



PRESS RELEASE

Monday, January 31, 2011
La Fortaleza Press Office
787-721-9166

\$1.2 Billion in Annual Relief to the Pocket Enacted *(Governor signs the second part of the Tax Reform)*

Bayamón, P.R. – In order to provide a \$1.2 billion annual tax relief to individuals and corporations, the Governor of Puerto Rico, Luis G. Fortuño, signed the second and last phase of the “More Money in Your Pocket” Tax Reform.

“Today we do justice to our fellow Puerto Rican workers with the most comprehensive and fair tax reform in all our history. Everyone, from family men and women to small and midsize entrepreneurs, will receive significant relief to their pockets, because we are convinced that a dollar in the hands of a citizen goes a lot farther than a dollar in the government’s hands,” the Governor said as he addressed hundreds of municipal employees who celebrated at the Rubén Rodríguez Coliseum. Most people in attendance earn less than \$20,000, so they will be the ones who will benefit the most from the Reform.

Fortuño explained that when the first part of the Tax Reform was enacted last November 15, taxpayers were refunded tax reliefs totaling \$240 million, with an average \$306 tax relief per taxpayer. The second phase of the Reform gives taxpayers a tax relief that will average over \$1,200 million annually during each of the next 6 years (more than \$1,500 annually per taxpayer). This is the largest tax relief granted in our history.

“‘More Money in Your Pocket’ focuses on giving the pockets of Puerto Ricans a break with a dramatic reduction in the tax rates. Furthermore, this law allows us to provide work incentives, and additional reliefs to seniors,” the Governor stated.

This comprehensive tax reform includes a large group of ground-breaking measures that will dramatically reduce individuals’ taxes. One of the measures that stand out the most is the one that provides that all taxpayers who have a gross income of less than \$20,000, that is, 46% of taxpayers in Puerto Rico, will not pay taxes. In addition, the personal exemption will be increased. With “More Money in Your Pocket”:

- The exemption will increase to \$3,500 per taxpayer (including individual taxpayers and those married filing separately).
- For those married filing jointly, the exemption will be \$7,000 (\$3,500 per taxpayer).

- The deduction for dependents remains at \$2,500 per dependent. There will also be a new additional personal exemption of \$1,500 for each taxpayer who is a veteran.

Furthermore, a deduction is established for taxpayers whose only source of income is from payments for services as employee, professional services, self-employment activity, gain from property sale, pensions, or alimony.

Meanwhile, in the case of married taxpayers who both work, each spouse in his/her individual capacity will have the right to this deduction. This deduction will be available, in its entirety, for taxpayers whose income does not exceed \$20,000; accordingly, 330,000 taxpayers will benefit from this deduction in 2011. It is estimated that 547,000 taxpayers will benefit by 2016.

In the case of credits, the earned income work credit is maintained and increased. Under this law, the credit will be increased by \$50 (.5%) each year up to 6% of earned income in Tax Year 2016 with a maximum \$600 credit.

In addition, there will be substantial reductions in the tax rates for all taxpayers. Beginning with Tax Year 2011, the following marginal tax rates will apply for net income subject to tax:

- The first \$5,000 of net income will not be taxable.
- 7% - for those who earn between \$5,000 and \$22,000.
- 14% - for those who earn between \$22,001 and \$40,000.
- 25% - for those who earn between \$40,001 and \$60,000.
- 33% - for those who earn more than \$60,000.
- It bears mentioning that those who earn up to \$20,000 will not pay taxes by operation of the deduction for salaried individuals, the increased personal exemption, and the earned income credit.

On the other hand, the 5% surtax and the special tax on real estate property that applied for Fiscal Year 2011-2012 is eliminated. In addition, the Gradual Adjustment will be gradually eliminated. This change will take place in stages. Likewise, the last remains of the marriage penalty are eliminated, and the filing statuses are reduced from five to three.

Similarly, recognizing the particular needs of our golden age citizens, the \$300 credit is maintained for those pensioners whose only source of income is from a pension for services rendered if the amount received does not exceed \$4,800. This credit is in addition to the new \$400 credit for senior citizens 65 years of age and older whose gross annual income does not exceed \$15,000, including non-taxable income, such as, Social Security benefits. This measure should impact more than 440,864 Puerto Rican seniors.

Fortuño added that “More Money in Your Pocket” also: increases the limits for contributions to qualified pension plans in order to promote saving for retirement; includes a substantial reduction in the taxes paid by corporations; provides a corporate

tax relief reducing the surtax rates and expanding the tax brackets. Similarly, the Tax Reform benefits small and midsize enterprises (SMEs) in Puerto Rico which contribute so much to employment generation and economic activity.

“I’m convinced that the Tax Reform, together with other efforts under the Strategic Model for a New Economy (SMNE), will help boost economic development and promote entrepreneurship as well as employment creation. Finally, with More Money in Your Pocket, we’re not only bringing direct tax relief to each taxpayer, but we’re also ensuring the best tax conditions for our Island’s economic growth,” the Governor concluded.

###