Igualdad is an independent, autonomous, nonsectarian and nonpartisan grass roots organization with active members both in the Island and the Nation, committed to informing, educating and advocating for the right of the American citizens of Puerto Rico to become full American citizens, with all-encompassing rights and responsibilities, through Puerto Rico's admission as the 51st State of the Nation.

A permanent solution to the long-standing status issue is of paramount importance in establishing a stable platform for economic growth and social development. Congress has never asked the US Citizens residing in Puerto Rico to choose among clear, constitutionally valid and internationally acceptable options – Statehood, on equal footing with all other states, and independence, with or without a pact of free association among sovereign nations. After more than 100 years of US rule, it is time for Congress to allow the US Citizens in Puerto Rico to choose their destiny.

The sections that follow address the economic impact of the; 1) unequal treatment of US Citizens in Puerto Rico and the instability of laws rules and regulations applicable to the Territory, 2) the history of economic development of territories that have become States and 3) the cost of the Commonwealth status to the US Government:

Unequal treatment of US Citizens in Puerto Rico

Puerto Rico's present political status – a territory under the *aegis* of Congress – is not, as some have stated in the past, "the best of both worlds," but rather a straightjacket that hinders economic development. Neither fish nor fowl, Puerto Rico exists in a political limbo: subject, for all intents and purposes, to most Federal legislation affecting business, yet having no vote in the enactment of said laws; shut-out from the benefits of statehood (investor certainty, Federal appropriations, among others) yet precluded from implementing economic development strategies and mechanisms available to independent nations (treaties, currency exchange, tariffs).

1. In effect, Puerto Rico's fiscal and economic environment has historically been driven by legislation and conditions over which it has no control whatsoever. A few examples will suffice:

   a) Section 3 of the Federal Relations Act provides that interest on bonds issued by the government of Puerto Rico or by its authority shall be exempt from Federal income taxation. Yet in 1984, the US Internal Revenue Code (IRC) was amended to provide that "no interest on any bond shall be exempt from taxation under this title [Title 26 USC] unless such interest is exempt from tax under this title without regard to any provision of law which is not contained in this title and which is not contained in a revenue Act." Thus, in one fell swoop, Congress amended *sub silentio* the Federal Relations Act.

   b) For decades, an element of Puerto Rico's economic development was IRC Section 936 and its predecessors, which allowed U.S. companies to operate in Puerto Rico without incurring U.S. income tax liability, and thereafter distribute said profits either in liquidation (Section 931 and its predecessors) or as dividends (Section 936) also tax free. Beginning in 1982, Congress began to chip away at such – admittedly overly generous – benefits, eliminating them completely in 1996. Once again Puerto Rico's economy was affected without taking into consideration any other alternatives by a Congress in which it had but one voice and no votes.

c) In 1984, Congress, without explanation, excluded Puerto Rico from Chapter 9 of the US Bankruptcy Code, a tool that could have helped address the debt problems of public corporations and municipality, avoiding the spill-over effect on other debt of the Territory

2. As a US territory, Puerto Rico cannot enter into tax or other treaties with foreign nations, Treaty provisions – particularly those entered into by the United States – are powerful investment incentives, as they provide certainty to foreign investors as to the tax treatment of their investments. Subjective determinations, such as whether a corporation is engaged in trade or business within a jurisdiction or not, are supplanted by more definite criteria – whether the entity has a "permanent establishment" within the jurisdiction. Withholding tax rates for different classes of income are set in the treaty, and therefore insulated from tax changes.

3. But it is not only the body politic known as the Commonwealth of Puerto Rico that suffers the paradox of being sometimes "foreign" and sometimes "domestic"; individuals who are residents of Puerto Rico are also caught betwixt and between such extremities. Some would find fascinating – or, perhaps more accurately, appalling – that U.S. citizens residing in New York may move to Zaire and continue to vote for the President of the United States, but will lose such right if they move to Puerto Rico. From an economic development standpoint, however, we would like to point out one such instance of the disparity in treatment of U.S. individuals residing in Puerto Rico that has had tragic effects on our economy.

   Pursuant to IRC Section 2209, U.S. citizens who acquired their citizenship by reason of birth or residence within a possession of the United States, and who are residents of such possession at time of death, are to be treated as "nonresidents" and "non-citizens" for estate tax purposes. Thus, instead of being subject to tax on their worldwide estate, subject to the basic exclusion amount of $5,000,000 (as adjusted for inflation), such individuals are subject to U.S. estate tax only of the U.S. property, subject to an exclusion of $13,000 or such portion of $46,800 as the value of property located in the United States bears to the value of all property in the estate.

