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BY ELECTRONIC MAIL

April 13, 2020

Mr. Raul M. Grijalva
Chairman
Committee on Natural Resources
U.S. House of Representatives

Mr. Rob Bishop
Ranking Member
Committee in Natural Resources
U.S. House of Representatives

Mr. Steven Mnuchin
Secretary of the US Treasury

Dear Chairman, Grijalva, Ranking Member Bishop and Secretary Mnuchin:

I hope this letter finds you in good health. I am writing to you as President of Proyecto Dignidad (PD), a recently certified political party in Puerto Rico. Proyecto Dignidad intends to be part of the political spectrum of the Island, not only for the general election of November 3, 2020 but into the future. We will run on a platform of an efficient, non-ideological, honest and transparent government. The objective of my letter is to ask Members of Congress and the US Treasury to consider legislation to amend the tax treatment of businesses controlled by U.S. citizens that either repatriate their operations to a US Territory or that currently operate in a US Territory such as Puerto Rico.¹

At Proyecto Dignidad, we have been following closely the COVID-19 pandemic crisis and its direct impact on USA and Puerto Rico. COVID-19 is the fourth major act of nature that Puerto Rico has confronted within the last four (4) years with a bankrupted government: two major hurricanes, several major earthquakes and now the COVID-19 pandemic. Puerto Rico's economy has worsened.

¹ As we were finishing this letter, we received notification of the introduction of HR 6443 authored by Representative Gonzalez Colon of Puerto Rico. We will review in detail the text of the proposed bill and will provide you with our opinion.

A recent version of the Fiscal Plan, which will once more have to be amended, described PR's economy prior to the earthquakes and the pandemic: "When the Great Recession hit in 2008, Puerto Rico's economy was already in a fragile fiscal and financial position. Since then, the economy has continued to worsen – Puerto Rico has seen its GNP shrink by 20%, labor participation has fallen to a record low of 38%, and the Island's population has fallen by 10%. Today, Puerto Rico is much poorer relative to the U.S. than it was in 1970."

Our party believes that to reverse the longstanding economic depression of Puerto Rico requires measured but aggressive policies that will put the Island on a path towards economic growth and fiscal stability.

Proyecto Dignidad is convinced that Puerto Rico, as part of the USA is in a unique juncture that could translate into health, security and economic growth for all of America's constituents. We refer to the palpable national security risk that arises from USA's dependency on the manufacture by foreign manufacturers of medicines and pharmaceutical ingredients. As it has been documented, 97 percent of the antibiotics used in the United States now come from China and 40 percent of the over-the-counter and generic prescription drugs used in the United States now come from India. That pose strategic, economic and even security risks that threaten the health of American citizens, that cannot be overlooked especially now, amid a pandemic.

Over several decades, as a result of former section 936 of the Internal Revenue Code, Puerto Rico became the top manufacturing jurisdiction of medicines and its components in the world. While the sunset of section IRC Section 936 was in 2006, currently the US Territory still has significant pharmaceutical infrastructure, human resources and technical capabilities. Puerto Rico produces 25% of all U.S. pharmaceutical exports, 11 of the top 20 drugs and half of the top 10 selling drugs. But, equally important, there are many facilities available that with improvements and investment could be brought-up to requirements and standards, which would mean greater speed to start the production on Island of a significant proportion of the demand in the US for products now manufactured on foreign soil.

In a short and medium time frame, through a process of private investment in Critical Projects (as defined by PROMESA), PR would contribute to significantly mitigate this national security risk and secure the health and economic stability of American citizens. The path to bring this to a reality is now feasible.

The bipartisan 2016 Congressional Task Force on Economic Growth in Puerto Rico asserted that too often PR (as well as the other Territories) are relegated to an afterthought in congressional deliberations over federal business tax reform legislation. The Task Force recommended Congress to make Puerto Rico integral to future deliberations over tax reform legislation and expressed its openness to the prospect of Congress providing U.S. companies, that invest in Puerto Rico, with a more competitive tax treatment as long as appropriate guardrails are designed to ensure that real economic activity and employment are created.

Taxation today places Puerto Rico, as well as the other US Territories, at a severe competitive disadvantage. When compared to other foreign countries, where the absence of the US laws and regulations are coupled with extremely low operational costs (principally due to woefully unregulated labor costs); profits generated on foreign soil are far superior on an after tax basis than those generated on US Territories.

