

logo not found or type unknown

Trump Signs Bill Making Rum Cover-Over Rate Permanent at \$13.25 in Landmark Win for Territories

The USVI and Puerto Rico secure a major fiscal victory as President Trump signs legislation permanently setting the rum cover-over rate at \$13.25 per proof gallon—ensuring long-term revenue stability for critical public services and pension funding.

Federal / **Published On July 05, 2025 06:36 AM /**

Staff Consortium **July 05, 2025**

Image not found or type unknown



Diageo USVI.

President Donald Trump signed H.R. 1, dubbed the “One Big Beautiful Bill Act,” into law on July 4, securing a historic victory for Puerto Rico and the U.S. Virgin Islands by permanently setting the rum cover-over rate at \$13.25 per proof gallon. The provision, a cornerstone of the tax reconciliation package, ends decades of uncertainty for the territories by ensuring a stable flow of

federal excise tax revenues from rum production, projected to deliver over \$1 billion collectively to their treasuries over the next decade.

The move has been hailed as a lifeline for the economic stability of both territories, which rely heavily on these funds to support critical public services and foster job creation. The rum cover-over program, established in 1917 for Puerto Rico and 1954 for the U.S. Virgin Islands, transfers federal excise taxes collected on rum produced in or imported into the United States to the territories' governments. Under current law, the excise tax on rum is \$13.50 per proof gallon, with \$10.50 permanently allocated to the territories and an additional \$2.75 requiring periodic congressional reauthorization. The new law, effective December 31, 2025, amends Section 7652 of the Internal Revenue Code of 1986 to make the full \$13.25 rate permanent, eliminating the need for temporary extensions that have long created fiscal uncertainty.

“This marks an important step toward greater economic certainty and fiscal stability for the Virgin Islands,” said Governor Albert Bryan Jr. [in a statement](#) on June 28, when the Senate first included the provision in its draft. “It will ensure the necessary revenues that support our pension system, public services, and economic development over the next decade.” Bryan’s optimism was echoed by Puerto Rico Governor Jenniffer González-Colón, who called the signing “a transformative moment for our islands, ensuring that the economic benefits of our rum industry stay where they belong—with our people.” The newly permanent \$13.25 per proof-gallon rum cover-over rate is expected to deliver a substantial boost to territorial budgets. In 2021, Puerto Rico—which produces more than 70% of the rum consumed in the United States—received approximately \$519 million in cover-over funds. That same year, the U.S. Virgin Islands, home to major distilleries such as Captain Morgan and Cruzan, received \$281 million.

These funds are critical to both territories, helping to finance essential public services including healthcare, education, public safety, and infrastructure. In Puerto Rico, a portion of the cover-over revenue is directed to the Puerto Rico Conservation Trust, supporting initiatives like sustainable agriculture, reforestation, and environmental education.

For the U.S. Virgin Islands, the permanent \$13.25 rate brings fiscal stability to key programs, particularly the Government Employees’ Retirement System (GERS). In 2022, the Bryan administration finalized a landmark 30-year bond deal, projected to inject \$3.8 billion into GERS over the life of the agreement. This deal was enabled through the creation of a specialized corporate entity—the Matching Fund Special Purpose Securitization Corporation—authorized by the Legislature to issue bonds backed by rum excise taxes. Without the higher rate locked in, the Virgin Islands stood to lose \$59.2 million in funding that had already been earmarked for GERS. With President Trump’s signature on July 4th, making the \$13.25 rate permanent, that uncertainty has now been eliminated.

The road to permanency was driven by bipartisan and bicameral efforts spanning years. Senators Bill Cassidy (R-LA), Roger Wicker (R-MS), Kirsten Gillibrand (D-NY), and Ben Ray Luján (D-NM) reintroduced legislation in June 2025 to make the \$13.25 rate permanent, building on earlier efforts with former Senator Bob Menendez (D-NJ) and Representatives Jenniffer González-Colón (R-PR) and Stacey Plaskett (D-VI). “For decades, the rum cover over has been vital in creating jobs and fostering economic development in Puerto Rico and the U.S. Virgin Islands,” said Senator Luján. “This bipartisan legislation will safeguard these revenues and ensure that both Puerto Rico and the U.S. Virgin Islands can reliably count on rum excise tax funds to reinvest in their communities.”

In the House, Plaskett and Representative Ron Estes (R-KS) introduced H.R. 1378 in February 2025 to extend the \$13.25 rate through 2032 and make it retroactive to January 1, 2022, though the final law does not include retroactivity. Senate Finance Committee Chairman Mike Crapo (R-ID) played a pivotal role in inserting the permanency provision into H.R. 1, following sustained lobbying by Bryan, González-Colón, and Plaskett.

“While I cannot support the bill in its entirety, I applaud the Senate’s provision to permanently provide the increased rum cover-over rate of \$13.25,” Plaskett said.

Critics, including the Beer Institute and fiscal conservatives, have long questioned the cover-over program, arguing it disproportionately benefits large rum producers like Bacardi and Diageo, which receive subsidies from the territories. A 2017 report by the San Juan-based Center for Investigative Journalism highlighted that up to 40% of cover-over funds are redirected to rum companies as incentives, prompting accusations of corporate welfare. “The rum cover-over program has turned into a handout to large liquor companies,” a 2023 Beer Institute ad claimed. Supporters, however, argue that these funds are critical for territorial economies, with Plaskett noting, “The cover-over has been part of the fundamental tax relationship between the United States and its territories going back over a century.”

The signing of H.R. 1 into law resolves a long-standing fiscal cliff, ensuring that Puerto Rico and the U.S. Virgin Islands can plan for the future without the threat of a rollback to the \$10.50 rate, which would have cut revenues by over 20%. For residents and leaders of the territories, the permanent \$13.25 rate represents not just economic security but a recognition of their vital role in America’s rum industry. As González-Colón put it, “Puerto Ricans and Virgin Islanders are proud of the products they produce on their respective islands that are enjoyed by people across the world.”