

Current through
August 2024

ACT60 Guidebook



L60.

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A Tool to Demystify
the Local Tax Code

L60.

Keiko Yoshino

Acknowledgments

We are truly grateful for all the individuals and companies that made this publication possible. For well over two years, the team has worked through several drafts, incomplete public data sets, and a misinformation campaign to bring this project to fruition. We would like to acknowledge and thank them all for their time and dedication to the project.

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Preface

The Puerto Rico Blockchain Trade Association (PRBTA) was established to build an inclusive community around emergent technology and spearhead local adoption of web3. But as time progressed, it became painfully clear that there was a lack of understanding about the incentives and who was eligible to utilize them. As a result, we could not talk about new technology companies on the island without addressing the elephant in the room: the tax incentives responsible for attracting them to the island in the first place. What started as a private campaign in response to misinformation in 2022 has evolved and been adopted as PRBTA's L60 public education initiative. L60 stands for *Ley 60* or *Act 60* in English. In February 2023, the PRBTA launched its first series of L60 tax incentive workshops with local associations and nonprofits.

At both the heart of the L60 Guidebook and PRBTA lies a dedication to accessibility. Written in a reader-friendly format, each chapter is carefully structured to unravel the intricacies of Puerto Rico's Incentives Code. The entire guidebook is available for free at L60PR.com.

PRBTA's L60 education campaign aspires to be a catalyst for change. Our goal is to transform misconceptions into tangible opportunities, empowering local communities to embark on ventures that might have previously seemed out of reach and call out to the diaspora to come home.

We hope you enjoy the read.

Sincerely,

Keiko Yoshino,
Executive Director,
Puerto Rico Blockchain Trade Association

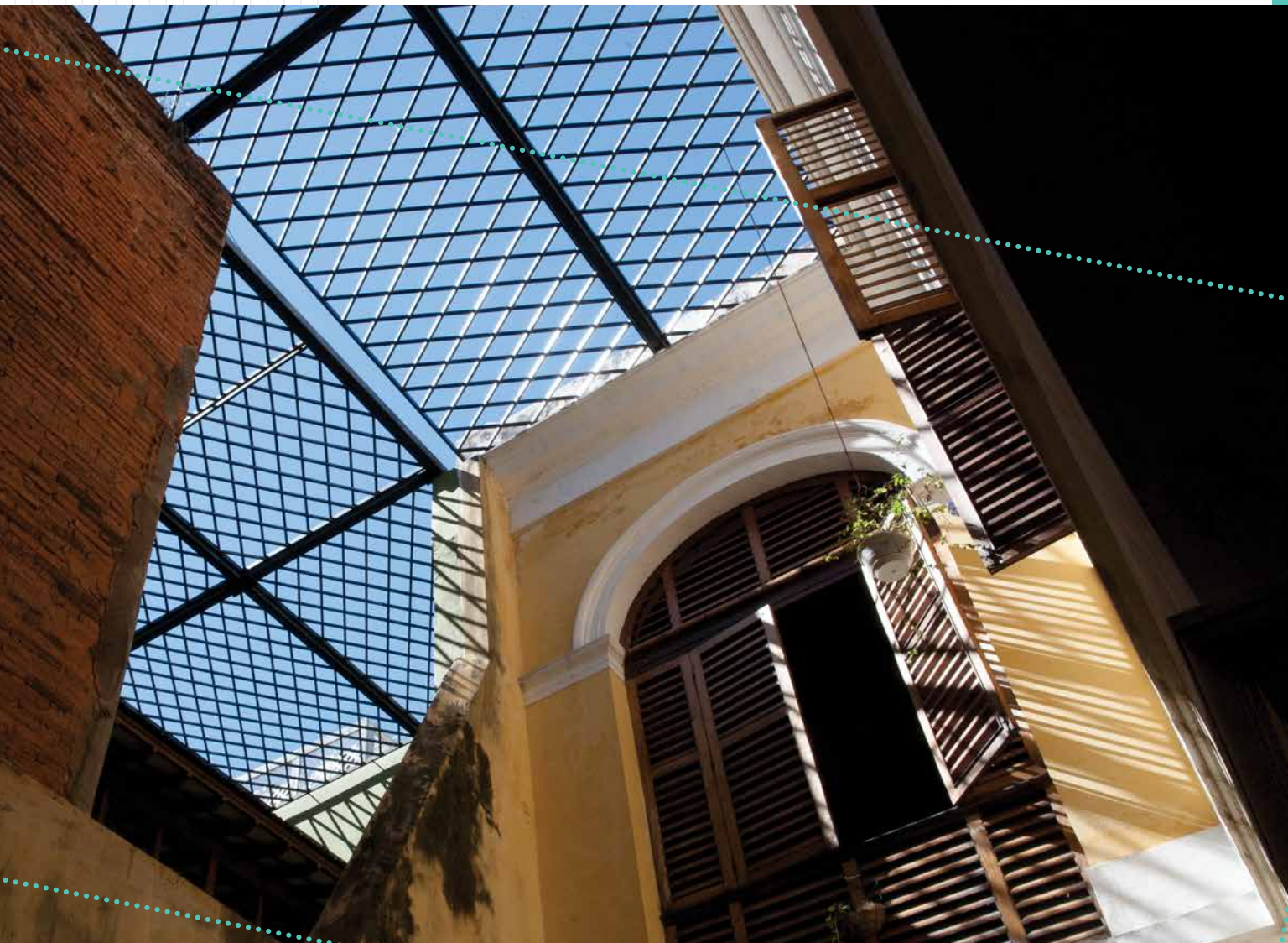
hello.

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Puerto Rico's Economic History and Transformation



Over the course of more than a century, Puerto Rico has witnessed a long and intricate history of economic development policies aimed to foster self-sufficiency and stimulate growth. In the last two decades alone, the island's government has introduced several tax incentive provisions to nurture local industries and address crucial social needs. These provisions include the Act 60 Incentives Code, which will be key to unlocking local entrepreneurial potential. To truly appreciate Act 60, it is essential to examine the island's history of tax incentives.



An Overview of Puerto Rico Tax Incentives

Puerto Rico's economy has been shaped by both federal and local tax reforms and regulations for the better part of a century. These paved the way for three distinctive waves of economic growth, each with its own unique focus and purpose.

1. The First Wave – 1940s-1960s:

The first wave of economic development policies in Puerto Rico was characterized by a strong emphasis on transportation, industrial incentives that are commonly known as Operation Bootstrap, and the offshore manufacturing of goods. In 1942, the first tax incentive policy was introduced. Afterwards, the 1950s entailed a shift towards preserving historic buildings, offering safety and security benefits to employees, and attracting insurance companies to the island. The 1960s heralded a progressive extension of incentives for local agriculture, with a specific focus on dairy farming and maritime cargo distribution. Each of the following incentives has played a significant role in shaping Puerto Rico's economic landscape, fostering growth across various sectors, and enriching the island's cultural fabric:

1945 - *Exención Contributiva a Porteadores Públicos de Servicios de Transporte Aéreo*
(Tax Exemption for Public Carriers of Air Transport Services)

1947 - *Ley de Incentivos Industriales*
(Industrial Incentives Act)

1955 - *Exención Contributiva Zonas Históricas*
(Historic Zones Tax Exemption)

1956 - *Ley de Seguridad de Empleo de Puerto Rico*
(Puerto Rico Employment Security Act)

1957 - *Código de Seguros de Puerto Rico*
(Insurance Code of Puerto Rico)

1962 - *Exención de Contribuciones a la Corporación Industrial Lechera de Puerto Rico*
(Puerto Rico Milk Industry, Inc. Tax Exemption Act)

1963 - *Ley de Incentivo Industrial de Puerto Rico*
(Puerto Rico Industrial Incentive Act)

1966 - *Ley de Transportación de Carga por Mar*
(Maritime Freight Transportation Act)

2. The Second Wave – 1970s-1980s:

In a bold effort to stimulate the economy and attract investment to the island, the federal government introduced Section 936 to the IRS Code. This provision offered tax incentives to corporations operating on the island, enabling eligible corporations to qualify for tax credits based on the income taxes they paid to the Puerto Rican government. The introduction of Section 936 aimed to incentivize companies to establish a presence, contribute to the local economy, and foster job creation on the island. Key pieces of legislation during this second wave included:

1971 - *Ley del Bono Anual a los Trabajadores Agrícolas*
(Agricultural Workers Annual Bonus Act)

1971 - *Exención Contributiva a la Producción Comercial de Flores y Plantas Ornamentales*
(Tax Exemption on Commercial Production of Flowers and Ornamental Plants)

1978 - *Ley de Incentivos Industriales de Puerto Rico*
(Puerto Rico Industrial Incentives Act)

1987 - *Ley de Coparticipación del Sector Público y Privado para la Nueva Operación de Vivienda*
(Public and Private Sector Co-partnership for the New Housing Operation Act)

1987 - *Ley de Incentivos Contributivos de Puerto Rico*
(Puerto Rico Tax Incentives Act)

1989 - *Ley Para Establecer el Programa de Subsidio Salarial a los Agricultores Elegibles*
(Act to Establish the Wage Subsidy Program for Eligible Farmers)

3. Third Wave – The 1990s and Beyond:

The 1990s marked the emergence of a third wave of economic development policies in Puerto Rico. During this period, leaders provided municipal governments the authority to enact local tax incentives, thereby amplifying the scope of economic development initiatives. As tourism continued to flourish, Puerto Rico introduced incentives for developing hospitality and tourism ventures. Moreover, these years saw the approval of policies to support agricultural, renewable energy, research, and affordable housing.

However, this provision also led to conflicts between federal and local public policy makers. Eventually, these conflicts

resulted in Section 936's repeal and a ten-year phase-out in 1996, marking the beginning of several decades of United States and Puerto Rico conflicting tax policies. This phase-out ultimately created an extended recession for the island: revenue plummeted, and jobs disappeared, as businesses left as tax incentives expired, leading the Puerto Rico government to accumulate tens of billions in dollars in debt as they borrowed to replace lost revenue.

With an eye on the future, the island expanded incentives to promote several population sectors and local industries. Throughout the 2010s, more than 20% of the current incentives available were introduced.¹ These programs included tax credits for the tourism industry, revamped green energy incentives, municipal economic development programs, real estate market stimulus laws, incentives for solid waste management, provisions to promote export services, and capital gains exemptions for individual investors. In addition, tax credits for the film industry, incentives for hiring high school and college graduates, and incentives to protect employees were introduced. Furthermore, incentives related to private capital funds, incubation programs led by nonprofit organizations, complete tax exemptions for young entrepreneurs, capital and income exemptions for medics, and parity to the Federal Opportunity Zone program were established at this time. Examples of these incentives are listed below:

1991 - *Ley de Contribución Municipal sobre la Propiedad*
(Municipal Property Tax Act)

1994 - *Código de Rentas Internas de Puerto Rico*
(Puerto Rico Internal Revenue Code)

1995 - *Ley de Incentivos Contributivos Agrícolas de Puerto Rico*
(Puerto Rico Agricultural Tax Incentives Act)

1996 - *Programa de Alquiler de Vivienda para Personas de Edad Avanzada Ingresos Bajos*
(Rental Housing Program for Low-Income Elderly Persons)

1998 - *Ley de Incentivos Contributivos de Puerto Rico*
(Puerto Rico Tax Incentives Act)

¹ Act 52, enacted in Puerto Rico on June 30, 2022, mandates the establishment of a Tax Credit Manager (TCM) within the Puerto Rico Treasury Department's electronic platform. This system is designed for efficient management and monitoring of tax credits, including their registration through interagency collaboration. Key provisions include a three-year limit on the use of any tax credits issued before the TCM's launch, unless they expire sooner. Additionally, for tax credits granted post-TCM implementation, registration within the TCM is mandatory for taxpayer eligibility.

