



Puerto Rico's Economic Freedom Index & State Tax Climate Index 2020

Presented to: CRECE
Presented by: Intelligent Economics



“Economic freedom is the fundamental right of every human to control his or her own labor and property.

In an economically free society, individuals are free to work, produce, consume, and invest in any way they please. [G]overnments allow labor, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself.”

-The Heritage Foundation



Content

PR's economic situation

Economic Freedom Index

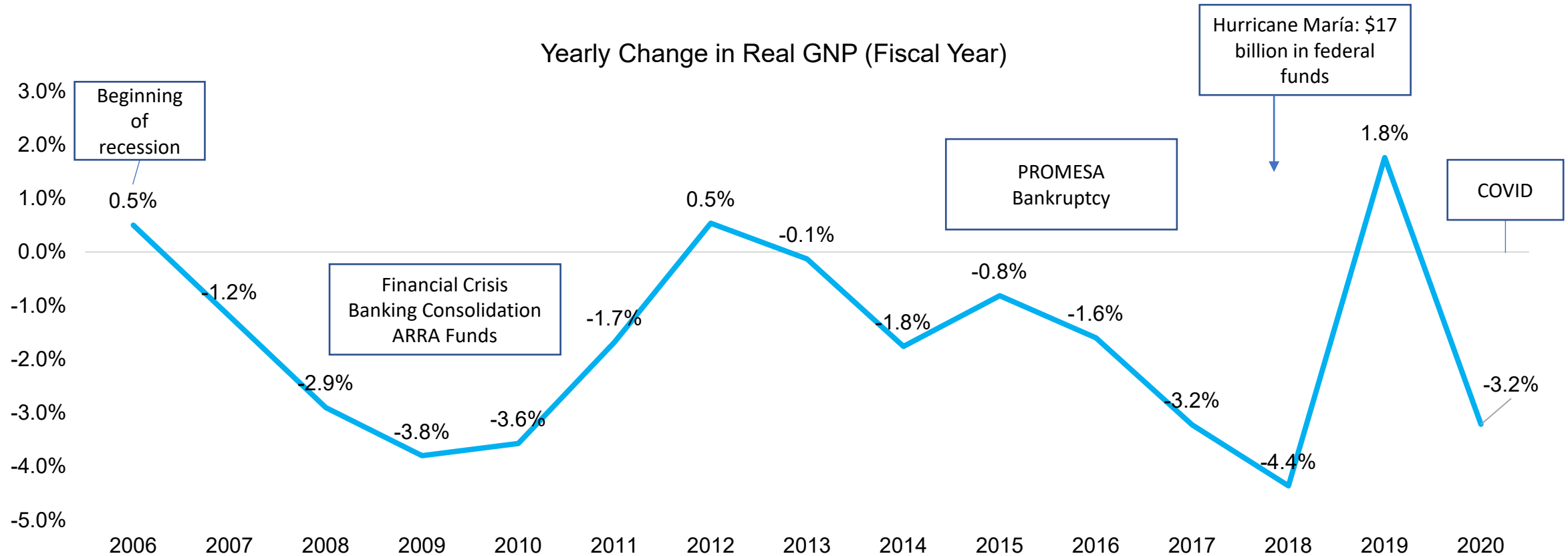
State Tax Climate Index

Opportunities 2022

Puerto Rico's Economic and Fiscal Crisis

The island's economy has contracted over 15%

Private sector has shrunk 12%



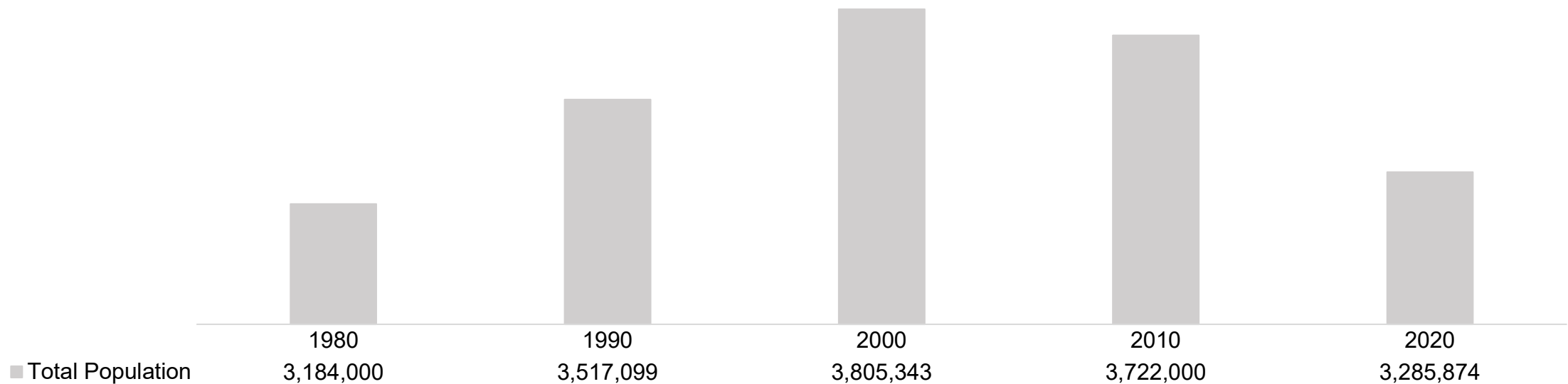
Source: Puerto Rico Governor's Statistical Appendix 2020

