

**House Committee on Ways and Means**  
**Member Day Hearing**  
**Testimony**  
**January 22, 2025**  
**Resident Commissioner Pablo Jose Hernandez of Puerto Rico**

Chairman Smith, Ranking Member Neal, and distinguished Members of the Ways and Means Committee, thank you for the opportunity to testify before you today and share the issues that are critical to Puerto Rico's success. As Puerto Rico's resident commissioner, I have three priorities: economic development, particularly through tax incentives that take advantage of Puerto Rico's unique status; equal treatment in federal programs; and the reconstruction of the island's energy grid. Since this is the Ways and Means Committee, I will focus on priority number one: tax incentives. My written statement will address the other two points.

Puerto Rico presents a valuable opportunity to help strengthen our supply chain resilience, reduce our reliance on China, and counter Chinese influence in the Americas. Our island combines a skilled workforce, a strategic location, and a special tax status, as Puerto Rico is generally exempt from federal income tax laws. This, along with being part of the U.S., has made us an attractive hub for manufacturing—particularly pharmaceuticals and an emerging air and space industry. Puerto Rico leads the U.S. in pharmaceutical manufacturing and exports, contributing 19.3% of the \$66 billion in pharmaceuticals exported in 2020. Additionally, in 2022, Puerto Rico's aerospace industry generated \$625 million in annual revenue.

However, Puerto Rico needs additional incentives to offset the cost of doing business on an island. We had incentives like that in the past, and they worked—for the U.S., for Puerto Rico, and for the cause of freedom and democracy in the Caribbean region during the height of the Cold War. The phase-out of Section 936, as that incentive was known, triggered an economic recession and Puerto Rico's eventual bankruptcy. Since then, Puerto Rico has barely seen any positive economic indicators. We need to do better.

I urge this Committee to explore modern tax incentives tailored to Puerto Rico's potential and America's challenges. One promising bipartisan initiative is the Supply Chain Security and Growth Act, introduced by Congresswoman Malliotakis of this Committee, which incentivizes investments in Puerto Rico to reshore critical supply chains to the United States. This legislation not only supports our local economy and boosts domestic production but also strengthens U.S. supply chain resilience and reduces reliance on foreign adversaries like China. Another promising initiative is the Territorial Economic Recovery Act, introduced by Congresswoman Stacey Plaskett of this Committee, which would restore favorable tax treatment for investments in U.S. territories and commonwealths, including the Virgin Islands and Puerto Rico.

I rarely agree with him, but as White House Trade Counselor Pete Navarro said, this is our chance to say, "China is fired; Puerto Rico is hired."

Additionally, we must urgently address Puerto Rico's energy challenges. Puerto Rico experienced a major power grid blackout on New Year's Eve, leaving the entire island without

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power. Our outdated energy infrastructure, coupled with the devastating impact of recent natural disasters like hurricanes and earthquakes, has created significant vulnerabilities for residents and businesses, hampering Puerto Rico's economic growth. Economic growth for small businesses relies on accessible and affordable energy. By advancing innovative, long-term solutions—such as expanded funding and tax incentives for economic development—we can accelerate energy reconstruction and transition Puerto Rico to a resilient energy future that supports business success and sustainability. This is not just about modernizing infrastructure—it is about ensuring energy security for Puerto Rico while contributing to broader U.S. energy goals and meeting the needs of small businesses.

Finally, addressing long-standing inequities in federal programs is critical. Residents of Puerto Rico continue to face disparities in key federal programs such as Medicare, Medicaid, and Supplemental Security Income (SSI). These inequities disproportionately harm our most vulnerable populations, particularly seniors and children, while also hindering economic stability on the island. The expansion of the Child Tax Credit (CTC) has significantly benefited families in Puerto Rico and across the country. This expansion increased eligibility from 20,000 to 225,000 families, providing an average of \$4,700 per family and making a substantial impact in reducing child poverty. Unless Congress acts to extend these critical tax provisions, the CTC is set to revert to \$1,000 per child at the end of 2025.

I urge Congress to extend and expand the Child Tax Credit (CTC) to benefit Puerto Ricans and to enact long-term, equitable funding solutions that ensure stability and fairness in these essential programs. Addressing these disparities will also foster sustained economic growth in Puerto Rico. Thank you.

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