



PUERTORICO
CREDIT
CONFERENCE
2011

Revenues, Tax Reform and Compliance

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April 8, 2011



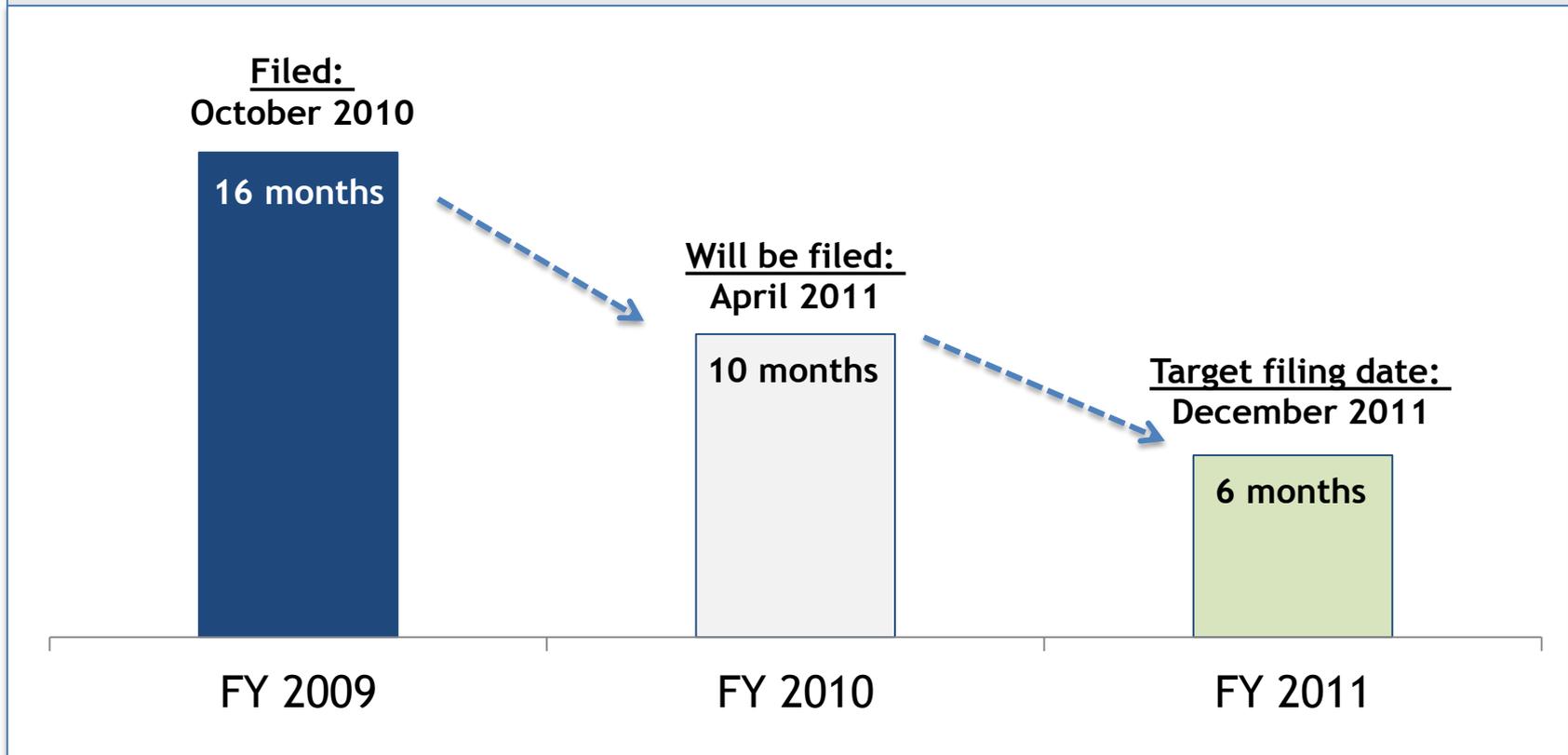
Disclaimer

Today's presentation includes certain statements that are not historical in nature. These statements are based on the Department of Treasury's current beliefs regarding future events, and are based upon a number of estimates and assumptions that are subject to significant uncertainties, many of which are outside the control of the Department of Treasury, the Government of Puerto Rico and its agencies and instrumentalities. This presentation has been prepared solely for informational purposes, and should not be construed as a recommendation to buy or sell any security or to participate in any particular trading.



The Comprehensive Annual Financial Report (CAFR) filing for FY 2011 will be in compliance with “Continuing Disclosure” requirements for the first time in 8 years ...

