

# TAXES IN PUERTO RICO

## Structure, Tax Burden, and Comparison with the United States

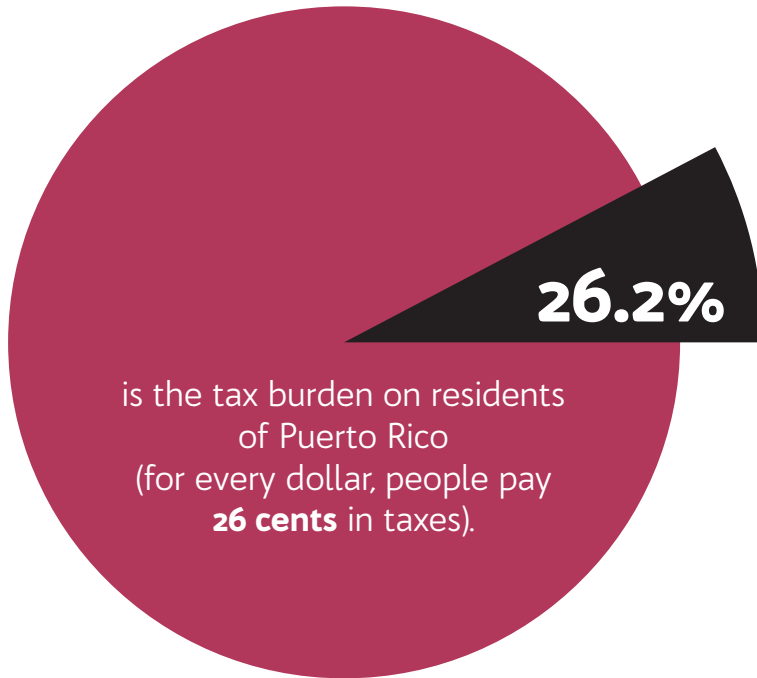
Ángel Carrión-Tavárez, Edwin R. Ríos • <https://doi.org/10.53095/13584019> • August 2025



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Taxes are defined as “**unrequited sacrifices government demands from its citizens,**” as a political device for promoting its vision of the general welfare. These sacrifices are “**a potentially unequal government-coerced exchange as the value of what one receives—if discernible—is not a function of the value of what one relinquishes.**” Calling a tax a required sacrifice “**means it matters not whether the sacrifice is made cheerfully, grudgingly, or unwittingly; [what matters is that] it is required because government sanctions for noncompliance exist**”.

### CURRENT DATA (Year 2023)



**\$23,281 million**

total combined taxes - federal, state, and local - paid in Puerto Rico where **\$21,343 million** were paid by the local sector and the external sector paid **\$1,938 million**.

**\$6,643 annually**

or **\$554 monthly** in taxes per capita.

**21.2%** of total collections come from the **individual income tax**.

**63.0%** (around **467,313** taxpayers) of the tax returns are for incomes up to **\$40,000**, contributing **9.2%** of the total revenue.

**495,516**

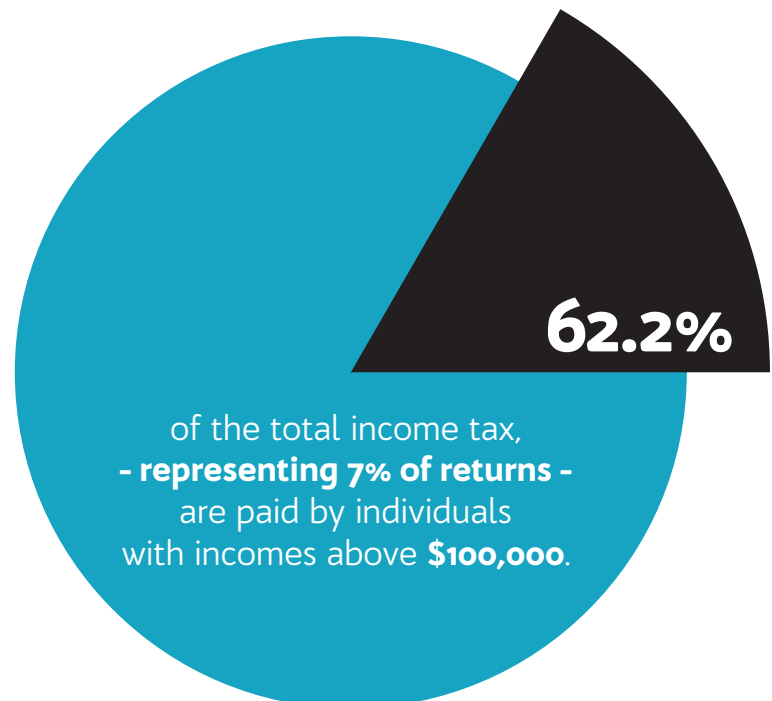
taxpayers - equivalent to **40.1%** of the returns - reported no tax liability; that is, they paid no income tax.

