL TAX AUTHORITY

Statement of Changes in Reserves
For the period from 3 December 2018, the date of commencement of operations, to 31 December 2019
Expressed in U.S. Dollars

	2019			
	Utilisation reserves	Transfers	Contributed surplus	Total
Opening balances	—	—	—	—
Total comprehensive income	—	—	2,728,899	2,728,899
Closing balances	$ —	$ —	$ 2,728,899	$ 2,728,899

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Statement of Cash Flows
For the period from 3 December 2018, the date of commencement of operations, to 31 December 2019
Expressed in U.S. Dollars

	2019
Operating activities	
Net income for the period	2,728,899
Adjustments to reconcile net income to cash from operations before working capital changes:	
Interest income	(364)
Depreciation	29,755
Cash from operations before working capital changes:	
Interest received	364
Increase in prepayments	(76,635)
Increase in leasehold deposits	(78,831)
Increase in accounts payable	270,217
Net cash flows from operating activities	2,873,405
Investing activities	
Purchase of intangible assets	(328,690)
Transfer of fixed assets	(29,267)
Purchase of fixed assets	(139,479)
Cash flows used in investing activities	(497,436)
Net increase in cash and cash equivalents	2,375,969
Cash and cash equivalents at beginning of period	—
Cash and cash equivalents at end of period	$ 2,375,969

Cash and cash equivalents comprise of cash at bank.

1) **GENERAL INFORMATION**

The International Tax Authority (the "Authority") was established as a corporate body which was gazetted on 4 September 2018 in the British Virgin Islands ("BVI") under the International Tax Authority Act, 2018. The Authority commenced operations on 3 December 2018. The core responsibilities of the Authority are:

- to carry out the functions of the Competent Authority under the Mutual Legal Assistance (Tax Matters) Act, 2003 (MLA), which were previously carried out by the Financial Secretary;
- to take a proactive stance in relation to all cross-border tax matters that currently affect or have the potential to affect the Virgin Islands; and
- to ensure that the Virgin Islands is fully compliant with the international standards of transparency and exchange of information for tax purposes.

The financial statements were approved for issue by the Board on 19 January 2023.

2) **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted in the preparation of the Authority's financial statements are set out below. The accounting policies have been consistently applied by the Authority, unless otherwise stated.

a) **Basis of preparation**

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRSs. The financial statements comply with IFRSs as issued by the International Accounting Standards Board.

These are the Authority's first financial statements prepared in accordance with IFRSs and IFRS 1, "First-time Adoption of International Financial Reporting Standards", has been applied where practical.

Historical cost convention

The financial statements have been prepared on the basis of historical costs and do not take into account increases in the market value of assets.

The financial statements and records of the Authority are presented and maintained in U.S. Dollars, rounded to the nearest dollar.

2) **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

a) **Basis of preparation** (Cont'd)

New and amended standards

The Authority has applied the following new standards and amendments to existing standards during the period, but these do not have a material impact on the Authority's financial statements:

IFRS 9 – Financial instruments: Classification and Measurement

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39, "Financial Instruments: Recognition and Measurement". The standard contains requirements in the following areas:

• **Classification and measurement**. Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

• **Impairment**. The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

• **Hedge accounting**. Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.

• **Derecognition**. The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers.

The five steps in the model are as follows:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts; and,
- Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognised, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced.

2) **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

a) **Basis of preparation** (Cont'd)

New and amended standards (Cont'd)

Amendments were also issued to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

The following new standards and amendments to existing standards are effective from 1 January 2019, but these do not have a material impact on the Authority's financial statements:

IFRS 16, "Leases"

This standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17, "Leases".

b) **Critical estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Below is an overview of the areas that involved a higher degree of judgment or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgments is included in the other notes together with information about the basis of calculation for each affected line item in the financial statements.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments on going concern

A key assumption in the preparation of the financial statements is that the Authority will continue as a going concern. The going concern assumption assumes that the Authority will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities in the normal course of operations.

2) **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

b) **Critical estimates and judgments** (Cont'd)

Estimating the useful lives of fixed and intangible assets

The useful lives of the Authority's fixed and intangible assets are estimated based on the period which they are expected to be available for use. The estimated useful lives of fixed and intangible assets are reviewed and updated if expectations differ materially from previous estimates.

c) **Fixed assets**

Fixed assets are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of fixed assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Authority and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is charged to the statement of comprehensive income on a straight line basis over the estimated useful lives of the fixed assets.

The current policy for the depreciation of fixed assets is as follows:

Office equipment and furniture	3 years
Computer equipment	3 years
Motor vehicle	5 years
Leasehold building and improvements	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss. When revalued assets are sold, it is the Authority's policy to transfer any amounts included in revaluation reserve in respect of those assets to general reserves.

Improvements in progress are carried at cost and transferred to the related asset account when the construction or installation and related activities necessary to prepare the asset for its intended use are complete, and the asset is ready for service. Improvements in progress are not depreciated until it is brought into use

2) **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

d) **Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include current deposits with banks and other short-term, highly liquid financial instruments with original maturities of three months or less that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value, and bank overdrafts.

e) **Financial assets at amortised cost**

Financial assets at amortised cost compromise cash and cash equivalents and leasehold deposits. Financial assets are recognised initially at fair value plus transaction costs that are directly attributable to its acquisition. These financial assets are held for collection of contractual cash flows representing solely payments of principal and interest, if any, and therefore are measured subsequently at amortised cost using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

f) **Financial liabilities at amortised cost**

Financial liabilities are non-derivative contractual obligations to deliver cash or another financial asset to another entity and comprise accounts payable.

