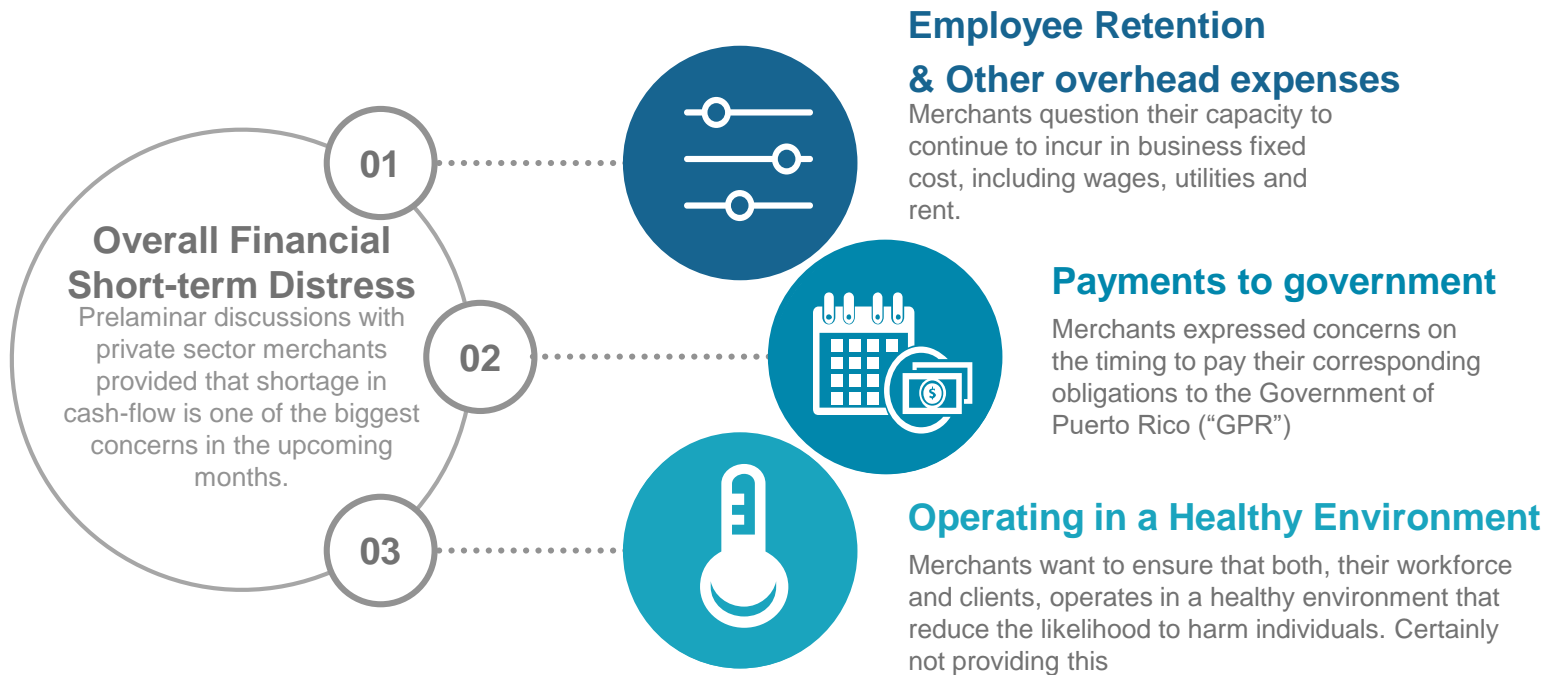
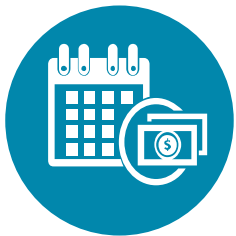


