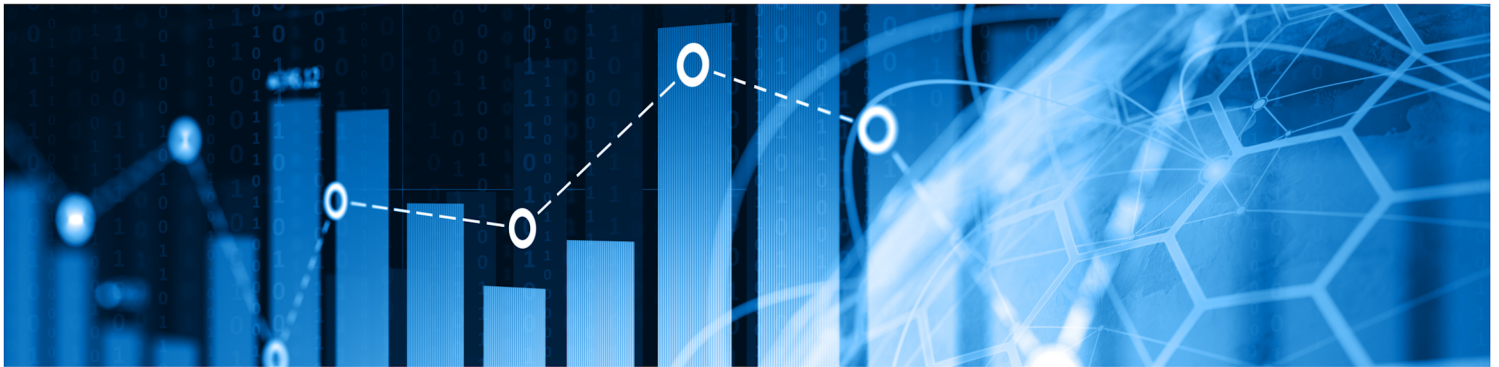


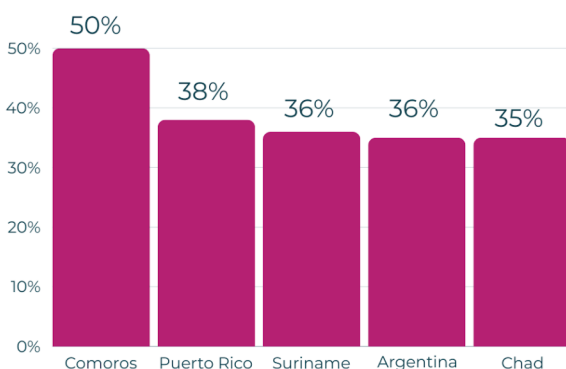
The Center for Economic Renewal, Growth, and Excellence (CRECE, for its Spanish acronym) and Intelligent Economics have partnered to bring you the **The Road to Prosperity Newsletter**. This periodic publication offers concise yet comprehensive economic analyses, providing insights for informed policy decisions that advance free entrepreneurship and economic freedom in Puerto Rico. From industry overviews to policy impacts, each issue is crafted to be an essential source of information with a primary emphasis on Puerto Rico's recovery efforts post-María and post-COVID, complemented by insights into U.S. and global trends.



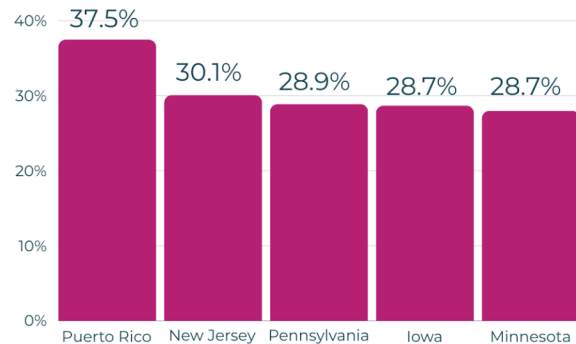
Puerto Rico: the second highest statutory corporate income tax rate in the world

Puerto Rico faces considerable hurdles to improve its entrepreneurial ecosystem and global competitiveness. In the context of taxation, the island has the second highest statutory corporate income tax rate in the world at 37%, surpassed only by the East African country of Comoros at 50%. When compared to other states, it sits at #1 followed by New Jersey at 30.1%.

Top 5 Highest Statutory Corporate Income Tax Rates in the World (2022)



Top 5 Highest Effective Corporate Income Tax Rates in the U.S. (2022)



Why are high corporate taxes detrimental to economic growth? To answer this question, it is useful to review some basic economics.

A free market economy is one in which individuals voluntarily engage in commercial activity to satisfy their needs and aspirations. It is driven largely by supply and demand and requires cooperation amongst many individuals, groups, and countries as they compete for scarce resources.

The concept of scarcity is essential to understanding economics, and more importantly, human behavior. It underscores the reality that resources at our disposal are limited, while human desires are infinite. Food, for example, is a vital

resource that is limited, yet indispensable for survival. Scarcity drives two other important foundations of free markets: cooperation and competition. As resources are inherently scarce, individuals cooperate to produce, gather, and exchange what they need or want. In the case of food, this involves activities such as farming, gathering, and hunting. But, because resources are limited, competition arises. Not everyone will obtain everything they desire or require at any given point in time, leading to a competitive dynamic where individuals strive to fulfill their needs and flourish. Simply put, competition is a part of our daily life.

In a global economy, competition for limited resources is fierce. Countries all over the world design strategies to maximize the use of their resources and vie for those they lack locally. Governments implement trade and tax policies that can hurt or help competitiveness. In general, nations that restrain interference in the market economy by limiting the use of tariffs and taxes are better positioned to compete, and consequently, prosper.