**15 states**

depend less on income tax on individuals than Puerto Rico.

**69.6%** of total revenue comes from taxes on goods and services and corporate taxes.

**7.3% VS 27.4%** share of property taxes in Puerto Rico versus the United States.



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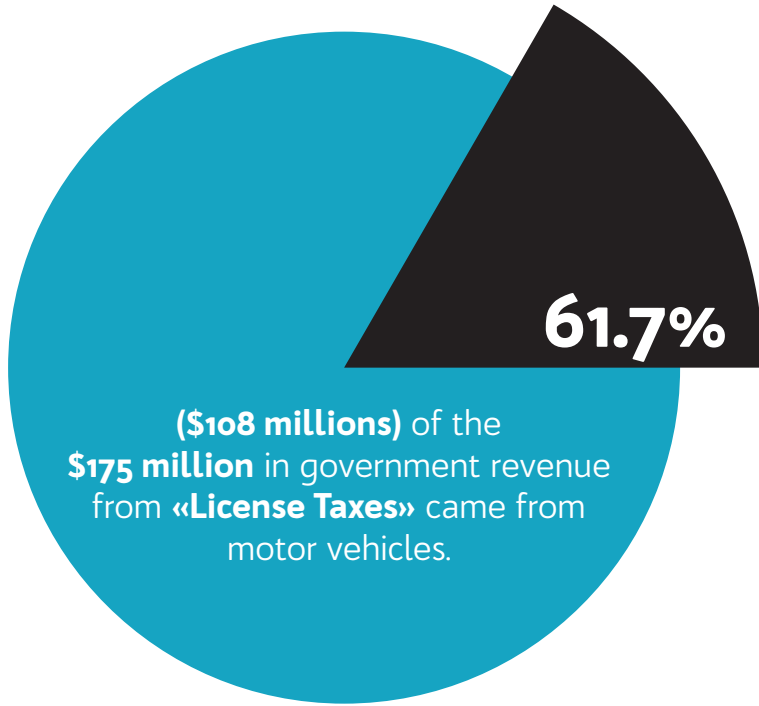
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### CURRENT DATA (Year 2023) cont.



**\$3,507 million**

employers' contributions to federal and state social security systems (employees contributed **\$2,025 million** for a total of **\$5,532 million**).

**\$123 million**

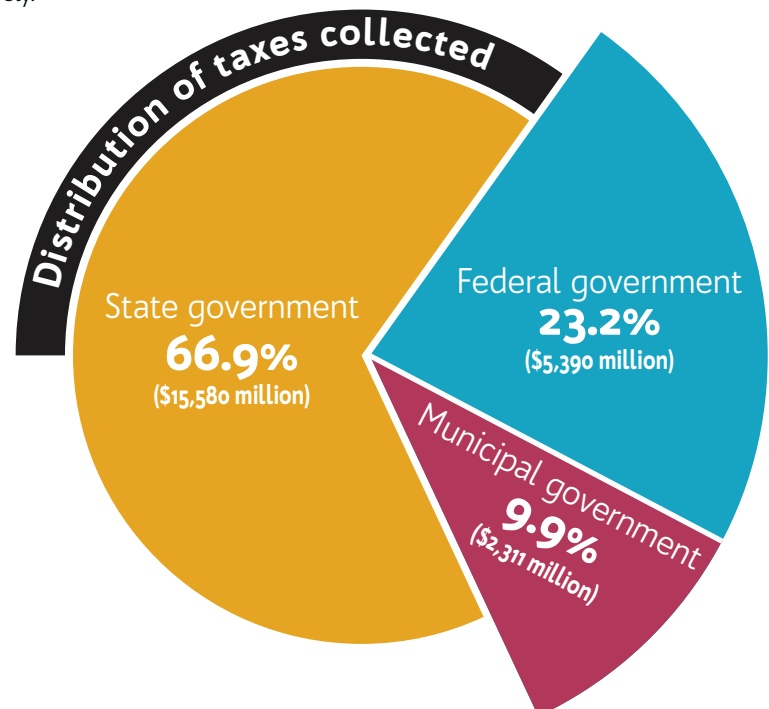
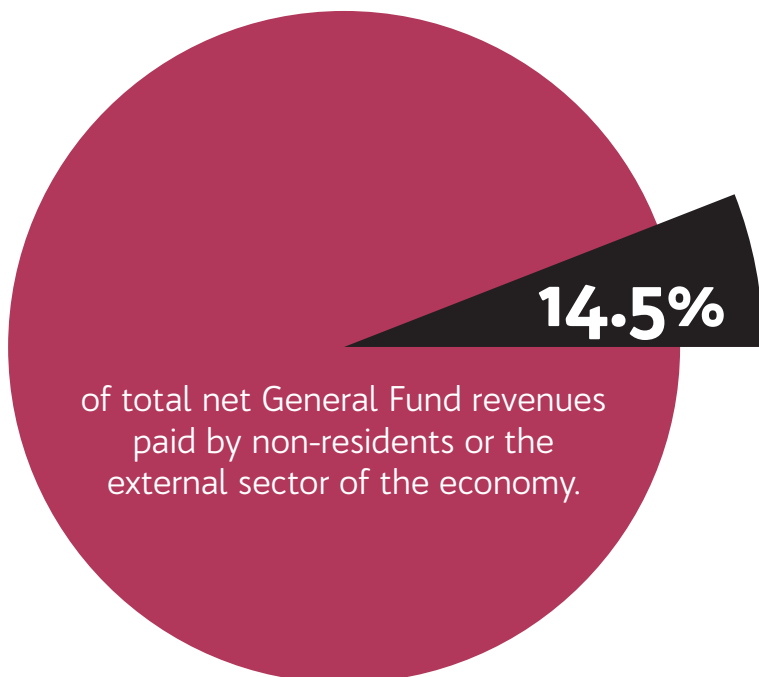
total taxes paid for internal revenue "stamps and vouchers".