PR and the Territories are in fact the remaining casualties of a wrong US tax policy that, from 2000 to 2010, resulted in an estimated nationwide loss of about 5.7 million manufacturing jobs and of 66,486 manufacturing establishments. Puerto Rico suffered a loss of 50,000 direct jobs as well as a multiple thereof of indirect jobs and the loss of tax revenues from the manufacturing sectors that emigrated to foreign soil, the genesis of a structural governmental deficit – worsened by the gross negligence and even willful misconduct of the political parties that have been in office since 1996. The policy was righted for the rest of the Nation in 2017 but not for the Territories.

Congress should consider legislation to:

- 1) Amend the tax treatment of businesses controlled by U.S. citizens that either repatriate their operations to US Territory or that currently operate in a US Territory, so as to recognize that such businesses *are not* operating in a different jurisdiction or country than the residency of the controlling owners; that is, that they operate in US soil.
 - a) Such business enterprises to be called Controlled Territorial Enterprises (CTE), rather than Controlled Foreign Corporations.
 - b) To prevent abuse, the CTE tax treatment would not be available to US Enterprises operating domestically that re-domicile to a US Territory, nor enterprises that have ceased operations in the USA and have less than 5-years operating internationally.
- 2) The relevant amendments to the Internal Revenue Code should not take the form of "tax incentives" to any specific industry, nor related to the amount of jobs or payroll in the context of an economically depressed segment of the National economy. That would lead to an inherently unstable tax law, more subject to ideological debate and changes from Congress. Rather, *the amendments should seek to establish a stable and fair tax treatment of USA businesses operating on the Territories*, including Puerto Rico.
- 3) Whereas interpretation in equity of longstanding US Jurisprudence; in which no Territory is *part* of the USA but rather significantly is *property* of the United States and on which its residents and/or US citizens were empowered by Congress to organize their internal government, calls for the elimination of the inconsistency of treating the Territories as foreign soil:

- a) Congress should consider lowering the Global Intangible Low-Taxed Income (GILTI) which approximates between 10.5 and 13.125 percent on an annual basis on earnings of those manufacturing plants domiciled on the Territories, including Puerto Rico.
 - i) Equity calls for at least 50% reduction to GILTI rates in recognition that a Territory is neither a State nor a separate Nation.
 - b) For those US businesses domiciled on the Territories Congress should also consider a reduction for those US businesses domiciled on the Territories, of the Base Erosion Anti-abuse Tax (BEAT) designed to limit the ability of multinational corporations to shift profits from the United States by making deductible payments to their affiliates in low-tax countries.
 - i) The BEAT rate is 10 percent in 2019 through 2025 and 12.5 percent in 2026 and beyond.
 - ii) Equity calls for at least 50% reduction to BEAT rates in recognition that a Territory is neither a State nor a separate Nation.
- 4) The proposed reductions in tax rates take into account the determination by the US Treasury to cease the recognition, for US income tax purposes, of the deduction of the 4% tax exerted by Puerto Rico on the purchases by nonresident affiliates or parent companies of CFCs. This tax provides the Puerto Rico treasury approximately 22% of its internal revenues, roughly \$1.8 billion.
- a) Upon the reduction of the applicable GILTI and BEAT tax rates, Puerto Rico would be able to legislate an income tax that would not place PR at a competitive disadvantage when compared to Foreign Countries while replacing the foregone revenue of the disallowed tax.
 - b) Such tax payment would not be allowed to be deducted from any US tax liability.
- 5) Amendments to the US Tax code applicable to the Territories should consider inserting a clause to reduce the US personal income tax liability only of personnel that move to the Territory as an employee or investor of a Controlled Territorial Enterprise.

The amendment to right the US Tax code's treatment of the US Territories would:

- Bring new manufacturing plants to Puerto Rico and other Territories,
- Enable businesses located in US Territories to contribute with a fair share of taxes to the US Treasury and the Territorial governments,

- Guarantee that American citizens will have secure access to the production of all type of medicines and pharma products that will provide the means and security to deal with adversities like the COVID-19 and others in the near future.

The undersigned and Ada Henriquez, Esq., our candidate for Resident Commissioner, would like to meet with you at your earliest convenience to discuss our proposal. Additionally, if you want to call for hearings on these matters, we are available to share in more detail our proposals and justifications.

Cordially,

Dr. Cesar A. Vazquez Muñiz
President
Proyecto Dignidad

C: Ms. Jenniffer Gonzalez
Resident Commissioner

C: Mr. Richard Neal
Chairman Ways and Means Committee

C: Mr. Chuck Grassley
Chairman Senate Finance Committee

C: Mr. Jose Carrion, III
President of the FOMBPR

C: MS. Natalie Jaresko
Executive Director of the FOMBPR