2000 - *Vivienda de Interés Social para Personas con Impedimentos o de Edad Avanzada*
(Housing Units for the Elderly and Persons with Disabilities)

2001 - *Ley de Créditos Contributivos por Inversión en la Construcción o Rehabilitación de Vivienda para Alquiler a Familias de Ingresos Bajos o Moderados y de Créditos Contributivos por Inversión en la Adquisición, Construcción o Rehabilitación de Vivienda Asequible para Alquilar a las Personas de Edad Avanzada*
(Tax Credits for Investment in New Construction and Rehabilitation of Rental Housing for Low- or Moderate-Income Families Act and Tax Credits for Investments in the Acquisition, Construction, or Rehabilitation of Affordable Rental Housing for the Elderly Act)

2003 - *Ley para la Creación de Proyectos de Vivienda de “Vida Asistida” para Personas de Edad Avanzada en Puerto Rico*
(Act for the Creation of Assisted Living Housing Projects for the Elderly in Puerto Rico)

2003 - *Ley del Impuesto sobre el Canon por Ocupación de Habitación del Estado Libre Asociado de Puerto Rico*
(Commonwealth of Puerto Rico Room Occupancy Rate Tax Act)

2004 - *Ley para el Desarrollo de Energía Renovable*
(Renewable Energy Development Act)

2004 - *Ley del Programa JUVEMPLEO*
(JUVEMPLEO Program Act)

2008 - *Ley del Programa para el Financiamiento de la Investigación y el Desarrollo de Tecnología Agrícola y de Alimentos*
(Agriculture and Food Technology Research and Development Financing Program Act)

2008 - *Ley de Incentivos Económicos para el Desarrollo de Puerto Rico*
(Economic Incentives Act for the Development of Puerto Rico)

2010 - *Ley de Desarrollo Turístico de Puerto Rico de 2010*
(Puerto Rico Tourism Development Act of 2010)

2010 - *Ley de Incentivos de Energía Verde de Puerto Rico*
(Green Energy Incentives Act of Puerto Rico)

-
- 2010** - *Ley de Incentivos para el Desarrollo Económico y Turístico Municipal*
(Municipal Economic and Tourist Development Incentives Act)
-
- 2010** - *Ley de Estímulo al Mercado de Propiedades Inmuebles*
(Real Property Market Stimulus Act)
-
- 2011** - *Código de Rentas Internas para un Nuevo Puerto Rico*
(Internal Revenue Code for a New Puerto Rico)
-
- 2011** - *Ley de Incentivos Contributivos para la Inversión en Facilidades de Reducción, Disposición y/o Tratamientos de Desperdicios Sólidos*
(Act to Provide Tax Incentives for Investments in Solid Waste Reduction, Disposal, and/or Treatment Facilities)
-
- 2011** - *Ley de Incentivos Económicos para la Industria Fílmica de Puerto Rico*
(Puerto Rico Film Industry Economic Incentives Act)
-
- 2012** - *Ley para Fomentar la Exportación de Servicios*
(Act to Promote the Export of Services)
-
- 2012** - *Ley Para Incentivar el Traslado de Individuos Inversionistas a Puerto Rico*
(Act to Promote the Relocation of Individual Investors to Puerto Rico)
-
- 2013** - *Ley de Empleos Ahora*
(Jobs Now Act)
-
- 2013** - *Ley del Programa de Incentivos de Incubadoras de Negocios*
(Business Incubators Intensive Program)
-
- 2014** - *Ley de incentivos y financiamiento para jóvenes empresarios*
(Young Entrepreneurs Incentive and Financing Act)
-
- 2014** - *Ley de Fondos de Capital Privado*
(Private Equity Funds Act)
-
- 2014** - *Ley del Portal Interagencial de Validación para la Concesión de Incentivos para el Desarrollo Económico de Puerto Rico*
(Interagency Validation Portal for the Granting of Incentives for the Economic Development of Puerto Rico Act)
-
- 2017** - *Ley de Incentivos Para la Retención y Retorno de Profesionales Médicos*
(Incentives Act for the Retention and Return of Medical Professionals)
-

While progress has been made with each passing decade, there is still more to be done.

Factors Impacting Entrepreneurial Development

Collecting data from a wide range of sources, the Global Entrepreneurship Monitor (GEM) has provided a comprehensive view of the state of entrepreneurship in participating countries since 1999. GEM's research, centered on key aspects such as the number and characteristics of entrepreneurs, level of entrepreneurial activity, motivations and challenges entrepreneurs face, and the entrepreneurial ecosystem's impact on economic development, provides insight on Puerto Rico's entrepreneurial future. However, the outlook is not as optimistic as one could imagine. The six leading factors impacting the economic development of the entrepreneurial class are the following:

1. **Low Entrepreneurial Activity:** Compared to other countries, past GEM reports show that Puerto Rico has relatively low levels of entrepreneurial activity. In some years, it even ranked below countries that recently exited a totalitarian or dictatorial regime. This might be attributed to various factors, including economic challenges, culture, risk appetite, and limited access to resources and funding.
2. **Favorable Perceptions of Entrepreneurship:** Despite low levels of entrepreneurial activity, GEM has found that Puerto Ricans generally have favorable attitudes towards entrepreneurship and consider it a desirable career choice. However, although it is perceived favorably, only a small percentage follow through in putting their ideas into action.
3. **Limited Access to Funding:** Access to funding is often cited as a significant obstacle for entrepreneurs in Puerto Rico. Limited access to venture capital and angel investors can make it challenging for startups to scale and grow. Although

there are incentives for private equity funds, none are in place to foster angel investors and venture capital in small amounts. As a result, most founders in Puerto Rico rely on their own personal savings and credit cards.

4. **Government Support:** GEM reports rank Puerto Rico as one of the most cumbersome jurisdictions for doing business. Although its government has introduced various initiatives and tax incentives to encourage entrepreneurship and attract foreign investment, bureaucracy is one of the leading factors impeding the establishment of new enterprises. While these initiatives are aimed at fostering economic growth and creating a more favorable environment for startups, less than 20% of all active businesses in Puerto Rico have received a tax incentive.
5. **Emerging Sectors:** GEM reports have indicated that specific emerging sectors (such as technology, creative industries, and agribusiness) are gaining traction in the Puerto Rican startup ecosystem. These have the potential to drive economic development and create jobs. Evidence of this has been seen for decades, as the island has produced renowned musicians and cultural icons, many with an impact on the social fabric of society.
6. **Recovery from Natural Disasters:** Over the years, Puerto Rico has experienced several natural disasters (such as Hurricane Maria in 2017). The long-lasting consequences of these disasters have left their mark on the island's economy and infrastructure, which in turn have influenced the entrepreneurial landscape and recovery efforts.

What the Future Holds if Nothing is Done

The continuation of low levels of entrepreneurial activity may present several challenges and have significant economic impacts on Puerto Rico. If the status quo remains unchanged, this could lead to:

1. **Limited Job Creation:** Entrepreneurial ventures are a major source of job creation in any economy. However, Puerto Rico's low entrepreneurial activity means fewer new businesses are being established, leading to a limited number of job opportunities for the local population. Since 2021, the number of corporations registered in the island has not surpassed more than 50,000 enterprises,² while there are more than 3,000,000 residents on the island.³
2. **Brain Drain:** The lack of vibrant entrepreneurial opportunities can drive talented individuals towards seeking better prospects elsewhere. This is what is known as the brain drain effect, a loss of skilled individuals that can negatively impact the local workforce and talent pool. To lessen the impact of this phenomenon, Puerto Ricans may consider starting new businesses or continuing family enterprises for the following reasons: (a) lack of available job opportunities that pay a living wage, (b) the need to cause social impact, and (c) the desire to build great wealth.
3. **Economic Stagnation:** A lack of entrepreneurial activity can result in economic stagnation, limited innovation, and the absence of new industries or business models that could drive growth and diversify the economy. This has been the case in Puerto Rico for several decades. Since 1996, and with the phase out of the Section 936 tax exemptions, there has been a deterioration in the manufacturing sector.⁴ From 1996-2006, Puerto Rico lost 40% of its manufacturing workforce.⁵ many skilled professionals have had no alternative but to leave the island.
4. **Reduced Innovation:** Entrepreneurs are often at the forefront in the development of new products, services, and technologies. When there is low entrepreneurial activity, this leads to a

2 "2022 Small Business Profile – Puerto Rico," U.S. Small Business Administration Office of Advocacy, August 2022. <https://advocacy.sba.gov/wp-content/uploads/2022/08/Small-Business-Economic-Profile-Puerto-Rico.pdf>.

3 U.S. Census Bureau, "Quickfacts: Puerto Rico," 2023. www.census.gov/quickfacts/fact/table/PR/PST045223.

4 Amelia Cheatham and Diana Roy, "Puerto Rico: A U.S. Territory in Crisis," Council on Foreign Relations, September 29, 2022. <https://www.cfr.org/background/puerto-rico-us-territory-crisis>

5 John Schoen, "Here's How an Obscure Tax Change Sank Puerto Rico's Economy," CNBC, September 26, 2017. <https://www.cnbc.com/2017/09/26/heres-how-an-obscure-tax-change-sank-puerto-ricos-economy.html>

reduced pace of innovation. This means that Puerto Rico could hinder its ability to stay competitive in a global market. Low safety measurements, or infrastructure to tolerate and accept risk (accelerators, incubators, and other programming), halt significant advancements in these areas.

5. **Limited Economic Resilience:** A diverse and dynamic entrepreneurial ecosystem contributes to economic resilience. However, with fewer startups and innovative businesses, Puerto Rico may need help in adapting to changing economic conditions and disruptions. Moreover, without affordable housing and strong electrical, telecommunications, and utilities infrastructure, no risky endeavor may survive a natural disaster.
6. **Dependence on Foreign Investment:** When local entrepreneurs do not drive economic growth, this inevitably leads to dependence on foreign investment and multinational corporations. Puerto Rico's heavy reliance on external investment could make the economy vulnerable to external factors and leave the island at a loss as to its economic engine. Fostering investments within the local entrepreneurial class (at all investment levels), as well as fostering both local and foreign investments, may counteract the island's full dependency on foreign capital.
7. **Young Adult Unemployment:** High youth unemployment rates are often associated with low entrepreneurial activity. Without opportunities to start or join startups, young people may face challenges as they enter the job market. Furthermore, as a jurisdiction with one of the most rapidly aging populations in the world, Puerto Rico's need for younger, educated, and employed talent begs the following question: Who will take the reins of the productive assets in the economy? As 16- to 35-year-olds lead the outward migration with their children, the population deficit that the island will face is a serious concern to be addressed through effective policies and incentives.
8. **Impact on Government Revenues:** A thriving entrepreneurial ecosystem can boost government revenues through increased taxes on business income, wages, and consumption. Low entrepreneurial activity could impact public services and infrastructure investment. The biggest mistake the local economy can make is forgetting about the local entrepreneurial class.⁶

6 NotiUno. "Comerciantes de Piñones reclaman acción para que arreglen carretera." February 22, 2022, https://www.notiuno.com/noticias/gobierno-y-politica/comerciantes-de-pi-ones-reclaman-acci-n-para-que-arreglen-carretera/article_8b18ecb6-93fo-11ec-9fa7-7386a3de341b.html.

9. **Slower Economic Recovery:** Entrepreneurial ventures are instrumental in driving economic recovery after crises or natural disasters. With limited entrepreneurial activity, Puerto Rico may need help in rebuilding and revitalizing its economy in the aftermath of adverse events. As such, future recovery and response efforts could increase reliance on slow, bureaucratic, and centralized government processes.
10. **Decline in Competitiveness:** Limited funding, support networks, and opportunities for talented citizens make it harder for Puerto Rican startups to compete with businesses from other regions with more robust access to capital or cheaper labor. This decline could result in reduced competitiveness and market share across sectors.
11. **Inability to Attract Investment:** Local and foreign investors may be hesitant to invest in Puerto Rican startups if they perceive a lack of funding support, or if their business models need to be more entrenched in serving the shrinking local community. A lack of growing export businesses servicing clientele around the world can further exacerbate the limited access to capital for entrepreneurs.
12. **Economic Inequality:** Limited access to funding can disproportionately impact underserved and disadvantaged entrepreneurs who may already face barriers to starting and growing their businesses. With established corporations increasing their market share and lacking competition, these factors can exacerbate economic inequality on the island.
13. **Regulatory Burden:** Excessive regulations and bureaucratic hurdles can make it difficult for entrepreneurs to navigate the process of starting and operating a business. This can lead to delays, increased costs, and frustration among those who aspire to create a business.

Moving forward, the entrepreneurial landscape in Puerto Rico will continue to evolve in response to both external challenges and internal opportunities (or lack thereof). This is why the island's entrepreneurial community must remain agile, innovative, and well connected. Only by doing this can they overcome challenges and leverage emerging trends in sectors such as technology, sustainability, and healthcare. Collaboration between entrepreneurs, government agencies, and support organizations will be key in building a resilient and prosperous entrepreneurial ecosystem in Puerto Rico.

Sustainable development, climate change, and natural disasters will present just a few of the additional problems the world population will have to deal with in the coming decades. It will not be a choice; it will be an imperative. Entrepreneurship will be at the forefront of necessary growth in consideration of this ever-changing reality.

