

PUERTO RICO
CREDIT
CONFERENCE
— 2010 —

—A YEAR INTO THE—
ECONOMIC & FISCAL
RECONSTRUCTION

FEBRUARY 25-26, 2010

Tax Compliance Measures

Juan C. Puig

Secretary of the Treasury

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Disclaimer

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Upon assuming office, the Treasury Department faced significant limitations and lack of controls

Problems that needed to be addressed:

1

Lack of controls in granting of tax credits

- No knowledge of amount of tax credits granted or its impact on budget

2

Technological situation

- No integration of Government's financial and tax collection software

3

Delayed completion of audited financial statements

- Causes limitation in granting of federal funds and other benefits



In addition, this administration had to deal with a delicate financial situation

January 2009		As of February 19, 2010	
Accounts Payable:	\$750 MM	Accounts Payable:	\$0
Cash Available:	\$55 MM	Cash Available:	\$253 MM

- Irresponsible cash management practices

- During the first six months, our administration eliminated the backlog or checks on hold
- Since July 2009, **ALL** checks are released the same day they are printed



Immediate action was taken to pay suppliers' debt and improve our cash flow

Measures taken to improve our cash position:

1

Improving Tax Fiscalization

2

Temporary Tax Measures

3

COFINA bond issuance

Act 1: Additional 1% allocation to COFINA allowed us to improve our liquidity

Act 7: Fiscal Emergency Act allowed for temporary tax measures to further improve our revenues and provided an additional .75% allocation to COFINA



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Comprehensive compliance program to significantly reduce tax evasion and improve fiscal accountability

Compliance program based on 2 objectives:

- 1 Increase revenues by enforcing compliance
- 2 Customer service efforts

Service + Enforcement = **Compliance**



There is significant room for improvement in the collection of the Sales and Use Tax...

Restructuring of Sales and Use Tax Bureau

Indicative Timeline for Plan:

- Organizational Structure
 - Realign the organization with operational procedures
 - Integration of Taxpayer Service offices
 - Consolidation of IVU tax returns into the Returns Processing Bureau
- Facilities
 - Relocate main office
 - September 2010
- Database integration to the Master File (PRITAS)
 - August 2010

ACTION PLAN



Integration of technological improvements will make our system more reliable

GOAL

Use technology to capture **ALL** transactions

Identified Measure:

- “IVU LOTO”
 - To attract customers to ask for receipt
 - RFP to be issued early March 2010
- Implementation Schedule
 - Fourth quarter

Common receipt





We need to address the core of our problem: Tax Delinquency and Evasion

Compliance Call Center

- 1) Will have 150 Collection employees
- 2) Provide assistance to compliant taxpayers
- 3) Increase collection activity

Follow up on collection actions:

- Systemic notices
- Installment agreements
- Levies against third parties (salaries and banks)
- Tax Lien filing
- Follow up to non-compliant taxpayers

Compliance program focused at Internal Revenue



The Collection Division will be the conduit of the Treasury Department's Compliance initiatives

Additional Staff	
100	Auditors
250	Collection Officers
100	Revenue Agents
25	Special Agents
25	Support Personnel
500	

Recruitment process started on February 1st, 2010

Main Roles	
1	Emphasis on withheld taxes
2	Criminal prosecution
3	Ease on payment agreements
4	Specialized audits



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Aggressive plan to address tax evasion is in process and providing results

FISCALIZATION PLAN

Field Operations:

Measures:

- Daily visits to businesses
- Verification on Internal Revenue Licenses and Exemption Register

Results:

- | | | |
|---|---------------|-------------|
| 1 | Field visits: | 15,942 |
| 2 | Fines | \$4,451,000 |

*Assessed into the Master File

Certificate of Exemption for SUT:

Measures:

- Identified 4,500 taxpayers in non-compliance

Results:

- 1,200 Notices issued to revoke certificates for 12 months
– March 2010



We have been able to reduce uncollected tax liens by 7% from FY2009

Type of Tax	FY 2009	FY 2010
Individuals	\$676,149,756	\$774,503,948
Corporations	\$1,412,233,857	\$1,589,230,743
Employer	\$853,548,224	\$503,859,042
Excise Taxes	\$130,879,340	\$49,196,698
Non-Resident Withholdings	\$57,639,181	\$79,300,388
Withholding 7%	\$216,342,994	\$117,988,792
Entertainment Machines	Not Imposed	\$355,000
SUT Penalties	Not Imposed	\$4,451,152
TOTAL	\$3,346,793,352	\$3,118,885,736