Short-Term Potential Economic Layout

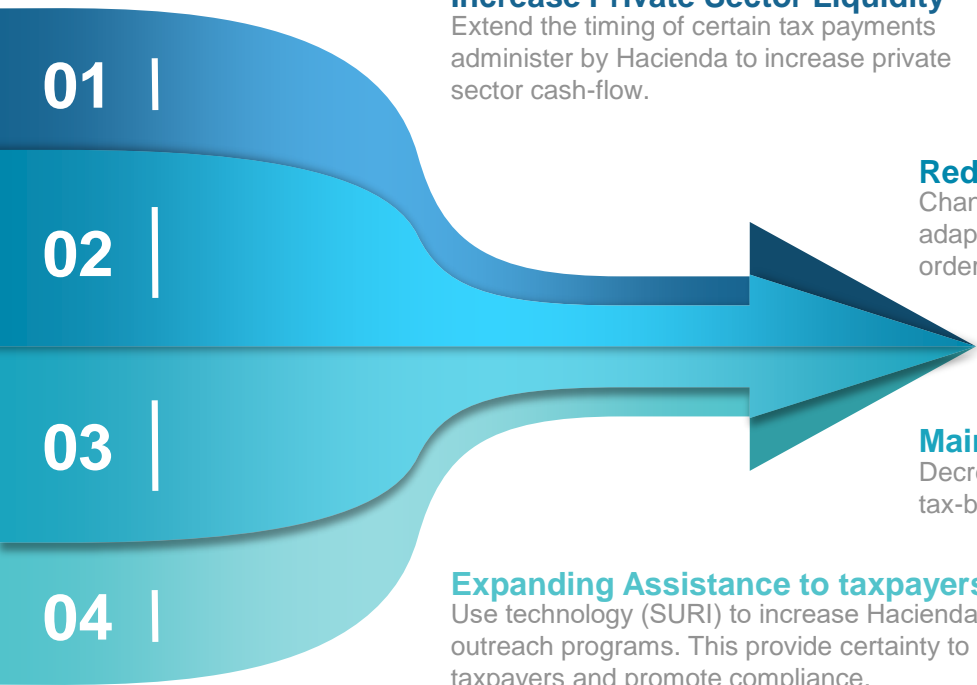
COVID-19 constraints





Hacienda Short Term Goals

Help to increase private Sector Cash-Flow
by Addressing Timing of Certain Payments to Government



Increase Private Sector Liquidity

Extend the timing of certain tax payments administer by Hacienda to increase private sector cash-flow.

Reduce Risk of Default

Change ordinary tax collection rules to adapt to new economic challenges in order to reduce non-compliance risks.

Maintain Tax Base

Decrease the likelihood to reduce the tax-base in different tax regimes.

Expanding Assistance to taxpayers

Use technology (SURI) to increase Hacienda's outreach programs. This provide certainty to taxpayers and promote compliance.



COVID-19 Crisis - Tax Administration

COVID-19

Executive Summary

The COVID-19 crisis presents major challenges for tax administration. With the economic downturn, Hacienda would encounter growing compliance risks and greater demands for taxpayer support in the face of prospective cash-flow constraints. This presentation presents a summary of the most critical aspects of the proposed Hacienda's Cash-Flow Administrative Determination (“**Cash Flow AD**”).

Theoretical and empirical studies suggest that an economic downturn tends to worsen taxpayer compliance in important aspects. While a drop in compliance may have some countercyclical effects on the economy, tolerating noncompliance is not an appropriate response to the crisis because it is distortionary, inequitable, and, perhaps most importantly, hampers the rebuilding of tax bases over the medium-term.

