PRESS RELEASE

Office of the Secretary

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CLOSING OF FY 2013-14

Preliminary Fiscal Year Revenue Exceeds final Audited Prior Year Revenue by $475 million

Highest Sales and Use Tax Revenue in History, Up 6.9% over Prior Year

San Juan, Puerto Rico – The Secretary of the Department of the Treasury, Melba Acosta Febo, today reported on total preliminary net revenue collections for the close of Fiscal Year 2014, ended on June 30. Net collections totaled $9,037 million and exceeded the recently published final audited collections for FY 2013 by $475 million, or 5.5%.

Acosta Febo explained that the significant increase in the year's collections was driven by recurring revenue measures included in last year's budget to substantially reduce Puerto Rico's fiscal deficit. These measures included the gross receipt tax, the extension of the sales and use tax (SUT) to certain commercial activities between businesses, and an increase in the foreign corporation excise tax rate. In addition to prudent tax legislation, several effective revenue management strategies were implemented throughout the fiscal year which strengthened oversight and compliance.

Acosta Febo explained that the main revenue drivers were corporate income tax, which increased by $628 million, or 49%, and the excise tax on foreign corporations, which increased $270 million, or 17%.

Total SUT collections corresponding to the 5.5% rate increased to $1,242 million, the highest annual level in history. SUT collections increased by 6.9%, or an additional $80 million. The first $644 million of total FY2014 SUT collections were deposited in the Puerto Rico Sales Tax Financing Corporation (COFINA, in Spanish) for debt service, while $595 million went to the General Fund.

General Fund Net Revenues
July - June FY 2013-14
(million of $)

Items	July-June Collections 2012-13	2013-14	Dif.	Estimate July-June	Collections vs. Estimate
Gross General Fund Net Revenues	9,101.2	9,624.9	523.7	10,113.0	(488.1)
Reserve for Refund	(539.0)	(588.0)	(49.0)	(588.0)	0.0
General Fund Net Revenues	8,562.2	9,036.9	474.7	9,525.0	(488.1)
Individual	2,054.6	1,979.4	(75.2)	2,004.0	(24.6)
Corporations	1,286.5	1,914.3	627.8	2,513.0	(598.7)
Non-Resident Withholdings	983.0	900.0	(83.0)	820.0	80.0
Sales and Use Tax	539.9	595.3	55.4	614.0	(18.7)
Property Taxes	52.6	19.8	(32.8)	16.0	3.8
Foreign (Act. 154)	1,632.5	1,902.2	269.7	1,938.0	(35.8)
Alcoholic Beverages	282.3	266.6	(15.7)	283.0	(16.4)
Cigarettes	186.9	171.1	(15.8)	174.0	(2.9)
Motor Vehicles	419.2	392.0	(27.2)	432.0	(40.0)
Excises on Off-Shore Shipment Rum	247.8	248.0	0.2	220.0	28.0
Others	876.9	648.2	(228.7)	511.0	137.2

FY 2014 revenues were $488 million below initial estimates, one of the reasons being the tax credits taken or acquired that reduced payment of the gross receipt tax. Ms. Acosta Febo explained that as part of legislative approval for the 2013-14 budget an amendment was inserted which stipulated that the gross receipt tax calculation be made as part of the alternate minimum tax (AMT) calculation which, in effect, provided for payment of the gross receipt tax to be included as a component of income tax.

As a result, the gross receipt tax was affected by carried tax credits or credits purchased in the market. While most holders of purchased tax credits did pay appropriate taxes, these payments accrued to third parties, and not to Treasury. This situation was modified when configuring the budget for 2014-15, and the gross receipt tax is no longer part of the AMT calculation.

Treasury intends to conduct further analysis once Corporations that filed for an extension on April 15, 2014 file their returns on July 15, 2014, the due date for the automatic extension.

Acosta Febo emphasized that while collections were below estimates, cuts to assigned budgeted expenses were greater than the prior fiscal year and, as a result, the expected deficit at the end of the year is lower than originally budgeted. The approved FY 2014 budget included $9,770 million in expenses and estimated net revenues of $9,525 million from the General Fund, plus $245 million in deficit financing, with debt refinancing of $575 million, for a deficit of $820 million. At the close of the fiscal year, assignments of budgeted expenses had decreased by $525 million, from $9,770 million to $9,245 million. This was achieved through Joint Resolution No. 11-2014, Act 33-2014 and Executive Order 2014-29. These measures represented reductions in budgeted assignments of $170 million and $355 million, respectively. The budget deficit was reduced from $820 million to $783 million. (See table)

2013-14 Budget Deficit

(millions of $)

	Approved Budget 6/13	Amended Budget 3/14	Final* Amended Budget 6/14		Change
Expense Budget	9,770	9,600	9,245		(525)
Revenue Budget					
General fund revenues	9,525	9,525	9,037	**	(488)
Deficit Financing (1)	245	75	75		(170)
Additional Deficit (2)	0	0	133		133
Refinancing of Debt (3)	575	575	575		
Deficit (1)+(2)+(3)	820	650	783		(37)

* Budgeted Expenses and Revenues are Non-Audited
** Includes $73 million of COFINA Surplus

For FY 2015, Puerto Rico has approved a balanced budget without financing measures for the first time in over two decades. This fiscal year's budget totals $9,565 million and assigns $740 million to general obligations (GO) debt service and approximately $275 to payment the Public Buildings Authority (PBA) debt.

As provided by the laws of the Commonwealth, the 2014-15 budget includes funds for COFINA's debt repayments. The first $670 million in SUT revenue, which is received not by Treasury but by an Escrow Agent, will be reserved for debt repayment. Once payment of the debt has been completed and confirmed, any remainder will be sent to the accounts of the Department of the Treasury. As always, the General Fund will receive incremental SUT revenue after the total repayment of the annual COFINA debt, which typically does not occur until January.

"This administration has done everything in its power to strengthen COFINA. Among other measures, we have increased the SUT's contribution to COFINA from 2.75% to 3.50%; guaranteed an additional 0.50% of the SUT to COFINA; expanded the revenue base in FY 2013-14 so that the SUT applies to certain new services; implemented multiple enforcement measures to increase SUT collection; and we will begin collecting the SUT in the Puerto Rico's ports on August 1, 2014. All of these measures have strengthened COFINA, and provided for SUT growth of 7% in FY 2013-14," she added.

The Secretary of the Treasury noted that FY 2014 presented numerous challenges, which this administration overcame though sound fiscal policies which resulted in increased collections, reductions and controls on expenses, significant reduction of the budget deficit, and most importantly, Puerto Rico's continued track record of meeting its obligations to creditors."

"We will continue to act with fiscal responsibility and remain committed to stabilizing the government's finances and supporting Puerto Rico's continued economic development," Acosta Febo concluded.

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