Puerto Rico Loses 11.8% of its Population

An older and more dependent population

More deaths than births in the past three years

Total Population

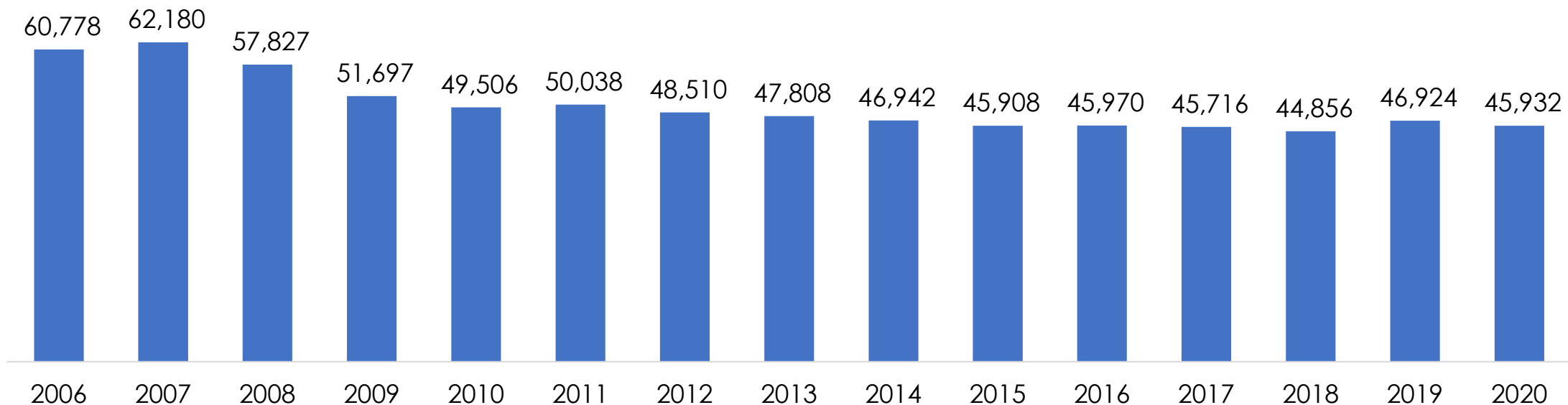


Source: American Community Survey

Private establishments decrease by -24.4%

Over 15,000 private establishments have closed

Private establishments in Puerto Rico



Fuente: BLS

Economic Freedom Index

Puerto Rico's Economic Freedom Index & State Tax Climate Index



 Intelligent Economics

Puerto Rico's Economic Freedom Index 2020

Puerto Rico's Economic Freedom Index 2020

65.4

	Variable	Sub-index
Rule of Law	Property Rights	64.6
	Government Integrity	34
	Judicial Effectiveness	64.3
Limited Government	Tax Burden	62.5
	Government Spending	49.3
	Fiscal Health	73.9
Regulatory Efficiency	Business Freedom	51.2
	Labor Freedom	65
	Monetary Freedom	75.5
Open Markets	Trade Freedom	79.8
	Investment Freedom	85
	Financial Freedom	80

Property Rights – 64.6

Property Rights	
Physical Property Rights	83
Intellectual Property Rights	-
Quality of Land Administration	53
Strength of Investor Protection	39.1
Risk of Expropriation	83

- Private property in PR is guaranteed under the PR and US Constitutions.
- The challenge with property rights on the island is the recording process in the Property Registry.
- Landowner registration reform is necessary to improve overall land administration in Puerto Rico.

2018	2019	2020
50	64.1	64.6

Comparable to:

Hungary	64.8
Bulgaria	64.2
Kenya	63.2

Government Integrity – 34

Government Integrity*	
Absence of Corruption	-
Perceptions of Corruption	-
Government and Civil Service Transparency	48
Public Trust in Politicians	-
Irregular Payments and Bribes	28
Transparency of Government Policymaking	-

* Change in methodology

- PR does not participate in the main survey.
- **Participation in the survey will likely lower the index.**
