

# Economic and Social Considerations of the Tax Reform Proposal to Improve and Simplify Puerto Rico's Tax System

# Study Highlights

Individual Tax



Corporate Tax



System  
Simplifications

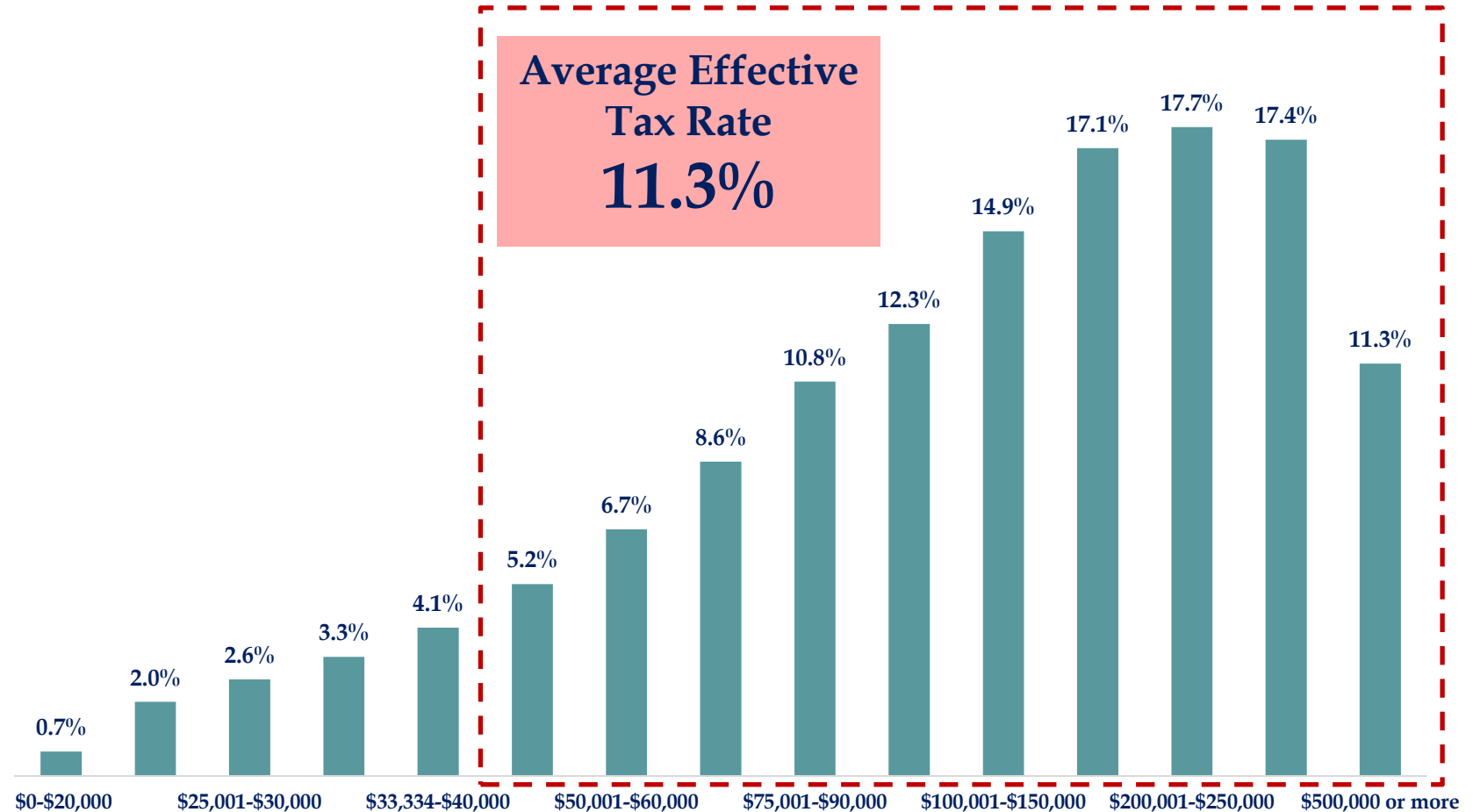


# Individual Tax Reform

The personal tax cuts are focused on households with incomes of over \$40k a year which currently pay a large percentage of their income as taxes.