The L60 Guidebook: A Tool to Demystify the Local Tax Code

Born out of a relentless desire to bridge the gap between misinformation and knowledge, the *L60 Guidebook* stands as an authoritative resource with a distinct mission: to demystify the complexities of Puerto Rico's Incentives Code. Written in a reader-friendly format with concise, dual-language, and data-driven chapters, the guidebook serves as a conceptual framework for entrepreneurs, ecosystem builders, policymakers, and organizers eager to make a positive economic impact on their local communities or grow their businesses exponentially. The *L60 Guidebook* seeks to serve as a catalyst for change and a compass that navigates readers through the vast landscape of tax incentives, offering invaluable insights and actionable advice to demystify the application process for a tax decree.

This publication aims to transform misconceptions into possibilities, empowering readers to embrace opportunities they may have once believed were unattainable. Regrettably, one of the most prevailing and detrimental misconceptions about Puerto Rico's tax incentives is the perception that these policies for economic development are exclusively reserved for the benefit of multinational corporations and foreign investors. This belief, coupled with a pattern of disengagement from local communities, has had an adverse impact on the genuine progress and transformative power that activists, founders, and investors can collectively achieve.

This Guidebook is focused on breaking down barriers to information and participation. It is meant to be a resource to encourage entrepreneurs and organizers to confidently initiate activities that will undoubtedly contribute to the organic growth and sustainable development of their communities. One of its key goals is to challenge and dispel the myth that these incentives are elusive and inaccessible to the majority. This publication will demonstrate that they are attainable and that, with the right understanding and application, they can lead to tangible, lasting benefits for businesses, investors, and citizens alike.

Common Misconceptions: True or False?

Incentives are only for for-profit organizations and capital interests.

False

Contrary to the notion that all economic development policies and incentives have been geared towards corporations, the Statement of Motives for Act No. 60 of July 1, 2019, provides that more than 35% of the incentives established are designed to directly address pressing social needs that the government is unable to cater to effectively due to a lack of resources, time, or expertise.⁷

Incentives are only for foreigners.

False

While many believe that Act 60 exclusively benefits foreigners or individuals who do not reside on the island, this is far from the truth. The tax incentives under Act 60 are available to both residents and non-residents of Puerto Rico who meet the eligibility criteria. The program is designed to promote economic development, job creation, and social impact within Puerto Rico's local communities. With 65% of the provisions focused on local industries and corporations, entrepreneurs, business owners, and individuals living on the island can take advantage of these incentives to grow their ventures, create jobs, and contribute to the island's prosperity. By dispelling this misconception, more local residents can explore and benefit from the opportunities provided by Act 60 and contribute to the island's economic growth.⁸

Incentives are only for exporting businesses.

False

Another misconception is that only specific industries can take advantage of Act 60 tax incentives. In reality, the Incentives Code covers a broad spectrum of industries, including manufacturing, technology, hospitality, agriculture, creative industries, and more. The diversity of eligible industries fosters

7 Atty. José Sánchez Acosta and Atty. Carlos Fontán. "Conéctate al Desarrollo | Ep. 3 – Datos y mitos sobre la Ley 22 de Puerto Rico." DDECPR. April 27, 2023. Video, <https://www.youtube.com/watch?v=WBCbzQKjKml>.

8 Acosta and Fontán, "Conéctate al Desarrollo | Ep. 3 – Datos y mitos sobre la Ley 22 de Puerto Rico.". <https://www.youtube.com/watch?v=WBCbzQKjKml>.

a dynamic entrepreneurial ecosystem, encouraging businesses from various sectors to contribute to Puerto Rico's economic prosperity, no matter their size or scale. Any entrepreneur or business owner with the willingness to expand their operations may qualify for these incentives.

Incentives involve a complex application process.



True

The application process for Act 60 tax incentives can be intricate and requires the submission of specific documentation. However, entrepreneurs and business owners can seek guidance from consultants, tax professionals, attorneys, and experts who are well versed in the application process. While daunting at first, it is essential to understand and navigate the application process to reap the full benefits of Act 60, which could extend for well over 15 years.

Incentives are inaccessible for small- and medium-sized businesses.



False

One of the prevailing myths about Act 60 is that it is inaccessible to small- and medium-sized businesses because it was primarily designed for large corporations. The tax incentives actually cater to businesses of all sizes, including startups as well as small- and medium-sized enterprises (SMEs). The incentives are designed to support and empower the growth of these businesses, fostering a thriving entrepreneurial landscape in Puerto Rico.

The Incentives Code provides long-term and reliable tax benefits.



True

Act 60 provides long-term tax benefits. This provides businesses with a predictable environment in which to plan and invest. Once a decree is obtained, signed, and approved, those tax benefits are secured for the duration of the decree and protected under the Constitution of Puerto Rico.

False

Incentives have a limited social impact.

It has been suggested that Act 60 is primarily focused on economic benefits and neglects social impact. However, a significant portion of the incentives are specifically designed to address social needs and promote social responsibility. For example, incentives support affordable housing, green energy initiatives, and the preservation of historical properties, directly contributing to Puerto Rico's social and cultural development as well as the overall well-being of its constituents.

False

Incentives are only for new businesses.

While Act 60 benefits may be understood to be exclusive to newly established businesses, that is not the case at all. Many incentives are also available to existing businesses seeking to expand their operations, undertake research and development projects, or engage in other activities that contribute to Puerto Rico's economic growth.

Guidebook Structure

The *L6o Guidebook* is thoughtfully designed to offer a structured, cohesive approach to understanding and navigating Puerto Rico's Incentives Code. It is divided into 11 chapters, each covering specific types of incentives. They also address the needs of businesses owners, grassroots leaders, and economic development advocates alike.

Following a consistent format that makes the content both accessible and actionable, the chapters also offer important insights, eligibility requirements, illustrative examples, and costs to file. The start of every chapter will set the stage for the specific tax incentive program, including an overview of the economic and social objectives it aims to address. Additionally, it will show available data and statistics related to the performance and impact of the incentive.

The eligible businesses section breaks out the types of businesses or industries that qualify for the specific tax incentive(s) discussed in that chapter. This section will provide a comprehensive list of eligible activities, a brief definition of each one, as well as (in some instances) minimums and maximums that define compliance. The eligible businesses information will assist readers in determining whether their business aligns with the program's objectives.

Next are the eligibility requirements and the general benefits sections. The first of these will outline the criteria and conditions that businesses must fulfill to become eligible for the tax incentive. This includes information on the required documentation, certification processes, and any other prerequisites set forth by the government or regulatory municipal, state, or federal authorities. Meanwhile, the second will provide a glimpse of the general benefits that businesses can gain by participating in the tax incentive program. Although every chapter includes a baseline of tax incentives, this section delves into the financial advantages, tax credits, and deductions that qualifying businesses can access. As the requirements are understood, this will aid interested entrepreneurs in preparing and applying for the incentive successfully, thus reducing the time required for the application process.

To fully visualize the process, the illustrative examples section will provide hypothetical situations to demonstrate how the tax incentive really works. This section will enhance understanding and enable readers to grasp the benefits and implications of the incentive in different business contexts.

Finally, the cost to file section will provide concrete details around the financial commitment involved in the process. This section will break down the complete costs (what the

government charges) for each type of application available and the processing fees.

In moving forward with the methodology and approach to be applied, it is important to highlight that the *L6o Guidebook* is based on the Puerto Rico Incentives Code (Act No. 6o of July 1, 2019, as amended) and its English translation can be found in PDF format, <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>. To avoid the repetition of footnotes in relation to this document, pinpoint citations are provided primarily at the header level per chapter. The five-digit citation following the “S” section symbol can be entered into the search box of the PDF document to find a specific section of the law.

Methodology and Approach

With a strong commitment towards providing accurate and reliable information, we adopted a robust methodology and approach in gathering data for this publication. Data were sourced from various open access platforms provided by the government of Puerto Rico, leading universities, federal agencies, and global development banks. Additionally, insights and forecasts were drawn from esteemed economic researchers and institutions in Puerto Rico, such as Estudios Técnicos and Econometrica.

The *L6o Guidebook* aims to foster fiscal reform through education, increase awareness, and promote the widespread adoption of tax incentives for the greater good of Puerto Rico and its residents. Its vision is to empower individuals, entrepreneurs, and organizations with the tools and knowledge necessary to harness the transformative power of these incentives, which will ultimately cultivate a thriving ecosystem of sustainable growth and prosperity. Readers are invited to delve into the chapters that pique their interest, explore the vast opportunities that lie within Puerto Rico’s economic landscape, and embrace the possibilities for a brighter, more resilient future.

Strategic Programs, Human Capital, and Investments



This chapter enumerates the powers of the Department of Economic Development and Commerce (DDEC, by its Spanish acronym) to foment, supervise, and grant tax incentives to corporations and individuals who will develop the island's economy.¹ It discusses the general rules for all decrees under the Act 6o Incentives Code. It also delineates special programs and provisions for businesses situated in specific geographic regions of the island, that are early leaders in nascent industries, or directly contribute to strategic infrastructure and conservation projects.

1 Statement of Motives, Puerto Rico Incentives Code, Act No. 6o of July 1, 2019, as amended.
<https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>



→ The Benefits for All Act 60 companies:¹

1. 15 to 30 years of preferential tax treatment for eligible businesses

Once their tax decree is approved, every Act 60 company will receive a preferential tax treatment of 15 years, with the opportunity to renegotiate an additional 15 years. Although the duration of the decree varies for projects such as film productions, affordable housing developments, and green energy projects, all Act 60 corporations may effectively receive preferential treatment for up to 30 years.

2. Corporate income tax (CIT)

As a general rule, any business that benefits from Act 60 receives a 4% corporate income tax rate on net business profit. To clarify: *the exemption applies to the entity*, not the wages of its owners or employees. Tax exemptions to the wages of its employees and owners may result when hiring hard-to-recruit scientists, researchers, or professionals (see Chapter 2) or when filing for a Young Entrepreneurs incentive (see Chapter 10).

3. A 100% exemption on distributions of the company's profits

The distributions of the company profits (called dividends) are tax exempt. Dividends are the distribution of business profits to investors and company owners. They are not to be confused with wages or salaries.

4. A 75% exemption on property taxes

Depending on the municipality of Puerto Rico in which an Act 60 company is established, the taxable rate for personal and real property varies. The tax rate for personal property is between 5.80% and 10.73%. The tax rate for real property is between 8.18% and 12.33%. This exemption cuts the tax rate by three-fourths. For real estate properties in ongoing construction, the Act 60 company receives a 100% tax exemption.

1 Puerto Rico Incentives Code, Sec. 2011.01, 13 L.P.R.A. § 45031 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

5. A 50% exemption on municipal taxes

Depending on the municipality of Puerto Rico in which an Act 60 company is established, the taxable rate on gross revenues varies between 0.2% and 1.5%. This exemption cuts the tax rate by half.

6. A 75% exemption on construction costs

Depending on the type of construction, the tax rate in Puerto Rico is between 1% and 6% of the total value of the development. This exemption reduces the tax rate by three-fourths.

7. Up to 50% in research and development tax credits

If an Act 60 company engages in eligible research and development activities as a manufacturing firm or as science and research organization, it may receive up to 50% of the eligible experimental and incidental costs back in tax credits. For more information on these types of credits, please read Chapters 6 and 7 as they will focus on an in-depth explanation of the manufacturing and green energy incentives available.

8. Up to 30% in tax credits for local purchases

An Act 60 company can claim a tax credit of up to 30% on purchases of products manufactured in Puerto Rico if they are used in eligible business activities. However, it is important to note that these credits have additional requirements and regulations and may not be traded as research and development, tourism (see Chapter 5), or film credits (see Chapter 9).

These are the baseline rules, benefits, and tax incentives for all Act 60 eligible businesses. Most of the chapters in the guidebook will include these exact general benefits and any additional applicable provisions. The percentages may vary depending on the incentive, tax credit granting activity, location, or economic impact. Additional benefits for capital gains (see Chapters 2, 4, and 10) and personal income tax exemptions (see Chapters 2 and 8) will also be reflected in each chapter of this publication.