- The events of 2019 led to a decrease in trust in the local government.

2018	2019	2020
41.8	48.5	34

Comparable to:

Guyana	34.1
Burkina Faso	34.1
Egypt	34
Vietnam	33.8

Judicial Effectiveness – 64.3

Judicial Effectiveness	
Judicial Independence	66.7
Enforcing Contracts	61.8

2018	2019	2020
50	64.3	64.3

Comparable to:

Portugal	65.6
Ireland	64.4
India	64.1
Iceland	63.2

- PR does not participate in the main survey.
- PR's government, same as the US, is divided in three branches with the judicial branch independent of the executive and legislative.

Tax Burden – 62.5

Tax Burden	
Top Marginal Tax Rate on Individual Income	33
Top Marginal Tax Rate on Corporate Income	37.5

2018	2019	2020
61.1	61.1	62.5

- Same index as previous year.
- The island's tax rates lay between those in European countries which are heavily taxed and those of countries seeking to promote investment with lower taxes like Singapore.
- PR also provides a wide range of tax incentives for all sectors.

Comparable to:

Australia	63
Zimbabwe	61
Spain	60.9

Government Spending – 49.3

Government Spending	
Using Gross National Product (GNP)	49.3
Using Gross Domestic Product (GDP)	77

2018	2019	2020
31	24.5	49.3

- Large amounts of capital outflow due to the island's territorial status, leads to GNP being a more accurate reflection of the economic reality.
- This increase is due to less government spending compared to 2018 and the aftermath of hurricane María.

Comparable to:

United Kingdom	49.5
Poland	48.8
Spain	48.3

Fiscal Health – 75.3

Fiscal Health	
Average deficit as a % of GNP for the most recent three years (index)	89.65
Debt as a percentage of GNP (index)	17.78

- Due to decreased government spending this index increased.
- Government income remained the same while debt service payments have been stopped.

