Briefing on H.R. 2550: The Crane-Rangel Puerto Rico Tax Incentive Bill

July 27, 2001

Findings

1. This bill will cost the U.S. taxpayer $3.5 billion per year, will not create jobs in Puerto Rico, and could expose the United States (not Puerto Rico) to W.T.O. retribution.

2. H.R. 2550 asks the U.S. Congress to revive the tax incentive-based economic development strategy. It is skewed with the phase-out of section 936. The bill calls for a permanent exemption for U.S. firms in Puerto Rico, financed by the U.S. taxpayer. This bill would transform the existing deferral for Puerto Rico's CFCs into a direct 90% exemption. In this bill, income could immediately be repatriated while avoiding federal taxation on 90% of the income.

3. Like section 936 before it, section 956 with the amendments in H.R. 2550 will be ineffective in creating jobs and increasing wages, and heavily burdensome to the U.S. taxpayer. To reapply discredited Old Economy solutions to New Economy problems would consign Puerto Rico to further stagnation. More insidiously, 956 would again link Puerto Rico's need for a "permanent jump start" out of stagnation with a lucrative corporate welfare program. Ronald Reagan said it best when he observed that "welfare's purpose should be to eliminate, as far as possible, the need for its own existence." Instead, 956 would entrench Fortune 100 beneficiaries with billions at stake to maintain it.

4. The loss of revenue to the U.S. Treasury would be enormous. If all the section 936 firms in Puerto Rico switched to CFCs the loss in 1999 would have ranged from $3.5 - $4.0 billion. Under current legislation the Joint Committee on Taxation (U.S. Joint Committee on Taxation, JCX-40-99, Description and Analysis of Present Law Rules for International Taxation, June 28, 1999) estimated that the total loss of revenue from the deferral of income of U.S. CFCs worldwide would amount to an average of $1.45 billion per year or $7.2 billion for the period from 1999 to 2003.

5. The Puerto Rican economy has not declined with the phase-out of Section 936. Since Congress voted to phase out Section 936 in 1996, employment in Puerto Rico has increased and the economy has grown. Manufacturing jobs have declined, but at the same pace as in the mainland U.S. Economic performance during the phase-out confirms that Puerto Rico is not and has not been dependent on federal tax incentives.

6. A return to manufacturing tax incentives will not help the people and economy of Puerto Rico. Federal tax incentives for industry proved effective in the 1950's and 1960's, when Puerto Rico enjoyed protective tariffs and comparatively low labor costs. With trade liberalization and intense global competition, manufacturing tax incentives have long since proved ineffective tools for development in Puerto Rico. Economic growth has stagnated since the early 1970's and unemployment has consistently exceeded 10%, belying the objective of the tax incentives – job creation.

7. The many U.S. firms in Puerto Rico already operating as CFCs receive identical tax haven benefits on U.S. soil as they do in foreign tax havens. These firms will quite logically want to extend the privileges granted in Puerto Rico to their CFCs worldwide

(e.g., Ireland, Holland, etc.) Therefore, to the U.S. taxpayer, H.R. 2550 opens the door for even greater global tax sheltering and potential W.T.O. retribution.

8. Exempting U.S. CFCs in Puerto Rico from federal tax would expose the U.S. Treasury to the same transfer pricing abuses as occurred under Section 936. Congress eventually curbed the worst transfer pricing violations under Section 936 with regulations in 1991 and 1993. The U.S. Treasury would again be susceptible to the costly abuses in H.R. 2550 that the 1991 and 1993 regulations curbed.

9. H.R. 2550 would greatly benefit the pharmaceutical industry, and the prudence of extending corporate welfare to the pharmaceuticals today could indeed be questioned.

10. Market distortions aside, if H.R. 2550 actually is intended to spur the Puerto Rican economy, then the tax credits should be tied to jobs created in Puerto Rico (and not corporate income) and physical investment in Puerto Rico.

I. In A Nutshell

H.R. 2550 (please see Attachment 1) takes the position that U.S. tax incentives are essential for the health and growth of the Puerto Rican economy. Over the past 25 years, a tax-incentive based strategy has produced investment and slow growth in the manufacturing sector at a high cost to the U.S. taxpayer. New Deal style government planning and tax incentive strategies worked post-World War II through the 1960's. In the globalized competitive world of the 21st century, they are not the solution to Puerto Rico's stagnant economic performance.

