



GOVERNOR OF PUERTO RICO

Ricardo Rosselló Nevares

EXECUTIVE OFFICE OF THE GOVERNOR

December 18, 2017

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, D.C 20510

The Honorable Paul Ryan
Speaker
United States House of Representatives
Washington, D.C. 20515

The Honorable Charles Schumer
Democratic Leader
United States Senate
Washington, D.C. 20510

The Honorable Nancy Pelosi
Democratic Leader
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Majority Leader, Mr. Speaker, Mr. Democratic Leader, Ms. Democratic Leader,

I very much appreciate the work Congress is doing to approve emergency funding legislation before adjournment. As detailed in other submissions, the need for timely emergency relief for the people of Puerto Rico can not be overstated. We reiterate our request for equal treatment for the US citizens residing in Puerto Rico.

This positive action by Congress stands in stark contrast to the decision not to include any provisions relating to Puerto Rico in the pending tax reform bill. Foreign treatment of base erosion provisions exploits our territorial status and threatens Puerto Rico's ability to preserve its vital export sector, placing at serious risk our \$2-3 billion manufacturing tax base, and over 200,000 direct and indirect manufacturing jobs. This is a crippling blow to Puerto Rico's territorial economic recovery and to our 3.4 million American citizens.

Even before the hurricanes, the manufacturing sector provided 1/2 of our GDP, 1/3 of our tax base, and 75% of our exports (nearly \$15 billion last year). Since the storms destroyed other business sectors, manufacturing's importance to Puerto Rico's economy and tax base is even more pronounced.

Equal treatment provisions we advocated not only would have avoided further harm to Puerto Rico's economy. It also makes common sense. Base erosion provisions are

designed to discourage companies from relocating outside the United States in low – tax foreign jurisdictions, taking away valuable U.S. jobs. Companies operating in Puerto Rico have opted to remain in the United States and provide absolutely critical jobs for many thousands of US citizens in Puerto Rico.

Domestic treatment for Puerto Rico from the base erosion provisions would not be inconsistent with the tax reform bill’s objectives. It would be altogether consistent to treat Puerto Rico domestically since manufacturers operate in US soil where federal environmental and labor regulations apply.

Puerto Rico is not a foreign tax haven. It has been part of the U.S. Customs Zone since 1917. For over a half century, Congress has employed the tax federal code to encourage manufacturers to operate in Puerto Rico with great success. Today Puerto Rico ranks fifth in the world in pharmaceutical manufacturing with over 70 plants, and third in biotechnology manufacturing, with over 2 million square feet of plant space.

Just last December, the Congressional Task Force on Economic Growth in Puerto Rico warned that tax reform could make or break Puerto Rico economically. The Task Force also urged Congress to recognize that jobs created in Puerto Rico are U.S. jobs.

Prior to the storms, we made significant progress toward economic recovery, complying with Congress’s mandates in PROMESA. We gained approval of a challenging, but achievable ten-year fiscal plan designed to produce sustainable economic recovery within as soon as six or seven years. Since the storms, the fiscal plan depends even more heavily on our preserving our manufacturing sector and tax base. The tax reform bill is a serious set-back.

We understand there may be efforts by congressional leaders, who are dedicated to helping Puerto Rico rebuild, to include provisions in the emergency supplemental bill that will advance, not impair, Puerto Rico’s ability to recover economically. I strongly urge that Congress not miss the opportunity to include the base erosion tax amendments we have offered.



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