



Congressman Pedro R. Pierluisi
Floor Statement As Prepared For Delivery
“The Puerto Rico Investment Promotion Act of 2011”
September 21, 2011

Mr. Speaker:

The coming months represent a defining moment for our nation. Responsible leaders from both political parties understand that we must come together on behalf of the American people to create jobs for millions of unemployed workers and to put our country on the path to fiscal stability. The President has transmitted the *American Jobs Act* to Congress, and I hope its key components will be enacted into law. The Super Committee has begun its work of proposing responsible ways to reduce our deficits and debt. The work that lies ahead will not be easy, but it must be done.

With this as backdrop, I rise this morning to discuss the *Puerto Rico Investment Promotion Act*, which I will introduce tomorrow. The bill is designed to attract investment to Puerto Rico and to create jobs on the Island, where the unemployment rate over the last decade has consistently stood six to eight percentage points above the national average. At the same time, the bill seeks to generate new revenue for the federal government and to encourage job-creating investment in the 50 states, where unemployment now exceeds nine percent. This bill is endorsed by Puerto

Rico's Governor, Luis Fortuño; the leaders of Puerto Rico's two main political parties; and the Island's business community.

At the outset, it is important to explain why I am promoting legislation of this sort. Like the states, the U.S. territory of Puerto Rico faces serious economic challenges. However, the economic problems in Puerto Rico have proven to be structural and chronic, not cyclical and temporary. I believe that Puerto Rico's economy will never unleash its tremendous potential under its current political status. I support statehood for the Island, in part because history shows that every territory that joins the Union experiences a substantial increase in its economic activity and standard of living.

However, until a majority of Puerto Rico's people express a desire for statehood and the federal government welcomes the Island as a full member of the American family, it is incumbent upon me to take all reasonable steps to strengthen the Island's economy within the severe constraints imposed by the current system. My aspiration for Puerto Rico is that it will enjoy the political, social, and economic equality that only statehood offers. I look forward to the day when it will no longer be necessary for Puerto Rico's leaders to petition the U.S. Congress for customized, Island-specific legislation to encourage job-creating investment and to compensate—at least somewhat—for the countless ways in which our political status does damage to our people. But, until that day arrives, we must be as pragmatic about the present as we are hopeful about the future.

To explain the bill, a little background is in order. Currently, nearly all of the large U.S. firms that conduct business in Puerto Rico are organized as controlled foreign corporations, or CFCs. A CFC's earnings are not subject to any federal taxation until they are distributed, usually in the form of a dividend, to its U.S. parent—a process known as “repatriation.” CFCs in Puerto Rico and in foreign countries have little incentive to repatriate because those earnings, once received by the parent, are generally subject to full federal taxation. As a result, billions of dollars in CFC earnings remain in foreign banks, where they generate no federal revenue and create no American jobs.

My legislation seeks to integrate Puerto Rico companies into the U.S. tax system. It would authorize, but not require, companies that are incorporated in Puerto Rico and that earn at least 50% of their income on the Island to operate as domestic U.S. corporations. The bill would promote consistency and uniformity by bringing the treatment of an electing Puerto Rico company in line with the current treatment of a Puerto Rico individual under Section 933 of the Internal Revenue Code. Specifically, an electing company would be subject to federal taxation on its worldwide income, except on the income it earns in Puerto Rico.

Because it is a domestic rather a foreign firm, the Puerto Rico corporation could distribute its earnings to its U.S. parent in the form of a dividend under Section 243 of the tax code, which allows the parent to deduct 70, 80 or 100 percent of that dividend, depending on the parent's ownership stake in the subsidiary. Therefore, profits that were previously kept outside of the United States are now more likely to be brought back into this country, where they may be

subject to a reduced but still meaningful level of federal taxation under Section 243 and used to make job-creating investments throughout the nation.

Moreover, as noted, under this legislation, electing corporations that have income derived from sources outside Puerto Rico—whether in the states or foreign countries—would become subject to federal taxation on that income. This will generate additional revenue for the U.S. Treasury, since CFCs with non-Puerto Rico-source income currently pay no federal tax on that income.

This legislation is a substantial improvement over earlier proposals put forward by leaders in Puerto Rico with the goal of encouraging job-creating investment on the Island. Those proposals were carefully considered by the federal government and were met with resistance each time, even by Members of Congress and other federal officials sensitive to Puerto Rico's unique circumstances. The primary shortcoming of those proposals is that they sought benefits without burdens. My legislation, by contrast, is balanced. It would benefit both Puerto Rico and our nation. I hope my colleagues on both sides of the aisle will support it.