→ Special Programs

There are additional special classifications that, upon filing, apply as an add-on to most Act 60 businesses. The add-on benefits vary by activity, time, and individual negotiations with the government. For endeavors that are not necessarily defined by any of the provisions of the Incentives Code, provisions for Strategic Projects and Novel Pioneering Activities are defined. These add-on benefits and provisions include the following:

1. **New small- and medium-sized enterprises (SME)**²
2. **Businesses established after 2020**³
 - a. A 2% income tax (instead of a 4% income tax) for the first 5 years
 - b. A 100% exemption on property taxes for the first 5 years
 - c. A 75% exemption on municipal taxes
 - d. A 30% tax credit (instead of a 25% tax credit) on purchases of products manufactured in Puerto Rico for the first 5 years
3. **Businesses established in the municipalities of Vieques and Culebra**⁴
 - a. A 2% income tax (instead of a 4% income tax) for the first 5 years
 - b. A 100% exemption on property taxes for the first 5 years
 - c. A 100% exemption on municipal taxes for the first 5 years
 - d. A 30% tax credit (instead of a 25% tax credit) on purchases of products manufactured in Puerto Rico for the first 5 years
4. **Strategic Projects**⁵
 - a. All benefits negotiated with DDEC and the Puerto Rico Department of Treasury (Hacienda)

2 13 L.P.R.A. § 45041 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

3 13 L.P.R.A. § 45041 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

4 13 L.P.R.A. § 45051 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

5 13 L.P.R.A. § 45061 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

5. Novel Pioneering Activities⁶

- a. All benefits negotiated with DDEC and Hacienda
- b. Can have a corporate income tax of at least 1% instead of 4%

1.2A

→ New Small- and Medium-Sized Enterprises (SMEs)⁷

The benefit for a new SME is a designation that can be added to most decrees. This designation lowers the taxes a business will have for the first 5 years and as it expands its capital intake.

Eligibility Requirements

1. The company's operations cannot have started before 2020.
2. The company cannot have a decree for Young Entrepreneurs or Incentives for Individuals.
3. The company cannot exceed an average gross revenue of

6 13 L.P.R.A. § 45062 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>

7 13 L.P.R.A. § 45012 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>



\$3,000,000 per year for the past 3 years.

General Benefits

1. Income taxes are reduced to 2% for the first 5 years.
2. There are complete tax exemptions on the property and municipal taxes for the first 5 years.
3. Businesses can obtain a tax credit of up to 30% for purchases of products manufactured in Puerto Rico while it conducts its operations in Vieques or Culebra. This credit applies for the first 5 years.

The new SME designation establishes a fixed 2% corporate income tax rate for the first 5 years. Additionally, it includes a 100% exemption from taxes on personal and real property and municipal taxes for the first 5 years. Afterward, the standard fixed rates of 4% tax on income, a 75% exemption on property taxes, and a 50% exemption on municipal taxes apply for the remainder of the decree's duration.

Another benefit for new SME businesses that work with physical products is a tax credit for purchases of products manufactured in Puerto Rico. This tax credit can reach up to 30% of purchases made exclusively by Puerto Rican companies in the first 5 years. This tax credit looks to promote products manufactured in Puerto Rico and usually receives a base benefit of only 25%. However, this credit is subject to the standard tax credit rules and will require the completion of an audit of the company finances every year it is requested (see Chapter 6).

1.2B

→ Island Municipalities: Vieques and Culebra⁸

This add-on incentive requires enterprises to develop and improve the economy of the island municipalities of Vieques and Culebra through employment, capital investment, and business operations.

Eligibility Requirements

1. Enterprise must conduct business operations in Vieques or

⁸ 13 L.P.R.A. § 45051 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

- Culebra.
2. Enterprise must be registered to do business in Vieques or Culebra.
 3. Enterprise must have an office or place of operations located in Vieques or Culebra.
 4. Enterprise must apply for or have a tax decree in good standing.

General Benefits

The incentive is identical to the new SME benefit.

1. Income taxes are reduced to 2% for the first 5 years.
2. There are complete tax exemptions on the property and municipal taxes for the first 5 years.
3. Businesses can obtain a tax credit of up to 30% for purchases of products manufactured in Puerto Rico while it operates in Vieques or Culebra. This credit applies for the first 5 years.

1.2C

→ Strategic Projects⁹

The Strategic Project designation has some flexibility as to what can qualify for this incentive. The established designation seeks to improve the economic and social welfare of Puerto Rico by focusing on preserving natural assets, establishing mass renewable energy projects, and fostering the creation and improvement of accessible transportation. While some examples are specifically named in the Incentives Code, the law also provides that a Strategic Project will be approved or declined at the discretion of the Secretary of the DDEC and Hacienda.

Eligible Businesses

Businesses that will be considered Strategic Projects are those that have an impact on the Caribbean region. An example of this type of impact would be a new headquarters for a multinational-scale company. The same would also apply to a local company that markets new products; establishes a campus; invests in vast swaths of land, buildings, and machinery; and creates

⁹ 13 L.P.R.A. § 45061 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

thousands of jobs. Additionally, some of the examples provided by the Incentives Code include:

1. **Aircraft Repair and Maintenance** — The establishment of an industry for the maintenance, repair, and general conditioning of aircraft in Puerto Rico. These include but are not limited to passenger aircraft, cargo, and vehicles for aerial transportation.
2. **Vessel Repair and Maintenance** — Repair and general conditioning of maritime vessels, as well as their parts and components. Some of these vessels include those for passenger transport, cargo, tourism purposes, and watercraft intended for maritime transportation.
3. **Landfills and Aquifers** — The cleanup, recovery, conversion, and restoration of landfills that have been closed in Puerto Rico, including methane recovery activities and the cleanup of aquifers.
4. **Water, Power, and Infrastructure** — The construction of reservoirs and dams, including all necessary infrastructure for their operation, to increase storage and reserves as well as safeguard the value of water production of the Puerto Rico Aqueduct and Sewer Authority; hydroelectric power production; and the construction of wastewater treatment plants.
5. **Renewable Energy** — The construction of plants to produce energy that use renewable sources and alternative fuels to oil. This designation may overlap with some in Chapter 7 of this guidebook.
6. **Mass Transportation Systems** — Construction of mass transportation systems that include, but are not limited to, rail systems, buses, and other activities or facilities that may be of practical benefit to Puerto Rico's commuters.
7. **Affordable Rental Housing** — The construction of affordable rental housing components, related services, or infrastructure in areas adjacent to mass transportation systems or the Old San Juan Port, upon recommendation of the Puerto Rico Department of Housing and in accordance with a development plan for the area adopted by the Puerto Rico Planning Board.
8. **Other Economic Activities** — Economic activities, regardless of the economic sector to which they belong, that have the purpose of advancing public policy regarding the development of markets, products, processes, services, and



any other activity whose promotion seems appropriate to the Secretary of the DDEC and is in accordance with the best interests of Puerto Rico.

Eligibility Requirements

1. The project creates numerous jobs and significant capital investments.
2. The project has a measurable impact on the local economy.
3. The project sets a precedent for future, bold investments.
4. The project has the designation of the Secretary of the DDEC and the endorsement of the Secretary of Hacienda.

General Benefits

1. Income taxes are 1% to 4%.
2. DDEC and Hacienda have broad discretionary powers around additional tax incentives. This means that, on top of

the preferential corporate income tax, the designation allows direct negotiations with the DDEC and Hacienda concerning the total incentives and terms.

1.2D

→ Novel Pioneering Activities¹⁰

The final designation of this chapter looks to aid an individual or a company engaged in novel activities. Often, many new technologies do not fit neatly into the molds of prior business practices. Though the Incentives Code is expansive and covers many fields, there are businesses that could still be highly innovative and not fit within any of the established parameters. This is where the Novel Pioneering Activity designation comes in.

Eligibility Requirements

1. The activities have never been created or developed in Puerto Rico.
2. They integrate research and development activities.
3. They increase Puerto Rico's competitiveness in global markets.
4. They attract specialized and hard-to-recruit professionals.
5. They have an impact on the island's tax base, detailed in the projection of product sales or income from the provision of services. There is special emphasis on the tax withheld for royalty payments to non-residents of Puerto Rico.
6. They bring about substantial capital investments in plants, machinery, and equipment.
7. They have an impact on the international market as well as the factors that define and establish its value in said market.
8. They incorporate technological improvements as part of business operations, with a particular interest in the implementation of emerging technologies.
9. They have a socioeconomic impact on the island.
10. Any other factor that warrants the recognition of the activity as a Novel Pioneering Activity, if the activity shall serve the best economic and social interests of Puerto Rico as determined by DDEC.

¹⁰ 13 L.P.R.A. § 45062 (2023).

General Benefits

1. They are negotiated with DDEC and Hacienda. Corporate income tax is at least 1% instead of 4%.

Illustrative Example

In 2023, the government issued a request for proposals (RFP) that designates a portion of the Jose Aponte de la Torre airport in Ceiba as an area to perform space and biosciences activities. More specifically, these activities entail the following:¹¹

1. Spaceport operators
2. Developers and construction professionals
3. Bioscience and biomanufacturing entrepreneurs
4. Vertical space shuttle sea-barge operators

The RFP is an example of the government looking for a novel pioneering activity. While capital-intensive projects for research and development are often funded by the federal government of the United States,¹² this incentive encourages private sector participation with a 1-4% corporate income tax rate. Additional tax credits may be negotiated with the DDEC and Hacienda for entrepreneurs engaged in research and development activities of space material and other organic or inorganic matter.

Act 60 is broad and touches nearly every industry. When looking for the right decree, start with the industry that best describes the activity to be performed. For novel industries that may not be exactly described in other services, look under Pioneering Activities and Strategic Projects in this chapter; these offer greater potential benefits if an activity qualifies under these discretionary classes.

Cost to File

Filing	Transaction Fee	Service Fee
Strategic Project	\$5	\$1,000
Novel Pioneering Activities	\$5	\$1,000
Economic Incentive Fund	\$5	\$100
Incentive for the Development of the Film Industry of Puerto Rico	\$5	\$500
Incentives for the Creative Industries	\$5	\$500

¹¹ "Puerto Rico Ports Authority issues RFP for a spaceport in Ceiba." News Is My Business, February 24, 2023, <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

¹² "About America's Seed Fund powered by NSF." National Science Foundation, n.d., <https://seedfund.nsf.gov/our-program/>.

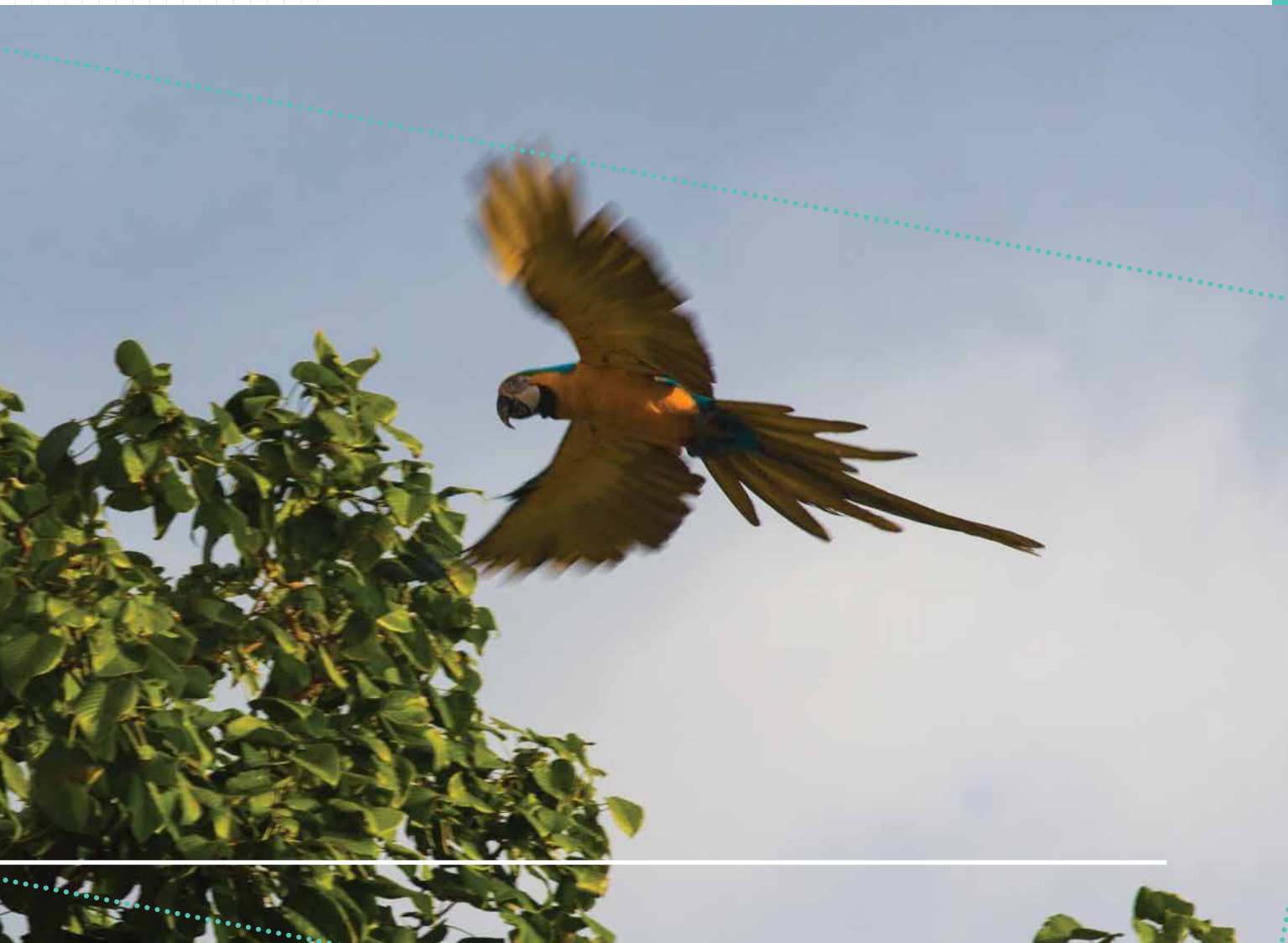
Individuals



While the previous chapter focused on business incentives, Act 60 also provides incentives developed for specific individuals. These programs look to attract in-demand professionals and retain their valuable skills in the Puerto Rican economy. Additionally, there are programs for young people, student internships, older adults, and special funding accounts for public school students between the ages of 13 and 29 years.