Now that section 936 firms are losing their tax exemption and converting to controlled foreign corporations (CFCs) (under section 956 of the Internal Revenue Code), H.R. 2550 could grant CFCs tax exemption on 90% of profits repatriated to the U.S. parent company and reinvested in a vague category, "U.S. property."

Under current IRS regulations the Joint Committee on Taxation estimated that the total loss of revenue from the deferral of income of U.S. CFCs worldwide would amount to $1.45 billion per year or $7.2 billion for the period from 1999 – 2003. In 1999, under current IRS regulations, it is estimated that Puerto Rico's CFCs deferred payment on approximately $1.72 billion in Federal taxes. Under current IRS rules, deferring tax payments for CFCs in Puerto Rico will cost the U.S. Treasury between $2.3 and $6.4 billion from 1999 – 2003. Extending the deferral to an exemption would reinstate the effect and cost of section 936, which would reduce Treasury receipts by about $3 billion annually.

It should be clear that tax incentives are not the way to make Puerto Rico globally competitive. However, if these proposed incentives were to have a real economic impact then the measured milestones would be increased investments and more jobs. Thus, if these incentives are to be enacted (an ill-conceived notion) then the enactment should be contingent on conditions that prove that increased investment and more jobs in Puerto Rico have actually taken place. Thus, an approach to accountability on the actually increase in investment and creation of jobs would occur with the limitation of the credit to wages and salaries of CFCs in Puerto Rico for employees earning $50,000 or less and/or new investments in physical capital (excluding intangible assets) as measured by the actual cost of purchase.

Contrary to dire predictions, the phase-out of section 936 has not, through March 2001, precipitated a decline in economic activity or rise in unemployment. In fact, total employment increased from 983,551 in January 1993 to 1,174,144 in 2000. During this period unemployment actually dropped from 16.8% to 12.5% in 1999. Economic growth remains steady, at an average of 3.4% since 1996. The absence of negative effects from section 936's removal confirms that the Puerto Rican economy is not and has not for the last 30 years been dependent upon 936-type incentives.

The bill may be more responsive to the needs of the pharmaceutical industry than to the needs of the people of Puerto Rico or the Puerto Rican economy. In this bill, U.S. drug and electrical manufacturing firms would be able to shelter income generated in Puerto Rico as section 936 permitted, but without the same restrictions.

CFCs offer U.S. firms far broader latitude than even section 936 to maximize profits and minimize tax payments through shrewd transfer pricing. If enacted as written, H.R. 2550 would seriously burden the U.S. taxpayer and, yet again, result in mainland corporate profit maximization, not job creation or increased investment in Puerto Rico.

II. A Review of H.R. 2550

Four justifications for the reinstatement of federal tax incentives for U.S. firms operating in Puerto Rico are set forth:

1. **Manufacturing firms have reduced employment since 1996, and the continued phase-out will accelerate theSE losses**.

- Changes in manufacturing in Puerto Rico reflect the effects of globalization and the movement of production to lower labor cost locations, not the phase-out of section 936*.* Manufacturing employment as a share of the total Puerto Rican workforce has declined since 1980 at almost exactly the same rate as the U.S. as a whole.

- Despite the phase-out of section 936, the Puerto Rican economy has not declined nor has unemployment increased. In fact, economic growth has remained steady, at an average of 3.4%, since the phase-out began in 1996. Unemployment has actually dropped since 1996, from 13.8% to 12.5% in 1999 (and an estimated 11% in 2000). Any ill effects from a possible 2001 recession should not be attributed to the removal of section 936, but to Puerto Rico's close economic integration with the larger mainland U.S. economy.

- Success in the New Economy depends on nurturing human capital and stimulating productivity, not manufacturing promotion through tax incentives*.* Puerto Rico is woefully behind in all aspects of the "New Economy" (please see Attachment 2). Further section 936-style manufacturing promotion will not address these critical disadvantages that hinder Puerto Rico's competitiveness. Further, there is only negligible investment in R&D now occurring in Puerto Rico; this bill also neglects this key driver of economic productivity (please see Attachment 3).