Committed to reduce filing time to 6 months after FY close





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Concluding Remarks



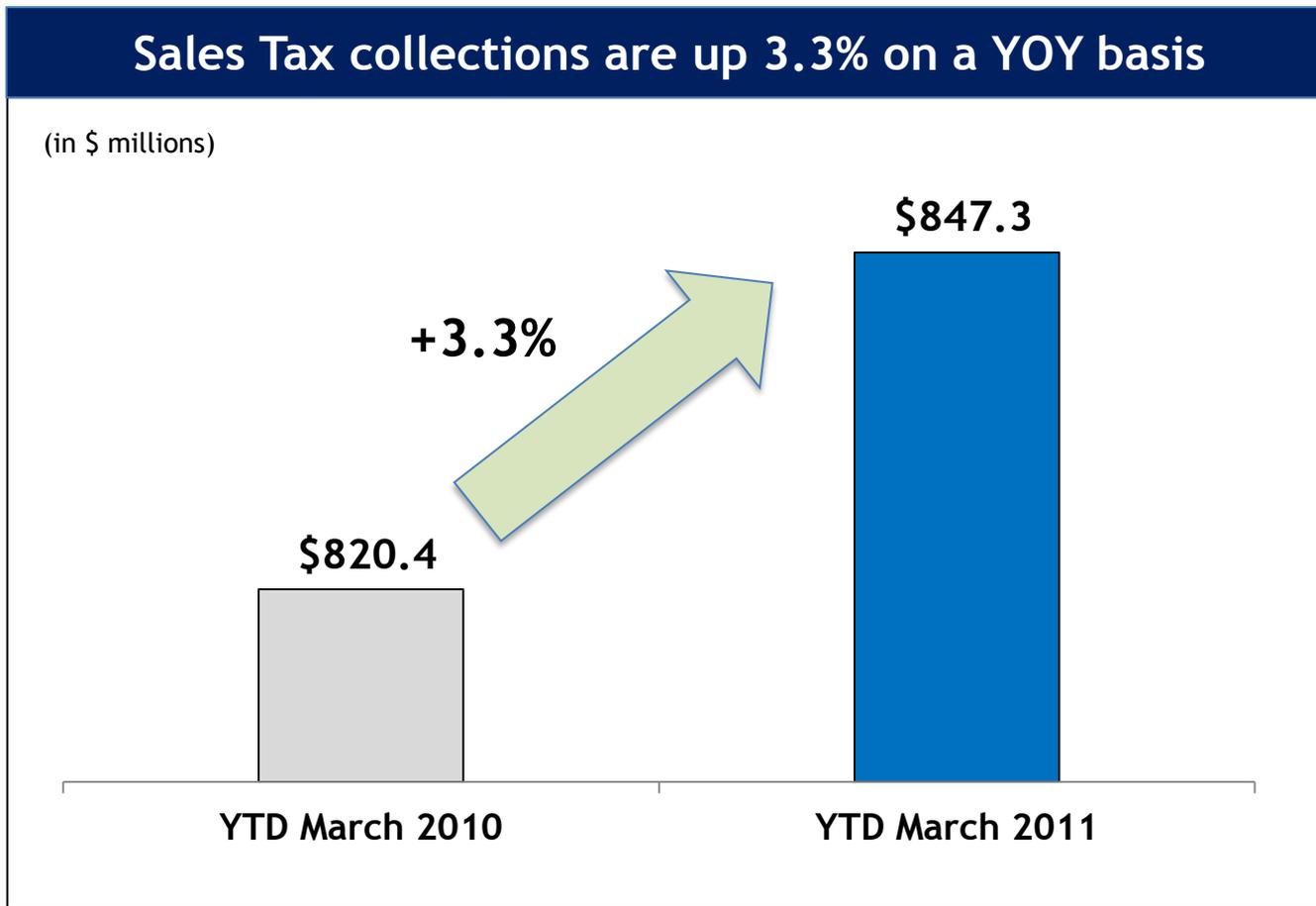
Tax Reform is providing immediate relief to taxpayers while revenues remain on target



- Decrease in revenues during FY-2011 when compared to the same period in 2010 is mainly due to a reduction in individual income taxes due to Tax Reform
- This reduction has been offset by revenues generated from the recently implemented Act 154 temporary special excise tax.



Significant increase in sales tax collections mainly due to an increase in disposable income and effective tax compliance efforts





Sales Tax collections during month of March 2011 ended 8.1% above last year's collections