2018	2019	2020
71.3	65.2	75.3

Comparable to:

Portugal	74.4
Mali	73.6

Business Freedom – 51.2

Business Freedom

Business Freedom	<i>Puerto Rico 2018</i>	<i>Puerto Rico 2019 and 2020</i>	International Average	Score
Starting a Business (Procedures)	6	6	6.66	55.48
Starting a Business (Time)	6	5.5	19.61	71.30
Cost of Starting a Business (% of income per capita)	0.8	1.2	19.77	823.95
Starting a Business minimum capital (% of income per capita)	0	0	5.42	
Obtaining a construction permit(# of procedures)	22	22	14.86	33.76
Obtaining a construction permit (# of days)	165	165	153.64	46.56
Cost of obtaining a construction permit	6.3	6.7	5.01	37.38
Close a business time (years)	2.5	2.5	2.46	49.18
Cost of closing a business (% of estate)	11	11	15.96	72.53
Recovery Rate for closing a business (cents on the dollar)	70.5	67.7	42.27	31.22
Getting Electricity (# of procedures)	5	5	4.88	48.82
Getting Electricity (\$ of days)	32	32	82.53	51.58
Getting Electricity Cost (% of income per capita)	228.3	318.3	1044.18	65.61
			Final Score	51.22

2018	2019	2020
62	51.2	51.2

Comparable to:

Congo	51.2
Senegal	50.4
Dominican Republic	50.3

The World Bank did not update this section in 2020.

Labor Freedom – 65.0

Labor Freedom				
Labor Freedom	<i>Puerto Rico 2018</i>	<i>Puerto Rico 2019 and 2020</i>	<i>International Average</i>	Score
Mandatory severance pays (weeks of salary)	0	0	11.8	N/A
Legally mandated notice period	0	0	5.5	N/A
Ratio of minimum wage to the average value added per worker	0.52	0.5	0.4	40.2
Labor force participation rate	40.3	41.2	62.2	75.4
Rigidity of hours	0	0	19.7	N/A
Difficulty of firing redundant employees	20	20	27.7	69.3
Hindrance to hiring additional workers	22	22.1	33.3	75.4
Final Score				65.05

2018	2019	2020
63	65	65.0

Comparable to:

Qatar	65.9
Chile	64.7
Hungary	64.6

- The methodology does not reflect the reality of the island's improvement after the labor reform.
- Sub-factors are better than those for countries like Singapore.
- Labor freedom index should be above 80.
- The World Bank did not change this index for 2020.

Same indexes as the US

	2018	2019	2020
Monetary Freedom	77	76.6	75.5
Trade Freedom	80	86.6	79.8
Investment Freedom	70	85.0	85
Financial Freedom	70	80.0	80

Monetary Freedom		Trade Freedom		Investment Freedom		Financial Freedom	
Côte d'Ivoire	75.7	Bosnia and Herzegovina	80	Latvia	85	Australia	90
Lebanon	75.6	Korea, South	80	Malta	85	Switzerland	90
United States	75.5	United States	79.8	United States	85	Hong Kong	90
Eswatini	75.2	Papua New Guinea	79.8	Uruguay	85	United States	80
Kenya	75	Vietnam	79.6	Hong Kong	80	Luxembourg	80

Comparative Values

Variable	2018	2019	2020
Property Rights	50	64.1	64.6
Government Integrity	41.8	48.5	34
Judicial Effectiveness	50	64.3	64.3
Tax Burden	61	61.1	62.5
Government Spending	31	24.5	49.3
Fiscal Health	71.3	65.2	73.9
Business Freedom	62	51.2	51.2
Labor Freedom	63	65.0	65
Monetary Freedom	77	76.6	75.5
Trade Freedom	80	86.6	79.8
Investment Freedom	70	85.0	85
Financial Freedom	70	80.0	80
Puerto Rico INDEX	61	64.4	65.4

Puerto Rico – 65.4

Position
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In the world

Serbia	66.0
Costa Rica	65.8
Puerto Rico	65.4
Philippines	64.5
Bahamas	64.5

Position
13 of 33

In the region - Americas

Mexico	66.0
Costa Rica	65.8
Puerto Rico	65.4
Bahamas	64.5
Guatemala	64.0



State Tax Climate Index

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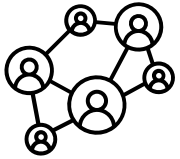
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State Business Tax Climate Index

Introduction – calculated by the Tax Foundation



Aimed at understanding how competitive different states' tax regimes are.