2. **The uncertainty of the section 936 and 30A phase-out has "undermined" Puerto Rico's ability to attract investment**.

- <u>Section 936 and 30A have already proven ineffective and costly economic development tools</u>. Since 1970 federal tax incentives have failed to spur sustainable economic growth or boost employment, and increased tax-free profits for a limited group of Fortune 500 firms. Making more Old Economy-style industrial promotion permanent would not create sustainable growth for Puerto Rico.

- <u>All (federal) tax incentives are by nature uncertain, since they are subject to Congressional votes</u>. Thus, the call for a "permanent" crutch in H.R. 2550 is constitutionally impossible. The call for permanence and certainty is indeed the correct step to attract investors. Congressionally mandated tax incentives do anything but signal permanence and certainty.

3. **U.S. CFCs in Puerto Rico operate at a disadvantage to competitors in Malaysia, Ireland, and Singapore**.

- <u>U.S. firms operating as CFCs already profit from extensive federal benefits in Puerto Rico, while operating on U.S. soil</u>. U.S. CFCs can now defer payment of federal income tax until profits are repatriated, at the expense of the U.S. Treasury. CFCs also benefit from the defense, legal and other protections of the U.S. federal government, and the $12 billion of annual federal expenditures of the U.S. federal government in Puerto Rico. U.S. federal involvement in Puerto Rico has not been a competitive disadvantage for U.S. firms or for Puerto Rico.

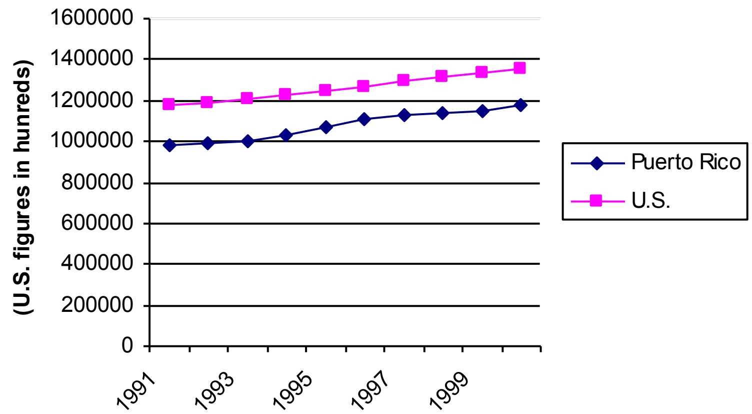
III. Total Employment in Puerto Rico

Total employment in Puerto Rico has increased each year since 1991, without exception. (Please see Table 1 and Graph 1 below for the seasonally adjusted annual growth in total employment in Puerto Rico.) In fact, on a percentage basis, total employment in Puerto Rico rose slightly more (17%) than total employment in the United States as a whole (14%) during the same period.

As milestones, total employment in Puerto Rico was 978,993 in 1991, 1,004,078 in 1993, 1,112,752 in 1996 and 1,174,144 in the year 2000. Total employment in the U.S. was 117,713,000 in 1991, 120,259,000 in 1993, 126,720,000 in 1996 and 135,215,000 in the year 2000.

Table 1 and Graph 1. Total Employment (seasonally adjusted) in Puerto Rico and the U.S.

Year	Puerto Rico	United States
1991	978,993	117,713,000
1992	987,010	118,488,000
1993	1,004,078	120,259,000
1994	1,026,776	123,071,000
1995	1,074,602	124,908,000
1996	1,112,752	126,720,000
1997	1,132,319	129,572,000
1998	1,136,920	131,471,000
1999	1,149,443	133,501,000
2000	1,174,144	135,215,000



Source – Bureau of Labor Statistics, *Current Population Survey*, Civilian Labor Force
http://stats.bls.gov/top20.html#OEU.S.

Manufacturing employment in both the United States as a whole and Puerto Rico have indeed fallen at virtually the same rate, but realistically, manufacturing cannot form the backbone of economic growth for developed economies.

