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Repeal of Puerto Rico Inventory Tax Hinges on Municipal Solution

By *Agustín Criollo Oquero* on January 31, 2019



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Despite the fact that the administration of Gov. Ricardo Rosselló Nevares and the Puerto Rico Legislative Assembly agree on the importance of eliminating the island's stored-inventory tax, especially after the experience of shortages of products after Hurricane Maria struck, the government continues to drag its feet on a final decision.

“

[I]n the private sector we have been very emphatic that this cannot be a mathematical exercise of substitution. This cannot say, 'I'll take away what you have to pay from this tax, but I'll apply it somewhere else. They have to provide some benefit or some kind of savings because, if not, we are wasting our time. That's the part the municipalities don't like because, at the end of the day, they are the ones that benefit.



—Kenneth Rivera, president of the P.R. Chamber of Commerce

This tax is currently levied on all merchandise stored on the island, which the Municipal Revenue Collections Center (CRIM) then distributes to the island's 78 municipalities. It is precisely the town halls that have sounded the alarm when denouncing that the tax's repeal would have a substantial impact on their budgets, with losses of some \$400 million a year.

“If the government approves elimination [of the inventory tax], it would have to find a way to recover that income for the municipalities because, otherwise, [the towns] will have to continue firing employees, reducing services and many will even close their operations. We cannot take another cut to our budgets,” Rolando Ortiz Velázquez, president of the Puerto Rico Mayors Association and Cayey mayor, said last year.



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the products consumed are imported.

The picture is even more complicated. CRIM Chairman Javier Carrasquillo pointed out that this month the Treasury Department had not provided the necessary information to move forward with the elimination of the tax on inventory. Adding insult to injury, the resignation of Treasury Secretary Teresita Fuentes was announced over the past weekend, allegedly tracing to discrepancies with the governor's chief of staff, Raúl Maldonado, her predecessor in the department.

Given this panorama, many in the private sector requested a summit with government officials on Thursday to reach an agreement on the alternatives that exist for the elimination of this controversial tax.

Invited to the meeting were House Speaker Carlos "Johnny" Méndez and Senate President Thomas Rivera Schatz, as well as Rep. Antonio "Tony" Soto and Sen. Migdalia Padilla, the chairpersons of the House and Senate's Treasury committees, respectively. Also invited were Cidra Mayor Javier Carrasquillo Cruz, chairman of CRIM's governing board; Bayamón Mayor Ramón Luis Rivera Cruz; and Cataño Mayor Félix Delgado Montalvo.

Among the private-sector groups that convened the meeting are the Puerto Rico Chamber of Commerce (CofC); Retailers Association (ACDET by its Spanish acronym); Chamber of Food Marketing, Industry & Distribution; Products Association; the Builders Association; and the Construction Material Suppliers Association (ACMC by its Spanish initials).

Priority issue

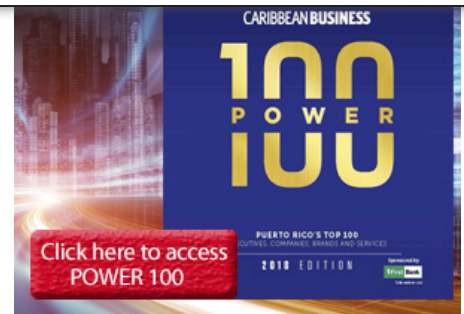
Iván Báez, president of the ACDET, assured that the elimination of the tax was crucial for the island's economic development and for the food security of the population in an emergency such as the one experienced after Hurricane Maria.

"The elimination of the inventory tax is a priority issue for the private sector and citizens. Finding a way to address this, in this legislative session, and achieving its repeal is now urgent," he said. "I believe the people have become convinced, as well as the leadership of the political and private sectors, that we must seek once and for all a solution to repeal the inventory tax," Báez added during his interview with Caribbean Business.

"First of all, because it's a question about the cost of doing business on the island in an industry that is dramatically evolving, where we have internet sales and that at the end of the day, we are seeing the transition from the point of view that it also puts at risk our food security. Puerto Rico has the opportunity to become the great warehouse of the Caribbean if we can find an alternative to repeal this tax while always taking into account the fiscal health of the municipalities because, certainly, a balance has to be achieved," he said.

Báez also indicated that alternatives have been presented to the government for eliminating the tax without significantly affecting municipalities, while Puerto Rico is taken to the "next level" to transform the island into a profitable operations center for both the private sector and the government.

Chamber of Commerce President Kenneth Rivera concurred with Báez in that the commitment with which the government assumed the issue of eliminating the tax must be achieved swiftly and with seriousness.



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[B]ecause [the inventory tax] is a question about the cost of doing business on the island in an industry that is dramatically evolving, where we have internet sales and that at the end of the day, we are seeing the transition from the point of view that it also puts at risk our food security. Puerto Rico has the opportunity to become the great warehouse of the Caribbean if we can find an alternative to repeal this tax while always taking into account the fiscal health of the municipalities because, certainly, a balance has to be achieved.



—Iván Báez, president of the Retailers Association

“Basically, the greatest concern we have with this is a commitment that must be addressed this year, and early, and that hasn’t been the case. It is no longer a purely economic issue. After the storm, things got worse, because we realized how the quality of life of the people was affected in [terms of] food...supplies, construction equipment. This is a matter of life or death,” Rivera stressed.

However, the CofC president blamed the delay for the repeal of the tax on the political pressure that municipalities exercise on the Legislative Assembly. In addition, he assured the matter is not about simply replacing one tax with another.

“I think that in the private sector we have been very emphatic that this cannot be a mathematical exercise of substitution. This cannot say, ‘I’ll take away what you have to pay from this tax, but I’ll apply it somewhere else. They have to provide some benefit or some kind of savings because, if not, we are wasting our time. That’s the part the municipalities don’t like because, at the end of the day, they are the ones that benefit,” Rivera said.

“At the end of the day, it has to be a proposal where there is a significant reduction in companies’ tax burden. But it seems there is no political will to change this. And it’s ironic, because everyone who’s asked and presented the problem, agrees with its removal. The thing is, what are we going to do with the municipalities, and we know they have immense political power; the lawmakers receive a lot of pressure from them,” he assured.



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Hurricane Maria

Inventory Tax

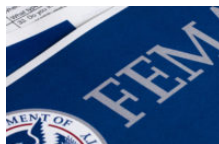
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