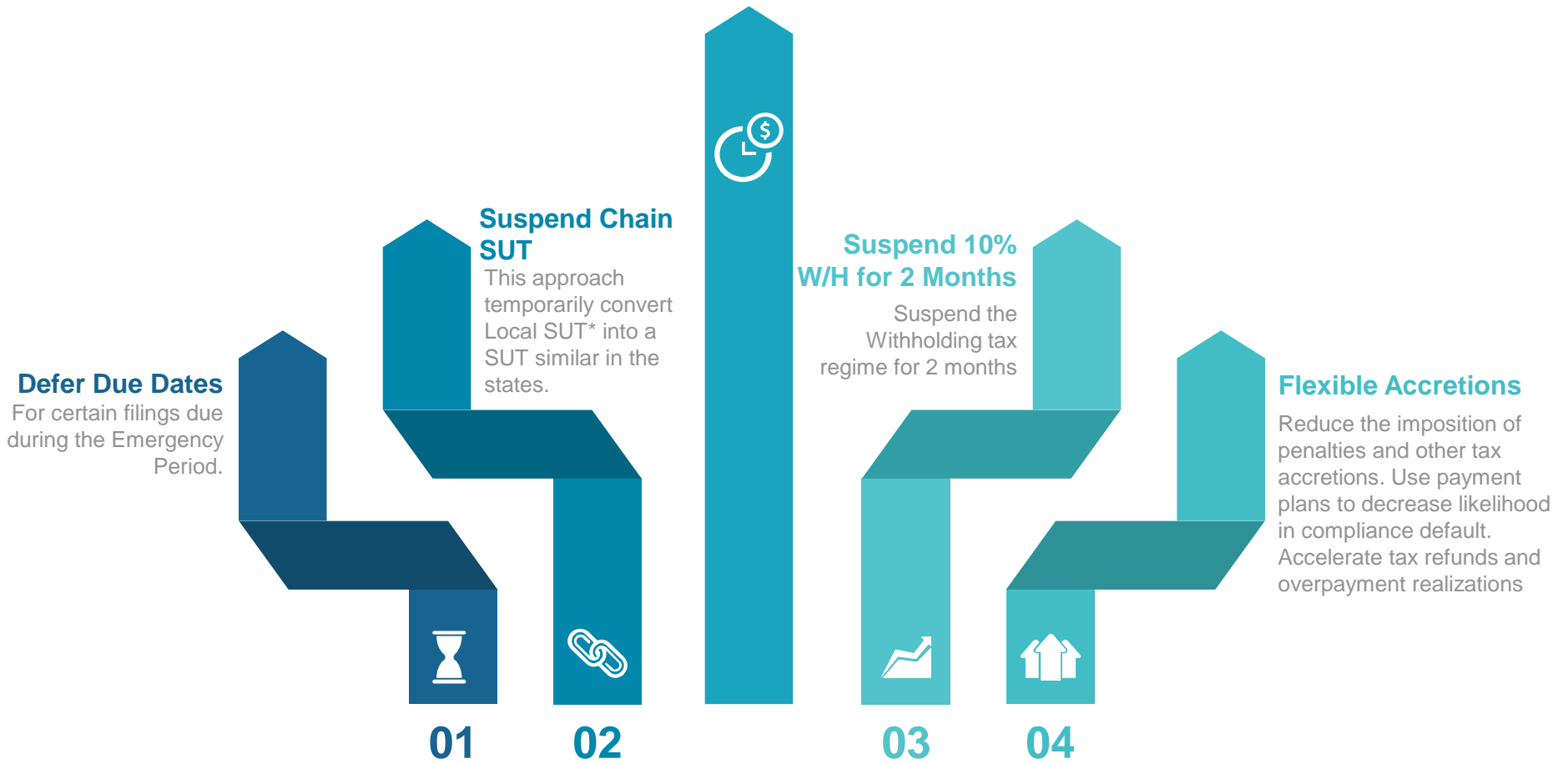
However, in responding to the COVID-19 crisis, Hacienda plans to implement a short term a tax compliance strategy that is structured around two objectives: containing the growth in noncompliance and helping taxpayers to cope with the crisis. To achieve these objectives, four sets of measures are identified:

- (1) Expanding assistance to taxpayers by deferring certain due dates and align some of them to new Federal rules,
- (2) Reducing the burden of certain advance payments in SUT and withholding tax regimes,
- (3) Implementing more attractive payment plan programs to compliant taxpayers, and
- (4) Enhancing and advancing realization of refunds and realization of unclaimed overpayments

In implementing the proposed strategy, Hacienda should keep in mind a number of key points. First, early warning of emerging compliance risks is crucial for their mitigation. Second, a high-level group needs to be established within the tax agency to coordinate the development of the crisis strategy. Third, government support for tax administration is more important than ever during a crisis. Finally, Hacienda will align their near-term compliance strategies and medium-term modernizations plans.

* Dollar value of deferrals are based on prior fiscal years experience. These values may be significantly higher than actual results as these values resulted from an atypical fiscal year (2019) and does not contemplate any economic effect from earthquake activity nor COVID-19 effect.

