



Luxury Portfolio

Puerto Rico Tax Incentives



Introduction:

“Puerto Rico has a long history and track record of providing incentives to stimulate investment and job creation in Puerto Rico. The use of various economic incentives has been a central part of the various economic development strategies that the island has been implementing over the past decades.”—Act 60

For decades, Puerto Rico has been the cradle and model of economic development in the region. Today, as part of the transformation of Puerto Rico, the Department of Economic Development and Commerce is redoubling efforts to strengthen the Island with a business ecosystem of worldwide category.

What You Need to Know:

Puerto Rico's unique structure makes it a part of the US system but gives it autonomy over its own financial affairs. This allows it to grant unique incentives for investors. All acts and incentives were combined into one act, Act 60, in July 2019. Act 60 has a number of chapters of incentives covering various aspects of the economy, as well as sections on tax credits.

Act 60, the Puerto Rico Incentive Code (officially Law 60 of July 1st 2019; or "Código de Incentivos de Puerto Rico" [Ley 60-2019] in the original Spanish) is the unified incentive framework for Puerto Rico. Signed into law in 2019, it collects, amends, or replaces over 76 incentives, incentives and programs aimed at increasing the economic prosperity of the island. The code is split into 11 chapters, each of which maps to a group of incentives from previous acts and programs. The stated purposes of Act 60 are to consolidate incentives into one document and give the government better oversight, including increasing measurement of ROI, to improve outcomes. Incentives are not meant to be "rewards" but are intended to stimulate the Puerto Rico economy, which has been in decline for "eleven out of the past twelve years."

A study published by DDEC shows that incentives have been largely successful by generating 36,000 jobs, \$169 million in impact to the Puerto Rico treasury, and over a trillion dollars of investment on the island, including \$1.3 billion in real estate purchases by new residents.

Act 60 is administered by DDEC, the [Department of Economic Development and Commerce](#). (DDEC is the Spanish acronym). DDEC grants decrees to applicants for incentives, which have terms of 15 years with optional 15-year extensions. So as the government continues to refine the incentives, your decree, once granted, does not change.

How Act 60 Relates to Previous Acts

Many on the island still call incentives, broadly, Act 20/22, two laws enacted in 2012 for individual investors and export service and products. These laws have been extremely visible, and many local residents will ask if you came here for "20/22." Act 60 synthesizes dozens of acts going all the way back to the end of WWII in 1945.

Key Changes

- Standardizes **tax rates**
- Establishes additional benefits for **small and medium enterprises** (SMEs)
- Establishes additional benefits for the island of **Vieques** and **Culebra**
- Engages the correct government agencies as appropriate
- Adds **blockchain** technology to the list of exemptions from capital gains
- Establishes **DDEC** as the sole issuer of **decrees**, **tax credits**, and oversight
- Standardizes all **decrees to 15-year terms** with a possible 15-year extension
- Opens investment accounts for all kindergarten children in public schools
- Establishes a program to **repay student loans** for medical professionals who stay in Puerto Rico after completing their studies
- Creates the **Qualified Promoter** and the **Certified Professional** program

Purpose

1. Maximize transparency and fiscal responsibility
2. Minimize government risk
3. Base public policy on facts
4. Avoid incentivizing things that would happen anyway
5. Restore sustainable economic growth
6. Measure ROI
7. Ensure fulfillment of the commitments

A Summary on ACT 22:

Incentives for Individuals

Main focus of this law is to attract individual investors and promote that they relocate to the Island. How? With total exemption from local income taxes on all passive income from the point they become legal Puerto Rican residents. Capital gains accrued before the individual became a bona fide PR resident will be subject to preferential local income tax rates. To benefit, the individual investor needs to apply for a tax exemption decree with the Office of Industrial Tax Exemption of PR. Benefits will be granted for the term of such decree, until December 31, 2035, regardless of any changes to the law itself.

Incentives:

- Tax on short and long-term capital gains- 100% exemption
- Tax on dividend and interest income for new residents of PR- 100% exemption
- Federal taxes on PR based income- 100% exemption

Eligibility:

Benefits apply to bona fide residents of Puerto Rico, present on the Island for at least 183 days of the taxable year, does not have a tax home outside of Puerto Rico during the taxable year and does not have closer connections to the US or a foreign country than to Puerto Rico.

