



Congressman Pedro R. Pierluisi  
Statement for the Record  
House Committee on Ways and Means, Subcommittee on Select Revenue Measures  
“Member Day” Hearing on Tax Extenders  
*April 25, 2012*

Thank you Chairman Tiberi, Ranking Member Neal and Members of the Subcommittee:

I respectfully urge the extension of two tax provisions that expired in 2011 and that are of great importance to Puerto Rico’s economy.

*First*, I have introduced H.R. 4605, which would extend for two years the deduction allowable with respect to income attributable to domestic production activities in Puerto Rico.

In the *American Jobs Creation Act of 2004*, Congress enacted the Section 199 domestic production activities deduction. The deduction was intended to achieve a number of policy goals, including providing support for the domestic manufacturing sector and reducing effective corporate tax rates.

Section 199 allows a company to receive a deduction equal to 9 percent of the taxable income that the company derives from qualified production activities within the United States, which effectively reduces the top federal tax rate that a company will pay on such income from 35 percent to 32 percent.

However, the 2004 Act did not authorize a company to receive the Section 199 deduction on income derived from such activities within Puerto Rico, even though Puerto Rico is a U.S. jurisdiction and jobs on the Island are American jobs.

Fortunately, this exclusion was corrected in the *Tax Relief and Healthcare Act of 2006*, thanks to the efforts of my predecessor and now-Governor Luis Fortuño, working closely with then-Chairman Bill Thomas. That legislation made the deduction available to U.S. companies that operate in Puerto Rico in branch form, not to companies that operate on the Island as controlled foreign corporations.

I respectfully submit that ample justification exists to extend this provision for an additional period of years and, indeed, to make it permanent. American companies that operate in Puerto Rico in branch form are subject to full U.S. tax on the income from their Island operations. Accordingly, these companies should be permitted to take the same business deductions

available to U.S. companies operating in other American jurisdictions. As it does elsewhere, Section 199 promotes economic activity and job creation in Puerto Rico, which is home to over 3.7 million U.S. citizens.

Mr. Chairman, I have also cosponsored H.R. 4374, introduced by Congresswoman Christensen, which would extend for two years the modest increase in the limit on the cover-over of rum excise taxes to Puerto Rico and the U.S. Virgin Islands.

There is a \$13.50 per proof gallon federal excise tax on distilled spirits. Under Section 7652 of the IRC, \$13.25 of the amount that Treasury collects on rum produced in Puerto Rico, the USVI, and foreign countries and sold in the 50 states has been granted to the governments of Puerto Rico and the USVI. \$10.50 of this amount is authorized by permanent law, while the balance requires periodic extension.

The cover-over program dates back to 1917 in the case of Puerto Rico and to 1954 in the case of the USVI. The territories are treated unequally under many federal programs and the cover-over program helps to compensate for this fact. The purpose of the program is to provide budgetary support to the territorial governments and, historically, funding has been used primarily for economic development, health care, infrastructure, education and land conservation.

I do believe the cover-over program could be refined in certain respects to ensure that it is providing the greatest possible benefit to the U.S. citizens living in the two territories, where median household income is roughly half of what it is in our poorest state, and I have introduced legislation for that purpose. Nevertheless, the importance of the cover-over program for my constituents and Congresswoman Christensen's constituents, who are shortchanged in so many respects, cannot be overstated.

Mr. Chairman, these two extenders have enjoyed bipartisan support and have had a positive impact on our national economy, of which Puerto Rico and the USVI are integral parts. I hope the Subcommittee will take action to prevent the economic harm that would result if these two provisions are not renewed.

That concludes my testimony. Thank you again, Mr. Chairman.