

Congress of the United States
Washington, DC 20515

May 16, 2025

The Honorable David Joyce
Chairman
Subcommittee on Financial Services and
General Government
House Appropriations Committee

The Honorable Steny Hoyer
Ranking Member
Subcommittee on Financial Services and
General Government
House Committee on Appropriations

Dear Chairman Joyce and Ranking Member Hoyer:

As you begin to craft the Fiscal Year (FY) 2026 Financial Services and General Government Appropriations bill, we respectfully request that you include language in the Committee's report directing the U.S. Department of Treasury (Treasury) to submit a report to Congress on the Internal Revenue Service's (IRS) efforts to identify and address tax avoidance by beneficiaries of Puerto Rico's Acts 22 and 20 of 2012 (now part of Act 60 of 2019), as well as on the estimated federal revenue losses attributable to these laws.¹

Initially passed in 2012, Acts 22 and 20 intended to attract wealthy foreigners and mainlanders to Puerto Rico by offering generous tax-related benefits. For instance, after establishing bona fide residency in Puerto Rico, Act 22 beneficiaries pay zero Puerto Rico income taxes on interest, dividends, and capital gains that are sourced within the territory. Similarly, Act 20 provides beneficiaries with an extremely low corporate tax rate of 4% for eligible export services, while also granting a 100% tax exemption on dividends from earnings and profits.

Although these provisions were intended to grow the economy and promote socio economic development by retaining foreign capital, the available data on their impact suggests otherwise. For example, according to the Puerto Rico Tax Expenditure Report for Tax Year 2024,² Puerto Rico stands to lose an estimated \$4.5 billion in foregone revenue related to Act 22 between 2020 and 2026.

In terms of job creation, Act 22 has underperformed. A study by the firm Estudios Técnicos concluded that between 2015 and 2019, the 2,202 individuals with an Act 22 decree had created 4,400 jobs, which represents less than 3 jobs per decree.³ On the other hand, Act 20 has a minimal job hiring requisite. A company with a decree is required to hire at least one full-time employee if it has more than \$3 million in revenue. Additionally, most Act 20 businesses are focused on consulting or other professional services, which tend to generate fewer jobs and have

¹ Puerto Rico Incentives Code, Act. No. 60 of July 1, 2019, 13 L.P.R.A. § 45001 (2019).

² *Tax Expenditure Report for Tax Year 2024*, PUERTO RICO DEP'T. OF TREASURY (2023), https://hacienda.pr.gov/sites/default/files/pr_tax_expenditure_report_for_tax_year_v_section_iii_d_06.28.23_f_copy_1.pdf

³ *Performance of Incentive Programs: Act 20-2012 and Act 22-2012*, ESTUDIOS TÉCNICOS, INC. & DEP'T. OF ECON. DEV. AND COMM. (n.d.), <https://www.estudiostecnicos.com/projects/act2022update2019/2019-Performance-of-Incentives-Programs.pdf>

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less economic spillover than other industries like manufacturing. Further, the tax haven that Acts 22 and 20 have created in Puerto Rico has proliferated the use of short-term rentals (STRs), increased cash property sales and market speculation, and caused displacement for hard-working American citizens residing in Puerto Rico.⁴

Foregone revenue due to Act 22 provisions has been an issue for the continental United States as well. In a report submitted to Congress pursuant to a previous Congressional request,⁵ the IRS revealed that from 2012 to 2019, Puerto Rico's Department of Economic Development and Commerce (DEDC) granted Act 22 benefits to 2,331 individuals who had established residence in Puerto Rico. From this total, 647 individuals paid, altogether, \$557,978,112 in federal income taxes in the five years prior to relocating to Puerto Rico. Although this data is severely limited, it offers a glimpse into the critical revenue that the United States is losing due to the tax evasion scheme created by Act 22. In the same report, the IRS noted that it sought to do a similar analysis with Act 20 beneficiaries, however the majority of the corporate entities listed were newly formed to do business in Puerto Rico and thus did not have a filing history with the IRS.