Effective Individual Tax Rate per Adjusted Gross Income Bracket (2021)

1. Reduces the maximum marginal tax rate from 33% to 30%.
2. Limits the 5% and 3% discounts approved under Acts 257-2018 & 40-2020.
3. Expands the \$41,501 - \$61,500 bracket to \$41,501 - \$81,500 and reduces the tax rate to 24%.



Source: Puerto Rico Department of Treasury

# Individual Tax

## Minimum Wage Increases

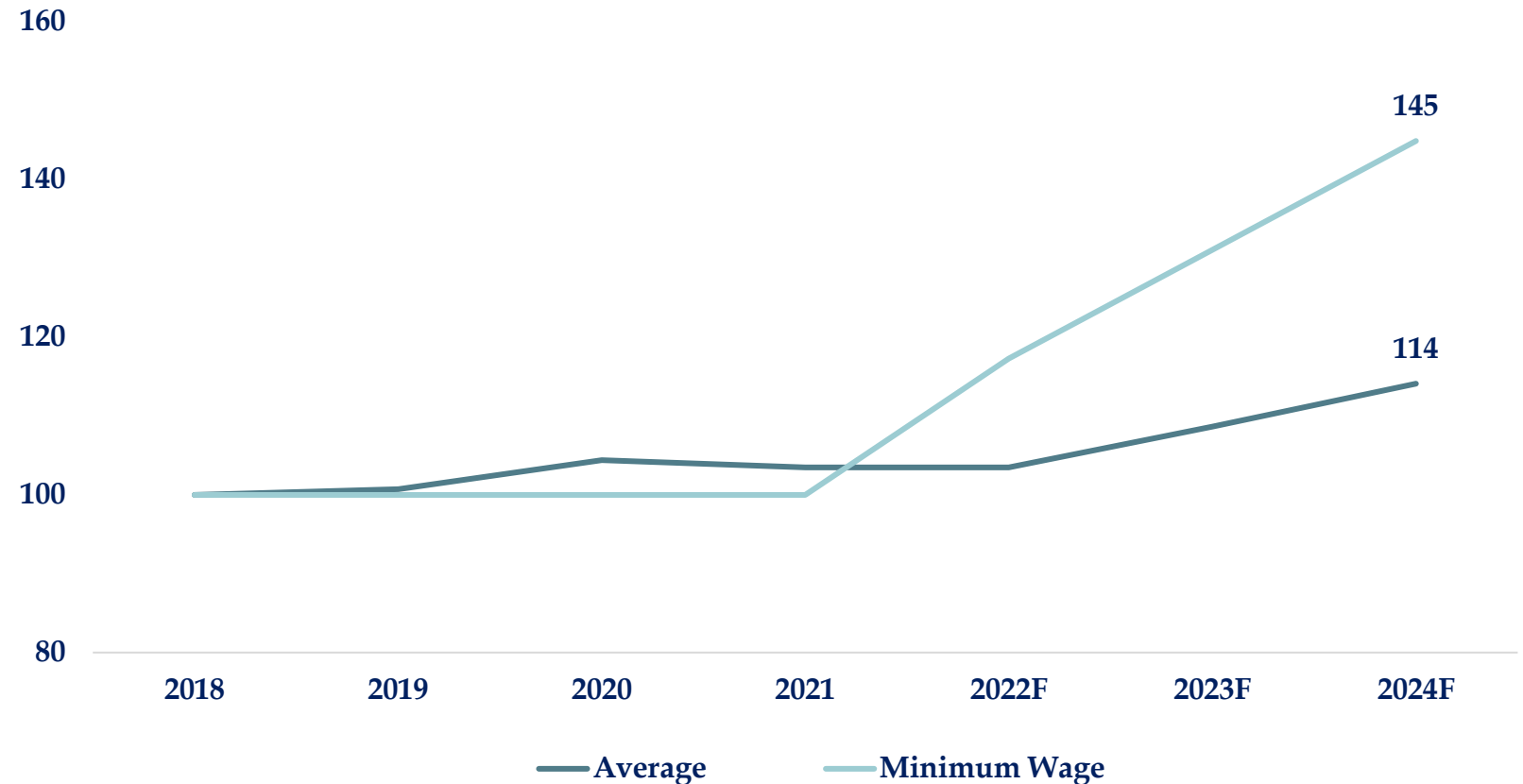
\$8.50 (2022)

\$9.50 (2023)

\$10.50 (2024)

The annual minimum wage is expected to grow at a faster rate than the average annual wage in Puerto Rico.

