Members
Andrew G. Biggs
John E. Nixon
Betty A. Rosa

Robert F. Mujica Jr.
Executive Director

Arthur J. Gonzalez
Chair and Board Member

October 29, 2025

BY ELECTRONIC MAIL

The Honorable Ángel Pantoja Rodríguez
Secretary
Puerto Rico Department of Treasury

Dear Mr. Pantoja Rodríguez:

In accordance with the Rules, Regulations and Orders Review Policy of the Financial Oversight and Management Board for Puerto Rico (the "Oversight Board"), established pursuant to Section 204(b)(4) of PROMESA, we have reviewed the proposed *Internal Revenue Informative Bulletin No. 25-XX* (the "Proposed Regulation") to be issued by the Puerto Rico Department of Treasury (the "Department"). The Proposed Regulation seeks to notify the Earned Income Tax Credit ("EITC") inflation adjustment for taxable year 2025 pursuant to Section 1052.01 of the Puerto Rico Internal Revenue Code of 2011, as amended.

After reviewing the Proposed Regulation, the Oversight Board designates it as "**Rejected**."

According to the Oversight Board's estimates, the Proposed Regulation would lead to an overspend of approximately $72 million, thereby making it inconsistent with the Revised Certified 2024 Commonwealth Fiscal Plan (the "Fiscal Plan") and the Certified Fiscal Year 2026 Commonwealth Budget. The Fiscal Plan outlines how, despite the EITC being one of the most effective tools for increasing formal sector labor force participation and reducing poverty, its cost has historically exceeded the anticipated size of the program. Specifically, the inflation adjustment of the Proposed Regulation would increase the total cost of the EITC program to the

Commonwealth to $783 million for taxable year 2025. This would represent a 52% cost share to the Commonwealth (much greater than the intended 25%/75% split) and requires more than three times the initial $200 million allocated for the EITC.

On June 3, 2025 and June 10, 2025, the Oversight Board met with leadership of both the Executive and Legislative branches to discuss possible solutions to control the EITC's rising costs. The Proposed Regulation does not address the EITC's cost share. The Oversight Board recommends that the Government assess adjustments to the EITC within the framework of the comprehensive tax reform.

Please note the Oversight Board's review is solely limited to the Proposed Regulation's compliance with the applicable Fiscal Plan and no other matters. For the avoidance of doubt, the review performed by the Oversight Board does not constitute a legal review under applicable laws, rules, and regulations, both federal and local, including without limitation, compliance with any applicable labor laws, rules and regulations.

This review was conducted on the basis of information submitted by the Department. The Oversight Board has not independently verified the information included in the submission. Should the Oversight Board become aware of any inaccuracies or misrepresentations – whether intentional or not – it would re-evaluate its assessment.

This letter is delivered as of the date hereof and we reserve the right to provide additional observations and modify this letter based on information the Oversight Board was not directed to when the review was conducted. In addition, during the course of our review, we may receive information that we may determine to refer to the relevant authorities.

This letter is issued only to the Department and solely with respect to the Proposed Regulation.

We look forward to continuing working with you for the benefit of the people of Puerto Rico.

Sincerely,

Robert F. Mujica, Jr.
Executive Director

CC: Mr. Francisco J. Domenech Fernández