IV. Old Economy Solutions to New Economy Challenges

Section 936 and its more recent incarnations have failed to generate the rapid growth that Puerto Rico needs. A return to industrial tax incentives seems even more misguided today in light of globalization and stiff competition from newly industrialized economies with significantly lower labor costs. Puerto Rico cannot hope to achieve economic development with permanent dependence on costly tax credits to shore up an inherently uncompetitive manufacturing sector. Puerto Rico must instead aggressively pursue policies that address its sad position vis-à-vis the New Economy: investment in training and education, research and development, infrastructure development, and public sector reform.

In particular, H.R. 2550 fails to address Puerto Rico's woeful under-investment in R&D. At an estimated 0.3% of GDP, or $144 million annually, Puerto Rico invests about nine times less than the U.S. as a whole, 2.61%.[1] South Carolina, the state closest in population to Puerto Rico, expends $996 million on R&D annually, almost seven times as much.

The number of patents generated in Puerto Rico reflects the minute level of scientific innovation currently taking place. Since 1977, Puerto Rico accounted for just 435 of the 1.1 million patents issued in the U.S.[2] Even adjusting for

[1] Based on most recently available 1997 figures.
[2] Figure includes utility patents, design patents, plant patents, reissue patents, defensive publications, and statutory invention registrations.

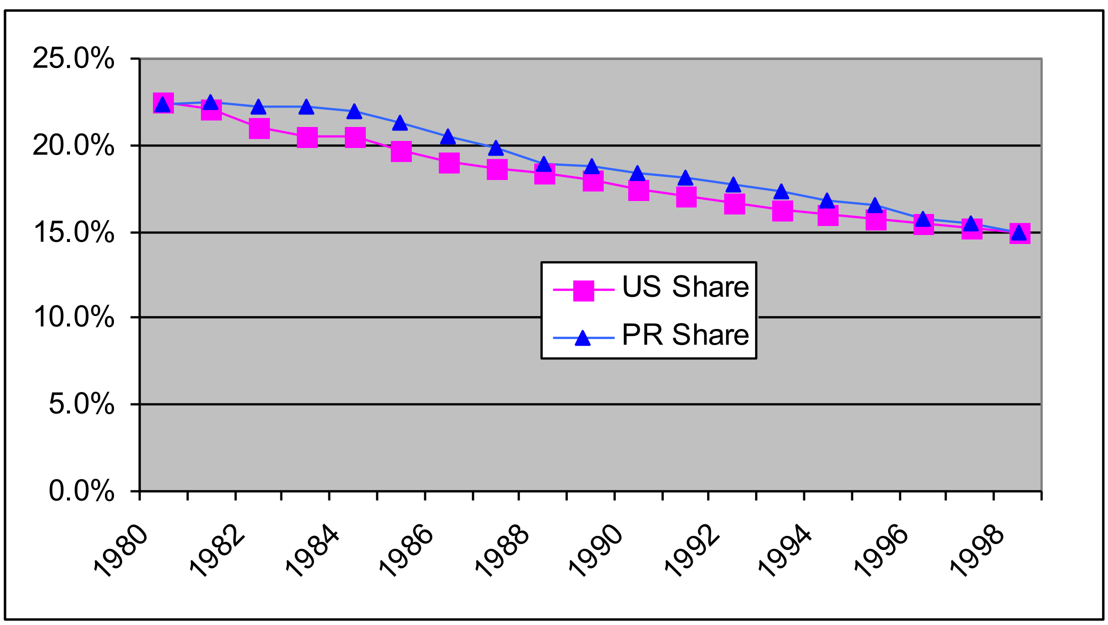
population, GDP, or manufacturing GDP, Puerto Rico's patent output is a stunning 1.42%, 1.40%, or 3.36% of what would be expected if Puerto Rico produced scientific innovation at mainland U.S. levels. Reinstating manufacturing tax incentives neglect these glaring obstacles to economic progress.

V. An Assessment of Manufacturing in Puerto Rico

Decades of tax incentives targeting manufacturing have distorted the structure of the Puerto Rico economy. Manufacturing now constitutes 43% of Puerto Rico's GDP, more than 2 ½ times the share of manufacturing in the U.S. as a whole (16%).[3] While incentives sustain manufacturing production, the share of the labor force employed in manufacturing in Puerto Rico has steadily declined, due to increased trade liberalization and global competition from newly industrializing countries like China, the Dominican Republic, and Costa Rica with dramatically lower labor costs and increasing productivity levels.