Puerto Rico's Annual Wage Comparisons (2018 =100)

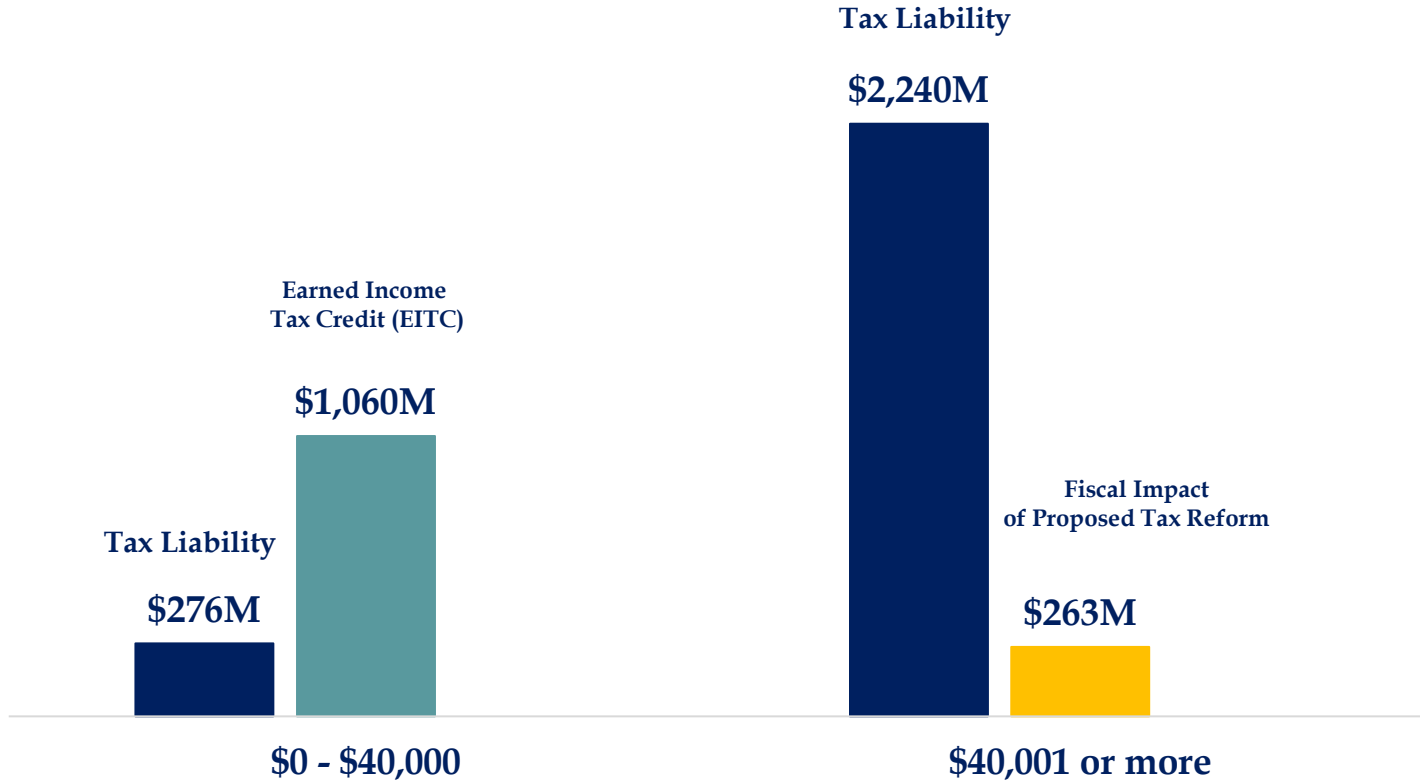


Source: U.S. Bureau of Labor Statistics, Government of Puerto Rico & forecast (F) by Advantage.