These financial liabilities are initially recognised at fair value on the date the Authority becomes a party to the contractual provisions of an instrument and are subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the obligation specified in a contract is discharged, cancelled or expired.

g) **Reserves**

General reserves represent accumulated surplus of the Authority after deducting associated costs. General reserves may also include the effect of changes in accounting policy as may be required by the IFRSs transitional provisions.

h) **Income and expense recognition**

The Authority generates revenue from Government subventions.

Government subventions comprise contributions received from the Government of the British Virgin Islands (the "Government"). There are no conditions nor contingencies attached to these subventions. Revenue from subventions is recognised on an accrual basis.

Interest and other income are recognised in the statement of comprehensive income on the accrual basis.

All expenses are recognised in the statement of comprehensive income on the accrual basis.

2) **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

i) **Impairment**

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets, other than goodwill that suffered an impairment, are reviewed for possible reversal of the impairment at the end of each reporting period.

j) **Related parties**

Related parties are individuals and entities where the individual or entity has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Expressed in U.S. Dollars

3) FIXED ASSETS

	Computer Equipment	Vehicle	Total
Cost			
At 3 December 2018	—	—	—
Additions	139,479	—	139,479
Transfers	26,070	19,277	45,347
At 31 December 2019	165,549	19,277	184,826
Accumulated depreciation			
At 3 December 2018	—	—	—
Charges for the year	25,900	3,855	29,755
Transfer	8,690	7,390	16,080
At 31 December 2019	34,590	11,245	45,835
Net book value			
At 31 December 2019	$ 130,959	$ 8,032	$ 138,991

4) INTANGIBLE ASSETS

The Authority has an on-going project to develop a software, Exchange Management & Monitoring Application, (“EMMA”). As at 31 December 2019 the project cost totalled $328,690.

5) RESERVES

	2019
General Reserves	$2,728,899

6) GOVERNMENT SUBVENTION

During the period, the Authority received a total of $3,978,856 from a Government subvention, of which $978,856 represented non-cash resources, for payments of operational expenditure, made directly by the Government on behalf of the Authority.

7) PERSONNEL EXPENSES

	2019
Salaries and wages	685,277
Statutory payroll tax	27,622
Statutory social security contributions	7,458
Statutory national health insurance	8,128
Employee benefits and allowances	5,852
	$734,337

The number of employees as at 31 December 2019 was 13.

8) TAXATION

Effective 1 January 2005, the Government of the British Virgin Islands, by virtue of the introduction of the Payroll Taxes Act, 2004, which reduced the rate of income tax to zero, effectively abolished both personal and corporate income tax in the Territory. Further, since 3 December 2018, the commencement of operations, the Authority has been subject to payroll tax equating to 6% of all salaries, wages and benefits paid to employees.

9) FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

Financial assets of the Authority include cash and cash equivalents and leasehold deposits. Financial liabilities of the Authority comprise accounts payable. Accounting policies for financial assets and liabilities are set out in note 2.

The Authority has exposure to a variety of financial risks that are associated with these financial instruments. The most important types of financial risk to which the Authority is exposed are market risk, credit risk and liquidity risk.

The Authority's overall risk management program is established to identify and analyse this risk, to set appropriate risk limits and controls, and to monitor risks and adherence to limits in an effort to minimise potential adverse effects on the Authority's financial performance.

a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors which includes interest rate risk.

Interest rate risk

The financial instruments exposed to interest rate risk comprise cash and cash equivalents. The Authority is exposed to interest rate cash flow risk on these financial instruments, which earn interest at floating interest rates that are reset as market rates change.

A sensitivity analysis was performed in respect of the interest-bearing financial instruments and management noted that anticipated interest rate changes would have no material impact on the net assets of the Authority.

b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to perform as contracted.

As at 31 December 2019, the Authority's financial assets exposed to credit risk amounted to the following:

	2019
Cash and cash equivalents	2,375,969
Leasehold deposits	78,831
	$2,454,800

9) **FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS** (Cont'd)

b) **Credit risk** (Cont'd)

i) Risk management

The extent of the Authority's exposure to credit risk in respect of these financial assets approximates their carrying value as recorded in the Authority's statement of financial position.

The Authority invests all available cash with CIBC FirstCaribbean International Bank and Banco Popular de Puerto Rico, which is a concentration of credit risk. The Authority is exposed to credit-related losses to the extent that the banks may not be able to repay the amount owed. However, the Directors do not expect these parties to fail to meet their obligations.

ii) Impairment of financial assets

While cash and cash equivalents and leasehold deposits are subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

c) **Liquidity risk**

Liquidity risk is the risk that the Authority will not be able to meet its financial obligations as they fall due. At 31 December 2019, the Authority's financial liabilities include accounts payable. The Authority's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking damage to the Authority's reputation.

The Authority maintains highly liquid assets in the form of cash and cash equivalents to ensure necessary liquidity and does not anticipate liquidity concerns in meeting liabilities as they fall due.

10) **FAIR VALUE INFORMATION**

The carrying values of cash and cash equivalents, leasehold deposits and accounts payable approximate their fair value due to the relatively short periods to maturity of these financial instruments.

11) **CAPITAL RISK MANAGEMENT**

The Authority's primary objective of capital management is to ensure that it will be able to continue as a going concern while maximising its return through the optimisation of its reserves balance.

12) **SUBSEQUENT EVENTS**

On 4 November 2021, the Authority was instructed by the Judge of the Eastern Caribbean Supreme Court of the British Virgin Islands (the "High Court") to make a settlement of $116,176 to Friar Tuck Ltd and Quiver Inc (the "Claimants").