

EXPANDED ANSWER 52:

TAXATION

Taxation is an absolute requirement for sustaining any country. We must predictably and regularly generate all of the funds necessary to operate the government as we design it and to simultaneously create a surplus as reserves for emergencies of all sorts. Our tax plan should meet our financial objectives but also needs to reflect the philosophy of the community and the requirement to attract business.

There are many, many different taxes (look at the myriad of taxes collected by the US and PR), and all of them have pluses and minuses depending upon one's perspective. Taxes are often classified as progressive or regressive depending upon their relationship to the wealth of those being taxed. Income taxes are generally progressive and sales taxes are typically regressive; however, the devil is in the details. A flat income tax without deductions could become regressive (snowbirds and absentee owners don't pay any), and a sales tax that was only levied on expensive items might be progressive.

Whatever methods we select, we must raise the same amount of tax to meet our goals, right? Not exactly! Some taxes cost far more than others to collect, enforce, and administer than others, and their use would create a need for more taxation to cover those additional expenses. Likewise, some taxes, such as income taxes, are very complicated and require taxpayers to spend considerable time and money (on consultants) in order to comply. Taxes that focus on specific businesses and products are subject to meddling by special interests (and this includes income taxes) are often become very unfair in the end.

The fewer categories of taxes, the easier, more efficient, less costly, and more universal the collection would be. Tax evasion being rampant in PR, and a way of life for many, demands a system for us that is nearly impossible to thwart.

In determining what to tax, we needed to look at several aspects and choose:

- First, user related (Pigouvian). For instance, auto and truck usage is responsible for the wear and tear of roads, etc., so taxing petroleum products is logical (and easy at the port). In an effort to reduce our pollution from hydrocarbons, a punitive component could be added that would raise revenues and encourage conservation or switching to alternative cleaner energy sources.
- Second, as a deterrent to use, we could tax vices. [Vices are those things that we consider bad (immoral, dangerous, harmful, or debilitating) for the individual and/or society, such as: alcohol, tobacco, gambling, prostitution, and recreational drugs. The evidence from over 100 years of attempts to restrict these vices demonstrates that making such activities illegal does not significantly reduce their use and levies far greater costs on society and the citizens they are meant to protect than a program of legalization, regulation, treatment, and education.] The level of these taxes should be sufficiently high for some deterrent value, but not

so high as to foster the development of a black market. Perhaps a central government distribution point or regulated clearing house for each would be appropriate while making compliance easy and enforceable.

- Third, Sales or VAT taxes: none. These are normally regressive and have been expensive and extremely difficult to enforce locally.
- Fourth, Income tax: none for either personal or corporate. These are complicated, expensive, unfair, and difficult to enforce locally.
- Fifth, Inheritance Tax: None
- Sixth, Real Estate tax: Substantial.

Why Property Tax?

Nobody likes property taxes. Actually, nobody likes any kind of tax, but we must have taxes to generate revenue. So, why property taxes over the other options?

1. Everybody pays. Every residential, commercial, industrial, and vacant property owner pays directly. Every tenant or tourist pays indirectly through their rent or room rate.
2. The amounts paid are proportional to the value of the property and generally proportional to the ability to pay.
3. The tax tends to reflect the value the property owner (or renter) receives from the government or the island in general.
4. Easy to collect. Easy to enforce. Easy to pay. Very efficient and cost effective.
5. Strong incentive for businesses to locate here. The cost of compliance and doing business is lower even if the property taxes are high.
6. Thresholds can be set if needed to exempt the first \$10,000 (or some such number) of appraised value, used to determine the tax payment, to assist lower income taxpayers, but it is probably not necessary.

The economic value of the island is clearly its natural resources as a tourist, investment, and retirement destination. As such, it seems most appropriate to select a real estate tax as the most important and sustainable source for revenue.