7% reduction year-over-year



Significant results processing our Fiscal Audits, 28% above projections

Type of Tax	Cases	Projected January 2010	Actual January 2010
Individuals	2,177	15,523,705	19,172,131
Employer	730	7,928,666	2,788,486
Corporations	829	32,711,224	43,229,673
Sales and Use Tax	264	1,510,034	6,628,813
Excise Tax	193	1,947,300	64,653
Withholding at Origin	167	14,056,481	22,365,339
TOTAL	4,360	\$73,677,410	\$94,249,095

We are \$20.5 MM above initial projections



Temporary property tax collections are 7% above budget

Temporary tax measure approved by Act 7:

- 406,000 new taxpayers
- Added to our integrated tax administration system (PRITAS)
- Web page for status follow-up

(\$ in million)

Revenue Category	Actual July-December 2009	Actual July-December 2010	Estimate 2010	Actual vs. Estimate
Property Tax	\$0	\$123	\$115	\$8



7% above budget



We have imposed significant controls for granting tax credits

1

No grants of tax credits without proper analysis of impact in budget

2

Act 7 restricts applicants by requiring informative tax form

3

As of February 18, 2010, informed tax credits inventory approx. \$750 MM

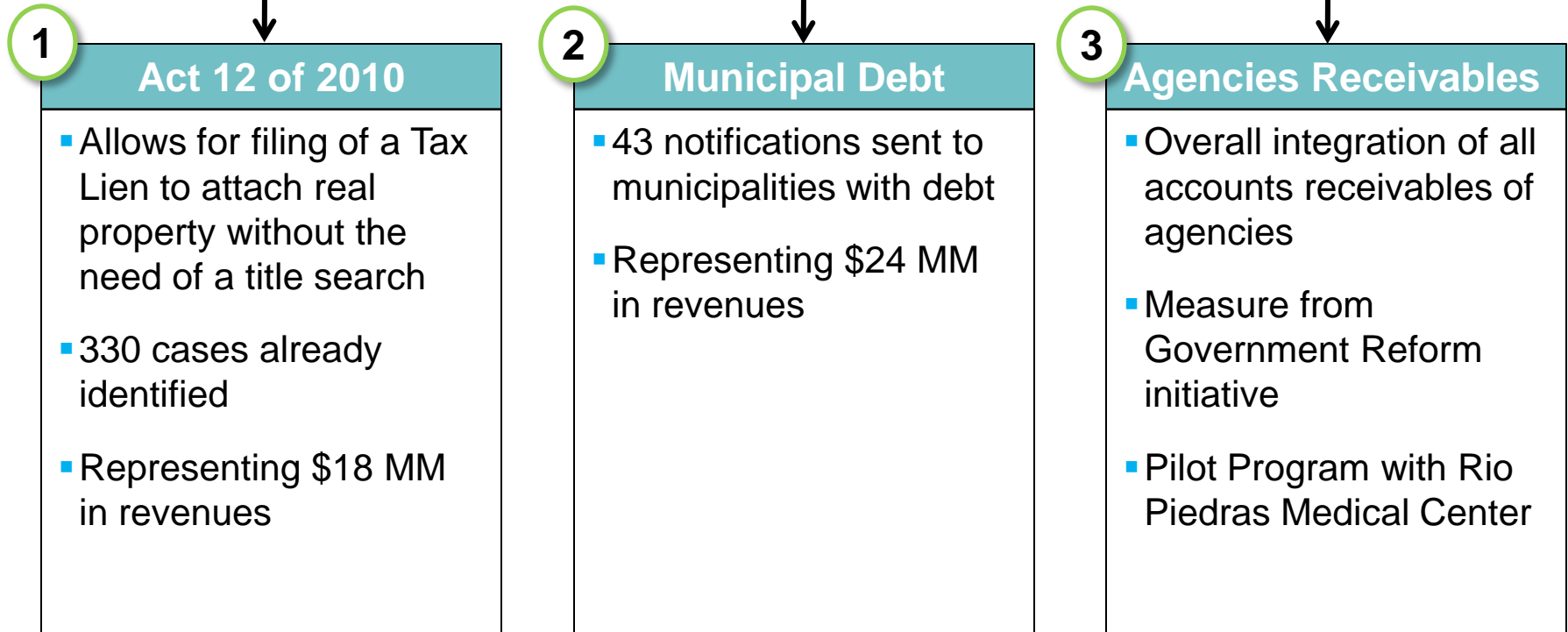
42% derived from Act 212*

* Act 212 of 2004 offers tax incentives to rehabilitation projects in specified urban areas such as residential, commercial and parking buildings and structures



