



September 2, 2016

Delivered via e-mail

Chairman Orrin Hatch
Congressional Task Force on Economic Growth in Puerto Rico
prtaskforce@mail.house.gov

Dear Chairman Hatch and Honorable Members of the Task Force:

Dish Network Puerto Rico LLC ("Dish") appreciates the invitation from the Congressional Task Force on Economic Growth in Puerto Rico for comments regarding how to strengthen Puerto Rico's economy. Dish respectfully submits this letter to help identify barriers to economic growth and recommend changes to promote stability in the territory's tax and regulatory schemes, and to ideally generate a business-friendly economic climate in Puerto Rico.

Dish proudly provides satellite television programming to nearly 200,000 households and businesses throughout Puerto Rico, including rural areas of the island that are not served by cable television. Many Puerto Rican families and businesses choose Dish because we offer the best foreign language programming and the most competitive prices in the industry. Dish's low cost and superior programming has resulted in our customer base growing significantly since launching service on the island in 2002. Our contribution to the Puerto Rico economy has been significant as well. In 2015, Dish paid over \$19 million in sales, corporate, payroll, and property taxes in Puerto Rico, and our retailers are completing approximately 4,000 installations per month providing jobs for hundreds of Puerto Ricans. The ongoing economic crisis in Puerto Rico has not dulled Dish's commitment to its customers and employees on the island, but the economic uncertainty and ever-increasing tax and regulatory burdens imposed in Puerto Rico make investing on the island more worrisome.

As you know, Puerto Rico recently raised sales and use taxes from 7% to 11.5% under Act No. 72 of 2015. This significant increase hurt Dish's operations by forcing additional costs to our consumers. An increase in the price of services due to higher taxes inevitably results in a loss of subscribers, which then leads to less tax revenue for Puerto Rico from Dish. Nevertheless, Dish along with many other companies was willing to pay its share of fair taxes to help with the economic crisis.

But Act No. 72 is indicative of a larger problem Dish encounters in Puerto Rico: the lack of stability and enforcement in the Puerto Rico tax scheme. As part of an attempt to increase compliance with sales and use taxes, Act No. 72 implemented a value added tax (VAT) that was scheduled to begin in April 2016. Dish opposed the VAT in large part because Puerto Rico's Department of Treasury (the Hacienda) did not have the required capabilities to implement such a large new tax scheme in the short timeframe provided for by the law. As Dish and others expected, the Hacienda never



completed the transition to be able to collect the VAT, and the VAT has since been cast aside for the time being.

Act No. 72 also made several of Dish's telecommunication services, most notably business-to-business (B2B services) transactions, subject to taxes for the first time. This tax increase alone is one of the most burdensome changes in tax law in Puerto Rico. Dish and its related mainland entities not only have to pay the new 4% sales and use tax on B2B services, but also had to change its entire internal tax compliance system to account for the appropriate taxable services. Thus, while the new tax itself was harmful to Dish and its customers, the costs of compliance with the new tax scheme are in some respects more cumbersome.

Having to alter its business relationship with vendors and retailers is another unintended consequence of Puerto Rico's ongoing changes to tax laws. Dish, just like many other corporate entities, has a multitude of related entities and business partners that rely on a consistent tax system for its operations. Dish has approached the Hacienda over the years to make it easier for both parties to collect and pay the appropriate taxes on all Dish related transactions. As a result, Dish has negotiated with the Hacienda closing agreements to comply with these changes in the tax system, while continuing to pay the correct amount of taxes. Dish has spent considerable time and resources working with the Hacienda to ensure proper compliance with these tax changes.

Compliance and enforcement of tax laws are a major problem in Puerto Rico. KPMG LLP estimated in its 2015 report to Governor Alejandro Garcia Padilla that the existing tax system was overly burdensome for taxpayers and estimated that sales tax compliance rate was 56%. A large underground economy where the use of cash transactions is unfortunately considered part of the normal economy in Puerto Rico.

In contrast to this underground cash-based market, Dish uses electronic recordkeeping systems from processing orders to paying invoices to properly filing its taxes. The problem in Puerto Rico is not the lack of taxes from large companies based on the mainland – Dish alone has paid over \$90 million in taxes since 2011 to Puerto Rico coffers – instead, Dish respectfully suggests, the problem is a lack of enforcement of existing tax laws, either through unwillingness or lack of resources, by the Hacienda. While the Hacienda has targeted large companies like Dish for burdensome audits, the staggering low sales tax compliance rate for sales tax continues without any indications by the government of addressing the issue. The proposed VAT regime was supposed to help with the compliance problem, but without providing additional resources and a proper implementation timeline for the Hacienda the idea was destined to fail.

Dish does not want to imply that every legislative or regulatory idea in Puerto Rico has been anti-growth or anti-business. For example, in 2013, SB 410 by the Honorable Senator Angel Matos Garcia provided for criminal penalties for piracy of satellite programming. Dish has invested several billion dollars to develop a video distribution system intended for its customers only, and SB 410 helped provide an effective tool against video programming and technology piracy.



Furthermore, last year the Honorable Senator Ramon Luis Nieves proposed a bill (SB 1370) that promoted the continued growth of the private telecommunications and satellite industry by preventing a public agency, department, municipality, or public corporation, such as the Puerto Rico Electric Power Authority ("PREPA"), from entering the market other than to continue existing services. PREPA, as a state agency, does not pay taxes and is not subject to the same regulatory constraints that private companies like Dish face. This powerful advantage would allow PREPA to price its services much lower than what private companies such as Dish can compete with in the long term. Thus, without SB 1370, PREPA's potential entrance into the market would result in private companies like Dish being gradually forced out of the market, ultimately resulting in fewer choices and worse services for consumers and a loss to Puerto Rico's economy. Along the same lines, Dish has also invested heavily in Puerto Rico through its anti-piracy security company, NagraStar, to counter those responsible for trying to circumvent the companies' security system to gain unauthorized programming.

In sum, Dish appreciates the Task Force's duty and desire to improve Puerto Rico's economy. The ongoing economic crisis will undoubtedly lead to difficult decisions on fiscal policy; however, Dish appeals to the Task Force to implement policies that are fair, administratively possible, predictable, and enforceable. Enforcement of tax laws is key and must be implemented across the island because Puerto Rico cannot simply place tax targets on large mainland-based companies like Dish and expect all of its economic woes to dissipate. Dish fully intends to be a part of the solution to the economic problems facing the island, and respectfully supports minimizing and stabilizing the current regulatory and tax burdens facing businesses in Puerto Rico. Dish is willing to assist the Task Force as needed and looks forward to the Task Force's report and recommended changes.

Respectfully submitted by,

A handwritten signature in blue ink, appearing to read "Ricardo E. Soto-Miranda", written over a horizontal line.

Ricardo E. Soto-Miranda, Esq.

External Counsel for DISH Network Puerto Rico LLC