For the purposes of this chapter, the incentives provided for individuals to be discussed include the following:

1. Resident Individual Investors
2. Hard-to-Recruit Professionals
3. Investigators and scientists
4. Qualified Physicians
5. Professionals eligible for student loan repayment program

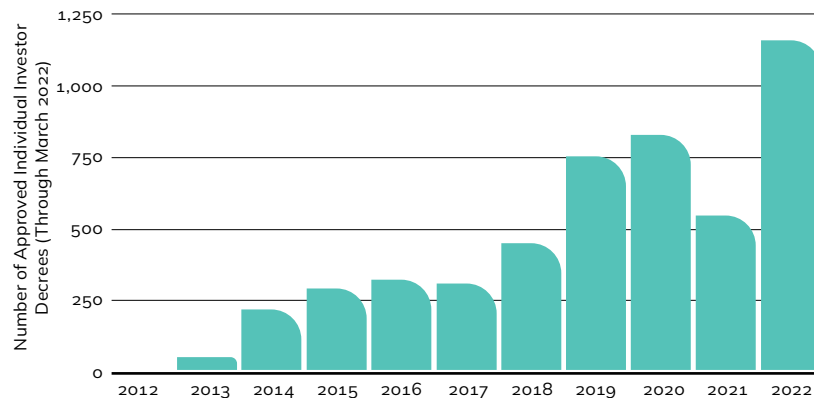


→ Resident Individual Investors¹

Since 2012, Individual Investors have received preferential tax treatments for relocating with their families and capital to Puerto Rico. Throughout the years, multiple amendments to the 2012 Individual Investors Act have been adopted to adjust and expand the policy attracting risk capital to the island. Reflecting recent developments, over one-fourth of all Individual Investor Decrees approved to date were issued in 2022 alone.²

Under this section of the Incentives Code, an average of 485 Individual Investor Decrees have been approved on an annual basis.³ Contrary to popular belief, not all applicants are billionaires. In fact, a recent study from Estudios Técnicos, Inc. found that 82% of decree holders have a net worth below \$10,000,000, 14% possess a net worth between \$10,000,001 - \$50,000,000 and only 4% have a net worth of over \$50,000,000.⁴

Number of Individual Investor Decrees Approved by Year



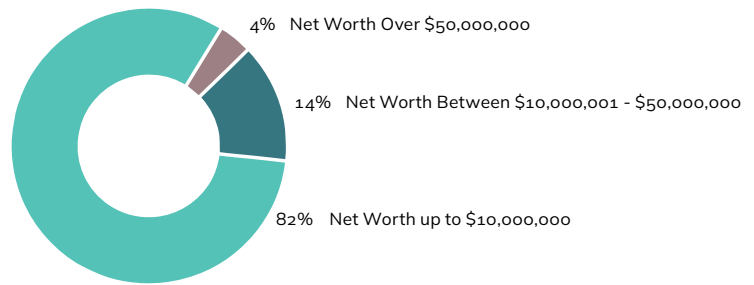
1 Puerto Rico Incentives Code, 13 L.P.R.A. § 45141 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

2 Department of Economic Development and Commerce, "Acceso a la información," n.d., <https://www.desarrollo.pr.gov/acceso-informacion>.

3 Department of Economic Development and Commerce, "Acceso a la información," <https://www.desarrollo.pr.gov/acceso-informacion>

4 Estudios Técnicos, Inc., *Performance of Incentives Programs*, n.d., www.estudiostecnicos.com/projects/act2022update2019/2019-Performance-of-Incentives-Programs.pdf.

Net Worth of Individual Investors



During the first eight years of the incentive, 35% of all Individual Investors started a business in Puerto Rico.⁵ That new economic activity represents 914 businesses and nearly 2% of all businesses in Puerto Rico's economy. Although Individual Investors are not required to generate jobs on the island, almost 30% of all businesses created applied for the export of goods and services incentive (see Chapter 3) and are required to employ and hire locally.

Eligibility Requirements

1. Applicant must be an individual citizen or trust.
2. Applicant must become and remain a Bona Fide Resident of Puerto Rico.
3. Applicant must not have lived on the island between 2006-2014.
4. Applicant must purchase a property within 2 years of receiving the decree.
5. Applicant must make an annual donation of at least \$10,000 to 2 qualified charities.
 - a. A minimum of \$5,000 must be donated to a nonprofit entity that eradicates child poverty and is on the government-approved list.
 - a. The remaining \$5,000 can be donated to any other 1101.01 registered Puerto Rican nonprofit entity.
6. Applicant must submit annual report, together with an additional \$5,000 payment.

⁵ Estudios Técnicos, Inc., *Performance of Incentives Programs*, n.d., www.estudiostecnicos.com/projects/act2022update2019/2019-Performance-of-Incentives-Programs.pdf.

General Benefits

1. There is a total exemption from taxes on capital gains and dividends for assets purchased after obtaining a decree from Puerto Rico sources.
2. Capital gains on assets owned before obtaining a decree but held for 10 years after receiving a decree are taxed at 5%.
3. It allows the ability to create trusts outside of Puerto Rico.

Bona Fide Resident

A Bona Fide Resident of Puerto Rico is an individual who lives on the island and meets certain additional conditions. To become a Bona Fide Resident, a person must satisfy the following requirements:

- A. Meet the presence test
- B. Only have a tax home⁶ in Puerto Rico
- C. Does not have a closer connection to the United States or to a foreign country than to Puerto Rico
- D. File Form 8898

Presence Test⁷

1. Resident must live on the island at least 183 days during a taxable year.
2. Resident must be present for at least 549 days over the 3 years of the taxable year and the 2 preceding taxable years, provided the individual was also present in Puerto Rico for at least 60 days during each taxable year.
3. Resident must be present in the 50 states or territories (other than Puerto Rico) of the United States for no more than 90 days during the taxable year.

6 A tax home is the general area where a person works or does business. For more information, see Hyperlink to <https://www.irs.gov/individuals/international-taxpayers/foreign-earned-income-exclusion-tax-home-in-foreign-country>

7 Department of the Treasury, Internal Revenue Service, *Publication 570 Tax Guide for Individuals with Income from U.S. Territories*, Feb. 8, 2023, <https://www.irs.gov/pub/irs-pdf/p570.pdf>.

4. Compensation for work or services done in the United States is generally considered income from U.S. Sources. However, if the total amount earned for those service is \$3,000 or less, it will not be counted as income from the U.S..
5. Resident has no significant connection to the 50 states or territories of the United States (other than Puerto Rico) during the taxable year.

Computing Presence⁸

- A. Any day physically present at any time in one of the 50 states will count as a day in the United States.
- B. Any day accompanying a spouse, parent, or child for qualifying medical treatment will not be counted as a day in the United States.
- C. Being unable to return to the territory during the 14 days after a significant disaster or period for mandatory evacuation order will not count as being in the United States.
- D. Any day in the United States for less than 24 hours when traveling between two places outside of the United States will not count as a day in the United States.
- E. Temporary presence in the United States as a professional athlete to compete in a charitable sports event will not count as a day in the United States.
- F. Temporary presence of a day in the United States as a student will not count as a day in the United States.
- G. Any day in the United States serving as an elected representative of Puerto Rico or doing full-time work as an elected or appointed official of the territorial government will not count as a day in the United States.
- H. Thirty days of presence in Puerto Rico, whether for business or personal travel, will be attributed to being in Puerto Rico, even when also traveling outside Puerto Rico and the United States.
 - a. This only applies if the number of days present in the territory exceeds the number in the United States.
 - b. This does not apply to calculating the minimum of 60 days of presence in the territory required for the 549-day presence test.

⁸ Department of the Treasury, Internal Revenue Service, Publication 570 Tax Guide for Individuals with Income from U.S. Territories, Feb. 8, 2023, <https://www.irs.gov/pub/irs-pdf/p570.pdf>.

- I. If present in the United States and Puerto Rico on the same day, then they are considered present in Puerto Rico.
- J. If present in two territories on the same day, the presence will apply to the tax home.

Significant Connection

The government will look at many factors when determining residency. Some of the elements to be considered are the following:

- A. If a person has a permanent home in the United States, generally meaning a permanent residence, dwelling, or domicile. This is the place where they live and go to sleep, but it does not mean they cannot own property in the United States.
- B. If a person has a rental property in the United States. This is not a permanent home unless it is used as a residence during the taxable year. It will be considered a permanent home if they use the property for 14 days or more than 10% of the days the property is rented to others (whichever is higher).
- C. If a person is currently registered to vote in any political subdivision of the United States that is not Puerto Rico.
- D. If a person has a spouse or child under 18 years of age whose principal place of abode is in the United States, other than a child living with a custodial parent under a custodial agreement or multiple support agreement. A child who is studying in the United States does not count.

Closer Connection Test

The closer connection test is an overall analysis of the circumstances that show a person has stronger bonds to Puerto Rico than anywhere else in the United States. This test will consider the following aspects:

1. The location of a permanent home
2. The location of the family
3. The location of personal belongings, automobiles, furniture, clothing, jewelry, and objects owned by the family, etc.
4. The location of social, political, cultural, professional, or religious organizations
5. The location of routine banking activities

6. The physical location where business activities take place
7. The jurisdiction where they hold a driver's license
8. The jurisdiction where they are registered to vote
9. The location of charities to which they contribute
10. The country of residence that they fill out in forms
11. The W-9, W-38BEN, and other official forms

Year of a Move Rules

It is possible to still comply with the closer connection test in the year of a move to Puerto Rico. To qualify under the year of a move rules, there are several requirements that must be met:

1. Resident must not have been a Bona Fide Resident for the past 3 tax years.
2. Resident must not have a tax home outside of the territory, or a closer connection to the United States, during any of the last 183 days of the tax year.
3. Resident must be a Bona Fide Resident for each of the 3 tax years immediately following the tax year of the move.

Trusts

In addition to the above benefits, the law enables a Resident Individual Investor to bring trusts from other jurisdictions to Puerto Rico. This allows beneficiaries of the decree to choose the best type of trust to suit their needs. Some of the most common trusts are family trusts, special needs trusts, credit trusts, life insurance trusts, and Medicaid trusts. There are also asset protection trusts, which were created to protect a person's assets from lawsuits.

Puerto Rico-Sourced Income

Income must be attributable to Puerto Rico sources. Regular income, such as a salary, only qualifies under the income rules of the incentives, irrespective of where it is sourced.

The income sources that may qualify are:⁹

- » Capital gains derived from the sale of personal property, as well as dividends and interest attributable to the seller's tax home in Puerto Rico
- » Real estate, if the property is located in Puerto Rico
- » Dividends from an entity organized in Puerto Rico
- » Gains from the stock accrued after the individual has relocated to Puerto Rico

2.2

→ **Hard-to-Recruit Professionals**¹⁰

This incentive is designed to aid corporations to retain local talent and hire additional professionals. The benefits are only available to corporations who currently possess a tax incentive or are filing for a tax incentive. A Hard-to-Recruit Professional must engage in activities that fall under the following industries: goods and service exports, finance, insurance, private equity, tourism, manufacturing, research and development, agriculture, film production (creative industries), companies led by young professionals, and maritime or air transportation corporations.

Eligibility Requirements

To hire a person as a Hard-to-Recruit Professional¹¹, an applicant must show that:

1. They will be under full-time employment in a corporation that possesses a tax incentive (see Chapters 1, 3, 4, 5, 6, 7, 8, 9, 10, and 11).