Needed Tax Administration Approach To Increase Private Sector Cash Flow



* SUT means Sales and Use Tax

Due Date Deferral

Uniform Rules to the Federal Level

Defer Due Dates

Income Tax Return for July 15, 2020 - The Federal Government has decided to postpone the Income Tax Return due date to July 15, 2020. This affects more than 160,000 taxpayers who needs to file a federal tax Return (1040-PR) to determine the amount of US Self-Employed Tax which half of it might be deductible for Puerto Rico tax purposes. From an operational standpoint is highly recommendable to postpone the filing at least to the same date as the IRS would be enforcing.

This would have the effect to postpone part of the tax return and estimated tax payments that would otherwise be paid on or before an April 15 deadline. Typically tax return payments represents close to \$125 million for individuals and \$200 for corporations. Bear in mind that not all taxpayers would defer payments through the filing deadline. Typically large taxpayers pay close to the original deadline. This would present, at most, a three month payment deferral.

Other postponements were not challenge by the FOMB as indicated in an email sent on March 18, 2020.



Suspend Chain SUT

Temporarily Convert Local SUT to a regime similar to the mainland states

Suspend SUT Chain

Different from most mainland states that impose a sales and use tax, Puerto Rico's SUT applies to imported or purchased tangible property for resale. Nevertheless, upon compliance with certain requirements, a reseller of taxable items, may be entitled to claim a credit sales and use tax paid on the purchases or introduction of taxable items for resale.

A registered merchant who holds a reseller certificate may claim a credit (Similar to a Value Added Tax regime) for the amount of sales or use tax paid on the purchase or introduction of taxable items for resale. Cash Flow AD proposes a temporary suspension of this use tax regime collections so merchant's can increase their cash flow.

This reseller credit regime has represented an acceleration of SUT collections close to **\$65 million**. This temporary suspension would also be favorable for CONFINA bondholders as any effect would be reverted on July 2020, thus, merchants would be subject to accelerate the use tax payments upon imports and purchases for resale.



Suspend 10% Withholding at Source

Temporarily Convert Local SUT to a regime similar to the mainland states

Suspend 10% withholding

The Government of Puerto Rico and every person, natural or juridical, that in the conduct of a trade or business or an income producing activity in Puerto Rico pays for services rendered in Puerto Rico must **withhold 10%** thereof. This withholding regime represents close to close to \$89 million in income tax prepayments on a monthly basis.

Cash Flow AD proposes a temporary suspension of this withholding at source regime for a three month period. This would represent a **deferral of payments of \$266 million** which would be subsequently **repaid** with **subsequent estimated tax installments** and filing of the **2020 Income Tax Return**.

SURI is enabled to send reminders to merchants subject to this withholding regime to catch up any tax responsibility uncovered amount with the estimated tax installments (September 2020, December 2020 and January 2021 installments) in order to avoid potential penalties.



Flexible Accretions

Use payment plans and flexible accretions in order to avoid potential further compliance default

Flexible Accretions

Tax-based automatic stabilizers and discretionary tax policy changes can help dampen the negative effects of an economic downturn. For this same reason, it could be argued that tax agencies should be more flexible with certain accretions to tax liabilities. This could provide an additional boost to the economy as long as it is narrowly, uniformly and transparently implemented.

To achieve Hacienda's short term must observe the following:

- (1) Ensuring smooth implementation of compliance due dates (previously discussed);
- (2) Adjusting advance tax payments to reduce taxpayers' cash-flow pressures (previously discussed);
- (3) Accelerating the issuance of tax refunds, subject to proper risk management;
- (4) Making greater use of payment extensions; and
- (5) Providing targeted and proactive assistance to high-risk taxpayers.



Flexible Accretions (Cont.)

Use payment plans and flexible accretions in order to avoid potential further compliance default

Flexible Accretions (Cont.)

Accelerating the issuance of tax refunds (subject to proper risk management):

SURI has showed its effectiveness to pay refunds in a timely fashion. Nevertheless, there are some instances that cross account (allowable by the code) should be implemented to offset other tax accounts liability from the same taxpayer. The higher risk is SUT overpayments from the previously paid Reseller Credit. Cash Flow AD provides room to realize any unclaimed Reseller Credit as a credit to other taxes. This provides further flexibility to reduce the cash-flow constraint of advancing SUT payments, particularly when total sales are likely to decrease in the following months.