   Examine, then, the alternatives available to Puerto Rico based professionals and entrepreneurs concerned about growing their business while preserving wealth for their children. They can:

   a. Remain in Puerto Rico and invest only locally;
   b. Remain in Puerto Rico and invest in Puerto Rico and internationally, avoiding the United States; or
   c. Move to the mainland and be taxed as any other U.S. citizen.

Unfortunately for them, until recently, most Puerto Rico residents chose the first alternative. After ten years of economic downturn, their businesses have, at best, stagnated, at worst floundered. But what is worse, because their investment portfolios were not diversified, their savings have all but vanished, leaving then with little or no resources to maintain the business afloat or start anew. Close to 60% of Puerto Rico's wealth has disappeared since the local recession started in 2006 (including the national banking and real estate crises), wealth sorely needed to jumpstart the economy. Mostly because Puerto Rico residents who want to continue to live in Puerto Rico are severely penalized by the IRC if they invest in the largest, most active and most secure economy in the world, the economy of the Nation of which they are citizens, the United States.

History: Puerto Rico compared to territories that became States

Contrary to the claim by those who oppose statehood on the grounds that it is a condition that would wreck the Island's economy, neglect the fact that the economies of all 37 territories (beginning with that of Vermont in 1791 and ending with Hawaii's in 1959) experienced significant growth following their joining to the original 13 colonies that eventually became the 50 United States. Puerto Rico would not be an exception to that experience.

This economic expansion was not so much fueled by an increase in the amount of transfer payments received from the Federal Government as it was by the leveling of the new state's "playing field" with that of all other states. As an Island-territory that is subject to the territorial clause of the US Constitution, Puerto Rico—and its investment environment for stateside companies—will always be defined by the whims of a Congress whose interests in "territorial" jurisdictions will be shaped far more by the commercial interests of stateside companies than by the aspirations of the residents of that politically-subordinated jurisdiction.

As US Court of Appeals Judge Juan Torruella recently remarked at a conference organized by the John Jay College of Criminal Justice, "...*the basic fundamental problem of the Puerto Rican economy has always been that it is an economy that generates a significant amount of wealth, but retains little of it, a typical colonial circumstance."* This condition is evidenced by the fact that, despite the many tax breaks sanctioned over the years by Congress for the benefit of US companies with affiliates in Puerto Rico, the income gap between Island- and stateside residents has remained virtually unchanged. As noted by Judge Torruellas, "...*Puerto Rico* [has served as] *a conduit for the federal government to subsidize US industry*..." In recent years, however, the income gap has once again widened.

So long as Puerto Rico retains its territorial condition, its strategy to allure outside investment will continue to hinge on tax breaks whose existence are outside the control of elected officials in Puerto Rico and whose life rarely extends beyond just a few years—a situation that erodes the certainty of the Island's investment environment and, thus, limits outside investment to activities with short-term horizons. This situation is further affected by the pressure to complement these investors with additional local benefits whose costs are paid by the local business community who are shortchanged in their efforts to grow and compete globally. It is a vicious cycle that limits long-term economic growth.

As there are no prosperous “colonies” in the world, and in order to give Puerto Rico an opportunity to compete in this new world economic order, it is not only a moral obligation but also an economic imperative to end this centuries-old territorial nightmare.

The Cost of Statehood:

The US Government Accountability Office (GAO) published in 2014 the results of its investigation on the impact that statehood for Puerto Rico would have on the Federal Budjet. While the GAO report was based on a static evaluation of the Puerto Rican economy, its findings nonetheless suggested that the net effect on the national budget would not be significant: the estimated increase in federal transfers resulting from parity in all Federal Programs would be significantly offset by the billions of dollars paid into the Treasury by Puerto Rico individual- and corporate residents. No attempt was made to assess the positive impact that statehood would have on the economy resulting from its improved business environment.

Some of the most significant increases in yearly transfers would include, among others:

- $1.5-1.8 billion in SSI
- $1.5 billion in Medicare
- $1.5 billion in Medicaid (for long-term care assistance)
- $275 million in EITC & $173 million in Child Tax Credits to low-income workers

Immediately following statehood, however, Puerto Rico would join the 36 states that receive more federal funds than taxes paid into the US Treasury.

Conclusion:

We recognize that the objective of this Task Force is focus on economic growth but we have the responsibility to empathize that there will be no permanent solution to the economic and fiscal crisis in Puerto Rico until the real impediment is resolve. There cannot be real progress, economic stability and growth in a colony; by definition it is not possible

In 2012, with the eyes of the world watching, Congress received an electoral mandate from the people of Puerto Rico and a moral responsibility to end the historical segregation and patent discrimination that has deprived our people of the fruits of our liberty, our rights and the vast benefits of participating in our constituted Republican Form of Government. The People of Puerto Rico deserve no less than the full recognition of their inalienable rights, after all we have been American citizens since 1917.