

ECONOMY

FOMB: Fiscal Plan included both the furlough program and a pension reform



Think Strategically: Making Decisions Because They Are Right

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Tax Reform in focus with 'Big Six'

For some of us following all the economic development measures originating in Washington, one thing is for sure: nothing is certain. As we focus on the Tax Reform, we must consider if the Tax Reform is indeed a possibility in 2017 and what would be its focus.

"The Big Six"—U.S. House Speaker Paul Ryan, Ways & Means Chair Kevin Brady, Senate Majority Leader Mitch McConnell, Senate Finance Chair Orrin Hatch, National Economic Council Chair Gary Cohn and Treasury Secretary Steve Mnuchin—released a statement indicating their shared vision for Tax Reform. Their focus is to protect U.S. American Jobs, and make taxes simpler, fairer and lower for working families. We estimate the consensus may be along these lines.

- Lower individual tax rates
- Lower tax rates for pass-through entities
- Lower C corporation tax rates
- Forms of capital expensing and other provisions
- Repatriation of existing foreign earnings—Tax Holiday

- May not include border adjustability, but may include an approach to ensure a level playing field between U.S. American and foreign companies.

As we review President Trump's economic promises, we note that in the top seven is Tax Reform. Below are the Top Economic initiatives:

- Create 25 million new jobs.
- Encourage manufacturers to build or grow their factories in the U.S. with incentives.
- Revamp the U.S. steel industry.
- Expand the U.S. auto industry to bigger and better levels than ever before.
- Pass the Tax Reform Act.
- Double U.S. economic growth.
- Eliminate 75% of all regulations.

Tax Reform opportunities: New Section 245

The Tax Reform process is an opportune time for Puerto Rico to get involved in an attempt to seek an alternative that would allow the island to obtain a new vehicle to increase investments for foreign corporations. For example, Congress could enact a new **Section 245—Dividends received from certain foreign corporations**—it has been well-documented that U.S. multinational corporations are accumulating

The U.S. corporate tax rate is the highest of any of the world's developed countries, which is an issue that must be resolved.

Country	Corporate Tax Rate
United States	39.1%
Japan	37.0%
Argentina	35.0%
South Africa	34.6%
France	34.4%
Brazil	34.0%
India	32.5%
Italy	31.4%
Germany	30.2%
Australia	30.0%

profits offshore to avoid U.S. taxes. The congressional hearings over the past few years have raised awareness about tax avoidance strategies by a diverse array of companies. Most use offshore tax havens; all told, U.S. corporations are avoiding more than \$700 billion in U.S. federal income taxes by holding an estimated \$2.5 trillion in "permanently reinvested" profits offshore. In their latest annual financial reports, 60 of these corporations revealed they have paid an income-tax rate of less than 10% in countries where they have these

profits parked. We must lobby Congress to enact the **U.S. Territories Economic Development Act**. This act would create the basis for an economic development strategy as a tool to repatriate all funds of U.S. corporations in foreign jurisdictions, through the Internal Revenue Service creating a preferential treatment should the Corporations, before repatriating their foreign income, establish operations with 100 workers or more in any of the U.S. Territories. The act would become a primary tool to promote the economic development of all U.S. Territories, while primarily benefiting the IRS. The Territories only benefit through the creation of new U.S. jobs and industries.

By creating this act, the U.S. Territories can become the point of entry to U.S. Corporations wishing to repatriate, and would create much-needed economic activity in Guam, the Northern Mariana Islands, the U.S. Virgin Islands, American Samoa and Puerto Rico. In our view, this sounds fair, and we should unite to aggressively promote it in Congress.

Final Word: FOMB files to enforce Fiscal Plan

The Financial Oversight & Management Board (FOMB) filed last Monday, Aug. 28, an Adversary Complaint

for Injunctive Relief in the U.S. District Court for P.R. seeking to enforce the certified Fiscal Plan of P.R. In the complaint, the FOMB aims to declare the certified Fiscal Plan included both the furlough program and a pension reform; these are mandatory and binding parts of the Fiscal Plan, in their view. Moreover, in a recent interview, FOMB Chair José B. Carrión stated that the Governor's advisers had negotiated both of these measures and, through the court process, all evidence would be presented.

When businesses face tough times, the first items they often cut are overhead expenses, benefits and, noncore assets and sell operations. As sad as it seems, shouldn't the government do the same?

Our success is determined by the daily decisions we make and practice. Making decisions is not easy or popular; we make decisions because they are right.

Success on any major scale requires one to accept responsibility.

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