Comparing Puerto Rico to other states helps us understand where we stand.



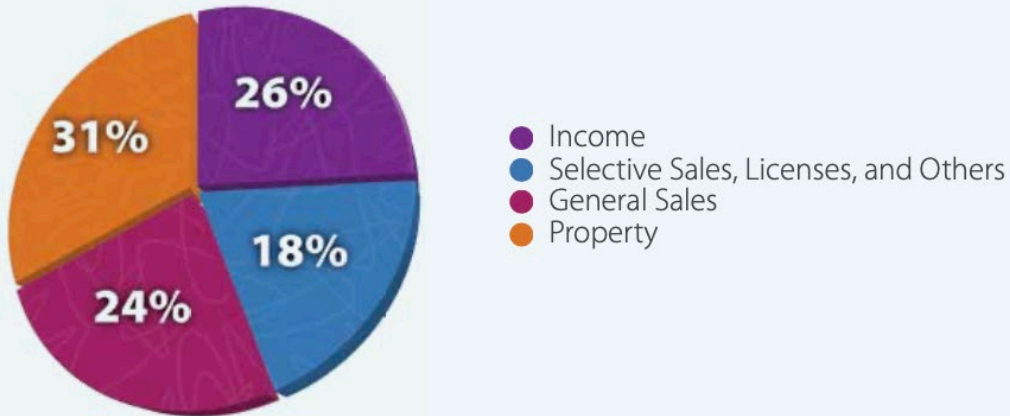
Largest competition for business is not foreign countries, but other states.

4 main categories:

Corporate Income, Personal Income, Sales, Property.

Structural Differences

Average Source of State and Local Tax Revenue 1992-2010



Source: NASRA, Tax Foundation, Hacienda

State and Municipal Tax Revenue FY2019



- There are several key differences between Puerto Rico and other US jurisdictions that must be understood.
- Property Taxes and gross receipt taxes (patentes) are the two key funding mechanisms for municipal governments on the island. Since there is no island-wide property tax, the central government must rely more on income tax and various excises.

Corporate Income Tax

	Puerto Rico	Iowa	North Carolina
Corporate Income Tax Rate	37.5%	12%	2.50%
Multiple Brackets?	Yes	Yes	No
Top Bracket	\$275,000	\$250,000	\$0
Number of Brackets	6	4	1
Ranking	51	46	4

Source: Tax Foundation, Hacienda

- ✓ Highest marginal tax rate in the United States.
- ✓ Large number of brackets.
- ✓ High rate and complicated filing system rank Puerto Rico 51st

Personal Income Tax

	Puerto Rico	California	Pennsylvania
Top Marginal Tax Rate	33%	13.30%	3.07%
Top Bracket	\$61,500	\$1,000,000	\$0
Number of Brackets	5	10	1
Ranking	51	49	19

Source: Tax Foundation, Hacienda

- ✓ Highest personal tax rate in the United States.
- ✓ Highest bracket kicks in at a low amount of income.
- ✓ Complicated, multi-tier system.

Sales Tax

State	Combined state and local average sales tax Rate
Puerto Rico	11.5%
Tennessee	9.55%
Arkansas	9.53%
Louisiana	9.52%
Washington	9.23%
Alabama	9.22%

Source: Tax Foundation, Hacienda

- ✓ Highest state sales tax.
- ✓ Some counties in the US have a higher rate, but Puerto Rico's is higher than the average rate.

