

WASHINGTON -- On Oct. 10, U.S. Senate Finance Committee Chairman Chuck Grassley and Ranking Member Max Baucus sent joint letters to both the General Accounting Office and the Joint Committee on Taxation requesting comprehensive reports regarding the Puerto Rican economy. In the letters, the senators asked for reports regarding the impact of U.S. federal tax policy on Puerto Rico, an analysis of the economic policy implications of legislative options, revenue costs of such options, and a comparison of the options to current law relative to the states, the District of Columbia and the other U.S. territories.

Full text of the letters follow:

October 10, 2003

Mr. George Yin
Chief of Staff
Joint Committee on Taxation
1015 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Yin:

We request that the Joint Committee on Taxation prepare a report on legislative options concerning Puerto Rico. Specifically, the Joint Committee on Taxation's report would provide an analysis of the tax and economic policy implications of the legislative options, the revenue costs of such options, and a comparison of the options to current law relative to the states, the District of Columbia, and the other U.S. territories.

We also have requested that the General Accounting Office (GAO) report to the Finance Committee with respect to the Puerto Rican economy, the impact of U.S. federal tax policy on Puerto Rico, and proposed U.S. tax legislation regarding Puerto Rico. A copy of our letter to the GAO is attached.

We expect that more specific report objectives will be developed in consultation with Finance Committee staff as you proceed with your work. We also anticipate that the GAO staff will periodically brief the Finance Committee and Joint Committee on Taxation staff. Thus, the Chairman is authorizing the staff of the Joint Committee on Taxation, pursuant to section 6103(f)(4) of the Internal Revenue code, as agents of the Committee on Finance, to facilitate the sharing of information between the GAO and the Joint Committee on Taxation staff.

We request that completion of the Joint Committee's report coincide with the completion of the GAO report. We have requested completion of the GAO report by June 30, 2004. We request completion of the Joint Committee on Taxation report two weeks following completion of the GAO report.

Sincerely yours,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member

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October 10, 2003

The Honorable David M. Walker
Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Walker:

We request that the General Accounting Office report to the Committee with respect to the Puerto Rican economy, the impact of U.S. federal tax policy on Puerto Rico, and proposed U.S. tax legislation regarding Puerto Rico. We request that the GAO study cover the following items:

1. An explanation of how the U.S. federal treatment (including U.S. federal income, payroll, and excise taxes and customs duties) of individuals and businesses in Puerto Rico and the insular government differs from the treatment of governments, businesses, and individuals in the fifty states, the District of Columbia, and the other U.S. territories.
2. A comparison of the combined effective U.S. federal taxes and customs duties, and Puerto Rico and local taxes, borne by Puerto Rican businesses and residents to the combined federal, state and local tax burdens borne by U.S. persons and businesses in the fifty states, the District of Columbia, and the other U.S. territories.
3. Detail what percentage of the total tax burden discussed immediately above is attributable to each of the individual income, corporate income, sales, property, and excise, estate, and each level of the government (i.e., federal, insular and local) as well as customs duties.
4. Explain how the principal U.S. federal social programs apply to Puerto Rico residents and compare this to their application with respect to residents of the fifty states, the District of Columbia, and the other U.S. territories.
5. Compare trends in Puerto Rico's principal economic indicators since the early 1980s with trends in similar indicators at the national level for the United States, including unemployment, GDP growth, poverty levels, and educational attainment.
6. Provide information on how private sector economic activity in Puerto Rico is distributed across U.S. possessions' corporations, other U.S. corporations, Puerto Rico corporations, entities incorporated outside of Puerto Rico or the United States, partnerships and sole proprietorships. Also describe the extent to which U.S. investment in Puerto Rico is held in these various types of entities.
7. Provide information on the capital flows between Puerto Rico and the U.S. and Puerto Rico and foreign countries (e.g., the levels of capital

investment flowing from Puerto Rico to the United States and to other countries).

8. Compare the current distribution (discussed immediately above) to that which existed prior to the passage of the Small Business Job Protection Act of 1996.

9. Report on changes in the activities of possessions' corporations (including changes in U.S. federal tax status) between 1995 and now.

We have also asked that the Joint Committee on Taxation prepare a report on legislative options concerning Puerto Rico. Specifically, the Joint Committee on Taxation's report would provide an analysis of the tax and economic policy implications of the legislative options, the revenue costs of such options, and a comparison of the options to current law relative to the states, the District of Columbia, and the other U.S. territories.

With respect to this review, the Chairman is authorizing GAO, pursuant to Section 6103(f)(4)(A) of the Internal Revenue Code, to conduct necessary work and report to the Committee. He would expect your designated representatives to have access to all relevant IRS files, records, and returns for these purposes and comply with all of the restrictions that protect taxpayer information. In addition, the Chairman is authorizing the staff of the Joint Committee on Taxation, pursuant to section 6103(f)(4) of the Internal Revenue code, as agents of the Committee on Finance, to facilitate the sharing of information between the GAO and the Joint Committee on Taxation staff.

We expect that more specific report objectives will be developed in consultation with Finance Committee staff as you proceed with your work. We also anticipate periodic briefings from the GAO for the Finance Committee and Joint Committee on Taxation staff. We request completion of the report by June 30, 2004.

Sincerely yours,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member