⁹ Department of the Treasury, Internal Revenue Service, *Publication 570 Tax Guide for Individuals with Income from U.S. Territories*, Chapter 2, Feb. 8, 2023, <https://www.irs.gov/pub/irs-pdf/p570.pdf>.

¹⁰ Puerto Rico Incentives Code, 13 L.P.R.A. § 45143 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

¹¹ 13 L.P.R.A. § 45013 (a)(13) (2024). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



2. They are difficult to hire. This can be demonstrated through any of the following:
 - a. Showing that the person they want to bring to the island under the incentive has expert knowledge that no local programs can provide
 - b. Stating the number of local professionals available in the area of expertise or subject matter
 - c. Providing a comparison of the level of sophistication, specialization, or knowledge of the profession or skill versus what other occupations require
 - d. Mentioning the size of the industry or the quantity of the businesses in Puerto Rico related to the sector in which the person is specialized
 - e. Demonstrating the complexity or difficulty in contracting
 - f. Demonstrating any other factor that is considered relevant towards establishing that the person is indispensable to the business's operations

Additionally, the applicant must state:

1. The functions of the person
2. The reasons for hiring and the needs that are only met with the person
3. The efforts made during the hiring process for the position that said person may fill
4. The difficulty of replacing the person, their experience level, specialized talent, and importance for the business

As for necessary documents, the applicant must submit all of the following:¹²

1. A detailed description of the person's studies and academic background
2. The person's work experience
3. Letters of recommendation

If the person was not employed in the private sector before, the DDEC Secretary will consider various factors, including:¹³

1. The college or university where they studied
2. Their academic records
3. Their scientific publications or theses
4. Their internships
5. Any other relevant factor(s)

If the Hard-to-Recruit Professional can bring investment to Puerto Rico due to their experience, networks, or fame, then they will qualify if they were any of the following:

1. President or board director of a Fortune 500 company

¹² Reglamento de Incentivos MO-DEC-012, Art. 2021.02-1. <https://www.colegiocpa.com/wp-content/uploads/2020/09/Reglamento-del-C%C3%B2digo-de-incentivos-FINAL-MGH.pdf>

¹³ Reglamento de Incentivos MO-DEC-012. <https://www.colegiocpa.com/wp-content/uploads/2020/09/Reglamento-del-C%C3%B2digo-de-incentivos-FINAL-MGH.pdf>

2. President of a top-ranked college or university, or president of a college or university with more than 50,000 students
3. Nobel Prize winner
4. Oscar, Emmy, Grammy, or Tony award winner
5. Similarly accomplished in any other categories that could bring investment to Puerto Rico, at the discretion of the DDEC Secretary

Exceptions

Generally, these decrees are not available to island natives unless they lived off the island from 2006 – 2014. However, if Puerto Rico is at risk of losing a Hard-to-Recruit Professional, who is also a resident of Puerto Rico, due to competing offers in other jurisdictions, the government will consider an exemption if the applicant can meet the following requirements:¹⁴

1. The applicant has been working for at least a year in export of services.
2. The applicant works at an exempt business, but the services that the company renders can be services that differ from the employee's employment experience.

In these cases, the applicant will not be required to comply with provisions for the purpose of complexity of recruitment, since the intention is to retain the Hard-to-Recruit Professional on the island rather than to attract a new professional.

General Benefits

1. There is a total exemption from taxes on capital gains and dividends for assets purchased after obtaining a decree from Puerto Rico sources.
2. Capital gains on assets owned before obtaining a decree but held for 10 years after receiving a decree are taxed at 5%.
3. They are exempt from the requirement to pay the \$10,000 donation to nonprofit entities found in the Resident Individual Investor Incentive.
4. Income above \$100,000 is generally exempt from all income taxes.

¹⁴ Reglamento de Incentivos MO-DEC-012 (c)(3).

→ Qualified Physicians¹⁵ (Pending)¹⁶

The Qualified Physician incentive sought to retain specialist physicians who recently graduated on the island. This incentive included provisions to reduce the student loan debt held by each physician as well as provided similar benefits to Individual Investors.

Eligible Practices

1. General Medicine
2. Specialized Medicine
3. Podiatry
4. Audiology
5. Chiropractic
6. Optometry
7. Dental Surgery
8. Dentistry Specialty
9. Physicians completing an accredited residency program and are approved by the Secretary

Eligibility Requirements

1. Physician practices and lives in Puerto Rico.
2. Physician is a resident of Puerto Rico.
3. Physician maintains their status as a Qualified Physician.
4. Physician works full-time in general medicine or in any of the listed specialties, which include podiatry, audiology, chiropractic, optometry, dental surgery, or any dental specialty.
5. Physician is up-to-date and complies with tax obligations.

¹⁵ Puerto Rico Incentives Code, 13 L.P.R.A. § 45144 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

¹⁶ On December 23, 2020, the U.S. court for the District of Puerto Rico, issued an Order and Opinion, ordering the immediate cessation of the implementation of Act 47, affecting the extension of the term to file under Act 106. This determination paralyzed more than 2,000 applications for decrees filed.

6. Physician provides 180 hours of community service each year.
7. When:
 - a. The physician is a medical resident: After completing their specialty residency, they will have 120 days to establish their medical practice.
 - b. The physician completed their residency: They will have 120 days after obtaining their license to establish their medical practice in Puerto Rico (doctors relocating to Puerto Rico).

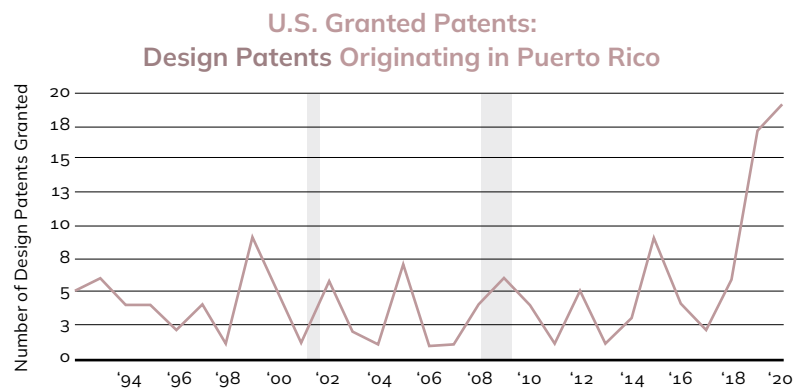
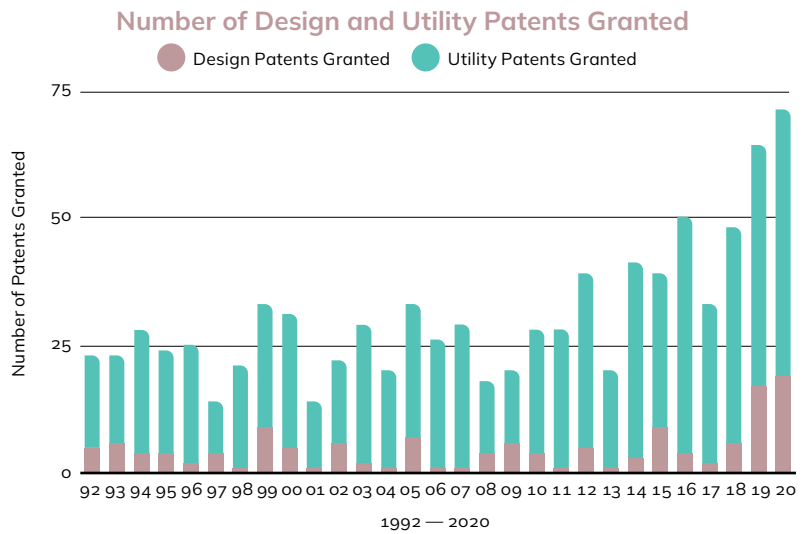
General Benefits

1. Income tax is 4%.
2. Dividends of up to \$250,000, per tax year are tax exempt.
3. There are total exemptions from taxes on capital gains and dividends for assets purchased after obtaining a decree.
4. Capital gains on assets owned before obtaining a decree but held for 10 years after receiving a decree are taxed at 5%.
5. Benefits are effective January 1st of the year the decree is filed.



→ Investigators and Scientists¹⁷

In 2004, the government of Puerto Rico introduced a series of tax incentives that empowered universities and academic institutions with tools to increase scientific research activities and outputs. Since its inception, two additional amendments to the law were introduced in 2008 and 2019. As a result, for the past 20 years, the total number of scientific papers, publications, and patents has steadily increased.¹⁸



Shaded areas indicate U.S. recessions

Source: U.S. Patent and Trademark Office / fred.stlouisfed.org

¹⁷ Puerto Rico Incentives Code, 13 L.P.R.A. § 45145 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

¹⁸ Mariela Torres-Cintrón et al. "Scientometric analysis of the Puerto Rico Clinical and Translational Research Consortium (PRCTRC) research publications, 2010–2018," *Journal of Clinical and Translational Science*, Volume 5, Issue 1, 2021, e4, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8057457/>.

U.S. Granted Patents: Utility Patents Originating in Puerto Rico



Shaded areas indicate U.S. recessions
Source: U.S. Patent and Trademark Office / fred.stlouisfed.org

Eligibility Requirements

1. Investigator/Scientist must be a resident who is hired by a higher education institution (e.g. the University of Puerto Rico) to participate in Eligible Scientific Research based on a grant provided by a qualifying agency or institution.
 - a. Eligible Scientific Research refers to scientific research that is supported by grants from federal agencies.
2. Investigator/Scientist must be the lead scientist and grantee, unless there are multiple principal investigators (MPIs). Except in the case of MPIs, only the lead scientist will receive the grant.¹⁹
3. Investigator/Scientist provides 60 hours of community service each year.
4. Services must be provided in accordance with the areas and through the tasks designated by the Secretary of the DDEC.

General Benefits

1. There is up to 100% tax exemption on personal income tax:
 - a. If contracted by the University of Puerto Rico, the maximum amount to be exempt is \$195,000.
 - b. If contracted by the Puerto Rico Science, Technology and Research Trust, the maximum amount to be exempt is \$250,000.

¹⁹ 13 L.P.R.A. § 45013 (8) (2024). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

Qualifying Government Grants

The law names several agencies offering grants that would qualify as Eligible Scientific Research:

1. National Institutes of Health
2. National Science Foundation
3. Department of Energy
4. Department of Defense
5. National Aeronautics and Space Administration
6. National Oceanic and Atmospheric Administration
7. Environmental Protection Agency

The law states that the list of qualifying agencies may be updated. Please refer to [grants.gov](https://www.grants.gov) for more information on research grants from different agencies.



→ Professionals Eligible for Student Loan Repayment Program²⁰

This incentive was established to aid some Qualified Physicians and researchers pay back their student loans. Although the total amount is yet to be determined, the program aims to reduce the total loans carried by professionals that are critical to Puerto Rico's public health infrastructure and scientific health research capacity.

Eligible Applicants

1. Physicians
2. Dentists
3. Veterinarians
4. Scientific investigators

Eligibility Requirements

1. Professional commits to establishing a practice in Puerto Rico for 7 consecutive years.
2. Professionals who completed studies on the island will be prioritized.

General Benefits

1. The government will subsidize up to \$65,000 of student loan debt to those professionals with health specialties.

²⁰ Puerto Rico Incentives Code, 13 L.P.R.A. § 45146 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

Noncompliance Penalties

Student Loan Repayment Program Noncompliance Penalties by Year of Failure to Comply

Year	Penalty
1	100%
2	100%
3	70%
4	66.5%
5	63.175%
6	60.016%
7	57.0152%

If the person complies with the full term, they will not need to repay any amount.

Illustrative Examples

Bona Fide Resident

Paul, a corporate attorney originally from Boston, built his career at a well-established law firm in Massachusetts. In 2019, during a sabbatical, Paul visited Puerto Rico and fell in love with the island's culture and lifestyle. After returning to Boston, he realized he wanted a change and decided to move permanently to Puerto Rico for a slower-paced life and new opportunities. Paul passed the Puerto Rico bar exam, purchased a home in Dorado, and opened his own practice focusing on business law. Over time, Paul fully integrated into his new community: he got a Puerto Rico driver's license, started voting locally, and began paying local taxes. With no remaining connections to Boston and living full-time on the island, Paul is now considered a Bona Fide Resident of Puerto Rico.²¹

Individual Investor

Kathleen, raised in Puerto Rico, moved to California to get her bachelor's degree in finance and master's degree in business. Upon completing her studies, Kathleen did not return to Puerto Rico but became a resident of California. After working for a

²¹ In some cases, individuals still conserve some connections in their prior place of residence, such as a club membership or some belongings. In these cases, inasmuch as there are more connections to Puerto Rico and other tests are met, the person may still be deemed a Bona Fide Resident of Puerto Rico.

decade as an analyst, she moved back to Puerto Rico in 2020 to take care of her aging parents. She buys a house down the street from where they live and applies for an Individual Investor Decree because she was off the island from 2006-2014. Kathleen trades stocks in the morning when the markets open, and her resulting capital gains are taxed at 0%.

