

The Rum Excise Tax Cover-Over: A proposal for investing in the future of Puerto Rico



Executive Summary

For over a century, the federal government has refunded to Puerto Rico the federal excise tax revenues collected on rum sold in the mainland U.S. This refund, known as the rum excise tax cover-over, brings approximately \$200 million annually into Puerto Rico's general fund, even after subsidies to local rum producers and other allocations. The recently enacted domestic policy bill increases the amount annually refunded to Puerto Rico by an additional \$200 million.

This policy brief proposes redirecting that annual income stream of approximately \$400 million into a new investment vehicle, the **Puerto Rico Economic Development Fund** for the 21st Century (PRDEF). Modeled after the successful Alaska Permanent Fund, the PRDEF would gradually build long-term capital to finance economic development and reduce dependence on federal transfers.

The proposal calls for:

- Seeding the PRDEF exclusively with the portion of rum excise tax “cover-over” revenue that would otherwise be deposited into Puerto Rico's general fund. All distributions currently required by law that are already supporting economic development efforts—such as those to local rum producers, science and technology initiatives, conservation efforts, and other statutory allocations—would remain unchanged. This revenue stream is expected to increase to \$13.25 per proof gallon after December 31, 2025.
- Establishing the fund through a constitutional amendment to ensure its independence and long-term viability.
- Using the fund for co-investments and industrial policy initiatives that aim to restructure Puerto Rico's economy toward greater productivity and resilience.

While the fund would start modestly, its long-term goal is to become a self-sustaining engine for economic transformation, enabling Puerto Rico to invest in its future rather than relying on external support and would complement any industrial policy implemented by Puerto Rico.

The shift will require political will, fiscal discipline, and public consensus, but it offers a rare opportunity to turn a federal funding stream into a tool for self-directed, long-term development.

The Center for a New Economy (CNE) is Puerto Rico's first and foremost policy think tank, an independent, nonpartisan group that advocates for the development of a new economy for Puerto Rico. For more than 20 years, CNE has championed the cause of a more productive and stable Puerto Rico through its offices in San Juan, Puerto Rico, Washington, D.C., and Madrid, Spain. We seek to inform current policy debates and find solutions to today's most pressing and complex economic development problems by rigorously analyzing hard data and producing robust empirical research. CNE is organized as a 501(c)(3) nonprofit that does not solicit or accept government funding. It relies solely on funding by individuals, private institutions and philanthropic organizations.