Flexible Accretions (Cont.)

Use payment plans and flexible accretions in order to avoid potential further compliance default

Flexible Accretions (Cont.)

Making greater use of payment extensions

Estimated tax payments must be deferred to last two installments. This would represent a potential advance payment deferral of **\$111 million for individuals and corporations** for approximately six months. This is partially achieved by not imposing the discretionary penalties. Nevertheless is important to highlight that an amount of undetermined taxpayers will continue to comply with original estimated tax payments requirements. We believe that is likely that 75% of the total monetary value would still be paid within the original installment dates.



Flexible Accretions (Cont.)

Use payment plans and flexible accretions in order to avoid potential further compliance default

Flexible Accretions

Providing targeted and proactive assistance to high-risk taxpayers

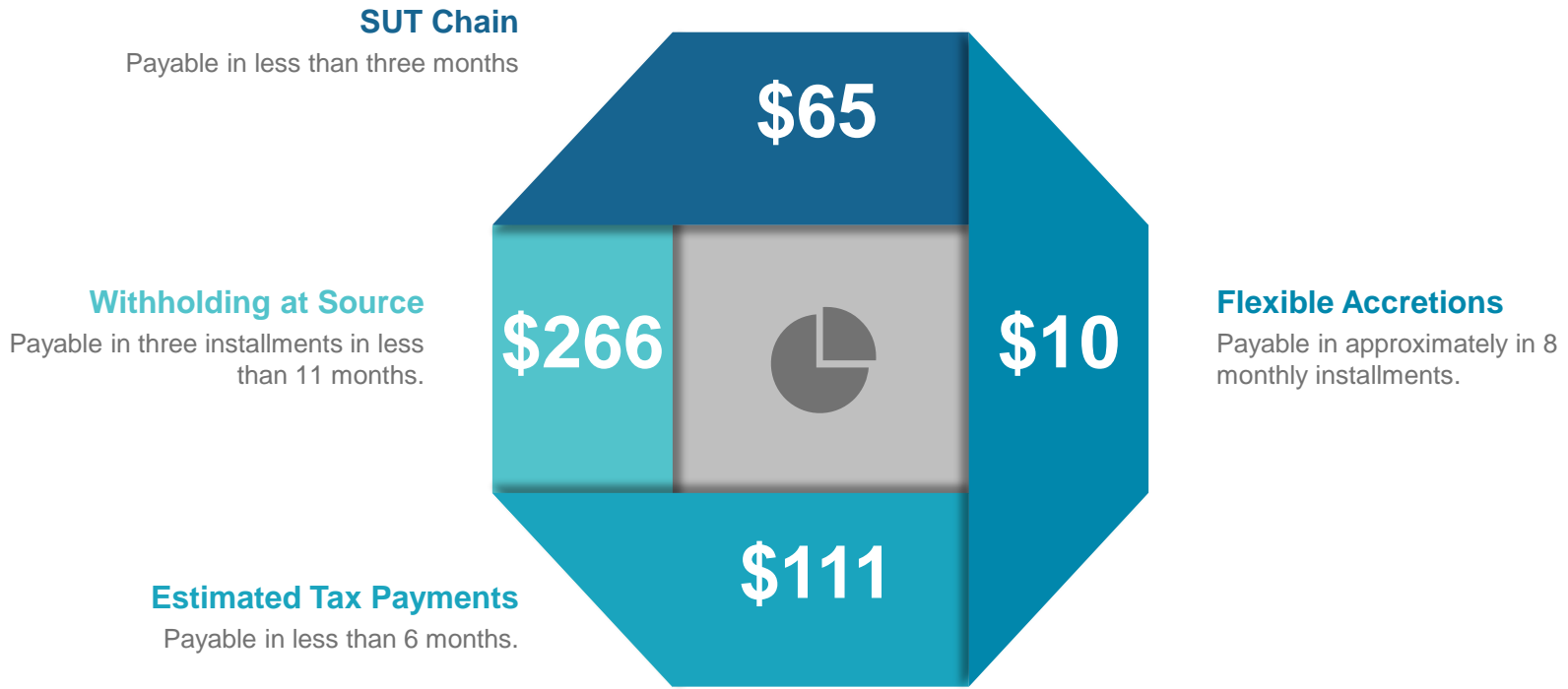
Hacienda should provide aggressive payment plans to previously compliant taxpayers. Cash Flow AD provides a very narrow payment plan program which provides previously compliant taxpayers the ability to save interest and surcharges accretions as long as the enter in a payment plan to cover their 2019 Income Tax Liability to be totally paid by March 2021 and upon of filing their 2020 Income Tax Return on a timely manner with no uncovered tax liability.

