

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
FOR PUERTO RICO**



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BY ELECTRONIC MAIL

January 18, 2020

The Honorable Francisco Parés-Alicea
Secretary
Department of the Treasury
Government of Puerto Rico

Dear Secretary Parés-Alicea:

On November 25, 2019, the Oversight Board wrote to Governor Vázquez Garced and the Legislature with concerns about several recent legislative actions. Among those concerns were certain provisions of H.B. 2172, which proposed amendments to the Puerto Rico Internal Revenue Code of 2011 (“PRIRC”) and the Puerto Rico Tax Incentives Code.

It was encouraging to see the Legislature take proactive steps in H.B. 2172 to eliminate and reduce various tax credits and other tax incentives as a means to pay for the reductions in tax collections proposed in the legislation. This approach is consistent with the certified Fiscal Plan requirement for the Government to reduce or eliminate tax credits with negative rates of returns. The Oversight Board commends the Legislature for taking this positive step forward toward fiscal responsibility and encourages this practice to continue.

At the time, however, we reminded the Government that the Commonwealth’s certified Fiscal Plan requires any tax measures to be revenue neutral with a high degree of confidence. Several provisions of H.B. 2172 appeared to decrease tax collections without sufficient offsetting adjustments to pay for those tax reductions, potentially making the legislation inconsistent with the certified Fiscal Plan.


The proposed tax reductions in H.B. 2172 included an additional tax credit for certain individual tax filers, larger guaranteed tax credits for seniors, as well as higher exemption thresholds for those subject to the business-to-business services tax and special contribution to consulting and professional services tax, among others. In total, the tax reductions proposed could cost the Commonwealth more than \$85 million annually. After reviewing the analysis provided by

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Hacienda, the Oversight Board believes the aggregate amount of payfors included in the legislation was not sufficient to offset the total amount of tax relief proposed.

If similar legislation were to be reintroduced in the future, close attention must be paid to ensuring there is sufficient means to pay for any proposed reforms. We are prepared to continue working with the Government and Legislature to ensure any future tax-related legislation promotes economic development and is revenue neutral.

Sincerely,


Natalie A. Jaresko

CC: Mr. Elí Díaz Atienza
Mr. Omar Marrero Díaz