The San Juan Star

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■ Hotel Pierre in Condado undergoing $20M revamp Page B-2

S&P 500	NASDAQ	DOW	30-YR T-BONDS	CRUDE OIL	6-MO T-BILLS	EURO	GOLD
1,336.91 ▲ +10.46	2,293.03 ▲ +14.28	12,247.00 ▲ +46.90	4.49% ▲ +.12	$88.11 ▲ +.97	2.11% ▲ +.02	1.4459 ▼ -.0169	$906.10 ▲ +5.40

AAV's new tax proposal faces business opposition

BY SUSAN CHARNECO SAKAGAMI AND
Michelle Kantrow Vazquez
Of The STAR staff

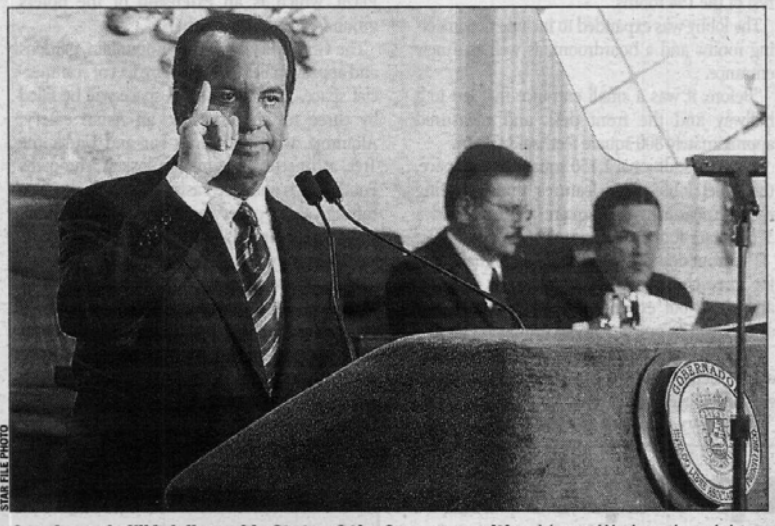
Business leaders were still reeling on Thursday as they tried to understand the implications of Gov. Acevedo Vilá's sales and use tax proposal.

In his State of the Commonwealth address on Wednesday night, the governor announced plans to eliminate 4.5 percent of the total 7 percent sales and use tax that went into effect on Nov. 15, 2006. His plan would reinstate the excise tax of 6.6 percent at point of entry on certain items while keeping a 2.5 percent sales tax at the point of purchase or use.

The governor's proposal would keep in place the 1 percent sales tax ear-marked for extra-constitutional debt for the next 50 years as well as the 1.5 percent municipal tax.

Puerto Rico Chamber of Commerce Executive Director Edgardo Bigas said the trade group will absolutely "not accept" a reduction of the sales and use tax, known as IVU, because it is the only mechanism that has effectively harnessed contributions from the underground economy.

"Puerto Rico's underground economy represents more than $12 billion, and you have to capture that somehow," he said. "Under no circumstance can we accept the elimination of that broad-reaching tax, because it is the only way to get those who are not paying, to do so."



STAR FILE PHOTO

Gov. Acevedo Vilá delivers his State of the Commonwealth address Wednesday night at the Capitol.

He said reviving the 6.6 percent excise tax would also be detrimental because of its cascade effect through the distribution chain that ultimately inflated consumer prices by between 9 percent and 16 percent.

Bigas added that the excise tax was problematic because the government did not have the capacity to monitor all incoming shipments and consequently created delays in receiving and releasing goods.

Amidst a flurry of arguments to keep the current tax structure intact, Elliott Rivera, head of the United Retailers Association, emerged as the single voice in favor but he would take it further by eliminating the IVU entirely and returning to the old 6.6 excise tax system.

He urged the government to apply the 6.6 percent across the board and earmark 1 percent of it to cover the extra-constitutional debt.

"That way we would avoid increasing the complexity of the tax structure and save the island's credit capacity," he said.

"We don't want to imagine what would happen if Treasury had to manage two parallel collections systems, with different bases," he added.

However, Acevedo Vilá's new proposal would represent another round of expenses for retailers, which he said they would not be able to shoulder.

