

PRESS RELEASE

TRANSLATION



Office of the Secretary

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TREASURY DEPARTMENT SUBSTANTIALLY REDUCES FISCAL DEFICIT FOR FISCAL YEAR 2012-13

(San Juan, Puerto Rico) – Treasury Secretary and Chief Public Financial Officer Melba Acosta-Febo announced that through the Treasury Department’s efforts General Fund revenues for FY2012-13 registered a 75% reduction in the gap between the General Fund’s real revenues and the previous administration’s estimate revenues for this period.

The Treasury Department managed to reduce the initial deficit projection from \$965 million to \$247 million for the fiscal year ending June 30, 2013. Certain measures that are underway to further close this gap are expected to be completed in the near future. The reduction was accomplished through a series of non-recurring fiscal revenue measures and by reducing excess expenditure projected by some government agencies.

“We were able to reduce the fiscal deficit by 75% because, as soon as we took office, we proactively addressed the situation through non-recurring fiscal measures that increased revenues. The government was also able to control and eliminate the \$140 million projected excess expenditure. We will continue working as we have so far in order to eliminate Puerto Rico’s budget deficit and stabilize the economy. We’re moving in the right direction,” Acosta-Febo pointed out.

The \$965 million revenue shortfall was added to the \$140 million projected excess expenditure (which was eliminated by cut backs, freezing funds, and through other measures), to COFINA’s built-in deficit financing (\$333 million) and to the GO debt service restructurings (\$775 million), all of which are included in the \$2.213 billion deficit the present administration found in January 2013.

The \$235 million advanced payment made by foreign companies subject to the non-resident withholding tax related to the use of patents in the manufacturing process (reduced from the current 2013-14 budget) is among the fiscal measures that increased revenues, as well as a \$241 million transfer from the Debt Redemption Fund to the General Fund. These moneys served as a reserve since 2010 for potential collateral postings in derivatives instruments or swaps tied to General Obligation variable-rate bonds of the Commonwealth of Puerto Rico. Given the significant reduction, over the past two years, in the swap portfolio tied to these bonds, this reserve was applied to the deficit. In addition, \$180 million were obtained from final tax agreements closed in corporate cases, which represent \$80 million more than the amount included in the budget.

Finally, she mentioned that the tax amnesty was another measure that contributed revenues for the end of the year. Total amnesty revenues, corresponding to the cash received from debts paid in full and the advanced payments for payment plans, were for \$98 million, out of which \$8 million were used for fiscal oversight measures. Payment plans in the amount of \$176 million were also set, for a total \$274 million. These numbers exceeded the initial expectations of the Treasury Department.

The Secretary stated that the Department is working, as provided by the tax amnesty law, on a plan to sell the amnesty's payment plans (\$176 million) and previously existing payment plans (\$128 million), as well as on two other transactions that were pending at the end of the year, which will be closing soon (\$127 million). These measures are expected to help cover the remainder of last year's deficit and will require legislation in order to be implemented in the closing of FY 2012-13.

For the fiscal year beginning on July 1, 2013, Secretary Acosta-Febo pointed out that the Administration is working on the implementation of different administrative measures and also with the new provisions of the Internal Revenue Code to reinforce compliance, cut down tax evasion and fraud, and increase recurring revenues. Just today, 65 new auditors started working at the Treasury Department in the Fiscal Audit Bureau and the Consumption Tax (SUT) Bureau.

In comparative terms, the preliminary revenue level for FY2012-13 totaled \$8.502 billion (excluding financing measures, such as COFINA), while the previous year the total amount was \$8.660 billion, for a \$158 million difference. However, these numbers cannot be all compared category by category with those of last year because there were non-recurring revenues and changes in the tax law, in both years. Individual income tax and corporate tax revenues are the main source of

revenues for the General Fund. In FY2012-13 revenues for this category were \$4.398 billion while in 2011-12 these revenues were in the amount of \$4.545 billion; the \$147 million net difference is related to the amounts collected during both years in connection with the tax amnesty and the non-recurring revenue transactions. Another important revenue category is the Act 154 excise tax on foreign corporations. In FY2011-12 these collections were in the amount of \$1.883 billion; in 2012-13, \$205 million less were collected because the tax rate went down from 3.75% to 2.75%. For FY2013-14, the rate will be 4%. Total sales and use tax ("SUT") collections for the year were \$1.175 billion, a 2.9% annual growth. Finally, the Treasury Secretary mentioned that these revenue numbers are not final and are subject to the closing of the last pending transactions and to review by external auditors.

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