In the aggregate, taxpayers with incomes of less than \$40k are getting almost 4X their combined tax liability as EITC.

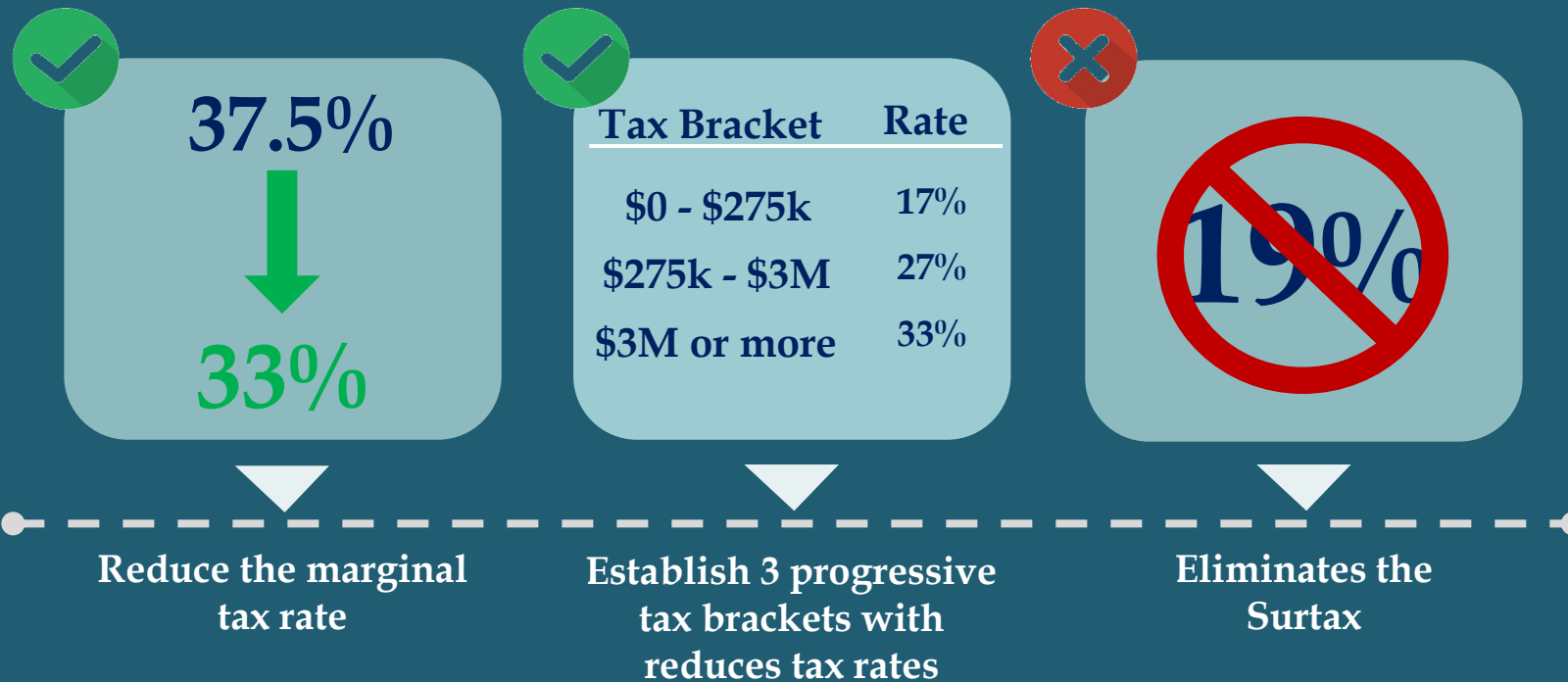
# Tax Reform vs. EITC

## Tax Adjustments for the (\$0-\$40k) versus (\$40k or more) Adjusted Gross Income Brackets



