

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



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BY ELECTRONIC MAIL

June 8, 2020

Mr. Ricardo M. García
President
United Group of Automotive Importers

Mr. Julio Ortíz
President
Puerto Rico Automobile Distributors Association

Dear Mr. García and Mr. Ortíz:

We acknowledge receipt of your letter dated May 13, 2020 in which you present a two-phase proposal in relation to the imported vehicles' excise tax imposed by Section 3020.08 of the Puerto Rico Internal Revenue Code ("PRIRC"). Pursuant to Section 3060.01 of the PRIRC, this excise tax is payable upon introduction of the unit into Puerto Rico or, in the case of authorize bonded dealers, within fifteen (15) days of sale of the unit or six months after introduction if not sold within said period of time. We understand your proposal is inspired by the negative impact the COVID-19 pandemic has had on the Island's automotive industry to date. However, the proposal does not take into account the incremental income available to residents of the Island from the federal tax rebates and federal supplemental unemployment insurance, which will be potentially available for car purchases as the economy reopens.

Phase one of your proposal reduces the currently imposed excise tax by 50% on all sold and delivered imported vehicles by a license dealer, including units held on inventory, during a 90-day period after re-opening to the general public. This phase of your proposal represents an estimated cost of \$30 million to the Commonwealth of Puerto Rico and would entitle licensed dealers to a tax refund for excise taxes paid to date on units currently held on inventory.

Phase two of your proposal would replace the current excise tax on automobile units with a sales tax payable by the ultimate consumer at the moment of acquisition.

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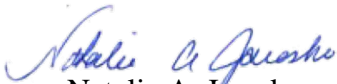
As proposed, phase one provides for a 50% reduction of the excise tax imposed on motor vehicles introduced or sold in Puerto Rico for a period of ninety (90) days without a payfor to counter such effect on the Commonwealth's tax revenues. As required by the Certified Fiscal Plan, to ensure revenue neutrality, the implementation of any tax reduction initiatives requires a payfor and must occur sequentially, with the Government ensuring that such initiatives are paid for before approval of the same. Therefore, revenue reductions must be accompanied by specific offsetting savings and/or increase in revenue measures of a sufficient amount identified in the enabling legislation.

While your proposal aims to provide relief to the automobile sales industry in the context of the COVID-19 emergency by encouraging consumers to purchase vehicles at a lower price, automobile sales are neither directly nor indirectly related to the prevalent COVID-19 emergency. As such, your proposal does not address any primary social, economic or health-related need. Accordingly, the Oversight Board cannot support phase one of your proposal.

As for phase two, we would be open to discuss and further analyze a more detailed structure of the proposed new sales tax mechanism together with an economic analysis thereof, which has not been provided to date.

The Oversight Board believes that the health and safety of the people of Puerto Rico must be the number one priority at this time, and we will provide appropriate and needed support for those affected by COVID-19, those fighting the virus at the frontlines, and those affected by the Government's response to the emergency. The Oversight Board will continue to work closely with the Governor and the Legislature to mitigate the crisis to the extent possible.

Sincerely,


Natalie A. Jaresko