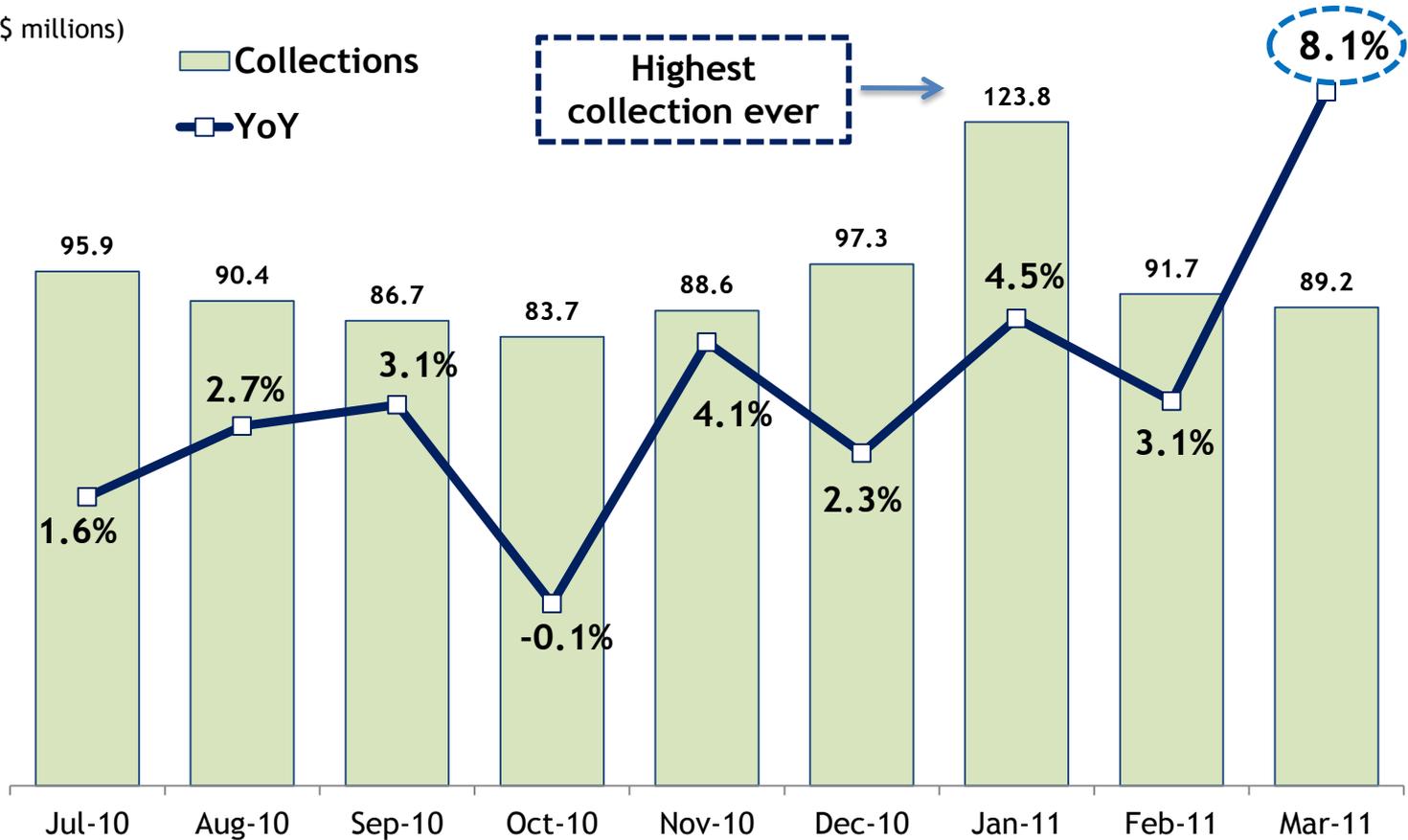
FY 2011 (March) Sales Tax Collections

(in \$ millions)

█ Collections

▣ YoY

Highest collection ever



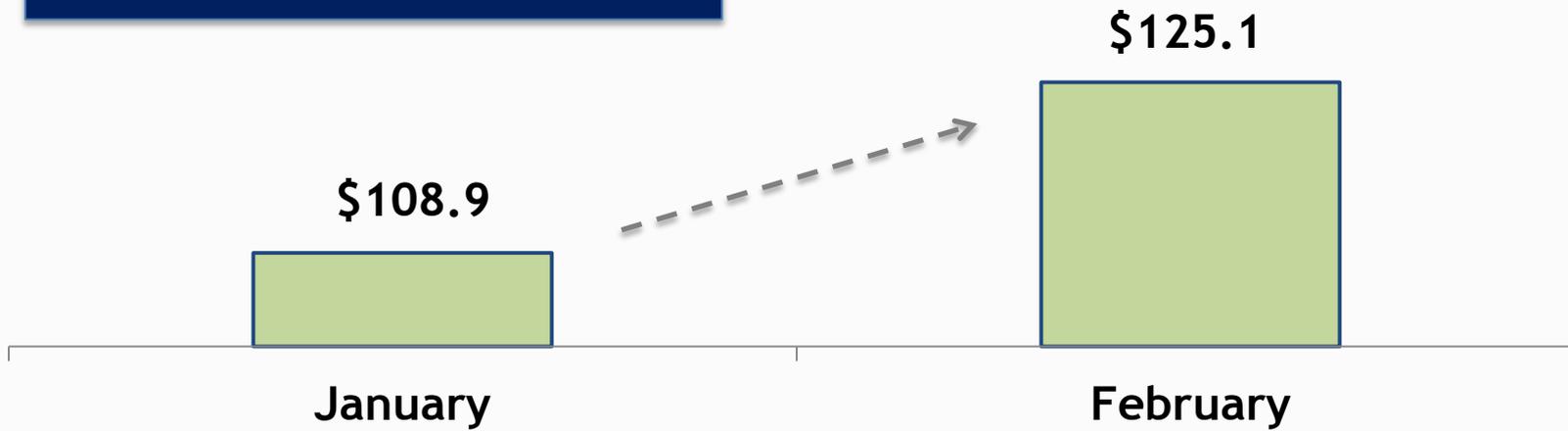


Act 154 excise tax collections are in line with our baseline estimates

YTD excise tax actual revenues:

\$234.0 MM

Actual collections





The excise tax is a temporary measure and it will be gradually reduced

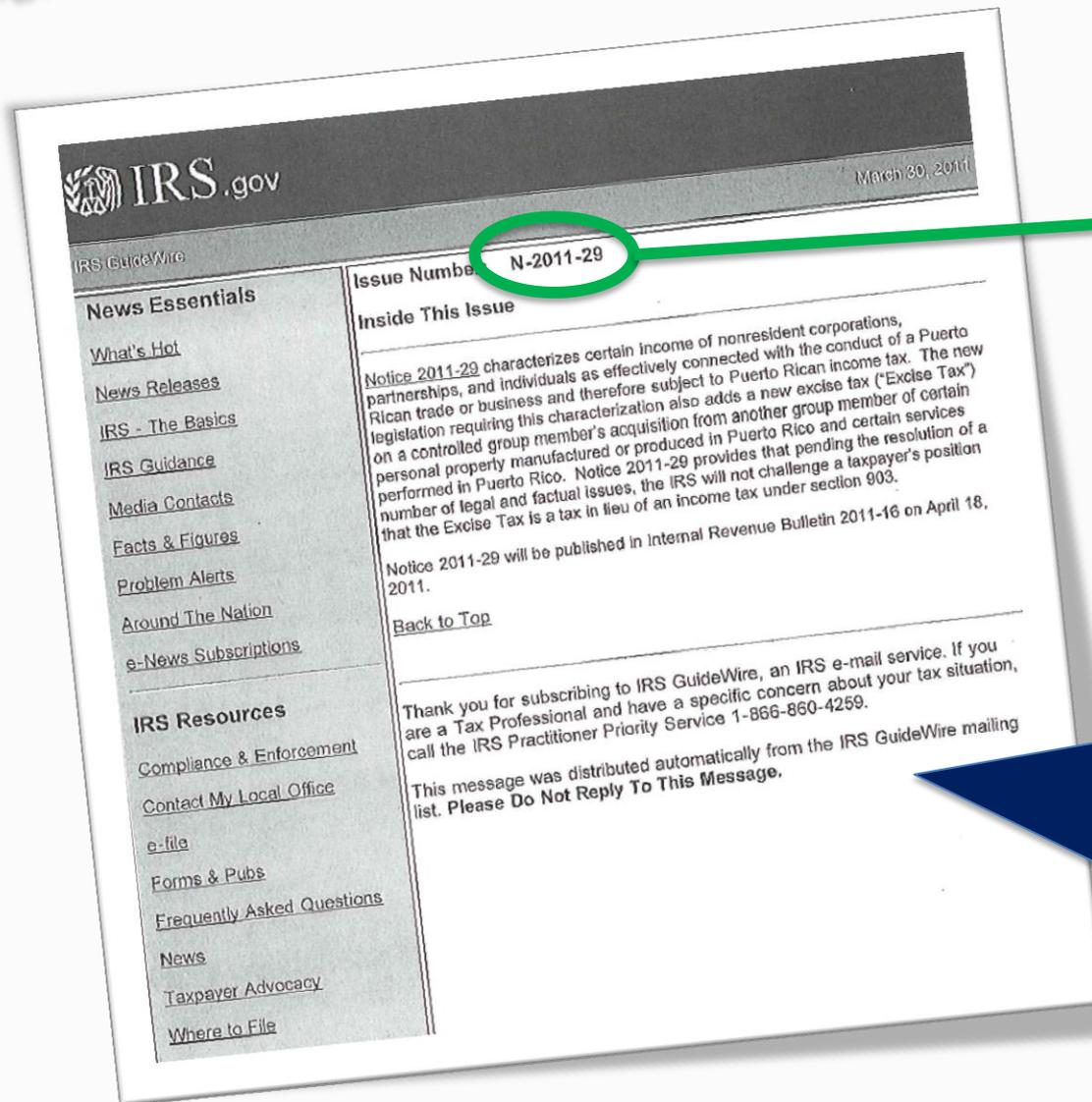


Collection baseline estimated for CY 2011 is \$1.4 billion



On March 30th, the IRS issued a strong guidance stating they will not challenge Act 154

Issue Number:
N-2011-29



This guidance provides further support to multinational groups that this excise tax is creditable against Federal income tax



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Act 1 of 2011 represents the most comprehensive relief granted by a Tax Reform in the history of Puerto Rico

Previous Tax Reforms

- 1995 Tax Reform provided annual relief of \$400 million
- 2006 Tax Reform increased tax burden by \$180 million annually

Act 1 of 2011

- Provides three times the relief of 1995 Tax Reform
- An annual average tax relief of \$1,200 millions to taxpayers over the next 6 years



The Tax Reform pursues the following objectives:

1



Tax relief for individuals and corporations

2



Promote economic development and job creation

3



Simplify Puerto Rico's tax system

4



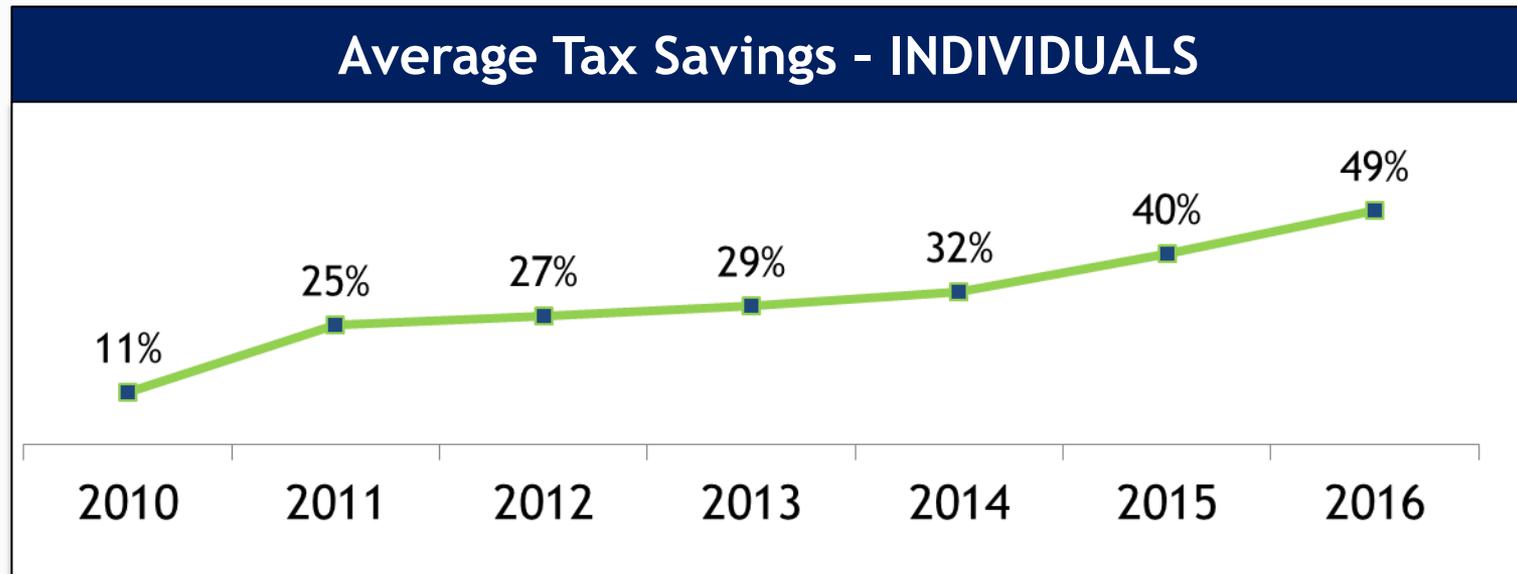
Enhance tax compliance



INDIVIDUALS



Unprecedented tax relief for individuals



“Reductions in individual tax rates will raise disposable income, enhance household spending/and raise GDP growth.”