SURI provides a systematic monitoring of compliance of this type of payment plans, so the system can revert any interest and surcharges condoned by Hacienda if taxpayer does not complies with the agreed terms.



Deferrals

Values in millions



Economic Incentive for Self-Employed Individuals

Eligibility

Certificate of Registered Merchant
Self-Employed individuals must be registered in the SURI platform



Puerto Rico Resident
Self-Employed individuals must be residents of Puerto Rico



\$500

Self-Employment
Must be engaged in trade or business as a Self-Employed individual, whose income is subject to self-employment tax

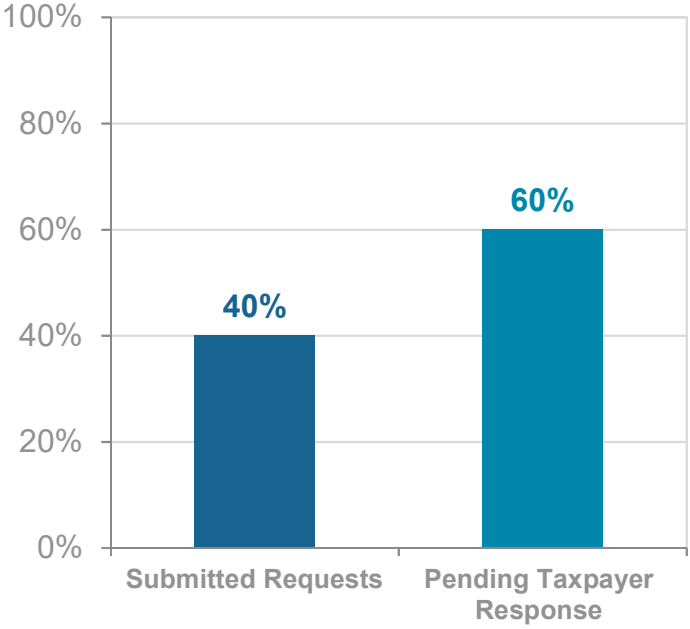


Active Merchant
Self-Employed individuals must be have an active Certificate of Registered Merchant, as of March 15th, 2020



Economic Incentive for Self-Employed Individuals

Progress during first 24 hours



Eligible Individuals
188,032

Submitted Requests
76,623



Additional Tax Relief Measures

16

Qualified Disaster Payments

Exempts income tax any amounts paid by employers, to or for the benefit of an individual, for reasonable and necessary expenses incurred due to the COVID-19 pandemic, including voluntary payments made by private-sector employers to employees unable to work due to lock-down measures implemented due to the COVID-19 outbreak.



GOBIERNO DE PUERTO RICO
Departamento de Hacienda

29 de marzo de 2020

CARTA CIRCULAR DE RENTAS INTERNAS NÚM. 20-22 ("CC RI 20-22")

ATENCIÓN: A TODOS LOS PATRONOS

ASUNTO: EXENCIÓN DE CONTRIBUCIÓN SOBRE INGRESOS DE PAGOS CUALIFICADOS POR CONCEPTO DE AYUDA PARA SOBRELLEVAR DESASTRES Y PRÉSTAMOS A EMPLEADOS O CONTRATISTAS INDEPENDIENTES PARA SOBRELLEVAR UN DESASTRE DECLARADO POR LA GOBERNADORA DE PUERTO RICO

