

Congress of the United States
Washington, DC 20515

July 20, 2023

The Honorable Gene Dodaro
Comptroller General
U.S. Government Accountability Office
441 G. St NW
Washington, DC 20548

Dear Comptroller General Dodaro,

We write to request that the Government Accountability Office (GAO) conduct an assessment of provisions relating to certain tax breaks provided to individuals and businesses in Puerto Rico under Puerto Rico’s Act 60 of 2019. Specifically, those provisions that exempt individuals from almost all local taxation on Puerto Rico-sourced income if they “reside” on the island for a majority of the year and make minimal economic contributions to the territory. We request that the GAO review these provisions because we are concerned that they have not benefited the people of Puerto Rico and may have led to significant tax avoidance by wealthy individuals “residing” on the island.

Act 60 consolidated and updated prior tax breaks, including Act 20 and Act 22, which were enacted in 2012 with the goal of luring wealthy individuals and businesses from the States and foreign countries to Puerto Rico. Since 2012, more than 5,000 Americans and 3,600 businesses have been eligible for incentives.¹ In addition to allowing these individuals and businesses to avoid local taxes, Puerto Rico’s territorial status also exempts their Puerto Rico-sourced income from federal taxes. This results in tax benefits that Americans could not obtain anywhere else in the world. Although Act 60 does not prevent foreign individuals and businesses from establishing in Puerto Rico, individuals with previous residence in the U.S. represent the majority of beneficiaries. In other words, Puerto Rico has become a tax haven from the federal government.

The territorial tax exemptions granted to those seeking to avoid Federal taxes stand in stark, unfavorable contrast with the treatment of long-time Puerto Ricans and most other individuals and corporate residents of the territory. For example, firms that provide minimum business investment and employment on the island pay a corporate tax of just four percent.

In addition, the attraction of wealthy individuals to the island can have a negative impact on local Puerto Ricans. According to the Puerto Rico Tax Expenditure Report for Tax Year 2023, Puerto Rico lost around \$2.22 billion of revenues related to Act 22 between 2017 and 2023. In 2023 alone, Puerto Rico is expected to lose a projected \$342 million because of the tax giveaways.² On top of the significant losses to Puerto Rico’s tax revenues, demand for housing can be skewed by an influx of wealthy individuals that must purchase residences on the island in order to qualify for tax relief. Furthermore, Act 60 prioritizes an influx of existing businesses to the island for tax

¹ Bloomberg Law, *IRS Preparing Criminal Cases Against Tax Cheats in Puerto Rico* (July 12, 2023).
<https://news.bloomberglaw.com/business-and-practice/irs-preparing-criminal-cases-against-tax-cheats-in-puerto-rico>

² Puerto Rico Tax Expenditure Report for Tax Year 2023. P. 33.
https://hacienda.pr.gov/sites/default/files/ter23_version_final_5-abril-2022.pdf

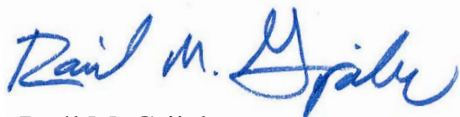
avoidance, potentially crowding out Puerto Rican entrepreneurs and forcing local businesses to compete for resources, including talent, customers, and infrastructure.

We are also concerned that Act 60 may be open to fraud. For example, there are reports that beneficiaries may not actually be present on the island for the required 183 days a year to qualify for the tax breaks. Additionally, in October 2020, the Department of Justice (DOJ) announced that a Puerto Rico Certified Public Accountant (CPA) had been indicted and arrested on wire fraud charges in relation to Acts 20 and 22, as part of the broader Puerto Rico tax incentives code.³ While Act 60 made certain changes to oversight and eligibility requirements when it expanded the Act 20 and Act 22 tax breaks, we are concerned that many of these same vulnerabilities to fraud remain intact.

We are requesting that the GAO examine the following:

1. To what extent are U.S. persons and businesses changing their residency status or relocating to Puerto Rico to claim tax benefits under Act 60 and previous Acts, and what benefits have they received?
 - a. Where were these persons and businesses residing prior to relocating to Puerto Rico?
 - b. What was the federal taxable income of these persons and businesses during the 5 years preceding their relocation to Puerto Rico?
 - c. How much did these persons and businesses contribute to their state of residence prior to relocating to Puerto Rico?
2. What quantifiable and other effects have the tax benefits had on Puerto Rico's economy, including effects on energy and housing markets?
3. To what extent are the Internal Revenue Service (IRS) and the Puerto Rico Department of Treasury monitoring U.S. persons and businesses claiming tax benefits under Act 60 to ensure compliance and minimize fraud, and to what extent are they collaborating on any oversight?

Sincerely,



Raúl M. Grijalva
Member of Congress



Nydia M. Velázquez
Member of Congress



Alexandria Ocasio-Cortez
Member of Congress



Ritchie Torres
Member of Congress

³ Department of Justice, United States Attorney's Office District of Puerto Rico, *Puerto Rico CPA Indicted and Arrested on Wire Fraud Charges in Relation to Act 20 And Act 22 Scheme* (Oct. 21, 2020). <https://www.justice.gov/usao-pr/pr/puerto-rico-cpa-indicted-and-arrested-wire-fraud-charges-relation-act-20-and-act-22>