Congressional Task Force on Economic Growth in Puerto Rico
Caribbean Refrescos, Inc., Puerto Rico
The Coca-Cola Company
September 2, 2016

The Coca-Cola Company has operated on Puerto Rico since 1970 and it opened its Cidra PR concentrate plant in 1978. Today we employ roughly 400 people on the island, most in manufacturing, with others in support functions and management. Our payroll is roughly $30 million. We pay income taxes, property taxes, payroll taxes and other taxes in Puerto Rico.

We utilize a shipping network to and from the Island to move 6,200 shipping containers a year, over 100,000 tons of goods and spend roughly $19 million on transportation. Our bottling partner, Coca-Cola Puerto Rico Bottlers, is a separate company and employs roughly 1000 people as our system partner.

Our associates in Puerto Rico are fiercely loyal to our Company. Some of our associates are even second generation members of our business. Together we want to see the economy of Puerto Rico return to a path of sustainable economic growth. Our production plant needs a sustainable infrastructure with ports and roads and with reliable electricity - but so do our associates when they go home at night. Our associates are moms and dads, they have aging parents and they face crumbling infrastructure, reduced service from hospitals and schools, and utility costs that make life in Puerto Rico hard. These hardships are causing their friends and relatives to emigrate to the mainland in record numbers.

Caribbean Refrescos, Inc. is a wholly owned subsidiary of The Coca-Cola Company. As a manufacturer, Caribbean Refrescos, Inc. was previously able to qualify for the section 936 benefit for many years, which was part of the tax law that incentivized investment in Puerto Rico. The section 936 incentives began to be phased out in 1994 and were completely phased out by the year 2005. Nowadays, Caribbean Refrescos produces in Puerto Rico most of the concentrate for the North America market in the Cidra plant. We do not sell concentrate to Latin America or other regions, and the Company has chosen to maintain this facility as a branch of our US operations. For tax purposes, this means that we are operating as a fully taxable US domestic business. There are a number of reasons for this structure that fit the facts and circumstances of our business and these are not necessarily the same that would fit the business model of other companies.

A primary reason for continued operation of Caribbean Refrescos, Inc. as a branch is that we sell into the US market from Puerto Rico. Without a global customer base for this operation, our management has determined that it is more appropriate to operate as a branch rather than a controlled foreign corporation (CFC). Some companies choose to continue operating as CFCs because that fits their fact pattern and yet others have chosen to simply shutter their businesses and leave the island completely.

From our perspective, there are two issues, in terms of tax legislation, that we would like to bring to the attention of the Task Force, the first one being the ***<u>Manufacturing Deduction for Branches in Puerto Rico</u>***

In 2004, Congress created the §199 manufacturers deduction that effectively reduces the top tax rate on manufacturing income from 35% to 32%. Through an oversight, the legislation did not include Puerto Rico as an eligible location. In 2006, Congress allowed the §199 manufacturing deduction for businesses operating in Puerto Rico that are subject to full U.S. tax. This provision made Federal tax law consistent for all manufacturers operating throughout the United States.

The correction of that oversight to include Puerto Rico in 199 then became one of the expiring tax provisions or "tax extenders." Each year since 2006, we have supported the extension of the provision to continue allowing consistent tax treatment for manufacturing whether that takes place on the mainland or on Puerto Rico. Legislation to permanently extend the §199 deduction for Puerto Rico has been introduced this Congress as H.R.5400 by Representative Tom Price and Resident Commissioner Pedro Pierluisi. We encourage the Task Force to recommend inclusion of H.R.5400 in legislation to provide economic growth for Puerto Rico.

The §199 deduction for manufacturers operating in Puerto Rico has been extended six times since 2006 as part of the annual "expiring tax provisions package" but it is again scheduled to expire at the end of 2016. If, in the future, Congress determines that incentives for manufacturing should be modified as a component of tax reform, then this incentive should be part of that comprehensive debate rather than ended as a separate matter for only Puerto Rico.

If the section 199 Puerto Rico provision were allowed to expire, the result would be a higher U.S. tax cost for American manufacturers operating in Puerto Rico relative to the U.S. tax cost of operating in any of the 50 States or the District of Colombia. This would create a clear disincentive for existing and new businesses to conduct manufacturing operations in Puerto Rico. Further, it would be highly unusual for the Internal Revenue Code to explicitly disincentivize investment anywhere in the United States and this Task Force should act to level the playing field for manufacturing in Puerto Rico. The provision should be extended before it again expires at the end of this year. Finally, if the provision is not extended, companies operating as branches may convert to controlled foreign corporation (CFC) status while continuing to operate in Puerto Rico or reconsider other locations for doing business.

There is one additional issue that we hope the Task Force will address. It seems to be a glitch in tax law that also disadvantages manufacturing in Puerto Rico. It has to do with a confluence of the rum cover-over and the drawback of alcohol excise taxes.

Alcohol taxes paid by a producer of food, flavor, medicine or perfume are eligible for a drawback of excise tax from the Treasury Department's Alcohol and Tobacco Tax Trade Bureau (TTB) - except for when the production takes place in Puerto Rico. In the case of that exception, the producer is limited to the amount of drawback that is covered-over to the territory by §7652(g), regardless of how much excise tax is paid.

The amount of federal tax is $13.50 per gallon but the permanent cover-over is only $10.50 per gallon while the annual expiring provision raises the cover-over to $13.25 per gallon. The remaining $2.75 per gallon (minus a processing fee by TTB) is lost to producers if the rum cover-over is not extended annually. Only manufacturers in Puerto Rico face this loss of drawback. The reduction in drawback is in no way connected to cover-over revenues received by the territories.

There are two ways that the Task Force could address this glitch. First is to simply permanently extend the cover-over. The other way is to repeal §7652(g) and remove this barrier to Puerto Rico based manufacturers of food, flavor, medicine or perfume.

Thank you to the members of the Congressional Task Force for all the hard work and time you are putting into the effort to bring the economy of Puerto Rico to a path of sustainable growth. The Coca-Cola Company and our associates in Puerto Rico and throughout the rest of the United States appreciate your efforts.