

Congress of the United States
House of Representatives
Washington, DC 20515-5401

September 28, 2011

Thomas A. Barthold
Chief of Staff
Joint Committee on Taxation
1625 Longworth House Office Building
Washington, DC 20515

Dear Mr. Barthold:

I am writing to respectfully request a revenue estimate for H.R. 3020, the *Puerto Rico Investment Promotion Act*. H.R. 3020 is substantially different than proposals analyzed by the JCT in the past. See Joint Committee on Taxation, An Overview of the Special Tax Rules Related to Puerto Rico and an Analysis of the Tax and Economic Policy Implications of Recent Legislative Options, (JCX-24-06), June 23, 2006. For this reason, I believe it would be helpful if members of my staff and Governor Luis G. Fortuño's staff could meet with you and your staff to discuss this legislation in further detail.

H.R. 3020 would allow a "qualified Puerto Rico corporation" to elect to be treated as a domestic corporation. The bill defines a "qualified Puerto Rico corporation" as a corporation that (1) is incorporated under the laws of Puerto Rico and (2) derives at least 50 percent of its gross income from sources within Puerto Rico. Under H.R. 3020, an electing Puerto Rico corporation must maintain domestic status for at least three years before it can voluntarily revoke such status. The Secretary of the Treasury must revoke a corporation's election to be a domestic corporation if the corporation fails at any point to satisfy the two criteria listed above.

Under H.R. 3020, an electing Puerto Rico corporation would be treated like an individual resident of Puerto Rico is treated under current law. See IRC §933. Specifically, the electing corporation would be subject to federal income taxation on its worldwide income, with the exception that its Puerto Rico source income would not be included in gross income and therefore not subject to federal taxation. Apart from this specific exemption, the electing corporation would generally be subject to the same rules and regulations that apply to any other domestic corporation.

As noted, H.R. 3020 is elective. Certain corporations will not qualify to operate as domestic corporations and certain qualified corporations may elect not to operate as domestic corporations. As you are aware, most U.S. companies that conduct business in Puerto Rico operate as controlled foreign corporations and, as such, are not subject to federal taxation unless and until their earnings are distributed to their domestic parent corporation in the form of a dividend. The earlier proposals analyzed by the JCT would have allowed these corporations to distribute a dividend to a U.S. corporation at favorable tax rates to the extent that dividend was attributable to territory source income. However, under those proposals, because the Puerto Rico corporation would remain "foreign" for all other intents and purposes, its non-territory source income would continue to remain outside of the federal tax system absent repatriation. By contrast, H.R. 3020 subjects electing corporations to federal taxation on their non-Puerto Rico source income.

I thank you in advance for your assistance. If you have any questions, please contact John Laufer on my staff at 202-225-2615 or john.laufer@mail.house.gov.

Sincerely,



Pedro R. Pierluisi
Member of Congress