

Puerto Rico: The Crane-Rangel Bill (H.R. 2550 – “Economic Revitalization Tax Act of 2001”)

1. This bill will cost the U.S. taxpayer \$3.5 billion per year, will not create jobs in Puerto Rico, and could expose the United States (not Puerto Rico) to W.T.O. retribution.
2. H.R. 2550 asks the U.S. Congress to revive the tax incentive-based economic development strategy. It is skewed with the phase out of section 936. The bill calls for a permanent exemption for U.S. firms in Puerto Rico, financed by the U.S. taxpayer. This bill would transform the existing deferral for Puerto Rico's CFCs into a direct 90% exemption. Under the bill, income could immediately be repatriated while avoiding federal taxation on 90% of the income.
3. Like section 936 before it, section 956 with the amendments in H.R. 2550 will be ineffective in creating jobs and increasing wages, and heavily burdensome to the U.S. taxpayer. To reapply discredited Old Economy solutions to New Economy problems would consign Puerto Rico to further stagnation. More insidiously, 956 would again link Puerto Rico's need for a “permanent jump start” out of stagnation with a lucrative corporate welfare program. Ronald Reagan said it best when he observed that “welfare's purpose should be to eliminate, as far as possible, the need for its own existence.” Instead, 956 would entrench Fortune 100 beneficiaries with billions at stake to maintain it.
4. The loss of revenue to the U.S. Treasury would be enormous. If all the section 936 firms in Puerto Rico switched to CFCs the loss in 1999 would have ranged from \$3.5 - \$4.0 billion. Under current legislation the Joint Committee on Taxation (U.S. Joint Committee on Taxation, JCX-40-99, Description and Analysis of Present Law Rules for International Taxation, June 28, 1999) estimated that the total loss of revenue from the deferral of income of U.S. CFCs worldwide would amount to an average of \$1.45 billion per year or \$7.2 billion for the period from 1999 to 2003.
5. The Puerto Rican economy has not declined with the phase-out of Section 936. Since Congress voted to phase out Section 936 in 1996, employment in Puerto Rico has increased and the economy has grown. Manufacturing jobs have declined, but at the same pace as in the mainland U.S. Economic performance during the phase-out confirms that Puerto Rico is not and has not been dependent on federal tax incentives.
6. A return to manufacturing tax incentives will not help the people and economy of Puerto Rico. Federal tax incentives for industry proved effective

in the 1950's and 1960's, when Puerto Rico enjoyed protective tariffs and comparatively low labor costs. With trade liberalization and intense global competition, manufacturing tax incentives have long since proved ineffective tools for development in Puerto Rico. Economic growth has stagnated since the early 1970's and unemployment has consistently exceeded 10%, belying the objective of the tax incentives – job creation.

7. The many U.S. firms in Puerto Rico already operating as CFCs receive identical tax haven benefits on U.S. soil as they do in foreign tax havens. These firms will quite logically want to extend the privileges granted in Puerto Rico to their CFCs worldwide (e.g., Ireland, Holland, etc.) Therefore, to the U.S. taxpayer, H.R. 2550 opens the door for even greater global tax sheltering and potential W.T.O. retribution.
8. Exempting U.S. CFCs in Puerto Rico from federal tax would expose the U.S. Treasury to the same transfer pricing abuses as occurred under Section 936. Congress eventually curbed the worst transfer pricing violations under Section 936 with regulations in 1991 and 1993. The U.S. Treasury would again be susceptible to the costly abuses in H.R. 2550 that the 1991 and 1993 regulations curbed.
9. H.R. 2550 would greatly benefit the pharmaceutical industry, and the prudence of extending corporate welfare to the pharmaceuticals today could indeed be questioned.
10. Market distortions aside, if H.R. 2550 actually is intended to spur the Puerto Rican economy, then the tax credits should be tied to jobs created in Puerto Rico (and not corporate income) and physical investment in Puerto Rico.