-Dr. Douglas Holtz-Eakin



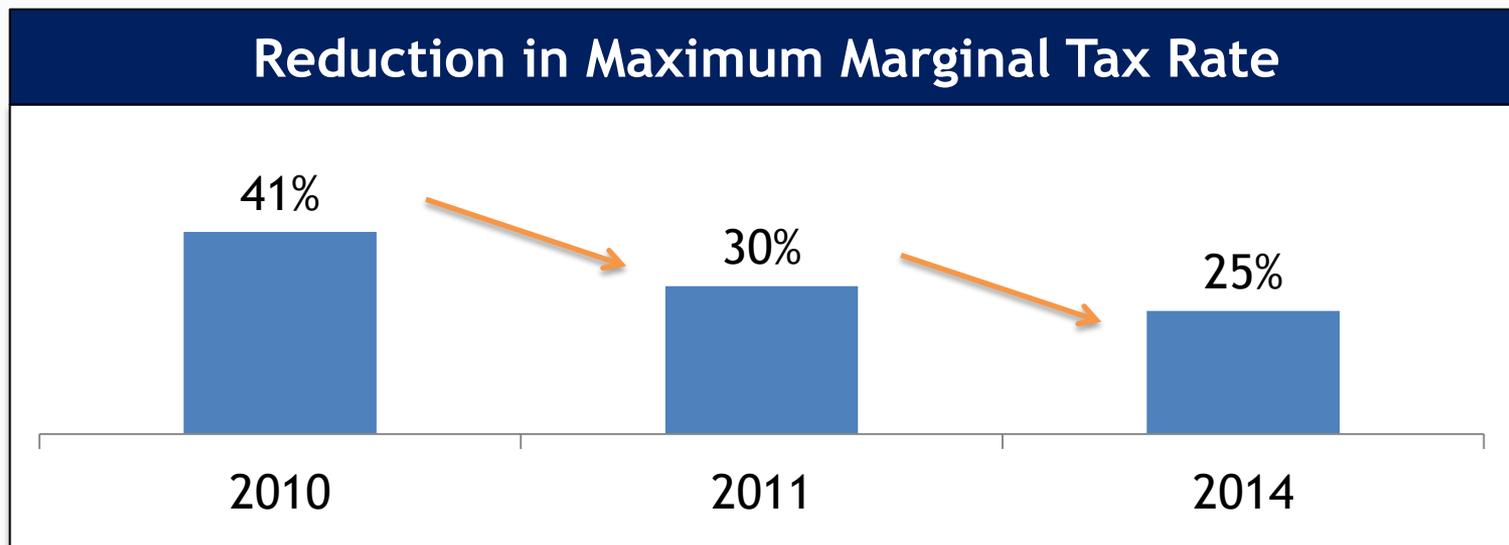
CORPORATIONS



Tax reform provides significant relief to corporations

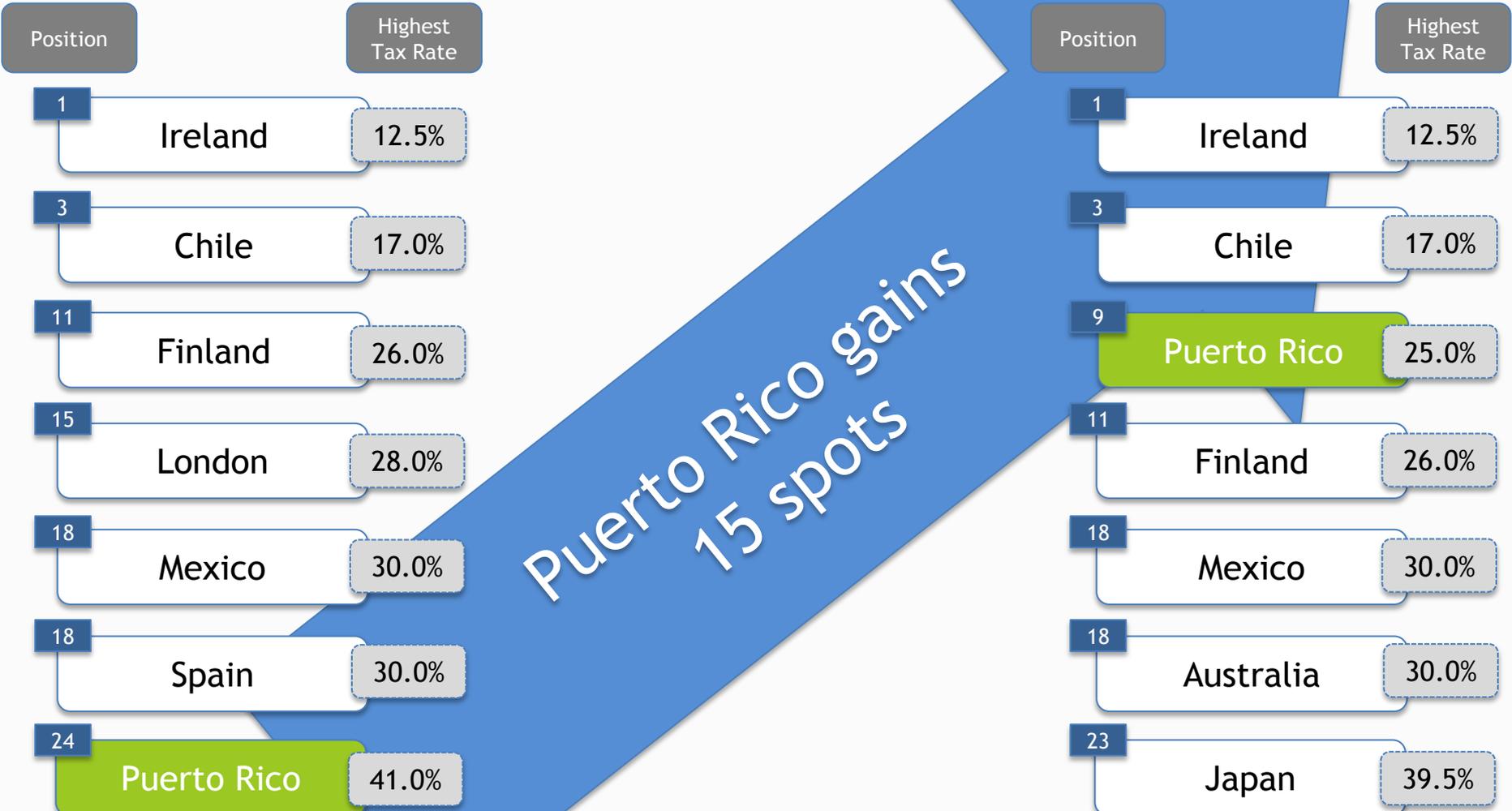
Dr. Douglas Holtz-Eakin, Legislature Position Statement, December 2, 2011

“...corporate tax reforms would have even more dramatic impacts on growth by improving...Puerto Rico’s competitiveness as a location in the global market for capital.”





The Tax Reform substantially improves Puerto Rico's competitiveness...





We will achieve these tax reliefs in a fiscally responsible manner...

- The tax reliefs approved for tax years 2014, 2015 and 2016 will be implemented if these three tests are met:

| Tests | |
|-------|------------------------------------------------|
| 1 | Expenses Control Target |
| | Certification: Office of Management and Budget |
| 2 | General Fund Net Revenue Target |
| | Certification: Treasury Department |
| 3 | Economy (Real GDP Growth) |
| | Certification: Planning Board |

- The first \$100 million of any budget surplus for FY 2011 through FY 2016 will be deposited in a restricted reserve for a period of 10 years for the benefit of future generations.



