

Improving the Puerto Rico Tax System

February 27, 2023



General Fund Revenues



General Fund Revenues

- General Fund revenues for the past five (5) years, have consistently exceeded the projections established in the Fiscal Plan Financial Oversight & Management Board (FOMB). The data reflects that the average surplus has been approximately \$790 million.

Period	Net Revenue to the General Fund	Fiscal Plan Projection	Difference (\$) (Projection vs. Real) (in millions, \$)	Difference (%) (Projection vs. Real)
FY 19	\$9,288.5	\$9,012.1	\$276.4	3%
FY 20	\$11,375.9	\$10,405.0	\$970.9	9%
FY 21	\$11,682.7	\$11,086.0	\$596.7	5%
FY 22*	\$12,801.1	\$11,326.0	\$1,475.1	13%
FY 23**	\$5,422.7***	\$4,754.5	\$668.2	13%

*The January, 2022 CFP, revised the projection for the original FY 22 Fiscal Plan (CFP2021) from \$10,207 million to \$11,327 million. In other words, by \$1,120 million, after this revision, revenues exceeded the second projection by \$1,475 million.

** The January 27, 2022 CFP, projects a revenue of \$11.145 million for FY23. As of December, preliminary, accumulated revenues total \$5,384.6 million

Comparison of Puerto Rico Tax Rates Globally



20 Highest Statutory Corporate Income Tax Rates in the World (2022)

Source: Tax Foundation

Rank (#)	ISO3	Country	Continent	Corporate Tax Rate	Rank (#)	ISO3	Country	Continent	Corporate Tax Rate
1	COM	Comoros	AF	50%	11	SDN	Sudan	AF	35%
2	PRI	Puerto Rico	NO	38%	12	SXM	Sint Maarten (Dutch part)	NO	35%
3	SUR	Suriname	SA	36%	13	ASM	American Samoa	OC	34%
4	ARG	Argentina	SA	35%	14	BRA	Brazil	SA	34%
5	TCD	Chad	AF	35%	15	VEN	Venezuela	SA	34%
6	COL	Colombia	SA	35%	16	CMR	Cameroon	AF	33%
7	CUB	Cuba	NO	35%	17	KNA	Saint Kitts and Nevis	NO	33%
8	GNQ	Equatorial Guinea	AF	35%	18	MOZ	Mozambique	AF	32%
9	GIN	Guinea	AF	35%	19	NAM	Namibia	AF	32%
10	MLT	Malta	EU	35%	20	PRT	Portugal	EU	32%

- Average rate = 22.2%;
- Median = 25%
- Lowest= 5.5% (Barbados)

20 Highest Corporate Income Tax Rates in U.S. states, 2022

Source: Tax Foundation

Rank (#)	State	Federal Rate	State Tax	Marginal Rate	Effectuated	Rank (#)	State	Federal Rate	State Tax	Marginal Rate	Effectuated
1	Puerto Rico	0.0%	37.5%	37.5%	37.5%	11	Vermont	21.0%	8.5%	29.5%	27.7%
2	New Jersey	21.0%	11.5%	32.5%	30.1%	12	Maryland	21.0%	8.3%	29.3%	27.5%
3	Pennsylvania	21.0%	10.0%	31.0%	28.9%	13	Washington, D.C.	21.0%	8.3%	29.3%	27.5%
4	Iowa	21.0%	9.8%	30.8%	28.7%	14	Massachusetts	21.0%	8.0%	29.0%	27.3%
5	Minnesota	21.0%	9.8%	30.8%	28.7%	15	Wisconsin	21.0%	7.9%	28.9%	27.2%
6	Illinois	21.0%	9.5%	30.5%	28.5%	16	New Hampshire	21.0%	7.6%	28.6%	27.0%
7	Alaska	21.0%	9.4%	30.4%	28.4%	17	Oregon (a)	21.0%	7.6%	28.6%	27.0%
8	Maine	21.0%	8.9%	29.9%	28.1%	18	Connecticut (a)	21.0%	7.5%	28.5%	26.9%
9	California	21.0%	8.8%	29.8%	28.0%	19	Louisiana	21.0%	7.5%	28.5%	26.9%
10	Delaware	21.0%	8.7%	29.7%	27.9%	20	Nebraska	21.0%	7.5%	28.5%	26.9%

- Average = 26%
- Median = 26%;
- Lowest= 22.98%

Marginal Tax Rates for Individuals

Source= Price Waterhouse Coopers

- **Median (Global)** = 30%
- **Average (Global)** = 27.9%
- **Marginal Tax Rate (U.S.)** = 37%
- **Marginal Tax Rate in PR** = 31.35%
- **Highest Marginal Tax Rate** = 59% (Belgium)

Tax Rate Reductions for Individuals



Individuals

- Reduces the Marginal Tax Rate from 33% to 30%.
- Limits the 5% y 3% to individuals with AGI ≤ \$100,000.

