

1st PROMESA Conference

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Puerto Rico Economic Growth Proposal

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Economic and Global Framework





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Puerto Rico's current situation:

- ☐ the worst economic and fiscal crisis in recent history,
- ☐ shrinking labor force due to massive migration to US (300,000 in the last five years) and aging population,
- ☐ poor educational performance and deterioration of the quality of human capital,
- ☐ shrinking financial sector.





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**We need to
act NOW!**

- ❑ Puerto Rico faces an important crossroad:
 - ❑ attain fiscal sustainability;
 - ❑ we must adopt/support measures that re-start the economy and provide the necessary sustainable growth by attracting investment to promote jobs creation;
 - ❑ we need to boost educational performance to achieve future economic growth.



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- ❑ Base Erosion and Profit Shifting (BEPS) initiative worldwide
 - ❑ more than 80 countries now having agreed to adopt at least the minimum elements of the Base Erosion and Profit Shifting (BEPS) Action Plan
 - ❑ this means more complex rules for MNEs operating worldwide





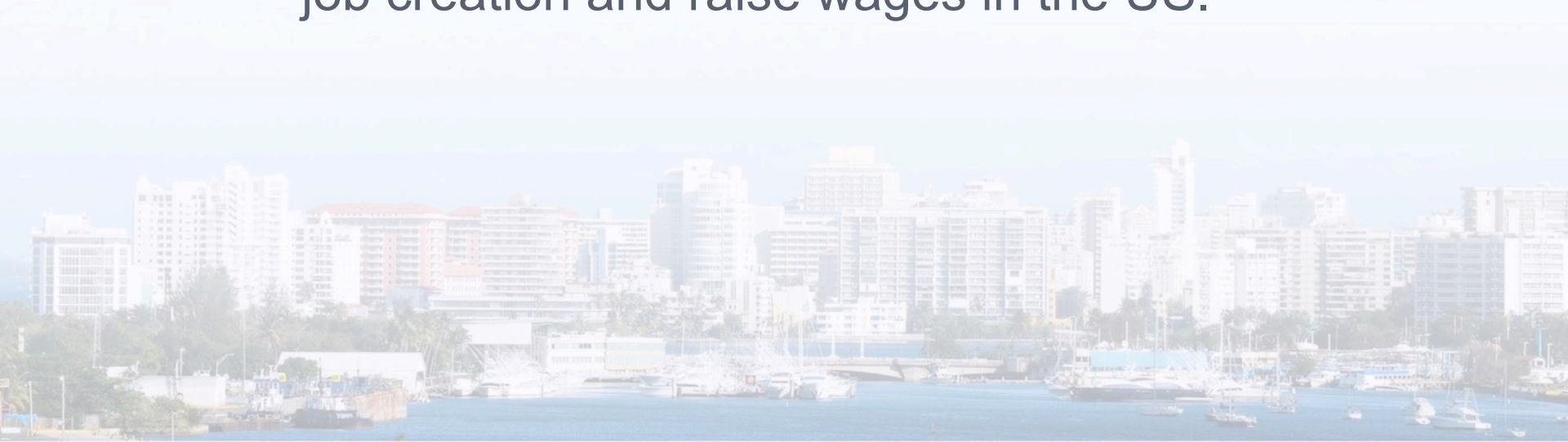
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- ❑ US worldwide tax system and the proposal to move to a territorial tax system.
 - ❑ US worldwide tax system is continuously receiving "attacks" as a system that promotes the foreign investment by US corporations.
 - ❑ According to the International Tax Competitiveness Index 2015, the US is a good example of an uncompetitive tax code: highest corporate tax rate, one of the few without a territorial tax system, high individual tax rates.



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- ❑ US worldwide tax system and the proposal to move to a territorial tax system.
 - ❑ GOP A Better Way – moving to a territorial tax system
 - ❑ 100% exemption for dividends from foreign subsidiaries,
 - ❑ the territorial system is seen as investment neutral and would generate domestic investment, increase job creation and raise wages in the US.





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- ❑ The proposal:
 - ❑ 85% exemption on dividends (or repatriation payments) from eligible Puerto Rico corporations, as defined.
 - ❑ Reduction in half of the full US statutory tax rate for active PR source income on the remaining 15%.





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Total amount of dividend	\$ 150,000,000	Effective rate
Exempt	85%	
	\$ 127,500,000	
Taxable amount	\$ 22,500,000	
Rate	17.50%	
US Tax	\$ 3,937,500	2.63%



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- ❑ The proposal is looking to adopt, in an early fashion, the territorial tax system in relation to corporations created and located in Puerto Rico.
- ❑ At this point in time, we may have an advantage over any country.





LION **Thank You**

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