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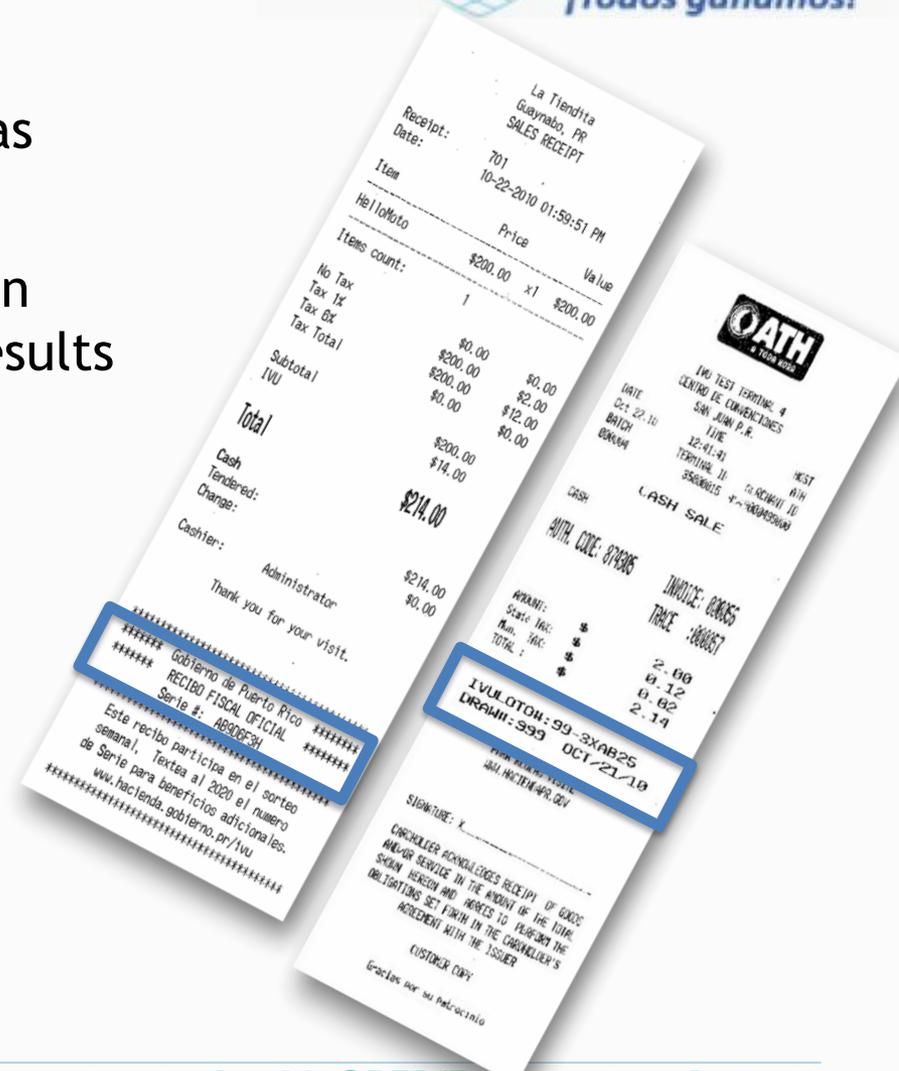
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Concluding Remarks



We have made significant improvements that will make our Sales and Use Tax (“IVU”) system more efficient

- ✓ Consumers and merchants will act as fiscal agents
- ✓ Pilot Program started in Ponce in December 2010 with positive results