To maintain her eligibility for the tax benefits, Kathleen donates \$10,000 annually to Puerto Rican charities, files a \$5,000 report with the government, and ensures she meets the Bona Fide Resident requirement. Kathleen resides in Puerto Rico for at least 183 days each year and maintains her closer connections requirements because her main source of income is her trading activity (sourced to Puerto Rico in her permanent home, she also meets the tax home test).

Cost to File

The Resident Individual Investor application is among the most expensive to file. Although the Qualified Physicians exemption was legislated, it has not been approved by the Fiscal Control Board and is therefore currently inaccessible.

Cost to File		
Filing	Transaction Fee	Service Fee
Resident Individual Investors	\$5	\$5,000
Hard-to-Recruit Professionals	\$5	\$5,000
Investigators and Scientists	\$5	\$100
(Pending) Qualified Physicians	\$5	\$3,000
Student Loan Repayment Program	\$5	\$100

Export Activities



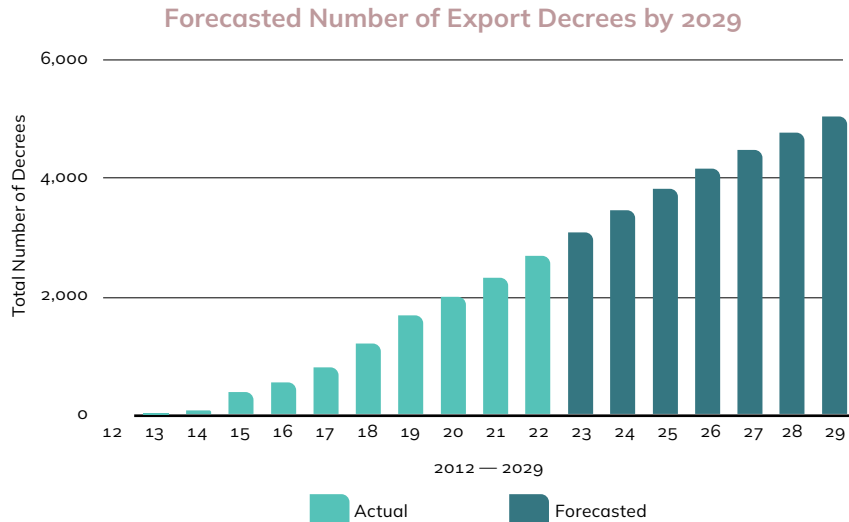
This chapter is for businesses that export services or goods with value added from Puerto Rico to the world. The export incentive is divided into three branches: (1) Export of Services, (2) Export of Goods, and (3) Qualified Promoters. The incentive arose in the aftermath of the Great Recession of 2007–2009 and in the complete phase-out of the IRS Tax Exemptions known as Section 936 in 2006.¹ The intent was to aid and catalyze the transition of the island’s economy from a manufacturing-centered economy to a services-led economy.²

1 Scott Greenberg and Gavin Ekins, “Tax Policy Helped Create Puerto Rico’s Fiscal Crisis,” Tax Foundation, last modified June 30, 2015, <https://taxfoundation.org/blog/tax-policy-helped-create-puerto-rico-fiscal-crisis/>.

2 Estudios Técnicos, Inc., 2016 UPDATE: Economic Assessment Act 20/22, <https://www.estudios tecnicos.com/projects/act2022update/Presentacion-update-DDEC-20-22-final.pdf>.



In the first 10 years of this incentive, almost 3,000 corporations obtained the tax decree.¹ In 2021, there were 45,541 registered Puerto Rican businesses, and nearly 6.5% of those businesses have obtained this tax benefit.² A recent study by Estudios Técnicos, Inc. (see the diagram below) highlights the growth of local businesses adopting economic development incentives and the continued increase of these decrees in the last 10 years.³



In Estudios Técnicos' 2019 forecasts, the estimated number of companies leveraging the Export of Services and Goods incentive is set to increase to 5,026 by the end of this decade.⁴ At the same time, the number of jobs created is expected to rise from 13,000 in 2023 to over 24,000 in 2029.⁵ On this current trajectory, growth will be driven primarily by five key sectors: (1) consulting work, (2) financial and investment banking services, (3) professional services, (4) centralized management systems, and (5) advertising and public relations.⁶

1 Estudios Técnicos, Inc., 2019 UPDATE: Economic Assessment Act 20/22, <https://www.estudiostecnicos.com/projects/act2022update2019/2019-Summary-results.pdf>.

2 United States Census Bureau, U.S. Census Bureau QuickFacts: Puerto Rico, n.d., <https://www.census.gov/quickfacts/fact/table/PR/BZA010221>.

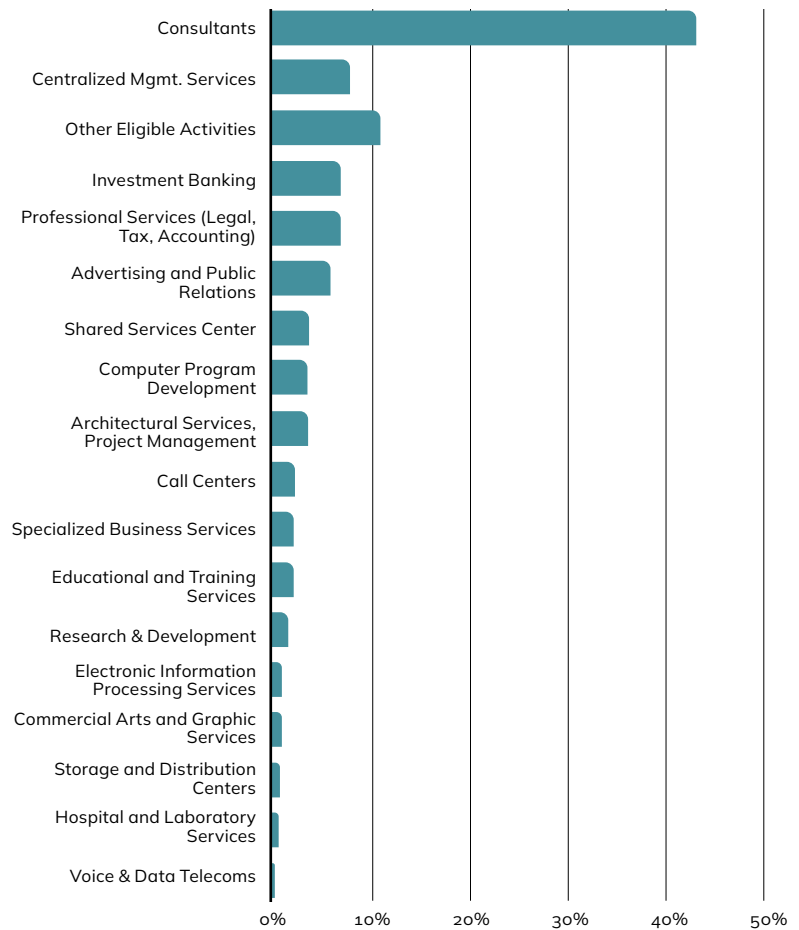
3 Estudios Técnicos, Inc., 2019 UPDATE: Economic Assessment Act 20/22, <https://www.estudiostecnicos.com/projects/act2022update2019/2019-Summary-results.pdf>.

4 Estudios Técnicos, Inc., 2019 UPDATE: Economic Assessment Act 20/22, <https://www.estudiostecnicos.com/projects/act2022update2019/2019-Summary-results.pdf>.

5 Estudios Técnicos, Inc., 2019 UPDATE: Economic Assessment Act 20/22, <https://www.estudiostecnicos.com/projects/act2022update2019/2019-Summary-results.pdf>.

6 Estudios Técnicos, Inc., 2019 UPDATE: Economic Assessment Act 20/22, <https://www.estudiostecnicos.com/projects/act2022update2019/2019-Summary-results.pdf>.

Composition of Export of Services Decreases



3.1

→ Eligible Export of Services Businesses⁷

1. Research and Development

This designation is meant for any corporation engaged in providing scientific research or development that leverages human capital to solve or produce a technological breakthrough. It can include activities such as producing new software products, vaccine research, biomedical device creation, or clinical research.

⁷ Puerto Rico Incentives Code, 13 L.P.R.A. § 45231 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



2. Advertising and Public Relations

Any corporation that provides advertisement creation, placement, and bid management is eligible under this designation. Additionally, companies aiding individuals or brands to improve or maintain a positive public image may qualify.

3. Consulting Services

This designation includes any economic, environmental, technological, scientific, managerial, marketing, human resources, computer, and auditing consulting services. These services may be provided by an individual or a team.

4. Consultancy for Trade or Businesses

Any business engaged in trading commodities, goods, or materials is eligible under this designation. The knowledge provided ensures that each trade reaches completion. Providing consulting or trade services with other businesses owned by the decree-holder outside of Puerto Rico may be eligible, but a transfer pricing study may be required to determine eligibility.

5. Creative Industries

This designation includes design (graphic, industrial, fashion, interiors), arts (music, events, some publications), media (mobile app development, video game development, online media, digital content, multimedia), creative services (pre-production, production, post-production), and tickets bought by tourists in Puerto Rico. The incentive extends to broadcasting or the sale of copyrights for a recording of shows and music productions intended for audiences outside of Puerto Rico. Additionally, it includes e-sports and fantasy leagues events to be brought to Puerto Rico.

6. Drafting of Construction Plans and Engineering, Architectural, and Project Management Services

This designation includes architectural and construction design, plans and drawings, the creation of construction schedules, and the day-to-day management of construction projects and other similar services.

7. Voice, Video, Audio, and Data Telecommunications

This designation includes services rendered to persons located outside of Puerto Rico that leverage voice, video, audio, and data telecommunications to deliver a product or service. Moreover, companies that manage live streams for corporations or events may also be eligible.

8. Call Centers

This designation includes centralized offices where customer service representatives place and receive calls from or to current or potential consumers, clients, or donors. The primary purpose of these centers is to efficiently manage and address customer inquiries, provide support, handle complaints, and assist with various types of customer interactions.

9. Shared Service Centers

Accounting, finance, tax, auditing, marketing, engineering, quality control, human resources, communications, electronic data processing, and other centralized management services fall under this designation.

10. Educational and Training Services

This designation includes education and training, such as distance courses, seminars, and conferences, among others, that use (a) the internet, (b) other telecommunications infrastructure, (c) online conferences, and (d) video cassette, DVD, and CD-ROM in order to instruct students or participants who are in spaces different from that of the instructor. The programming must regularly and substantively support the interaction between students or participants and the instructor, either synchronously or asynchronously.

11. Hospital and Laboratory Services

This designation includes laboratories, telemetry services, X-ray services, magnetic resonance imaging services, blood tests, and the like that assist in the delivery of medical care. It also includes centers of telemedicine that host doctors, pharmacists, and other healthcare professionals.

12. Investment Banking

This designation is meant for investment banking and other financial services, such as asset management services, alternative investment management, management of activities related to private equity management, management of hedge funds or high-risk funds, management of pools of capital, management of trusts that serve to turn different types of assets into stocks, and management services for escrow accounts (insofar as they are provided by foreign persons).

13. Marketing Centers

This designation includes businesses primarily involved in offering space and services, including leasing, secretarial support, translation, data processing, communications, marketing, telemarketing, and consulting, to businesses located outside of Puerto Rico that fall within this category. This includes export and marketing firms, commercial attachés, government agencies handling foreign trade, exchange, and centers for product and service exhibitions.

14. Any Other Service

In consultation with the Secretary of Hacienda, the Secretary of the DDEC will determine whether other services that are not defined as eligible activities under this designation should be treated as eligible export of services. This will be decided in consideration of any of the following factors:

- a. It is a service that is deemed to be in the best interest and for the social and economic wellbeing of Puerto Rico
- b. The demand for such services outside Puerto Rico
- c. The total number of jobs to be created
- d. Its payroll
- e. The investment the sponsor would make in Puerto Rico
- f. Any other factor that warrants particular research and development

→ Eligible Export of Goods Businesses⁸

1. Reselling of Goods Purchased in Puerto Rico

This designation includes the sale to foreign persons, for use, consumption, or disposition outside of Puerto Rico, as well as products purchased by the eligible business for resale.

