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September 26, 2018

Financial Oversight and Management Board for Puerto Rico

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Governor's Representative

Mr. Christian Sobrino

Via e-mail: comments@promesa.gov

Dear Chair and Members of the Financial Oversight and Management Board for Puerto Rico:

We are very concerned that budgetary cuts and austerity measures continue to target the most vulnerable in Puerto Rico, as a direct consequence of the lack of fiscal transparency and visibility into government spending. The proposed new fiscal plan submitted by the Governor earlier this month completely ignores the need in Puerto Rico of a Tax Expenditure Report, even though such report had been mentioned in all previous fiscal plans. The preparation and publication of such a report is key for any budgetary process, and in Puerto Rico is long overdue. The lack of a publicly disclosed Tax Expenditure Report prevents individuals, investors, government entities and other stakeholders from accessing and understanding the full breadth of public spending. The purposeful omission in the Fiscal Plan of a Tax Expenditure report will have an effect on the long-term fiscal sustainability of Puerto Rico and the well-being of its residents. One direct effect has been the postponement of a much-needed Earned Income Tax Credit.

The Earned Income Tax Credit (EITC) has proven to be not only one of the most successful anti-poverty policy measures of all time in the United States, but it also provides quantifiable economic benefits which Puerto Rico cannot afford to defer.

It promotes work and fuels the economy

- The EITC increases workforce participation and encourages low-wage workers to get additional education or training to boost their employability and earning power. For every EITC dollar a

recipient earns, they return \$1.50-\$2 to the economy, supporting not only their families but also their communities¹.

It increases labor participation rates

- A leading study² found, for example, that EITC increases enacted in the 1990s were the single largest factor behind the impressive increase in employment among single mothers in that decade — larger, in fact, than the employment gains attributed to the 1996 welfare law³.

It reduces poverty

- In 2016, the EITC lifted about 5.8 million people out of poverty, including about 3 million children in the United States. The number of poor children would have been more than one-quarter higher without the EITC. The credit reduced the severity of poverty for another 18.7 million people, including 6.9 million children⁴.

It provides a short-term safety net

- Some 61 percent of those who received the EITC between 1989 and 2006 did so for only a year or two at a time. About half of all taxpayers with children used the EITC at least once during that 18-year period. With its broad but temporary reach, the EITC provides critical income insurance for working families that face hardship or must care for newborns or very young children⁵.

Everybody agrees that Puerto Rico needs an EITC. But in contrast with other tax credits and expenditures whose costs are not visible, the expenditure of the EITC is quantifiable and visible. While lobbyists have been successful at protecting the obscurity of their clients' credits, sidetracking the approval of new Tax Incentives Code and most recently the elimination of the previously vetted Tax Expenditure Report, struggling working families and single parents are on their own and will see the EITC and its benefits postponed without much explanation. A recent [study](#) commissioned by Espacios Abiertos to Dr. María Enchautegui discusses the proposed local EITC.

Puerto Rico needs a public Tax Expenditure report, and an EITC now. The Fiscal Plan to be certified should include the implementation of both without delay.

Respectfully,



Cecille Blondet-Passalacqua
Executive Director

C Ms. Natalie A. Jaresko
Executive Director, FOMB

¹ Roxy Gaines. 5 Ways the EITC Benefits Families, Communities and the Country. 2017. Center on Budget and Policy Priorities. <https://www.cbpp.org/blog/5-ways-the-eitc-benefits-families-communities-and-the-country>

² Jeffrey Grogger. Welfare Transitions in the 1990s: The Economy, Welfare Policy, and the EITC. Working Paper 9472. NBER Working Paper Series. 2003. <http://www.nber.org/papers/w9472.pdf>

³ Robert Greenstein. New Research: EITC Boosts Employment, Lifts Many More Out of Poverty Than Previously Thought. 2015. <https://www.cbpp.org/blog/new-research-eitc-boosts-employment-lifts-many-more-out-of-poverty-than-previously-thought>

⁴ Policy Basics: The Earned Income Tax Credit. 2018. Center on Budget and Policy Priorities. <https://www.cbpp.org/research/federal-tax/policy-basics-the-earned-income-tax-credit>

⁵ Chuck Marr, Chye-Ching Huang, Arloc Sherman, and Brandon Debot. EITC and Child Tax Credit Promote Work, Reduce Poverty, and Support Children's Development, Research Finds. 2015. Center on Budget and Policy Priorities. <https://www.cbpp.org/research/federal-tax/eitc-and-child-tax-credit-promote-work-reduce-poverty-and-support-childrens>