



REMARKS BY THE GOVERNOR OF  
THE COMMONWEALTH OF PUERTO RICO  
HONORABLE RAFAEL HERNANDEZ COLON  
BEFORE THE MANUFACTURERS ASSOCIATION  
OF THE WEST

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The Summit Conference, which begins tomorrow at Dorado, is a dramatic demonstration for us, who live here in Puerto Rico of how interdependent are that nations and the peoples of the world. Problems can no longer be solved by unilateral decisions by individual states. Cooperation and understanding must be the "communication cables" of this new interdependent world.

The heads of the industrialized democracies will be concerned at this Summit Conference with controlling those factors which will assure a full and rapid recovery from the recent recession. Of Course, Puerto Rico has the same interests, since we have much striving to do. However, I am pleased at this time that the economy of Puerto Rico is recovering at a steady rate. In recent weeks, both the Banco Popular and the Chase Manhattan Bank have reported positively on economic developments here. Banco Popular recorded a good 1976 first quarter for the Commonwealth economy and Chase is predicting a growth rate of between 3 to 4 percent of this year.

This recovery reflects a similar recovery in the United States economy because of the close integration of the two economies. Our strongest showing has been in manufacturing precisely the area that has shown the biggest upsurge in the United States. However, we should

not minimize or neglect the Commonwealth's own efforts to cushion the economy from the recession or to contribute positive measures to help the recuperation. I am sure, no group is more aware of the importance of Commonwealth's policy and programs for our economic development than this group. Under my administration this policy firmly rests on two basic elements that have contributed to Puerto Rico's economic success. I am talking, of course, of tax exemption and wage flexibility. By a flexible wage policy, I don't mean a low wage policy; I mean a policy that will allow Puerto Rican industry to develop and expand. The Commonwealth believes, therefore, that federal minimum wage standards should not be indiscriminately applied to Puerto Rico. We must have the flexibility to apply those wages industry can pay and still stay in business.

Equally important is tax exemption. The revision of the tax incentives law scheduled for the next regular legislative session is a number one priority of this administration. The amendments will first of all simplify the existing law. Substantive changes call for establishment of an escalated three-year adjustment period at the end of tax exemption so that a company is not hit all at once with the full corporate tax bite. We hope

such an adjustment period will be a further inducement for a company to continue operating in Puerto Rico, once the exemption period ends. And most important, we are proposing changes to allow greater flexibility in granting additional tax exemption to existing factories which decide to expand. Under current law, regular expansions do not qualify for tax exemption, as they are not considered a new operation. By including expansions we hope to stimulate additional employment, while keeping the original factory here for a longer period.

However, of far greater importance in the tax area is what is now taking place in the Congress. I am referring to the proposed 936 section of the Internal Revenue Code of the United States, which, if passed, will have an enormously positive effect here.

Under the present law, a U.S. corporation doing business in Puerto Rico is exempt from Federal income taxes if it derives at least 80% of its gross income from sources within Puerto Rico, and 50% of its gross income from the conduct of such trade or business. Thus reads Section 931 of the Internal Revenue Code.

The House Ways and Means Committee wanted to eliminate this section because it was 931 as providing corporations with a type of foreign tax haven. However,

at Commonwealth insistence and pressure, the Committee finally recommended and approved changes which are more advantageous to Puerto Rico than section 931, while at the same time encouraging corporations to bring their earnings back to the United States. These changes are incorporated in proposed section 936.

Under the provisions of this section, qualified U.S. corporations operating in Puerto Rico are to be taxed on world wide income, but will receive full credit for U.S. taxes on income earned in Puerto Rico, whether or not a tax is paid to Puerto Rico. Moreover, the income derived from liquidating these corporations will continue to be exempt from U.S. taxes under Section 332 of the present law, which is retained. In addition, the proposed Section 936 also provides for a deduction to the U.S. parent corporation of dividends received from its Puerto Rican subsidiary so as to permit current repatriation of earnings tax free. The present denial of such a deduction forces the Puerto Rican subsidiary to invest this income abroad until such time as it is liquidated, when it can be returned to the United States tax free. The House has approved Section 936 as part of a broader tax reform bill and that measure is now pending Senate approval.

Recently I signed into law a bill to impose a local

tax fluctuating from 7 to 10% on all dividends repatriated to the United States under the proposed 936 section. Under current federal law all dividends repatriated to the United States by 931 corporations are subject to a 48% tax. In addition, the Puerto Rican government has levied a 15% tax against such dividends. Under 936, these corporations will be allowed to repatriate this money to their parent companies without paying any federal tax. Our new dividend tax, therefore, is more than fair since a company's position is far more favorable than under present tax regulations. The local tax also is a protective mechanism to encourage these companies to reinvest in Puerto Rico. The information I have from our Resident Commissioner is that certain powerful liberal U.S. Senators are against 936 because they view it as a tax loophole for the corporations. Passage of the toll gate tax will help to win over these senators, as they will see it as a move to help Puerto Rico, rather than a tax boondoggle our business.

These are some of the things we are doing to regain our former economic momentum and rebuild our employment. But we cannot reach our goals unless we remain united in purpose. The times call for unity and resolve, hard work and cooperation. The challenges call for Government and

business to reaffirm their common history and common purpose, and join in a spirit of cooperation for the good of all.

In such spirit, I have no doubt as to our ultimate success. By cooperation and hard work we will recuperate our recent losses and move ahead to forge an even better, more prosperous and more just Puerto Rico. In closing, I would like to quote Muñoz Rivera who wrote, "It is necessary to put forward our best effort each day, each hour so that each Puerto Rican can prosper and so that the sum of these prosperities will add up to prestige and greatness of the country."

Thank You.