



Mensaje del Gobernador de Puerto Rico, Lcdo. Rafael Hernández Colón, en la Conferencia del “Executive Search S/ Section 936”

Viernes, 1ero. de noviembre de 1985
Hotel Caribe Hilton

We are gathered here today to discuss 936. Three simple numbers that have become household words. We all agree that the 936 Corporations should not leave Puerto Rico. Our massive efforts to keep intact Section 936 of the internal Revenue Code have been so effective that everyone in Puerto Rico realizes the importance of this most potent economic development tool. One good thing that has come out of all this is that it has United Puerto Ricans. 936 has truly become a common cause for all Puerto Ricans.

Let me take this opportunity to congratulate industry for its efforts on behalf of 936: the Manufacturers Association, the Puerto Rico USA Foundation and the Chamber of Commerce, as well as other professional and civic groups who have expressed themselves publicly in favor of 936, have played a vital role in the battle for Section 936.

We have all put up a good fight and we are confident that, for the good of our people, we will win. However, we don't want to win just this round. We want to prevail on a permanent basis. There can be no effective economic development unless there's the stability that industry requires when it is considering making sizable investments.

Let me summarize briefly the events that have led up to where we stand today, and the progress we have made on this most important matter.

The President's May Proposal, commonly referred to as Treasury II, advocates the repeal of the 936 credit available to United States Corporations deriving income from the active conduct of a trade or business from sources within Puerto Rico. The administration proposed to replace the Section 936 credit with a limited credit based on the minimum wage.

Treasury II, if implemented, would devastate our economy, threaten over 90,000 direct jobs in 936 Companies, endanger the viability of our banking institutions, and put an immediate halt to our unique opportunity to stimulate the implementation of the Caribbean Basin Initiative. Subsequent to Treasury II, the Staff of the joint committee on Taxation submitted an alternate proposal for consideration by the House Ways and Means Committee. The committee option represents a significant advancement for Puerto Rico.

The Staff option rejects the wage-credit alternative. It retains Section 936 with certain modifications. Although the proposed modifications are unacceptable to Puerto Rico, the Committee Staff recognized that the 936 incentive must remain essentially intact. It proposes repealing the cost sharing mechanism of allocating intangible income, requiring the utilization of either the cost plus method or the profit split method. With respect to income earned on passive investments within Puerto Rico, the staff option would limit the tax credit to one half of such income. It does not adopt administration's wage credit proposal.

The elimination of the cost sharing alternative would adversely impact the electronics industry, a major employer in Puerto Rico. The taxation of passive income, on the other hand, would effectively destroy the incentives for companies to invest their 936 funds in Puerto Rico, and eliminate the pass through of lower interest cost to both the public and private sectors. It would jeopardize the mortgage trust for low income housing and success of the newly created development bank. More importantly, it would bring to a halt Puerto Rico's opportunity to support the Caribbean Basin Initiative through our Government Development Bank's Finance Program for

complementary projects. An important aspect of my strategy, in convincing Washington that Section 936 should be maintained, is of course, the vital role which Puerto Rico can perform in support of the implementation of the Caribbean Basin Initiative.

Based on the promise of our initiative, treasury now acknowledges that any change in Section 936 must not reduce the attractiveness of Puerto Rico as an investment location, and must not impair our program for the Caribbean. This is a major advancement for Puerto Rico. In fact, such is the interest of the White House and the National Security Council in our proposal that the top foreign policy offers have insisted on participating in crafting a revised 936 proposal.

We expect this revised treasury proposal to be presented shortly, but not before next Tuesday. We are confident that this revised proposal will be significantly more favorable to Puerto Rico than treasury I, treasury II or the committee option. Our progress continues. Our goal remains the same retaining 936 unchanged, or enhanced. Our interest in the Caribbean is not based on its contribution to our battle for 936. The people of Puerto Rico are not distant or disinterested observers of what is happening around us. Being part of the Caribbean as well as of Latin America, what occurs in this entire region is of great importance to us. Not only are these countries important trading partners, but we also have significant historical and cultural ties with them.

Puerto Rico's support of the implementation of the CBI is important, not only for us but for all of the nations of the region and certainly it is in the National Security Interests of the United States.

Our 40 years of the development experience and our \$5.7 billion industrial base of hundreds of U.S. manufacturing companies like those which many of you represent places Puerto Rico in an excellent position to assist our neighbors in realizing the full potential of the CBI.

Over two dozen firms in Puerto Rico are already engaged in complementary projects in three different countries in the Region – Barbados, the Dominican Republic and Haiti. Although contractions are currently being felt in the electronics industry, the Dominican Republic and Haiti continue to be the most successful partners in this relationship with eleven projects each. Of course, two of the pioneers are in Barbados- Intel and Playtex. Another four dozen companies, both 936 Corporation and other firms, have active Complementary Plant Projects in varying stages of development.

With Section 936, the United States put into Puerto Rico's hands the tools to make our future and to earn our own way. Now we seek to share those with the countries of the Caribbean and Central America. They stand with us in our struggle to maintain this important tax provision, which can make possible more powerful and sustained progress and growth for all of us.

With 936 and with twin-plants across the Caribbean Puerto Rico will reach new horizons. I am confident that when we look back a decade from now at the efforts of this generation of Puerto Ricans it will be said that we preserved this most important tool of economic development and that we launched Puerto Rico into a new era of growth and prosperity.

Thank you very much.

