

**FINANCIAL OVERSIGHT AND MANAGEMENT BOARD
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BY ELECTRONIC MAIL

October 2, 2018

The Honorable José Nadal Power
Senator
Senate of Puerto Rico

Dear Mr. Nadal Power:

I write to you with regard to Senate Bill 1089, which proposes to grant tax credits for losses incurred by holders of Puerto Rico bonds. Based on our analysis of the proposed legislation, it is not compliant with the Certified Fiscal Plan for the Commonwealth.

As you know, Section 14.3.2 (Principle of Revenue Neutrality) in the Certified Fiscal Plan states: “Puerto Rico needs to drive toward more formality and increased compliance within the tax base, but it cannot lose revenues in the process. Therefore, any tax reform or tax law initiatives that the Government undertakes or pursues during the fiscal plan year must be revenue neutral. To ensure revenue neutrality, the implementation of any tax law initiatives must occur sequentially, with the Government ensuring that initiatives are paid for before rates are reduced.” This requirement is a core component of how the Oversight Board will review any tax proposal’s compliance with the Certified Fiscal Plan.

Senate Bill 1089 proposes the creation of a new set of tax credits that will reduce future government’s collections, and as such is inconsistent with the Certified Fiscal Plan if enacted as proposed. We would be pleased to discuss this matter in more detail you and your staff, and are available to meet with the appropriate members of the Legislature to discuss the considerations above.

Sincerely,

Natalie A Jaresko

CC: Christian Sobrino Vega
Teresa Fuentes Marimón