Executive Summary
Tax Privileges and the Hidden Budget: Where is our Money?

In this policy brief, Espacios Abiertos addresses the concept, origins, and objectives of tax expenditures; their similarities to tax incentives; their categories; the reasons many politicians prefer to use them; the importance of an official report or public tax expenditure budget; the presence of that report or budget at the federal and state levels in the United States and other countries of the world; the most recent measures taken by recent administrations in Puerto Rico to address the problem of a lack of transparency as to the cost to the public treasury of the tax expenditures currently in effect; the structure that a report on tax expenditures should have; and, lastly, a comparison between measurements in the United States and in Puerto Rico.

Tax expenditures are defined as programs similar to public governmental expenditures. That is, they are catalogued as spending programs carried out through the tax code and also are defined as "those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability" to a specific class of taxpayers or business activity. The categories of tax expenditures include exclusions, exemptions, deductions, tax credits, preferential tax rates, and deferrals.

An official and public tax expenditure report or budget improves transparency, favors accountability to the island's citizens, and saves the Treasury money as the report makes visible those tax benefits whose costs are not justified according to Center on Budget and Policy Priorities. Today, almost all the member states of the Organization for Economic Co-operation and Development (OECD) have an official report or tax expenditure budget. In the U.S., at a local level, 45[1] of the 50 states issue an annual report on tax expenditures. Furthermore, the Governmental Accounting Standards Board (GASB) added the new regulation GASB-77 effective December 15, 2015. Now GASB requires that all local governments that follow US GAAP (Generally Accepted Accounting Principles) publish their tax abatements. In the case of Puerto Rico, a tax abatement should be published in the Comprehensive Annual Financial Report (CAFR) for the fiscal year 2017.

Studies by KPMG and economist Ramón J. Cao García make recommendations on tax expenditures.

In the policy brief, two main studies were used as a benchmark for the analysis:

[1] Currently, 49 out of 50 states issue an annual report on tax expenditures

1) The 2014 KPMG Report: The consulting firm suggested, that most tax expenditures for individuals and all expenditures for corporations, be eliminated.

2) The 2014 Report by Ramón J. Cao García et al.: Economist Ramón J. Cao García and his co-authors published their evaluation of tax incentives to corporations in Puerto Rico responding to an interest by both academics and the government in knowing what the benefits and social costs of certain preferential tax treatments or tax are.

A comprehensive study of the tax expenditures granted by the government of Puerto Rico should be published. A case study of the tax expenditures for the genetically modified seeds industry in Puerto Rico reveals the government's expenditures of over $525 million in this industry between the years 2006 and 2015. Data for this study was obtained through investigative journalism instead of it being publicly available.