



Increased collection efforts vs. economic growth

During the past five years Puerto Rico has been facing the largest migration of residents to the United States due to the island's undergoing economic crisis. Today, nearly more than 300,000 residents have left the island.ⁱ This migration is producing a “cascade effect” in the collections of the Puerto Rico Treasury Department since fewer residents represent a reduction on the employment rate, as well as less direct and indirect taxes.

Well aware of this situation, Puerto Rico's government considered establishing a value added tax (“VAT”) system in Puerto Rico that would have been effective on June 1, 2016. Foreign governments seeking steady revenues are increasingly turning to a VAT system. Since the VAT is collected at every stage of the supply chain, this would have resulted in the expedite collection and remittance of taxes into the Puerto Rico Treasury Department's funds. However, the system was repealed with the approval of Act 54-2016 on May 2016.

Notwithstanding, not everything has been negative for the government. The increase of the Sales and Use Tax (“SUT”) rate from 7% to 11.5% and the imposition of a Special SUT of 4% on services rendered to other merchants and designated professional services, have resulted in an increase of

approximately 3.5% in the revenues collected by the Puerto Rico Treasury Department in regards to the SUT, as reported.

With the migratory situation and the elimination of the value added tax, the Puerto Rico Treasury Department has an important task to increase the collection of the SUT to an optimal level.

The Puerto Rico Treasury Department, along with a group of economists, determined that the key to measure the rate of collection is to correctly identify the tax base in taxable services and in the imports of taxable personal property.ⁱⁱ

The Puerto Rico Treasury Department has the personnel and the technology to monitor and control the SUT evasion. However, a rigorous plan is necessary to retrain the personnel and improve its technology infrastructure in order to increase the collection of SUT.



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The following are some of the alternatives recommended and presently being evaluated:

- conducting an Interagency Agreement for the collection of data information in a more efficient and effective manner;
- control efforts and strategies towards economic activities from the services industry;
- improve its database for the purpose of creating tax profiles and identify a typical behavior in businesses with similar characteristics;
- the matching of tax information (i.e. income tax and SUT) will enable to compare the income declared in the income tax return vs the income declared on the SUT monthly returns;
- collaboration agreements with various municipalities to exchange information.

The Puerto Rico Treasury Department is currently reviewing the possibility of requiring merchants to make a daily transfer of 1% of

the SUT collected on their point of sales (POS) through debits from their commercial bank accounts instead of once a month (on the 20th). This process may start with the services industry.

The digital revolution is helping countries to electronically audit a business' financial records and systems. The Puerto Rico Treasury Department has to take advantage of its resources in order to increase its caption and generate the resources the government needs in the short term.

The mid-term and long-term answer is, of course, that Puerto Rico needs to restart its economy in order to generate a steady economic growth to attract investment and more importantly, bring its people back as well as to retain those still here. This will entail collaboration of everyone, without personal agendas, and only one goal: bring Puerto Rico back in track!

ⁱ Jaison R. Abel, Giacomo De Giorgi, Richard Deitz, and Harry Wheeler, "Migration in Puerto Rico: Is There a Brain Drain?", Federal Reserve Bank of New York Liberty Street Economics (blog), August 9, 2016, <http://libertystreeteconomics.newyorkfed.org/2016/migration-in-puerto-rico-is-there-a-brain-drain.html>.

ⁱⁱ Puerto Rico Treasury Department, "Captación del Impuesto sobre Ventas y USO (IVU)" May 18, 2016.