Source: Puerto Rico Department of Treasury

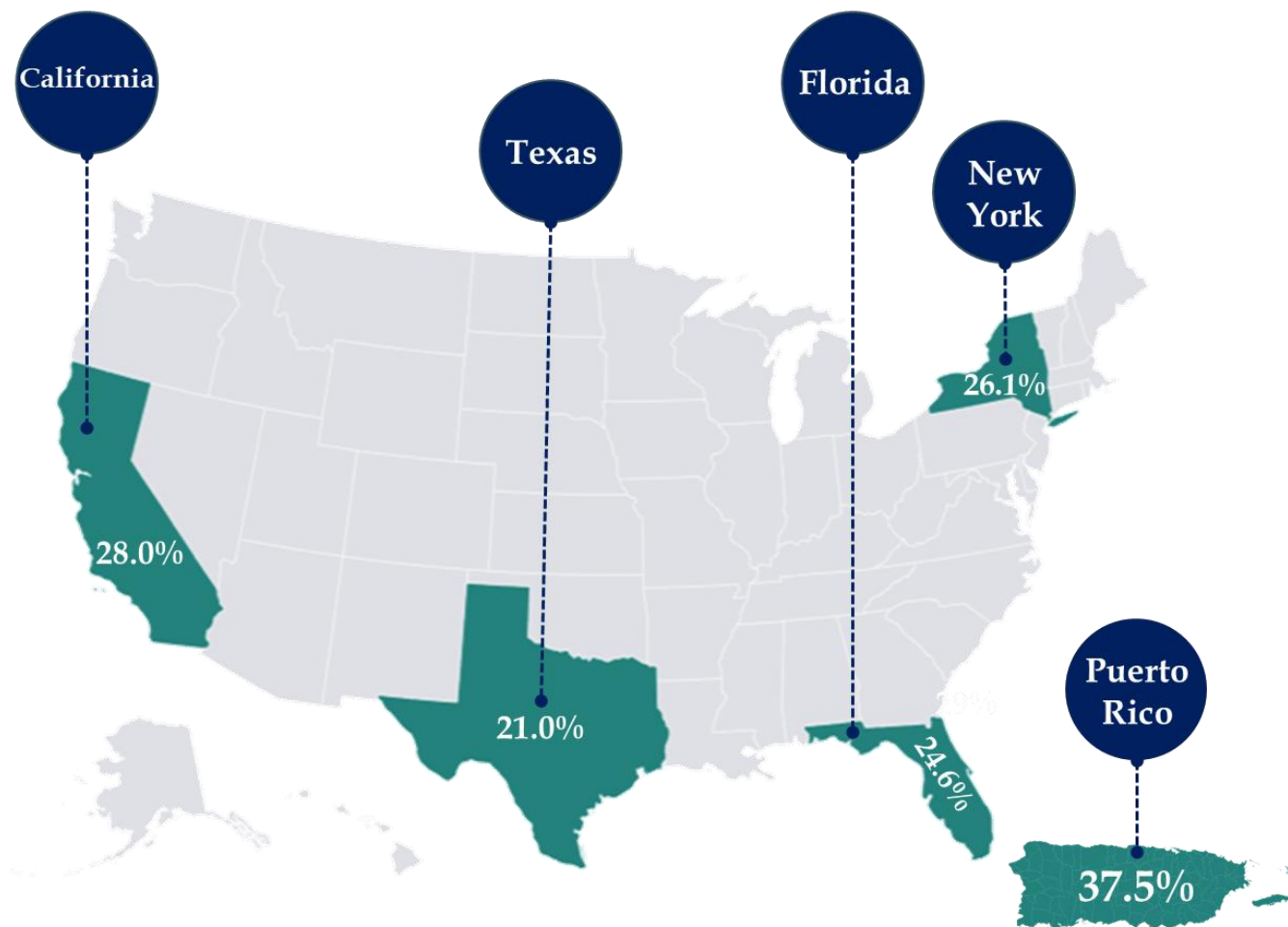
# Corporate Tax Reform Analysis :



# Corporate Tax Rates PR vs US

In terms of the combined corporate tax rates of selected states in the United States, Puerto Rico ranks as the highest.