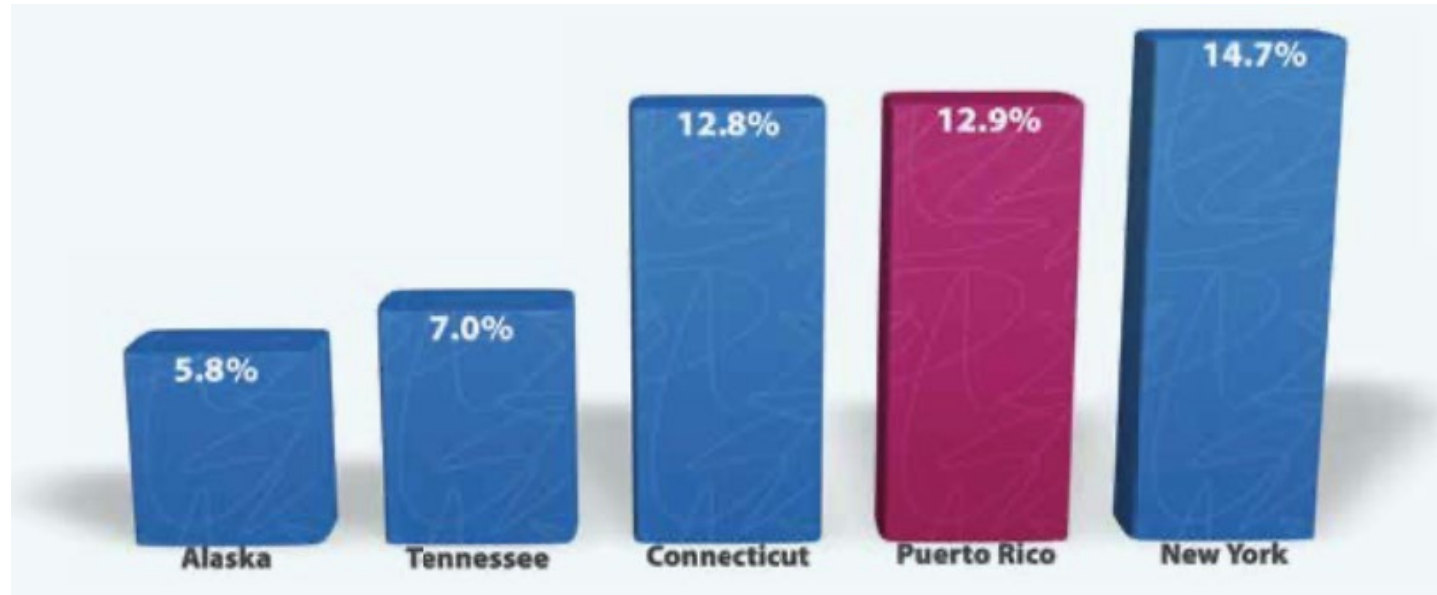
Property Taxes

	Puerto Rico	Alabama	New Hampshire
Property Tax per Capita	\$349	\$582	\$3,310
Effective tax rate	1.6%	1.44%	5.66%
Capital Stock Tax Rate	0	0.18%	0
Ranking	2	19	47

Source: Tax Foundation, Hacienda

- ✓ No state property tax. These are levied at a local level.
- ✓ Low levels of tax per capita as well as a percentage of GDP rank Puerto Rico 2nd behind Alabama.

Overall Tax Burden



Source: Tax Foundation, Hacienda,
Governor's Statistical Appendix 2020

- Puerto Rico's Tax Burden, which is individual taxes as a percentage of personal income, is the second highest in the United States.
- High levels of income tax for corporations and individuals, as well as the largest sales tax, contribute to this.
- We recommend ranking Puerto Rico last in this index.

2022 Outlook

- Puerto Rico needs to remain competitive in the wake of a difficult global environment between vaccine mandates, labor market changes, inflation, increase in oil prices and more.
- Government needs to address:
 - Labor Market Issues
 - Permits
 - Tax Burden
 - Investment Opportunities