Puerto Rico's high corporate tax rates places us at a severe competitive disadvantage. In a world of scarce resources, high corporate tax rates

hinder our ability to attract investment and human capital, two factors that are essential for societies to thrive. Investment capital is vital as it allows a jurisdiction to foster local production, generating wealth, jobs, and delivering the products and services essential to individuals. Equally crucial is human capital, which deploys the investment capital through labor and innovation.

Puerto Rico's current corporate tax rate disincentivizes investment and human capital. Those who are looking to invest will seek more competitive tax environments where they can maximize profits, thus moving away from Puerto Rico. In the context of human capital, Puerto Rico's corporate tax rates hinder its capacity to attract and retain local entrepreneurs who want to open businesses and innovate on the island. Under the current corporate tax structure, it is more attractive for an entrepreneur in Puerto Rico to open a business anywhere else in the United States. Instead of attracting individuals to remain on the island, it drives them away. This translates into less opportunities for job seekers and a smaller pool of individuals and businesses to contribute to the government, which ultimately limits its capacity to effectively offer essential services. That is simply not good for Puerto Rico!

Economic growth slows

The Economic Activity Index, published by the Economic Development Bank, for the month of August was 128.2, a 3.3% increase compared to August 2022. For the first seven months of 2023 (January - August), it reached a 1.4% growth over the same period from the previous year.



- Total non-farm payroll employment averaged 954.4 jobs in August, which represents an increase of 1.2% on a month-to-month basis, and an annual increase of 3.5%.
- Electric power generation in August 2023 was 1,594.5 million kWh, a 4.2% drop on a month-to-month, and an annual increase of 2.1%.
- The preliminary estimate for gasoline consumption in August 2023 totaled 70.6 million gallons, 0.5% above the 70.3 million of gallons estimated for July 2023 and a 2.1% improvement over the previous year.
- Cement sales totaled 1,217.7 million of 94 lb. bags in August 2023, increasing 2.4% on a month-to-month basis, and decreasing 3.0% when compared to August 2022.

Some indicators remain above pre-pandemic levels

The overall economy in Puerto Rico has slowed compared to 2022 but remains well above pre-pandemic levels. Government revenues reached their highest in 2022 and will likely continue to 2023, same as retail sales. The factor that impacts all sectors is inflation.

	YTD 2019	YTD 2020	YTD 2021	YTD 2022	YTD 2023
General Fund Revenue (\$)	9,098 M	6,200.1 M	8,457.4 M	9,547.9 M	9,598.5 M
Economic Activity Index (%)	2.0	-5.5	4.8	3.3	1.4
Retail Sales (\$)	20,199.1 M	19,275.9 M	24,312.3 M	24,683.1 M	25,664.5 M
Inflation Average (%)	0.1	-0.6	1.9	6.0	3.9
Occupancy Rate % Hotels	66.8	34.5	63.1	67.2	66.8
Cement Sales	10,134	9,968	12,017	11,107	11,256
Car Sales	74,991	59,506	98,709	92,201	94,973
Bankruptcies	5,668	3,923	2,957	2,909	3,172
Gasoline Consumption (M of g)	613	537.6	568.6	561.6	561.1

Inflation and the cost of living continue to affect economic growth. While nominal figures continue to remain above 2022 levels, real figures (those deflated by inflation) remain below 2022. Wages, another factor impacting families, have increased but remain below cost-of-living increases. This is leading many families to feel left behind. This could impact business's sales and public policy going forward in the 2024 election season.

Socioeconomic changes published for 2022

The US Census Bureau released their most recent data for Puerto Rico's socioeconomic and demographic surveys. Said data is crucial for providing detailed demographic, social, economic, and housing information. It serves as a vital tool for policymakers, businesses, and researchers to make informed decisions, allocate resources, and understand the evolving needs of communities. The annual survey offers a comprehensive and up-to-date snapshot of Puerto Rico's population, which enables effective planning and policy formulation at local and state levels and promotes understanding of the economic environment in the business sector.

Between 2016 and 2022 Puerto Rico's population declined by -5.6%, mainly driven by hurricanes Irma and Maria. In the following years population migration has remained steady. Population over 65 years has increased by 4.6% while the population under 18 years has decreased by nearly the same. The median age increased to 44.7 years in 2022. The decrease in the population under 18 is driven by stateside migration and negative birth rates. The population shift places greater pressure on the labor market as the amount of workers available continues to shrink. At the same time, the increase in the population over 65 increases demand for health care and wellness services.





Description	2016	2022	Δ
Population	3,411,307	3,221,789	-5.6%
Population 65 years and over	18.9%	23.5%	4.6
Population under 18 years	20.4%	16.1%	-4.3
Median Age	40.7	44.7	4.0
Total Households	1,208,438	1,289,311	6.7%
Median household income	\$20,078	\$24,112	20.1%
Average household income	\$31,262	\$39,142	25.2%
% Households receiving Social Security benefits	45.0%	45.8%	0.8
% Households receiving NAP benefits	38.9%	48.3%	9.4
% of people living under the poverty level	43.5%	41.7%	-1.8

Source: US Census Bureau, ACS 1-year estimates

The number of households increased as more people are living alone, and family compositions continue to decrease. Median and average household income has increased over 20% driven by federal transfers to individuals. Federal transfers to individuals have also impacted the percent of people living under poverty levels. While poverty levels have decreased, nearly 50% of households are relying on nutrition assistance benefits.

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