The phase-out of section 936 should not be held responsible for this drop. These same forces have affected manufacturing industries in both Puerto Rico and the U.S. economy as a whole. Manufacturing employment as a share of total employment has been almost exactly the same in Puerto Rico and the entire U.S. economy for the past twenty years, and experienced an identical decline from 14.9% in 1998, down from 22.4% in 1980. Please see chart 2 below.

Graph 2. Manufacturing Share of Employment in Puerto Rico and the U.S., 1980-1998



[3] Puerto Rico Planning Board, Economic Report to the Governor, 2001; United States Bureau of Economic Analysis, Survey of Current Business, 2000.

VI. The Impact of Globalization

For decades as a territory of the United States, Puerto Rico enjoyed a privileged trading position vis-à-vis its Caribbean and Latin American neighbors. Goods and services passed between Puerto Rico and the U.S. with no barriers, while neighboring countries faced stiff tariffs. With trade liberalization under NAFTA and the WTO, Puerto Rico's once privileged status is eroding. Low tariff rates now apply to Mexico and Canada under NAFTA, and under the WTO to developing countries worldwide. Corporations may invest and conduct business anywhere in the world. Puerto Rico must now directly compete with rapidly industrializing countries with significantly lower costs.

VII. The Reality of Labor Costs in Puerto Rico

At the same time as U.S. trade barriers dropped for developing countries around the world, Puerto Rico's wages have increased relative to a growing group of newly industrialized countries, including Taiwan, Singapore, Hong Kong, China, and South Korea. Wages in Puerto Rico run between two and ten times higher than its competitors. In the global economy, tax incentives providing at most a 35% incentive on profits will do little to offset such significantly higher labor costs.

While approximately two-third's as much as in the U.S. as a whole, manufacturing compensation in Puerto Rico (an estimated $12.52 an hour) runs about double the rate in Singapore, Korea, and Taiwan, and five times as high as in Mexico. Please see Table 2 below.

Table 2. Hourly Compensation Costs, Manufacturing

	Hourly Compensation	Ratio to Puerto Rico Manufacturing Compensation
Germany	$ 26.18	209%
Norway	$ 23.91	191%
Switzerland	$ 23.56	188%
Japan	$ 20.89	167%
United States	$ 19.20	153%
Ireland	$ 13.57	108%
Puerto Rico	$ 12.52	-
Spain	$ 12.11	97%
Israel	$ 11.91	95%
New Zealand	$ 9.14	73%
Singapore	$ 7.18	57%
Korea	$ 6.71	54%
Taiwan	$ 5.62	45%
Hong Kong	$ 5.44	43%
Mexico	$ 2.12	17%

Source. U.S. Department of Commerce, September 2000.

VIII. An Estimate of the Direct Cost to the U.S. Taxpayer

Without greater detail, the cost of H.R. 2550 to the U.S. taxpayer remains difficult to estimate. However, based on historical levels of manufacturing production by former section 936 firms, this bill's intent to exempt U.S. CFCs could cost the U.S. Treasury an estimated $2 to $3 billion annually, eliminating the savings that would have been realized from the final phase-out of section 936 in 2005. In fact, the cost to the Treasury could be even higher because of the opportunity in this bill to avoid legally the section 936 restrictions on transfer pricing.

Approximately 70% of tax benefits from exempting U.S. CFCs from federal tax would accrue to the largest U.S. drug companies, who already legally avoid more federal tax than almost any other U.S. industry.[4] Drug companies pay a significantly lower effective tax rate, 16.2%, than U.S. industry on average, 27.3%.[5] In total, drug companies received $27.4 billion in tax breaks and credits from 1990 to 1996.[6] Section 936 contributed an estimated 40% of these breaks and reduced the drug companies' $50.8 billion in tax liability by $12.5 billion, or about 25%.[7]

Table 3. Drug Company Tax Liability

	Taxable Income	Income Tax Before Credits	Income Tax After Credits
1990	$15,934	$5,482	$2,452
1991	$17,452	$6,026	$2,589
1992	$19,920	$6,920	$3,069
1993	$19,997	$7,092	$2,765
1994	$24,837	$8,752	$4,313
1995	$23,963	$8,502	$3,989
1996	$24,810	$8,016	$4,240

Source – Internal Revenue Service.