To address concerns regarding potential tax avoidance, in 2021 the IRS announced an audit campaign related to Act 22 beneficiaries. This campaign focuses on U.S. taxpayers who may be inaccurately claiming Act 22 benefits without meeting its residency requirements.⁶ In July 2023, the IRS publicly stated that it was investigating approximately 100 Act 22 beneficiaries and might pursue criminal charges against them.⁷ However, to our knowledge no individuals had been charged by the IRS since that announcement, until recently, when in March 2025, the U.S. Department of Justice (USDOJ) charged businessman Suresh Gajwani for evading taxes on nearly \$80 million in profits after falsely claiming that his company was entitled to Act 22 exemptions.⁸

Given the damaging effects of Acts 22 and 20 on Puerto Rico and the continental United States, it is urgent that the Federal government continues its oversight efforts regarding these laws,

⁴ Damaris Suárez et. al., *A Nightmare for Puerto Ricans to Find a Home, While Others Accumulate Properties*, CENTRO DE PERIODISMO INVESTIGATIVO (Dec. 19, 2022), <https://periodismoinvestigativo.com/2022/12/a-nightmare-for-puerto-ricans-to-find-a-home-while-others-accumulate-properties/>

⁵ *Report to Congress Pursuant to Pub. L. 116-93 Regarding Interaction of Certain Puerto Rico and U.S. Tax Laws*, INTERNAL REVENUE SERV. (n.d.), https://ntc-prod-public-pdfs.s3.us-east-2.amazonaws.com/488JIAV8XE_s8XVhfo6PM6PdqvK.pdf

⁶ *Large Business and International Active Campaigns*, INTERNAL REVENUE SERV., <https://www.irs.gov/businesses/corporations/lbi-active-campaigns>

⁷ David Voreacos & Jim Wyss, *IRS Preparing Criminal Cases Against Tax Cheats in Puerto Rico*, BLOOMBERG TAX (July 12, 2023), <https://news.bloombergtax.com/daily-tax-report-international/irs-preparing-criminal-cases-against-tax-cheats-in-puerto-rico>

⁸ José A. Delgado, *Se declarará culpable empresario imputado de cometer fraude para beneficiarse de la antigua ley 22 de Puerto Rico*, EL NUEVO DÍA (April 23, 2025), <https://www.elnuevodia.com/corresponsalias/washington-dc/notas/se-declarara-culpable-empleado-imputado-de-cometer-fraude-para-beneficiarse-de-la-antigua-ley-22-de-puerto-rico/>

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while informing the public about such work.⁹ To accomplish this, the data included in the IRS's 2020 report to Congress must be updated.¹⁰ Additionally, this report should include information on any efforts underway to audit abuses related to Act 20, and the federal revenue losses associated with such Act.

To these purposes, we request that you please include the following report language in the Committee's FY 2026 report:

“The Committee directs the Department of the Treasury in conjunction with the IRS to submit a report within 180 days of enactment of this Act that provides the number of individuals and businesses that have relocated from each state and the District of Columbia to Puerto Rico since 2012 and have been granted tax exemptions under Puerto Rico’s Acts 20 and 22 (now consolidated into Act 60). The Department, the Government of Puerto Rico, and the Oversight Board—established pursuant to P. L. 114-187, the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA)—are directed to work together in a timely manner to produce the necessary information that would allow the Department to craft a report that includes the amount of Federal taxes paid by such individuals and businesses by type of tax and jurisdiction of former residences during each of the five years prior to their move. The report should also include a summary of the IRS’ audit campaign against Act 22 beneficiaries, listing the number of civil and criminal investigations conducted and their status, including the amount of back taxes that have been collected as a result, if any. Such a summary shall define the audit campaign’s established objectives, related findings and the number and the nature of actions implemented by the bureau to address noncompliance. Lastly, the IRS shall clarify the conditions that would justify the termination of such an auditing campaign, and whether the bureau considers such conditions will be fulfilled within the next five years.”

Thank you for your consideration. We look forward to working with you to ensure the continuity and transparency of federal efforts to address potential tax evasion by U.S. individuals and businesses under Act 22 and Act 20 provisions.

⁹ The ascendent number of Act 22 beneficiaries from the U.S. mainland also underscores the importance of advancing IRS's investigations. From late 2020 to early 2023, beneficiaries grew from 3,146 to 5,010, an increase of nearly 60 percent. Source: Luis J. Valentín Ortiz, *Más de \$21 millones de contribuciones en jaque por falta de fiscalización a beneficiarios de la Ley 22*, CENTRO DE PERIODISMO INVESTIGATIVO (Sept. 28, 2023), <https://periodismoinvestigativo.com/2023/09/mas-de-21-millones-de-contribuciones-en-jaque-por-falta-de-fiscalizacion-a-beneficiarios-de-la-ley-22/>

¹⁰ *Ibid.*

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Sincerely,



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