Estimated Fiscal Cost (Base Year) = \$262.5 million

Benefitted Taxpayers (“Winners”)

- Reduction in Tax Rates = **172,215**
- COLA Structure = **618,739**

Impact on Taxpayers (“Losers”) = 1,439

Normal Tax Rate - Individuals				Proposed Brackets (w/o cost of living adjustments)				Change			
Net Taxable Income		Fixed Rate	Marginal Rate	Net Taxable Income		Fixed Rate	Marginal Rate	Net Taxable Income		Fixed Rate	Marginal Rate
0	- 9,000		0%	0	- 9,000	-	0%	0	0	0	0%
9,001	- 25,000		7%	9,001	- 25,000	-	7%	0	0	0	0%
25,001	- 41,500	1,120	14%	25,001	- 41,500	1,120	14%	0	0	0	0%
41,501	- 61,500	3,430	25%	41,501	- 81,500	3,430	24%	0	20,000	0	-1%
61,501	o más	8,430	33%	81,501	- o más	13,030	30%	20,000	-	4,600	-3%

Tax Rate Reductions for Individuals

- Cost of living adjustment (“COLA”) will be incorporated and will go into effect from Tax Year 2023.
- Proposal considers that 5% and 3% credit enacted by Act 257-2018 and Act 40-2020, respectively, be limited to taxpayers whose AGI does not exceed \$100,000.
- Senior Citizen will be set at \$400 and will not be conditioned to any surplus analysis to pay the additional \$200.
- Ranking vs. Other Jurisdictions
 - Current Ranking= 88
 - Proposal = 70 (+18)

Individuals

Examples

				Does not Consider COLA - Only Reduction in Tax Rates		
				Actual	Proposed	Benefit
Example #1	Taxpayer (s)	Single	Net Income Subject to Regular Tax	68,500	68,500	-
	Dependent(s):	2	Tax Liability	10,740	9,910	(830)
				Actual	Proposed	Benefit
Example #2	Taxpayer (s)	Married (Sh CO)	Net Income Subject to Regular Tax	78,422	78,422	-
	Dependent(s):	0	Tax Liability	11,770	10,358	(1,412)
				Actual	Proposed	Benefit
Example #3	Taxpayer (s)	Married Filing Separately	Net Income Subject to Regular Tax	85,654	85,654	-
	Dependent(s):	3	Tax Liability	16,401	14,276	(2,125)

Tax Rate Reductions for Corporations



Corporations

(Progressive Scales without the 19% Surtax)

- Reduces the marginal tax rate from 37.5% to 33%.
- Establishes three new progressive tax brackets of 17%, 27%, and 33%.
- Eliminates the 19% surtax.
- 23,747 taxpayers would pay a lower tax rate than the global and national median.

Estimated Tax Effect of Base Year = \$283 millones

Tax Payers Who Benefit (“Winners”) = 26,712

Proposed Normal Tax Rates			
Net Income Subject to Tax		Fixed Rate	Marginal Tax Rate
0	275,000	-	17%
275,001	3,000,000	46,750	27%
3,000,001	o más	782,500	33%

Corporations

Examples

		Actual	Proposed	Benefit
New Brackets (17% 27% 33%)	Net Income Subject to Regular Tax	270,000	270,000	
	Net Income Subject to Surtax	245,000	245,000	
	Tax Liability	81,300	45,900	(35,400)
New Brackets (17% 27% 33%)	Net Income Subject to Regular Tax	1,575,000	1,575,000	
	Net Income Subject to Surtax	1,550,000	1,550,000	
	Tax Liability	570,375	397,750	(172,625)
New Brackets (17% 27% 33%)	Net Income Subject to Regular Tax	3,100,475	3,100,475	
	Net Income Subject to Surtax	3,075,475	3,075,475	
	Tax Liability	1,142,428	815,657	(326,771)

Net Income Subject to Surtax does not apply under the proposed regime.

Estimated Fiscal Cost Summary

Estimated Fiscal Cost of Reductions	
Individuals*	\$262.5
Corporations**	\$283.0
TOTAL	\$545.5

*Maximum Tax Rate scenario of 30%. Calculations based on tax year 2021.

**Calculations based on tax year 2019.

Simplification and other measures



Simplification and Other Measures

- Eliminate the Sales and Use Tax (“SUT”) in the distribution chain for imports and for resale inventory purchases.
- Eliminate reconciliation of information with return expenses when the taxpayer is accrual basis or has a fiscal year.
- Eliminate obligation to file annual report for domestic and foreign corporations. However payment of annual fee will continue to apply.
- Voluntary program for the Department of Treasury to manage the municipal sales and use tax and municipal license tax.
- Annual exempt report of entities with tax decrees will be filed as part of the income tax return. Payment of annual fee Will continua to apply.

Thank you!

