



Percentage



Economy



Pie chart

Tax Alert: Governor Rosselló addresses Tax Reform on 2017-2018 budget

June 15, 2017

On May 31, 2017, the Governor of Puerto Rico, Ricardo Rosselló, presented the legislature with his administration's budget for the Fiscal Year 2017-2018 – the first to fall within the Fiscal Oversight Board's purview.

Besides touting its formulation by employing zero-base budgeting (see Executive Order No. 2017-005), and enumerating the various fiscal decisions that have been taken to comply with the Board's requests and safeguard the population's well-being, the current financial plan calls for an overhaul of the current tax system in Puerto Rico. Namely, the Rosselló Administration is aiming to:

- provide tax relief to salaried individuals by reducing the effective tax rate and broadening the types of income;
 - A corollary of the tax rate decrease is that many salaried individuals – as well as self-employed individuals who chose so – will not need to file an Income Tax Return since their particular fiscal responsibility will be covered by the salary withholding at source;
- exempt from taxation the first \$12,500 earned by a taxpayer;
- increase retirement benefits exemption from \$15,000 to \$25,000;
- establish a \$100 credit per Dependent for taxpayers whose income does not exceed \$80,000 (it does not state if it gross or net income)
- reduce the Special 4% Sales & Use Tax on Business to Business transactions to 2%.

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Although not mentioned during the address, the Administration is pushing for the evaluation, review and harmonization of the various Puerto Rico tax incentives acts into a single and comprehensive Tax Incentives Code. Such an endeavour would greatly assist towards the necessary (and much longed for) simplicity that efficient tax systems possess.

We will be attentive to the filing of the bill, and when this occurs we will provide you with more details.

Note: As highlighted in our July 1, 2016 Tax Alert, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, among other things. Virtually every fiscal decision by the Government of Puerto Rico will be made or approved by the Oversight Board created by PROMESA. On this regard, the board has authority to prevent the execution or enforcement of a contract, rule, executive order or regulation to the extent that it is inconsistent with the approved fiscal plan.

Please contact our Tax Department should additional information is required regarding this or any other tax issue. We will be glad to assist you.



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