**\$5,390 million**

federal taxes paid in Puerto Rico - a figure comparable to that collected in **Vermont**.

**\$3,674 million and \$1,716 million**

Social Security/Medicare contributions and other federal taxes such as income, customs duties, wealth, telecommunications, and air transportation, respectively.



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### CURRENT DATA (Year 2023) cont.

**\$6.74 and \$2.33**

is what is paid to the state and federal government,  
respectively, for **every dollar** paid in taxes to the municipal government.

**\$1,158 million**

is the potential fiscal impact of cumulative tax revenues  
**not received** in Puerto Rico due to net migration between 2008 and 2022.

**24 states**

have a tax burden borne  
by its residents - federal, state  
and local - lower or similar to  
that of Puerto Rico.

**12 states**

have a tax burden borne by its  
residents - federal, state and local -  
lower to that of Puerto Rico  
(2 states is equivalent, 10 states  
are just one percentage point lower).



## RECOMMENDATIONS

### Comprehensive tax reform to address the structural deficiencies of the current system

- **Systemic approach** that acknowledges the interaction among different taxes and levels of government.
- Promotes a more **coherent, efficient, and equitable fiscal structure**.
- Undertaken alongside a **review of public expenditure**.
- **Aligning** the tax system with revenue and expenditure.
- Thorough **expenditure analysis** aimed at reducing its **volume** and enhancing its **effectiveness, transparency, and redistributive** impact.

### Strategic guidelines or guiding principles of the reform should include:

- **Reducing the tax burden** on residents and businesses.
- **Redistributing** the burden **more equitably**.
- Reviewing and reconfiguring the **fiscal structure**.
- **Broadening the tax base** by assessing the costs and benefits of **preferential tax treatments**.
- **Decentralizing fiscal administration** through a more **equitable redistribution** of revenues between the central government and municipalities.
- **Simplifying** the tax system.
- Developing a public platform to **consolidate and standardize** municipal revenues, including those generated through local ordinances.
- Increasing **transparency** in collections by category and type of tax.

### Future research to explore, among other topics

- Potential of the **property tax**.
- Impact of **exemptions and incentives**.
- Effect of **economic freedom** on fiscal performance.
- Relationship between the **tax system and population migration**.
- Influence of the **tax burden** on **compliance** and **economic formality**.

## CONCLUSION

Puerto Rico's tax system is **complex, fragmented, and structurally unique**. The analysis reveals that partial **disconnection from the federal system** does not necessarily translate into a **lower tax burden for Puerto Rico's residents**. The perception that Puerto Rico residents pay less in taxes than those living in the 50 states **is not supported** by empirical evidence.

Although the **federal system** provides the Island with a **differentiated fiscal treatment**, the federal taxes paid in Puerto Rico, combined with state and local collections and the **actual tax burden** borne by its residents, are in many cases **comparable to those of various U.S. jurisdictions** where individuals are required to pay the full array of federal, state, and local taxes.

The findings confirm that Puerto Rico's tax system is characterized by a **fragmented** legal architecture spanning numerous laws and amendments, a **high degree of regulatory segmentation**, and **limited availability of federal, state, and municipal data**. The **coexistence of these three levels of revenue collection** adds **complexity** to **tax administration and constrains fiscal governance and transparency**. This calls for a clear distinction between the overall fiscal burden on the economy and the **effective tax obligations faced by residents**. Moreover, the **opacity** surrounding certain municipal revenues and the **absence of standardized records** hinder rigorous analysis and the precise measurement of fiscal effort.

Understanding the tax system not merely as a revenue-generating instrument, but as a **reflection of economic and social priorities**, is essential to building a **simpler, more equitable model aligned** with the principles of **fiscal justice** and **sustainable economic development**.