IX. A Brief History of Tax Incentives in Puerto Rico

For 80 years, U.S. firms operating in Puerto Rico have been granted federal tax incentives, with the purpose of attracting U.S. capital to create jobs. Ultimately codified in section 936 of the Internal Revenue Code, tax incentives were initially

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[4] Drug companies claimed 71% of the value of the section 936 tax credit in 1995.
[5] Congressional Research Service, "Federal Taxation of the Drug industry from 1990 to 1996," December 13, 1996. Based on returns from 1993 – 1996.
[6] Id.
[7] Department of the Treasury, "U.S. Possessions Corporations, 1993," *Statistics of Income Bulletin*, Fall 1997, Table 2.

instrumental in driving industrialization and infrastructure development in the 1950's and 1960's.

By the early 1970's, however, section 936 had outlasted its effectiveness. A few U.S. firms had turned the provision into a tax scheme for manipulation, rather than a job creation incentive, maximizing tax-free profits at the expense of the U.S. Treasury. Mandated by the Deficit Reduction Act of 1984, several U.S. Treasury reports, "The Operation and Effect of the Possessions Corporation System of Taxation" documented the costly manipulation of section 936 by U.S. corporations.

Since its inception in 1972, this bill's predecessor has cost the U.S. taxpayer $66 billion, or approximately $95 billion in today's dollars.[8] (Please see Table 4 for historical costs of section 936.) Despite the ongoing phase-out of section 936, the credit is projected to cost the U.S. taxpayer $4.0 billion in 2001 and $3.6 billion in 2002.[9] (Please see Table 5 for estimated tax expenditures for FY 1998 – 2002.)

Table 4 - Historical Costs of Section 936 (billions of dollars)

Year	Total tax credit	Year	Total tax credit
1976	0.70	**1989**	2.80
1977	0.80	**1990**	3.20
1978	1.20	**1991**	3.50
1979	1.40	**1992**	3.70
1980	1.57	**1993**	4.60
1981	1.90	**1994**	3.80
1982	2.10	**1995**	3.08
1983	2.00	**1996**	***3.06***
1984	2.23	**1997**	***2.72***
1985	2.45	**1998**	***3.40***
1986	2.61	**1999**	***3.70***
1987	2.76	**2000**	***3.90***
1988	2.78	**Total**	**$66.5**

Source. Department of the Treasury, *Statistics of Income Bulletin*, various; Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2001-2005.* ***Bold and italics*** indicate estimates.

[8] Department of the Treasury, *Statistics of Income Bulletin*, various.
[9] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2001 – 2005,* Table 1, p. 27.

Table 5. Estimated Tax Expenditures for Federal Tax Credits to Corporations Operating in Puerto Rico, FY 1998 – 2002

	2001	2002	2003	2004	2005	Total
Tax credit	$4.0	$3.6	$3.2	$3.0	$2.8	$16.6

Source. U.S. Joint Committee on Taxation, 2001.

Even after numerous restrictions on transfer pricing abuses, most recent data indicates average compensation at section 936 firms of $23,835, for which the U.S. Treasury provided tax benefits per worker of $18,736. Over a third of wage compensation for section 936 firms goes to pharmaceutical workers, who earned $39,330, and yet who cost the U.S. Treasury $53,929 in tax breaks, 137% of their compensation.[10]

This ongoing expenditure has failed, however, to create the jobs that the tax incentives were designed to produce. Now at 12.5%, unemployment in Puerto Rico has not dropped below 10% under commonwealth status and is now almost triple the U.S. rate (4.2%). Employment in manufacturing and section 936 firms has stagnated.

Recognizing that the costs of section 936 far outweighed any job creation benefits, Congress voted in 1996 to repeal section 936, phasing out benefits through 2005.[11]

Section 936 firms have since rapidly restructured as Controlled Foreign Corporations (CFCs) to defer payment of federal income taxes on Puerto Rican income. Federal tax is not paid until income is returned in a dividend payment to the U.S. parent company. The number of US-owned CFCs in Puerto Rico jumped from six in 1998 to 46 in 1999.