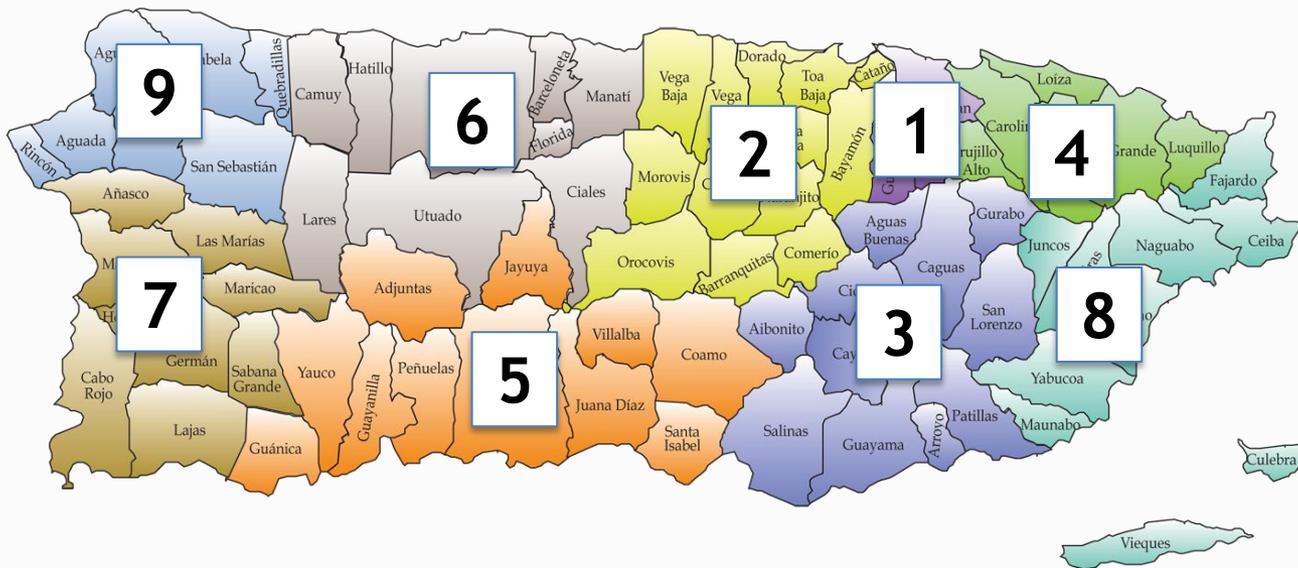


Target: increase tax collection between 20% - 25%



“IVU Loto” deployment will continue aggressively throughout the island:

“IVU Loto” Deployment Schedule



| | <u>Region</u> | <u>Start date</u> |
|---|---------------------|-------------------|
| 1 | San Juan & Guaynabo | March |
| 2 | Bayamón | April |
| 3 | Caguas | April |
| 4 | Carolina | April |
| 5 | Ponce | April |
| 6 | Arecibo | May |
| 7 | Mayagüez | May |
| 8 | Humacao | May |
| 9 | Aguadilla | May |



We are addressing Sales & Use Tax evasion by implementing “IVU Alerta”

Hotline that channels complaints (internet and /or telephone) made by consumers and merchants related to violations of Sales and Use Tax .

“IVU Alerta” 
(Sales and Use Tax Hotline)

| Results (December 2010 - March 2011) | |
|--------------------------------------|-----------|
| Total complaints received | 447 |
| Total complaints investigated | 169 |
| Total fines imposed | \$997,400 |



We are enforcing collection initiatives designed to increase revenues

| Initiative | Description |
|--------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Voluntary Disclosure | <ul style="list-style-type: none"> Flat tax rate of 20% / No interest, surcharges and penalties |
| Act 12 of 2010 | <ul style="list-style-type: none"> Allows for the expedite filing of a tax lien on real property without a title search Represents \$444.9 MM of secured debts |
| Notice of Levy (Bank Accounts) | <ul style="list-style-type: none"> Identified 3,756 cases representing approximately \$171.9 MM |
| Payment Plans for Payroll Tax | <ul style="list-style-type: none"> Temporary window to collect payroll taxes withheld by troubled employers |
| Levies on Wages | <ul style="list-style-type: none"> 746 cases identified representing \$16.8 MM |
| Credit Bureau | <ul style="list-style-type: none"> 815 cases identified and reported to credit agencies Total debt affected: \$44.1 MM |
| Field Operations | <ul style="list-style-type: none"> Daily visits 42,961 field visits; \$11.0 MM in fines |

* Data as of February 28, 2011



Proactive collection efforts

Compliance Call Center

Provide assistance to taxpayers and
Increase collection activities

COLLECTION ACTIONS

| | | | |
|--------------------|---------------|----------------------------------------|-----------------|
| Systematic notices | Payment Plans | Levies against 3 rd parties | Tax lien Filing |
|--------------------|---------------|----------------------------------------|-----------------|

| Results (February 2010 - March 2011) | | | |
|--------------------------------------|--------|--------------|--------------|
| Notices sent to taxpayers | 8,873 | \$1.840 B | |
| Total calls generated and received | 33,363 | | |
| Total payment plans signed | 8,349 | \$22,110,013 | |
| Total collections | | | \$29,577,595 |



Our fiscal auditing efforts have been delivering results: \$5.6 million or 8% above initial projections

| Type of Tax | Cases | Projected February 2011 | Actual February 2011 |
|-----------------------|--------------|-------------------------|----------------------|
| Corporations | 860 | 11,616,876 | 19,318,184 |
| Withholding at Source | 35 | 4,555,602 | 3,969,601 |
| Individuals | 3,134 | 30,052,159 | 31,864,647 |
| Sales and Use Tax | 1,010 | 11,464,018 | 10,259,474 |
| Payroll Taxes | 206 | 9,697,816 | 6,681,235 |
| Excise tax | 181 | 102,708 | 1,021,493 |
| TOTAL | 5,426 | \$ 67,489,179 | \$ 73,114,634 |



We are complying with our commitment to hire additional staff in order to increase revenues and enforcement initiatives...

| Classification | Additional Staff | Net Staff Hired | Recruiting Process |
|-------------------------|------------------|-----------------|--------------------|
| Auditors | 100 | 67 | 33 |
| Collection Officers | 225 | 151 | 74 |
| Internal Revenue Agents | 100 | 94 | 6 |
| Special Agents | 25 | 24 | 1 |
| Support Personnel | 50 | 30 | 20 |
| TOTAL | 500 | 366 | 134 |



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Committed to reduce CAFR filing time in order to improve the timely availability of financial information to the investor community



Successfully leading the implementation of the most comprehensive tax reform in Puerto Rico's history



Focusing in increasing tax revenue base by enforcing tax compliance and addressing tax evasion



At the Treasury Department, we are staying the course and delivering concrete results



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