## Highest Combined Corporate Tax Rates in selected U.S. states and Puerto Rico 2022

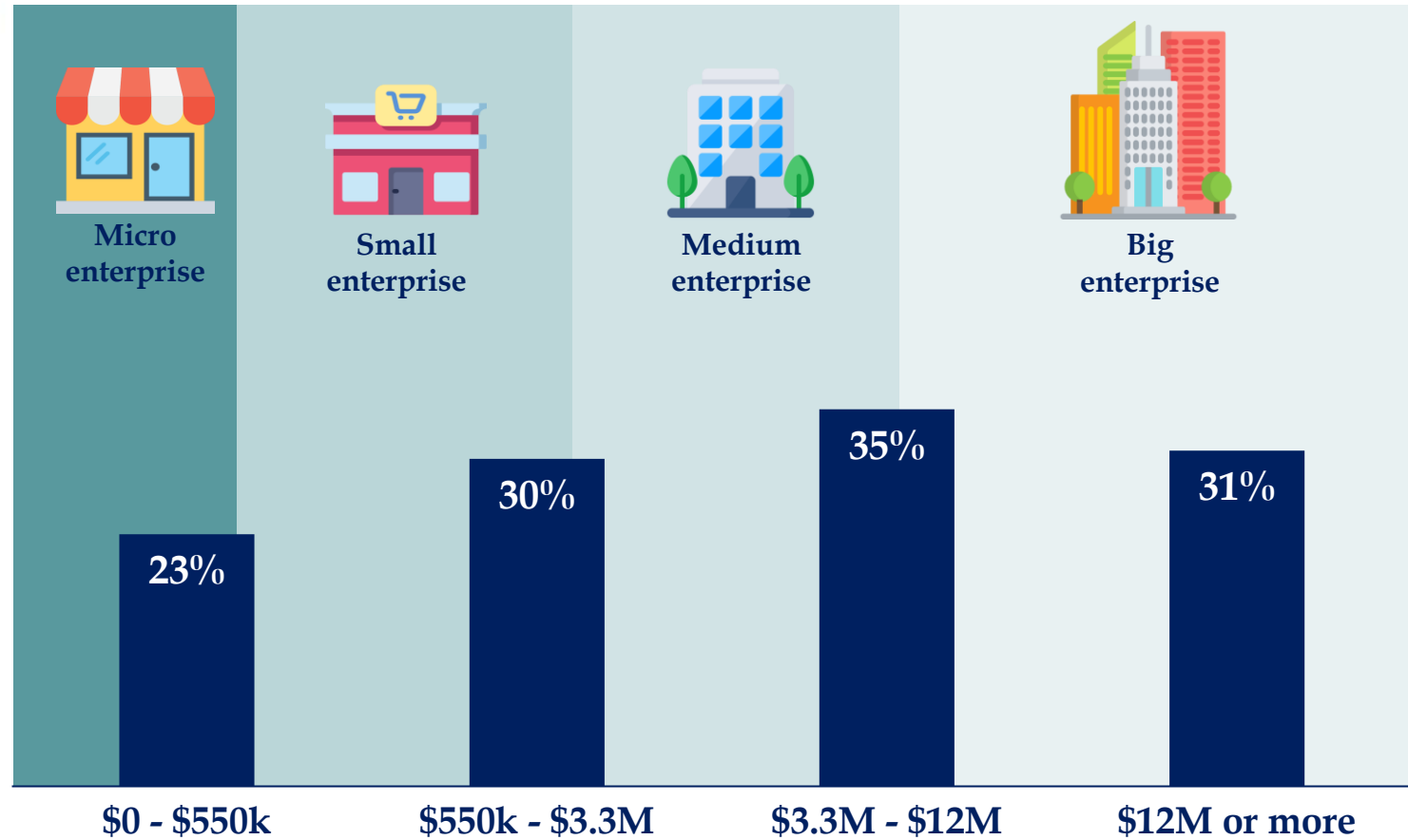


Note: Combined rates include the ability for corporations to deduct state income taxes against federal taxable income  
Sources: *Tax Foundation and Puerto Rico Department of Treasury*