CFCs in Puerto Rico are already avoiding immediate payment on approximately $2 billion in federal taxes annually, or about $10.3 billion from 1999 to 2003. Deferring payment of these taxes results in revenue losses; the difference between full immediate payment and the present value of the taxes when they are repatriated in the future. Deferring tax on CFCs Puerto Rican income will cost the Treasury between $2.3 and $6.4 billion between 1999 and 2003.

Representing less than one percent of the 7,500 US-owned CFCs worldwide, these 46 CFCs account for a significant percentage of the US government's estimate of the total revenue loss from U.S. CFCs worldwide. The Joint Committee on Taxation estimated that the total loss of revenue associated with

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[10] Miller, Randy, """U.S. Possessions Corporations, 1995: A Collection of Tables, Text and Figures," *Statistics of Income Bulletin*, Summer 1999.

[11] Small Business Job Protection Act of 1996.

the deferral of income of CFCs would amount to $7.2 billion dollars during the same 1999-2003 period (average of $1.45 billion per year).[12]

X. An Estimate of the Cost to the Economy of Puerto Rico

Manufacturing tax incentives have already imposed a steep cost on the people and economy of Puerto Rico: high unemployment rates, persistent poverty, and continued dependence on federal transfers. A return to discredited section 936-style development would further prolong Puerto Rico's dependence mentality and postpone the reforms necessary to build a competitive economy and generate sustainable growth.

Reinstating high tax incentives for U.S. corporations would also place unsubsidized Puerto Rican startups at a competitive disadvantage. Local companies must operate under the same burdensome labor laws and institutions, without the benefit of tax incentives.

The people of Puerto Rico live the legacy of decades of misguided addiction to federal tax incentives. At $9,947 (1999), Puerto Rico's gross product per capita amounts to less than a third of the U.S., $33,646.[13] Unemployment in Puerto Rico, at 12.5%, runs almost triple the U.S. rate, 4.2% (1999).[14] Despite generating no federal income taxes, Puerto Rico received $12.98 billion in federal transfers, more than 23 U.S. states.[15]

After almost 50 years as a territory, Puerto Rico is not catching up with the rest of the U.S. Incomes have been stuck at less than a third of U.S. levels, and unemployment runs two or three times as high. A return to ineffective section 936-style policies would consign Puerto Rico to further economic stagnation.

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[12] U.S. Joint Committee on Taxation, JCX-40-99, *Description and Analysis of Present Law Rules for International Taxation*, June 28, 1999. http://www.house.gov/jct/x-40-99.htm

[13] Puerto Rico Planning Board, *Economic Report to the Governor*, 2001; U.S. Department of Commerce.

[14] *Id*.

[15] U.S. Bureau of the Census, *Consolidated Federal Funds Report - FY 1999*.

XI. Conclusion

H.R. 2550 would constitute a clear step back for the people and economy of Puerto Rico. Rather than confronting the realities of the global 21st century and learning from the virtual economic stagnation of the past 25 years, the bill proposes continuing the focus on manufacturing promotion through tax incentives. H.R. 2550 is a model of Old Economy policies in a New Economy world.

H.R. 2550 could well be construed to present corporate welfare under the disingenuous guise of promoting economic growth in Puerto Rico. Section 936 and the ability to operate Controlled Foreign Corporations in Puerto Rico have cost the U.S. taxpayer almost $100 billion in today's dollars (please see Table 4, Historical Costs of Section 936), and currently around $3 billion annually. Perhaps as importantly it could weaken the section 936 regulations that had curbed the longstanding abuses of transfer pricing.[16]

Many U.S. firms in Puerto Rico already operate as Controlled Foreign Corporations (CFCs), receiving identical tax benefits on U.S. soil as they do in foreign tax havens. These firms will quite logically want to extend the privileges granted in Puerto Rico to their CFCs worldwide (e.g., Ireland, Holland, etc.) Therefore, to the U.S. taxpayer H.R. 2550 opens the door for even greater global tax sheltering which represents a loss in tax dollars, which will be enormous but literally impossible to estimate.

The U.S. is again facing a severe budgetary crunch. A costly and ill-conceived tax shelter seems sorely inappropriate.

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16 Changes effected in the Omnibus Reconciliation Act of 1993.

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Attachment 1

Crane-Rangel Bill (H.R. 2550 – "Economic Revitalization Tax Act of 2001")