I. Exposición de Motivos

El 19 de febrero de 2020, el Departamento de Hacienda ("Departamento") emitió la Carta Circular de Rentas Internas Núm. 20-08 ("CC RI 20-08") con el propósito de establecer las reglas aplicables a los Pagos Cualificados por concepto de Ayuda para Sobrellevar Desastres ("Pagos Cualificados") bajo las disposiciones de la Sección 1031.01(b)(16) del Código de Rentas Internas de Puerto Rico de 2011, según enmendado ("Código"), a consecuencia del estado de emergencia declarado por la Gobernadora de Puerto Rico ("Gobernadora") mediante la Orden Ejecutiva Núm. OE-2020-01 ("OE 2020-01") a raíz de la actividad sísmica experimentada en Puerto Rico desde el 7 de enero de 2020.

A esta emergencia se añade la declaración emitida el 11 de marzo de 2020 por la Organización Mundial de la Salud decretando una "pandemia" como consecuencia de la propagación del Coronavirus (COVID-19) a nivel global. Consecuentemente, el 12 de marzo de 2020, la Gobernadora emitió la Orden Ejecutiva Núm. OE-2020-020 ("OE 2020-020"), en la cual declaró a Puerto Rico en estado de emergencia ante el inminente impacto del COVID-19 en nuestra isla.

Posteriormente, el 15 de marzo de 2020, la Gobernadora emitió la Orden Ejecutiva Núm. OE-2020-023 ("OE 2020-023"), en la cual se establece un toque de queda, a partir de las 9:00pm del 15 de marzo de 2020, ordenando así a todos los individuos en Puerto Rico a permanecer en sus hogares por un período de 14 días y limitando el uso de las vías públicas, salvo ciertas instancias. Además, la OE 2020-023 decreta un cierre de las operaciones gubernamentales, así como el cierre de todos los comercios en Puerto Rico a partir de las 8:00pm del 15 de marzo de 2020 hasta el 30 de marzo de 2020. ("Cierre Total").



GOBIERNO DE PUERTO RICO
Departamento de Hacienda

29 de marzo de 2020

CARTA CIRCULAR DE RENTAS INTERNAS NÚM. 20-23 ("CC RI 20-23")

ATENCIÓN: PATRONOS, FIDUCIARIOS, ADMINISTRADORES, PARTICIPANTES Y BENEFICIARIOS DE PLANES DE RETIRO CUALIFICADOS Y CUENTAS DE RETIRO INDIVIDUAL EN PUERTO RICO

ASUNTO: DISTRIBUCIONES ESPECIALES DE PLANES DE RETIRO CUALIFICADOS Y CUENTAS DE RETIRO INDIVIDUAL POR RAZÓN DE UN DESASTRE DECLARADO POR LA GOBERNADORA DE PUERTO RICO

I. Exposición de Motivos

El 19 de febrero de 2020, el Departamento de Hacienda ("Departamento") emitió la Carta Circular de Rentas Internas Núm. 20-09 ("CC RI 20-09") con el propósito de establecer las reglas aplicables a las Distribuciones Especiales por Desastre de Planes de Retiro y Cuentas IRA, conforme a las disposiciones de las Secciones 1081.01(b)(1)(D) y 1081.02(d)(1)(i) del Código de Rentas Internas de Puerto Rico de 2011, según enmendado ("Código"), a consecuencia del estado de emergencia declarado por la Gobernadora de Puerto Rico ("Gobernadora") mediante la Orden Ejecutiva Núm. OE-2020-01 ("OE 2020-01") a raíz de la actividad sísmica experimentada en Puerto Rico desde el 7 de enero de 2020.

A esta emergencia se añade la declaración emitida el 11 de marzo de 2020 por la Organización Mundial de la Salud decretando una "pandemia" como consecuencia de la propagación del Coronavirus (COVID-19) a nivel global. Consecuentemente, el 12 de marzo de 2020, la Gobernadora emitió la Orden Ejecutiva Núm. OE-2020-020 ("OE 2020-020"), en la cual declaró a Puerto Rico en estado de emergencia ante el inminente impacto del COVID-19 en nuestra isla.

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Draft – Discussion Purpose Only

¿Alguna Pregunta?

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