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To: The Congressional Task Force for Puerto Rico's Economy

This letter is a voice of the small business owners of Puerto Rico, who provide a substantial contribution in both revenue and employment opportunities for the island. This document is written by a conglomerate of concerned businesses of the east and supported by agreeing, like-minded members of the island of Puerto Rico. It is in response to the open call for feedback and opinions of stakeholders of the Puerto Rican Economy and it reflects our experiences and suggestions for changes that could aide in re-establishing the economic future of Puerto Rico.

While there are many issues that can be addressed in this format, we have elected to focus on larger concerns that effect the majority. It is our opinion that a reevaluation of certain policies, laws and procedures can result in positive changes and provide a chance at economic stability for both employee and employers. In this document, we will address costs of living and opinions about the minimum wage, labor laws specific to the island of Puerto Rico, as well legislative obstacles to opening and maintaining businesses in Puerto Rico (which include harsh unrealistic penalties regarding sales tax payments). It is our opinion that these are factors that often prohibit the start of businesses and lead to the closing of many contributing business in Puerto Rico.

#### **Jones Act, Costs of Living and Minimum Wage:**

It is the suggestion of some economists that Puerto Rico lower its minimum wage. We find it may be counterproductive to economic growth to lessen the amount of cash-flow on an island where the costs of living is astronomical. It is our opinion that people cannot afford to make less per hour in Puerto Rico when supermarket items are already 21% higher than the U.S. average. As an island, we have to rely heavily on imports, and as a U.S. territory, those imports are governed by the regulations brought forth by the Jones Act...making imports even more costly as items need to be shipped first to the mainland U.S. and then be imported to the island of Puerto Rico via U.S. vessels that were built on U.S. land. Puerto Rico does not benefit from Federal incentives that help dairy farmers and agriculture and the cost of a gallon of milk can reach \$6. Our existing minimum wage of \$7.25 is actually lower than the United States average which continues to rise. Lowering of the minimum wage can lead to more unemployment and crime on the island as it will be more beneficial to live on subsidized incomes. In Puerto Rico we have an unemployment rate of 12-13% as opposed to the 5.5% high in the states and there is no question that we need more employment opportunities. However, it is our opinion that what deters employers from hiring are the existing strict Puerto Rico labor laws that impose exuberant costs associated and coinciding with your number of employees.

#### **Labor Laws**

The minimum wage of employees is not what discourages businesses from hiring. What influences the hiring practices of businesses is the existing labor laws that add on to the costs of having an employee. Employer responsibilities are increased drastically based on the number of employees they have and the hours they work. Employers in the common-wealth of Puerto Rico are obliged to obey both labor laws from the U.S. Federal government as well as labor laws that have been established by the Puerto Rican Government. These laws were established with every intention of protecting the Puerto Rican workforce but in turn have created a situation in which able bodied individuals are often forced to accept inferior

employment opportunities of limited hours and business are often forced to choose between closing and soliciting loans in order to comply.

Large companies often resort to hiring many employees to work ridiculously short work weeks (often less than 18 hours) to succeed in circumnavigating the labor laws that would otherwise subject them to providing employees with paid vacation and sick time, as well as Christmas bonuses. Member of the society that are forced to choose this option as a source of employment find themselves with the necessity of soliciting additional state/federally funded benefits for lower income members of the society.

As small entrepreneurs trying to run successful businesses, this employment model does not work and we are forced to comply with the Puerto Rican labor law regulations in order to operate. In a small business, it is not beneficial to have a large workforce of revolving employees and our desire to maintain a standard of excellence in a neighborhood business means that we are forced to comply with excessive additional benefits to all of our employees, including those who are lawfully terminated or who choose to discontinue their service with us. The benefits are not related to merit or seniority and eliminates the ability to create incentives. Employees are not encouraged to provide any loyalty or motivation to grow within the business, and the laws are so biased that there is no liability on behalf of the employees, creating a very poor work ethic of entitlement instead of merit. For example: Employees are not required to provide 2 weeks notice to their employer and will still be entitled to pay off of all the vacation time accrued as well as a Christmas Bonus at the end of the year, whilst an employer needs very regimented justifiable reasons for dismissal of undesired employees. **Unlike 49 other states in the United States, employment in Puerto Rico is not "at-will".**

Employees in Puerto Rico are eligible to 1 ¼ day of vacation and 1 sick day for every month they work more than 115 hours. According to the Internal Revenue Service (which we are obliged to answer to as well), a full time employee works more than 30 hours a week or 130 hours a month. Our employee benefits apply to a very liberal category of employment which includes part-time employees. Additionally employers must pay a Christmas Bonus to all employees who worked a minimum of 700 hours during the year period. The amount of bonus to pay each individual increases if a company has hired more than 15 employees throughout the year.

Small business have to consider these exuberant employee benefits in making their decisions to hire more staff and many companies adhere strictly to hiring less than 15 employees when they could and would easily hire more. There is a need for a reevaluation of these borderline socialistic practices and their subsequent economic and societal effects.

### **Legislative obstacles to opening and maintaining legal business**

It is our observation as business owners, that there are many agencies and processes within these agencies that need to be reviewed as they are not conducive to running a business effectively and can often be a hindrance to the start of a new business. This inefficiency is also costing the island unnecessary labor expenses. There is a duplicity of paperwork with regards to the process of initiating and renewing permits. There is a great deal of ineffectiveness when for a single document you have to visit several offices, and speak to various employees within these offices, often producing similar documents and certifications. Once the initial permits have been established, they expire at varying times throughout the year. These processes are not cost effective to the island of Puerto Rico and are

not conducive to starting and maintaining businesses. Several agencies are starting the process of offering services online but these services need to be streamlined. Links need to be created between the agencies so that resources can be shared.

This inefficiency applies to other companies that are government owned and controlled. Tourism is one of our largest economic resources, however there is an instability with the tourism board. Tourism should be separate from the government parties and not held hostage to elections...changing every four years depending on the party in power. This is an unnecessary expense for taxpayers as every four years we are faced with new investments in branding, new slogans as well as new staff.

### **Sales Tax**

In the past ten years, the island of Puerto Rico has gone from 0 sales tax to 10.5% and there is little evidence to the public as to how this is effecting the economy. In the beginning of this process all businesses were required to register and receive a certification to exempt the business from paying sales tax on items that were going to be resold. This exemption was eliminated and in its place a credit was to be issued to the business for the tax they were paying as the business in turn was to collect sales tax from their customers at the sale of these items. Upon reselling items, these items are re-taxed and a business must collect the 10.5% sales tax from their customers to then remit to the government. If a business falls behind and is late in the deposit of these taxes collected, they are charge with an immediate 25% penalty. In addition to this penalty, an interest of 5-10% is applied to the balance as well as a 10% surcharge after the first month. While this balance exists, business are not allowed to claim the credit for the taxes they pay on inventory. Once the debt is fulfilled, the taxes the company has paid is not retroactive and therefor the government is collecting taxes on these items twice.

Once a business falls behind, these excessive penalties, interests, surcharges and unfair elimination of the right to claim a tax paid often forces the business to close its doors. The government of Puerto Rico will shut down a business with a large debt instead of attempting to forge a solution and a payment plan so that they could eventually get the owed money. Businesses are closing and the government ends up with no payments to these outstanding debts.

This document is the voice of small business owners from the cities of Rio-Grande, Luquillo, Fajardo, and Ceiba.

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