# Corporate Effective Tax Rates

## Effective Corporate Tax Rate - 2019



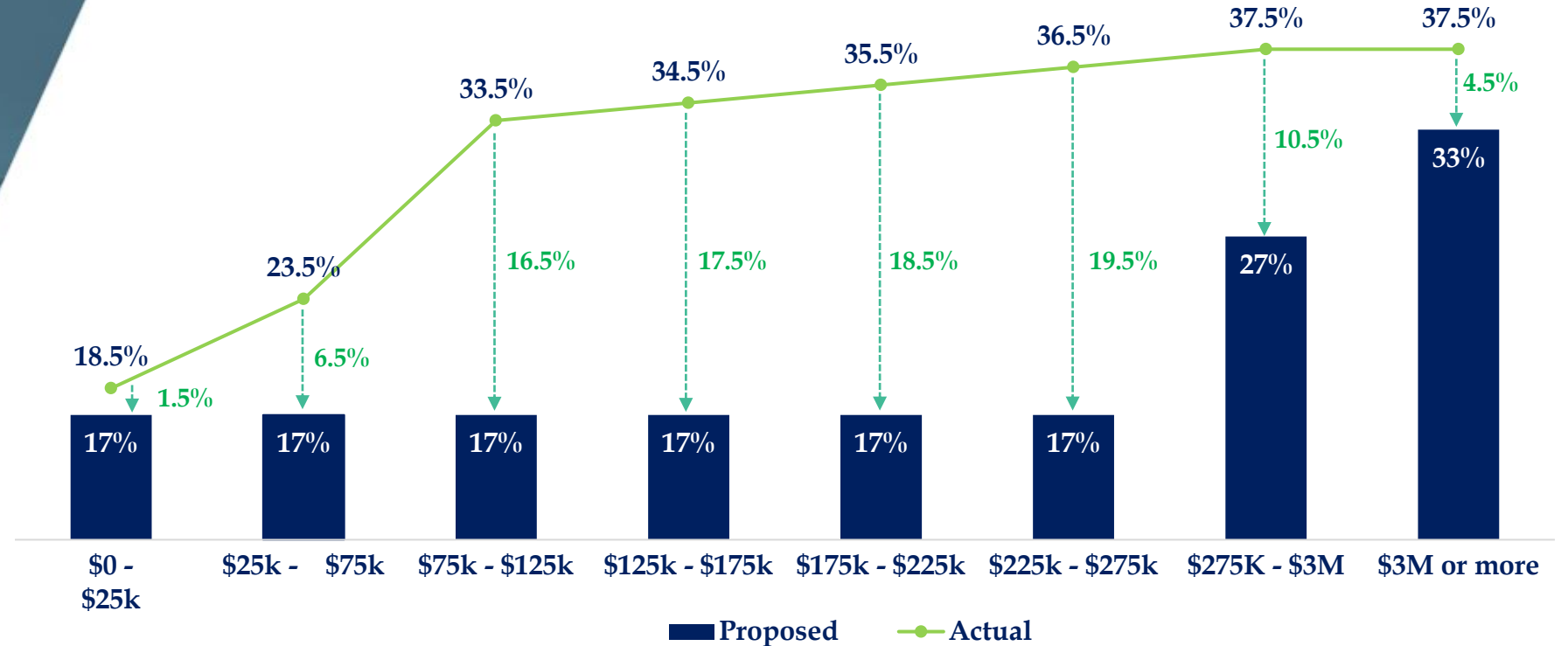
Note: Effective Corp. Tax Rate was calculated by dividing the Tax Liability by the Net Income Subject to Normal Tax  
Sources: Puerto Rico Department of Treasury and *Advantage Estimates*



# Corporate Tax: Current vs Proposed

The corporations that would benefit the most from this amendment are those with net incomes between \$75k - \$3M.

### Corporate Tax Rate Comparison per Net Income Brackets: Actual vs. Proposed



Source: Puerto Rico Department of Treasury and *Advantage Estimates*

# Economic Impact of the Proposed Simplifications

TAX COMPLEXITY = COMPLIANCE COST + ADMINISTRATIVE COSTS

