



August 29th. 2016

Hon. Orrin Hatch
Chairman
Congressional Task Force
On Puerto Rico Economic Development
The Senate
104 Hart Office Building
Washington DC
20510

Dear Mr. Chairman:

My name is Lymaris Otero, Executive Director for the Puerto Rico Retailers Association (or “ACDET”, by its Spanish acronym). We are a very vocal organization in the discussion of issues that affect the retail industry, aim to educate about the impact and the contribution this industry has on Puerto Rico’s economy.

We strive to maintain a favorable economic climate for retailers and their suppliers to grow and prosper. We advocate effective public policy and exercise collective influence on behalf of the retail industry before legislative, regulatory and judicial bodies to promote advancement of the retail industry in Puerto Rico.

The reasoning is simple. Retail is one of the largest private sector employers in Puerto Rico, with more than 180,000 direct jobs, with an accumulated direct labor income of approximately \$3,085 millions per year. Stores also are the main tax collection sources, accountable for more than 60% of the state sales tax. In addition, we pay more than \$500 millions in our own taxes and fees.

In the Congressional Task Force on Puerto Rico Economic Development (“Task Force”), we see a forum where real alternatives, that might help our dire Island’s economy out of this decade long recession, can be analyzed and implemented without partisan considerations. Therefore, we include four (4) recommendations that are immediately actionable and which certainly will bring tangible results in the short term.

Governance context

There are several opportunities that our local government could have and still can take, in order to advance a better business environment, hence a broader taxable base, and increasing its revenues at the same time. Unfortunately, administration after administration has taken the shortsighted route, just imposing new taxes to business and productive sector. To complicate things even further, Puerto Rico does not have one, but 79 tax jurisdictions; since not only Central Government imposes taxes, but also every local municipality has the authority to make their own impositions against real estate, sales, inventories and constructions developments among others.

At the same time, government controlled utilities costs, which have spirally increased, particularly over the last few years, impacting adversely businesses operating costs to unsustainable heights and causing unemployment and business closure to increase to unprecedented levels. The government controls permitting processes as well, which affect negatively any opportunity for new business ventures. Even though several laws have been enacted to streamline these processes, the reality of bureaucrats protecting their fields and justifying their existence, results in the same burdensome and costly processes. Our recommendations to address then above mention context are:

I- Taxes

Puerto Rico's **government needs to redefine its role** and how it affects our economy. The economic theory defines three main roles for the government in a market economy:

- *Efficient resource allocation*: that the economy is able to maximize production
- *Price stability*: that the economy reduces the risk associated with inflation or deflation.
- *Income distribution*: that all citizens received a fair share of the national income

Taxes represent the most important source of revenue to the government. The main sources are income taxes on individuals and corporations. In the long run, taxes are part of the cost of production and end up included in prices. Businesses that cannot include the impact of taxes in their prices, due to the market dynamics, see a decrease in the rate of return in the capital invested, and tend to simply leave the market.

The Task Force should consider **lowering the taxes on corporations and abolishing business-to-business "sales tax"**, since corporations are a proven vehicle for individuals to generate capital; and for the country to create wealth. That is why; the system should put more resources in

collection of taxes at consumption, rather than on corporations income – a global practice of highly productive economies.

Also, Puerto Rico has one of the most, preposterous, complex and obsolete taxes, on business inventories. The amazing issue is that Puerto Rico is an island, which imports most of its consumable goods, and for national security purposes, it needs to maintain the largest economic feasible inventories. As a matter of fact, the government should be promoting inventory buildup, not penalizing it. **This inventory tax should be abolished.**

II- Permitting Processes

In order to justify its costly and enormous existence, Puerto Rico's government intervenes on almost every aspect of the economic activity thru permits and licenses. As an industry, we firmly believe in orderly rules to ascertain a healthy economic environment, but those rules should enable expedite processes that do not hinder business opportunities and investments, **therefore the system shall be centralized and simplified, seeking for agility and effectiveness, while promoting new private investment.**

III- Closing Law

One of the most anachronic example of regulations that serve the only purpose of obstructing economic development and discriminate against only one sector of the economy: "The **Closing Law**". Although amended recently, it still establishes when retail businesses can operate, with specific day times, and commands items that can and cannot be sold on Sundays; it also mandates a premium pay for employees that work Sundays, but only on the retail sector. **This law should be revoked.**

IV- Labor Laws

Puerto Rico faces many crises; but lack of labor protections is certainly not one of them. For every dollar spent on salaries, almost 42 extra cents are spent on mandates labor benefits, not correlated at all with productivity, performance or achievements of employees. Also, our overtime rules are more limiting against employers, and employment in Puerto Rico is not at will, having to justify from a very restrictive list the reasons for termination.

In a stable and vigorous labor environment, laws are a tool to promote economic development and productivity, and employers invest in more and high-qualified employees, since labor laws incentivize job creation. This is not our current situation; our **labor legal framework needs a**

serious, integral and avant-garde reform in the light of our economic conditions and strict circumstances.

Conclusion

We firmly believe that the government should be a facilitator. That is the public policy recently underscored in Public Law 114-187 on 6/30/2016, Sec. 204(b)(2)(3) and Sec. 205 (a)(10), known as PROMESA.

We can see how our Island has evolved over the last 20 years hand in hand with a hard working private sector, committed to providing better services at lower prices. As a result of this scenario, the Puerto Rican consumer has benefited from being exposed to fair and healthy competition in products, services and prices.

Puerto Rico has suffered a massive emigration of the most productive part of our population, and the closing of operations of many, many businesses. Still, those of us who remain betting on Puerto Rico's future look towards it with hope and a sense optimism.

We look forward to working together with you to defend our people from attempts that would bring further economic deterioration, unemployment and crisis upon our Island. We trust that your work will help Puerto Rico to emerge from the extremely serious, complex and uncertain context where mistaken and failed economic governmental policies and intervention have cast us.

Sincerely,



Lymaris Otero
Executive Director

CC: Hon. Sean Duffy
Hon. Tom MacArthur
Hon. Bob Menéndez
Hon. Bill Nelson
Hon. Pedro Pierluisi
Hon. Marco Rubio
Hon. Nydia Velázquez