

Financial Tyranny in Puerto Rico

The Puerto Rico Government and the Creation of the New Tax Police

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Puerto Rico has hit a brick wall. A financial tyranny is slowly emerging as desperation is starting to reflect on the Puerto Rican Government. Not only Puerto Rico's underground economy will face a tax burden that will be enforced by the government, but also businesses, both small and large. According to Reuters they claim that Puerto Rico is hiring "tax specialists" but it seems that they are much more than just tax specialists according to the article:

The Treasury is hiring about 200 more tax specialists. Some of those will be checking on the books of businesses across the island, but some will be mystery shopping – making purchases at specially selected stores without identifying themselves to check for violators.

Sales tax evaders could get slapped with a maximum \$20,000 fine.

But \$20,000 for a small business could mean a hefty chunk of revenues. That means a delicate balance for the government: Changing attitudes so that more businesses register and pay their taxes and fees, while not piling so many bills onto small businesses that they collapse

Can you imagine a \$20,000 fine imposed on both small and large businesses by the Puerto Rican Government? This will destroy business activities all across the island; even if they managed to collect half of the debt at \$35 billion not counting the added interest rates that accumulates over time would help the debt burden:

From the western mountain town of Lares to the capital San Juan, officials are wrestling with how to bring the underground economy out of the shadows and onto the tax rolls without creating such an onerous financial burden that thousands of small and medium businesses can't survive.

More than a quarter of the island's economy is informal, some studies say, from large companies evading taxes to individuals selling items for cash at roadside stands. But estimates vary widely because the activity can be so hard to track.

While not new, the problem has become urgent of late. The government desperately needs to find new revenue to bolster a budget full of holes and turn around an economy now eight years in recession. It is scrambling to avoid a painful debt restructuring some view as almost inevitable

Imposing tax collections or even adding new taxes while Puerto Rico is in a deep recession to meet Wall Street's demands would destroy whatever is left of the economy. Foreign investors including American and European companies both small and large are becoming more hesitant to invest in Puerto Rican Industries and its real estate markets as the debt crisis continues to spark major concerns. The Associated Press also reported in February that the government has set up a task force that would "target" business owners and individuals. The report stated the following:

Treasury Secretary Melba Acosta said a task force has been set up to target both business owners and individuals, adding that authorities are investigating more than 100 cases and more are expected to follow. Puerto Rico currently has only a 56 percent "capture" rate on tax revenues that should be taken in, losing some \$800 million annually as a result, economist Gustavo Velez says.

The Treasury Department already has referred 12 cases representing a total of more than \$8 million in unpaid taxes to the island's justice department. "This money belongs to the people of Puerto Rico," Justice Secretary Cesar Miranda said. "It represents a teacher's salary, a town's road, a police officer's uniform."

Two business owners have been charged with 36 counts of tax evasion and illegal appropriation, and officials warned that dozens of others could face similar accusations

Puerto Rico's government is in a bind. They are indebted to Wall Street and its Hedge Fund partners as they are to Washington. Hedge funds do not include Puerto Rico's Government officials in their meetings. Bloomberg News reported that Jones Law Firm (who was one of the law firms restructuring Detroit's bankruptcy) had a meeting that did not include Puerto Rican officials, *"Commonwealth officials aren't involved in the Jones Day meeting and didn't call for it, according to the statement."* But Puerto Rico's Government Development Bank's statement said that *"We made significant progress in implementing our fiscal and economic development plans in 2013, and are determined to continue that progress in 2014."* The Puerto Rico government will proceed to actions dictated by Washington and Wall Street duopoly that will undermine the economy.

\$70 Billion in debt will increase as the islands residents continue to flee towards other depressed states for job opportunities within the US, including Florida, New York and Chicago. All states mentioned have high unemployment rates, foreclosures as more business and individual bankruptcies continue to rise. Florida now leads the United States in what you would call "Zombie Foreclosures." In a 2014 article by www.Bizjournals.com called 'Florida leads nation in 'zombie foreclosures,' RealtyTrac says' claimed that *"RealtyTrac considers a "Zombie Foreclosure" when a homeowner abandons a house that is facing a pending foreclosure action. There are about 55,000 of those in Florida, more than triple the nearest state of Illinois."* An economic situation Puerto Ricans arriving in Florida would find to be as dire as it was in their homeland. Increasing tax collections on Puerto Rican businesses and people would only elevate the economic situation to an even worst state of economic affairs. This would create insecurities even among the small business owners who sell produce or ice cream on the road. As you tax more businesses to pay the States debts, you reduce profits that would be used to reinvest in equipment, supplies and even create or maintain jobs to grow the economy.

Not only would it place the burden on the Puerto Rican people, it would frighten foreign

businesses, private investors and individuals from investing on the island's economy that can create jobs. Puerto Rico's government under Governor Padilla is just another administration under Washington's rule. Taxing businesses and individuals was the only option the Puerto Rican Government had with regards to their enormous debt burden they face. Besides, Puerto Rico's largest employer is the government; a bureaucracy that does not produce any goods for trade besides Pharmaceuticals and a handful of other products for the US market. The new actions taken by the Padilla government on behalf of the financial elites is at the expense of those who are financially struggling. It is just business as usual.

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