A Summary on ACT 20:

Incentives for Export Goods and Services

Enacted on January 17, 2012, Act 20, known as the “Export Services Act” is intended to promote the exportation of services by providing great resources and opportunities for U.S. companies to bring their business to Puerto Rico and make it a service center for the World. It also promotes academic and private sector development and research by granting exemptions and assistance with energy costs to companies willing to invest in the growth of these key areas. To become exempt, the business needs to apply for a tax concession via a tax exemption decree considered a contract with the Office of Industrial Tax Exemption of the Government of PR. The decree will be secured during the term, 20 years with possible 10 year extension, regardless of changes in the law itself. To qualify, the business cannot have any previous connections, dealings or nexus with Puerto Rico.

Incentives:

- Corporate tax rate- 4%
- Municipal taxes exemption- 60%
- Tax exempt dividends- 100%
- No federal taxes on PR source income
- Guarantee of these rates up to 20 years
- Among other tax exemptions for specific types of businesses

Eligibility:

Any Person with an office or bona fide establishment located in Puerto Rico which carries out or may carry out the following service activities, inside or outside Puerto Rico, that are, in turn, considered Services for Export or Promoter Services shall be considered an Eligible Business for the benefits of this Section

Eligible Businesses:

- Any service decreed by the Secretary of the Department of Economic Development and Commerce of Puerto Rico
- Advertising, Public Relations
- Call centers, Telecommunications, Service Centers
- Consulting Services
- Commercial Art and Graphic Services
- Computer software development
- Engineering and architectural plans and designs
- Economic, technological, environmental, scientific
- Engineering, Information Systems
- Human Resources, Management services, Marketing
- Investment Banking and other financial services
- Medical services, hospitals, laboratories
- Research and development

Why Puerto Rico?



Puerto Rico offers businesses the security and stability to operate in a US jurisdiction, while providing an unmatched variety of tax incentives that make it an attractive destination for businesses, large and small. At a glance, here are some of our top site selection benefits for life sciences, aerospace / aviation, information technology, renewable energy, and many other industries.

We have the ingredients to achieve it

- Skilled, bilingual and highly educated workforce
- Incentives and resources to promote entrepreneurship
- Unmatched quality of life

Investment Opportunities

The United States Department of the Treasury and the Federal Internal Revenue Service (IRS) designated that 98% of Puerto Rico is a Zone of Opportunity, under the Federal Act for Work and Tax Reduction (Tax Cuts and Jobs Act). These zones were created to promote local, national and international investment, create jobs and generate economic development in disadvantaged communities.

Puerto Rico, being classified almost entirely as an Opportunity Zone, opens up an immense world of opportunities to boost the growth of the country's economy, developing priority projects, industries, businesses and activities that generate income, contribute to socioeconomic recovery , to diversification and positive transformation of communities.

The projection is that, in the short term, the opportunity zones will generate approximately \$ 600 million in new investments, jobs and benefits to the coffers of the municipal and central governments. Operations within an Opportunity Zone may include: hotels, inns, and other businesses directly related to tourism; agricultural sector development; service to facilities; malls; high-tech companies, research and manufacturing, development of residential and / or commercial properties for rent and / or sale, among other areas.

The Bottom Line

Act 60-2019 was signed, which establishes the new Puerto Rico Incentives Code. Its main objective is to promote economic development on our island. It provides certainty related to the types of incentives that Puerto Rico offers to attract investment and create jobs in very important and traditional sectors such as manufacturing, tourism and agriculture; as well as aerospace, biosciences, technology, renewable energy, entrepreneurship and export services. In addition, it defines new incentives to support emerging sectors, such as the creative, eSports and entertainment industries. And it is based on metrics that will measure its effectiveness and the return on investment of all the incentives granted. This new tool will be an important component to promote job creation, investment in strategic sectors, innovation, exports, talent retention, international competitiveness and economic development of Puerto Rico.



Find out how you can benefit from the new Puerto Rico Incentive Code by [clicking here \(PDF File\)](#)! To read the Spanish version, [click here \(PDF File\)](#).