Several revenue measure initiatives have begun to result in efficient debt identification

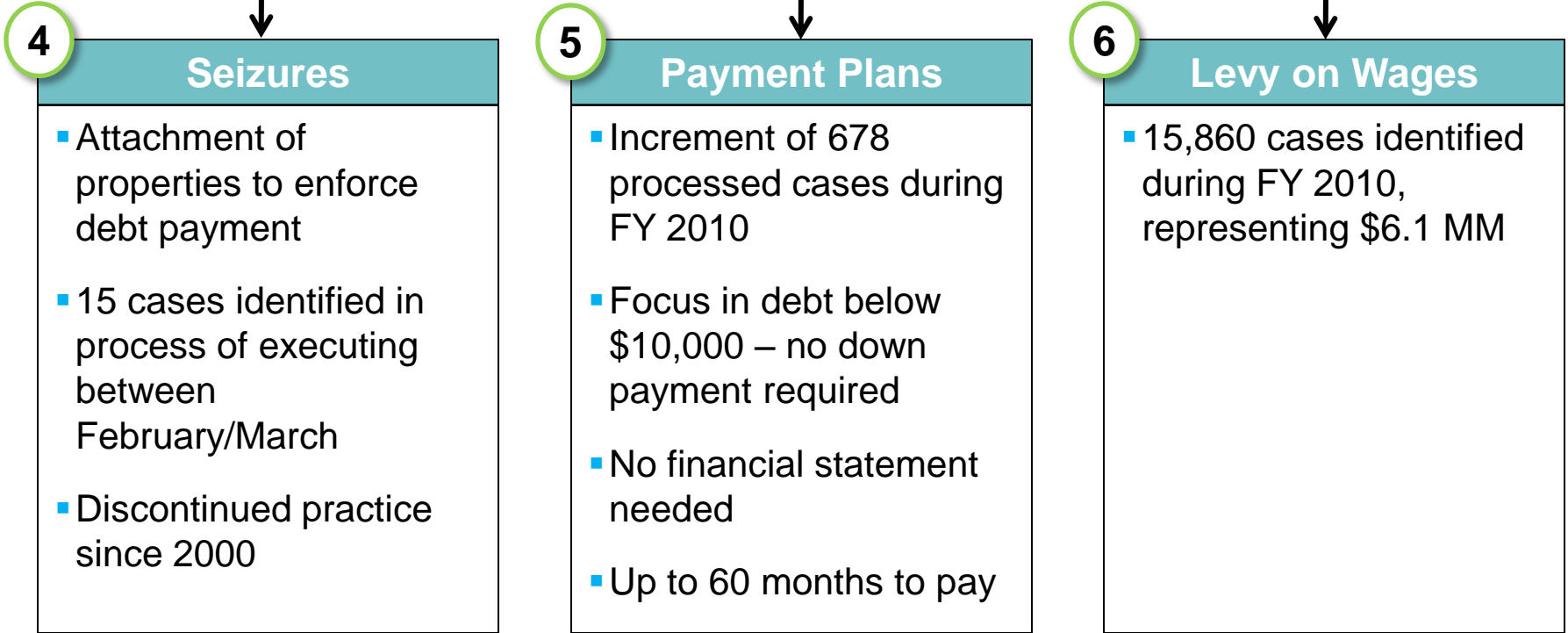
Other Revenue Measures





Several revenue measure initiatives have begun to result in efficient debt identification

Other Revenue Measures (cont.)





Several revenue measure initiatives have begun to result in efficient debt identification

Other Revenue Measures (cont.)

7 **Credit Bureau**

- 500+ cases identified and in process to be reported to credit agencies
- Total debt affected: \$31,400,166
- On-going process
- To be posted in our web page

8 **Bankruptcies**

- “Proof of Claim” filed for over 771 cases
- Representing \$44 MM in debt

9 **Notice of Levy**

- Banks accounts
- July FY 2010 to present: 1,010 cases for \$123 MM
- July 2008 to July 2009 (FY): 1,056 cases for \$86 MM



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Concluding Remarks -The Formula -

- Service
 - Provide better service to compliant taxpayers
 - Make taxes less taxing

- Enforcement
 - Increased enforcement actions against non compliant taxpayers
 - Lien Filing
 - Seizures
 - Criminal Prosecution

- Compliance
 - Compliant taxpayers will continue to meet their tax obligations on a timely manner
 - Non-compliant taxpayers will face stiff consequences



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