10/16/2018

Heading	Puerto Rico continues fight to protect island CFCs
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Main article

Puerto Rico is lobbying to reduce the 12.5% tax on intangibles, such as patented pharmaceuticals, to protect island controlled-foreign corporations (CFCs) from the fallout of President Donald Trump's (R) tax reform, Treasury Secretary Teresa Fuentes told *Debtwire Municipals*.

If nothing is done to curtail Trump's tax reform, tax collections from CFCs in Puerto Rico are projected to drop by 51% to approximately USD 1bn in FY23 from nearly USD 2.1bn for FY17, according to the commonwealth's certified fiscal plan.

Puerto Rico's treasury secretary will travel to Washington, DC next week, one of various trips to the US Capitol since Fuentes took office in August, to stump for protections to CFCs operating on the island. Puerto Rico Chamber of Commerce President Kenneth Rivera is on a similar mission this week in Washington, DC, the trade group leader told *Debtwire*. Raul Maldonado, Puerto Rico's chief financial officer and Governor Ricardo Rossello's chief of staff, also has been meeting with US Treasury personnel on this matter, Fuentes said.

"This is a constant ongoing effort," said Fuentes, adding DLA Piper is coordinating this advocacy.

"It's not that these companies are going to immediately leave, but if nothing is done they will look at other areas for doing business at which they were not looking previously. When these companies' patents expire, they very well could go elsewhere," Rivera said.

If things remain as they are, the island will be facing a drop of up to one-third of its tax revenue, Rivera said.

Puerto Rico is focusing its efforts to protect CFCs operating on the island specifically on getting US Treasury to exempt or substantially reduce the 12.5% tax on intangibles formally known as tax on global intangible low-taxed income or GILTI, said Rivera and a tax attorney for CFCs operating in Puerto Rico.

"US Treasury is still in the process of developing the regulation for GILTI. There is still no definition," said the tax attorney.

Besides the 12.5% tax on intangibles, Trump's tax reform calls for a 20% tax on CFCs' exports to their stateside parent companies and will lower stateside corporate taxes to 20% from 35%, said Fuentes.

The 4% tax CFCs pay under Law 154, for which these companies currently credit on federal taxes, accounted for USD 1.9bn in revenue, or one-fifth, of the commonwealth's USD 9.3bn in projected collections for FY18, which ended 30 June, reported Puerto Rico's Treasury.

These collections are particularly vulnerable because 10 companies account for 90% of Law 154 tax revenue, according to a study by economist Gustavo Velez.

Bill to shore up manufacturing

Last month, Puerto Rico Resident Commissioner Jenniffer Gonzalez submitted the Economic Development Act for Distressed Zones of 2018 (HR 6785) to shore up island manufacturing as well as promote economic development in economically distressed zones throughout the US. Thirty US counties and three territories meet the criteria for this special designation by the secretaries of Treasury and Commerce, according to the proposed legislation.

The proposed legislation would grant businesses operating in zones with poverty rates of 35% or more tax credits equal to 40% of an employer's distressed zone wages plus employee fringe benefit expenses, depreciation and amortization allowances, business-to-business payments for goods from minority-owned and operated businesses (for non-minority businesses), reported the resident commissioner's office.

Puerto Rico's rice and beans

Island manufacturing accounts for more than 45%, or USD 46.53bn, of Puerto Rico's USD 103bn in gross domestic product. It generates 75,000 direct and 225,000 total jobs on the island, according to Velez's study.

Puerto Rico's CFC exemption provides similar tax breaks to those under Section 936 of the US Tax Code, which were the best in the world, according to all those interviewed. Prior to Section 936's elimination, Puerto Rico's manufacturing sector accounted for lost 100,000 direct jobs, while the economy lost 300,000 jobs overall, according to Velez's study.

When Section 936 was eliminated in 2006, it concurred with the commonwealth starting to borrow annually to cover budget gaps of USD 3bn to USD 4bn.

by Xavira Neggers Crescioni in San Juan