Wrong message

"It's not a viable alternative because it would further increase the cost of living for consumers," said Certified Public Accountants Society Preside... Agnes Suárez. She said the society had originally proposed a much higher sales tax rate combined with gradually reducing income tax rates.

"Beyond tax collections…as strategies, you establish that when you reduce income tax rates in Puerto Rico you reward people who work," Suárez said Thursday. "The ones who haven't wanted to pay must pay through the IVU."

The excise tax system allowed people to evade taxes and there was no tax justice.

"What we're promoting by reducing the sales tax is consumerism," Suárez said. "Unfortunately, at this point, this strategy is lacking a vision of what we want Puerto Rico to be and what we want to promote for Puerto Ricans."

Manuel Reyes, executive vice president of the Chamber of Food Industry Marketing and Distribution, said implementing the new sales tax system represented a logistical nightmare in terms of collecting municipal and central government taxes, which most businesses have only recently begun to cope with.

At the ports, he said the situation hardly changed for the better when the excise tax was eliminated because the Treasury Department "left the receiving system exactly the way it was, with the exception that it no longer collected the tax."

He too, pointed out the IVU was supposed to be coupled with an income tax reduction, which never materialized.

Too soon to judge

"The IVU has not had enough time to prove whether it was the right thing to do or not," said Puerto Rico Manufacturers Association President Edgardo Fábregas. "It needs at least two fiscal periods [years] to show whether it is working."

Meanwhile, he said establishing two separate, but parallel, tax systems — the excise tax and the IVU — would be too burdensome for the government and for taxpayers.

"Managing those two systems would be extremely costly," he said. "We're always complaining about how inefficient we are, and now we're going to put another restriction like the excise tax and make the process more bureaucratic."

Benjamín Negrón, president of MIDA, the Chamber of Food Marketing and Distribution, and of distribution company Ben-So Corp., said revising the tax system would mean having to start all over again.

"We've already had to get over a chain of situations that came up 15 months ago with the IVU," he said.

Ultimately, he said, the consumer will be worse off because they will have to absorb the expenses of any revisions required.

"This announcement represents one step forward and two steps back for an island that is going through the worse self-inflicted recession in history. It does not give consumers any confidence that six months from now, the government won't come up with something different and we have to change again," Negrón said.

"I doubt the consumer benefits from this kind of change," said Puerto Rico Bankers Association President Rafael Blanco Blanco

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Mayor's order freezes San Juan Waterfront project

BY ZODET NEGRON
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San Juan Mayor Jorge Santini issued an executive order Thursday calling for the re-zoning of the San Juan Waterfront, which effectively serves to paralyze the development of the San Juan Waterfront project.

While Santini does not oppose the San Juan Waterfront project, a government redevelopment project to turn the area into a modern residential, tourism and commercial showcase, he is against the contemplated elimination of loose or break-bulk cargo operations from the area and wants to the Ports Authority to consult city officials in the project.

"This tool forces them to consider San Juan's point of view, which until now had been ignored," said Orlando Gotay, general manager of the San Juan Port Commission.

The re-zoning, actually a re-allocation and adjustment of the boundary lines between all the plots of land comprising the San Juan Waterfront project, was contemplated in the Territorial Ordering Plan of the Municipality of San Juan, which was approved by the municipality, the Planning Board and the Governor in 2003, according to Gotay.

"The law specifically states that during the re-zoning process no lot divisions, land use or construction permits will be approved because it would affect the process," said Gotay. "It has the effect of a moratorium."

Ports Authority Executive Director Fernando Bonilla reacted to the executive order by saying the Municipality of San Juan does not have the authority to declare this kind of moratorium.

"The executive order issued by the Municipality of San Juan to order to moratorium on the work related to the San Juan Waterfront project is not valid, the only entity with the power to issue that kind of moratorium is the Planning Board" said Bonilla.

Gotay agrees that the Planning Board is the only one who can issue the moratorium, however the executive order calls for the re-zoning of the San Juan Waterfront. The moratorium is a consequence of that order.

The executive order states that article 7.02 of the Regulations for New Powers to make Urban Development more Feasible, adopted by the Planning Board, establishes that "a municipality can establish a moratorium for new growth and development in the area proposed for re-zoning, during the design and implementation phase of the program."