2. Commissions

This designation includes income earned in the form of commissions and received through the sale of products for use or consumption outside of Puerto Rico.

3. Reselling of Products Manufactured or Harvested Upon Request

This designation includes the sale of products manufactured or harvested upon request and sold outside of Puerto Rico.

4. Intellectual Property and Content

This designation includes the sale or distribution to foreign persons outside of Puerto Rico of intangible products, such as patents, copyrights, digital content, and trademarks, among others.

5. Distribution and Logistics Hubs

This designation includes storage, transportation, and distribution hubs for products and articles belonging to third parties outside Puerto Rico.

6. Commercial Distribution

This designation includes the commercial distribution of products manufactured or harvested in Puerto Rico for jurisdictions outside of Puerto Rico.

7. Finished Good Operators

This designation includes the assembly, bottling, and packaging operations of products for export.

8. Others

Any other international trading activity to be included in the Incentives Regulations may be eligible, taking into consideration the following factors:

⁸ 13 L.P.R.A. § 45232 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

- a. Nature of the activities carried out
- b. The direct or indirect benefits of the commercial activity for Puerto Rico
- c. Any other factor pertinent to achieving the objectives of this Code when such treatment is deemed to be in the best interest and for the social and economic wellbeing of Puerto Rico

Eligibility Requirements

1. Eligible income will only be recognized from sources with no connection to Puerto Rico. A connection with Puerto Rico involves the use, benefit, or consumption by the end-user in Puerto Rico.

General Benefits

1. The incentive has a duration of 15 years. It can be extended for another 15 years, upon request, providing a total of up to 30 years of preferential tax treatment to the business.
2. The incentive has a 4% corporate income tax rate. If the company is less than 3 years old and has not surpassed \$3,000,000 in gross revenues at the moment of applying for the incentive, the eligible business may obtain a 2% corporate income tax during the first 5 years in operations as a new SME (see Chapter 1).
3. Royalties, rents, and licenses paid to non-Bona Fide Residents will be taxed at 12%.
4. The incentive provides 100% exemption on the distribution of dividends or profits for Bona Fide Residents of the island.
5. The incentive provides a 75% exemption on municipal and state property taxes.
6. The incentive provides a 50% exemption from municipal contributions or municipal patents for the duration of the decree.
7. Export of Services Companies that engage in Research and Development Activities may qualify for tax credits of up to 50% for all eligible investments and activities (see Chapter 6).
8. There is a 100% exemption from property taxes on call centers, corporate headquarters, and distribution centers available for the first 5 years of operations.



Illustrative Example

Giovanni, a resident of Ponce, has been crafting small-batch rum blends for over 15 years. Friends and colleagues frequently ask him for recommendations on the best ways to age and mix rum. Inspired by their interest, he decides to start an online business selling curated rum blends and exclusive batches. Giovanni builds a website, uploads detailed product descriptions and photos, and launches Ponce Rum Reserve.

To promote his brand, Giovanni shares tasting tips and cocktail recipes on social media, engaging an audience passionate about premium rum. Within the first few weeks, his inventory sells out, and he notices that 75% of orders are from the mainland United States. Seeing this demand, Giovanni formalizes his business by establishing Ponce Reserve LLC and applies for tax incentives aimed at exporters.

Giovanni's old friend, Timothy, owns a chain of specialty liquor stores in Florida and agrees to carry Ponce Rum Reserve products. Sales from these stores and online orders from outside Puerto Rico quickly generate \$12,000 a month, all of which qualify for reduced tax rates in Puerto Rico of 2% for the first 5 years and 4% thereafter under local export incentives. This business may also qualify for manufacturing and other incentives.

→ Qualified Promoters⁹

As we near the end of this chapter, another important incentive to be discussed is the one for Qualified Promoters. This incentive benefits persons and entities that make it their job to help companies and individuals relocate to Puerto Rico. Their services encourage individuals and entities to advertise the benefits of Puerto Rico's economy and tax incentives while allowing them to promote a decree-supported business in order to benefit from their establishment on the island.

Promoters can earn up to 50% of the tax revenue that is paid by the business to the Economic Incentives Fund managed by the DDEC. This benefit lasts up to 10 years after the company or individual receives the decree. The income earned by promoters for their efforts will be taxed as ordinary income. No incentives or tax breaks are granted to promoting entities.

Cost to File

When applying for the incentives mentioned in this chapter, either as a business engaged in the export of goods and services or a Qualified Promoter, there must be a budget of at least \$1,005 for filing and transaction fees. These fees do not include any other additional fees incurred by service professionals, attorneys, or lawyers.

Cost to File		
Filing	Transaction Fee	Service Fee
Applying as a Business Engaged in the Export of Goods and Services	\$5	\$1,000
Applying as a Qualified Promoter	\$5	\$1,000
Tax Credit Application for Research and Development Activities	\$5	\$500

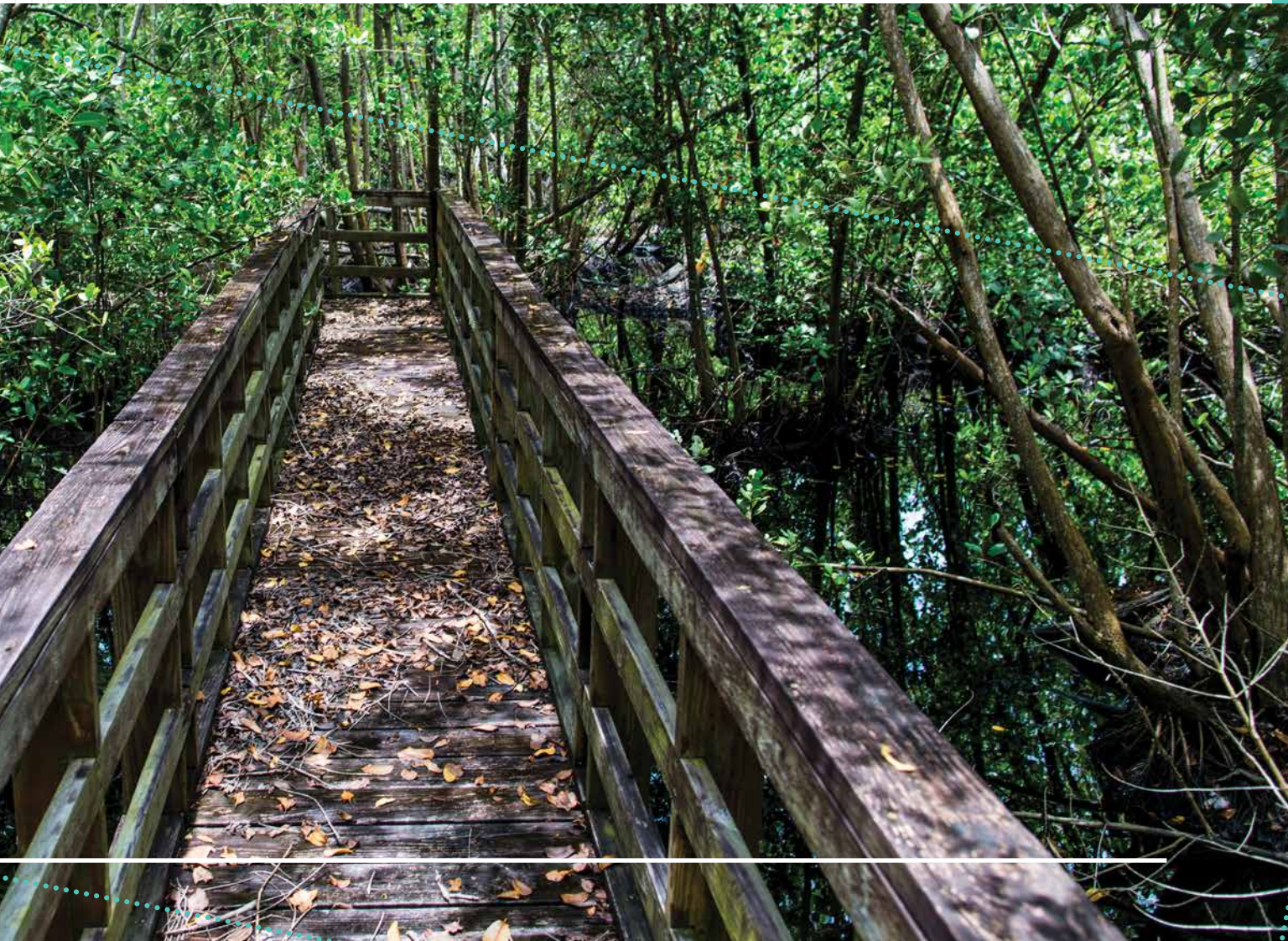
⁹ 13 L.P.R.A. § 45261 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



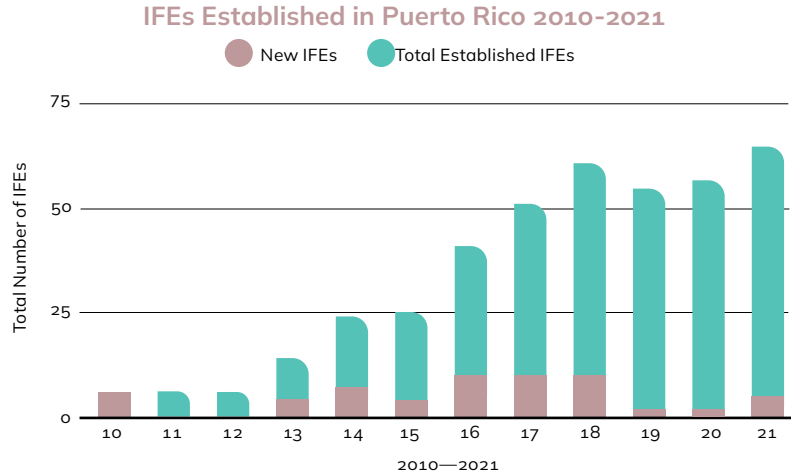
Finance, Investments, and Insurance



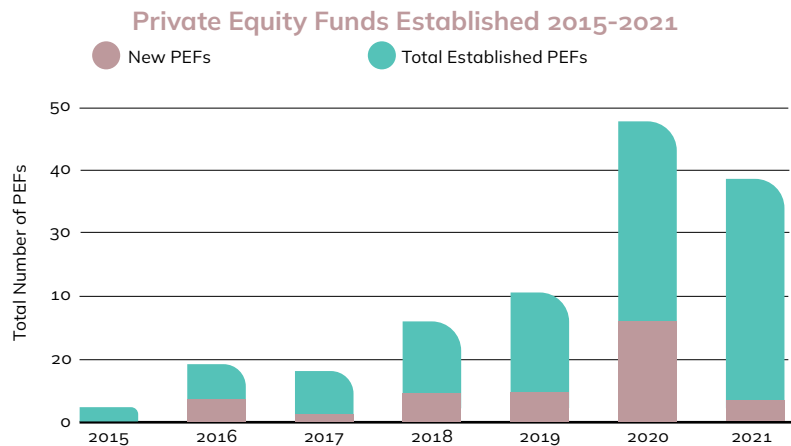
This chapter is dedicated to the tax incentives for different financial entities: international financial entities (IFE), international insurance and reinsurance companies (IIRC), and private equity funds (PEF). The goal behind this collection of incentives is twofold: to compete with other jurisdictions in which financial services are exported abroad and to foster local investment in established and private corporations.



To date, data for the past decade from the Puerto Rico Office of the Commissioner of Financial Institutions (OCIF, by its Spanish acronym) highlights the growth of IFEs in the island. As can be seen in the diagram below, over 60 IFEs have established their operations in Puerto Rico since 2010.¹



Since the introduction of tax incentives for PEFs in Puerto Rico in 2015, more than 31 funds have applied for a decree, with over half establishing operations in the past 3 years (see the diagram below). Although minimum assets under management (AUM) are required to be no less than \$10,000,000, most of these funds have operated with AUMs between \$500,000,000 and \$5,000,000,000.²



1 Christian Reeves, "How Many International Banks are there in Puerto Rico," Premier Bank Consultancy, last modified October 15, 2021, <https://banklicense.pro/how-many-international-banks-are-there-in-puerto-rico/>.

2 U.S. Securities and Exchange. EDGAR-Search and Access, accessed December 16, 2019, <https://www.sec.gov/search-filings>.

→ International Financial Entities³

International Financial Entities (IFE) are export services companies that provide financial services to non-residents. These services can include brokerage houses, banks, lending, and credit financing, among others.

All IFEs must comply with local laws and market regulations established by the federal financial regulator. This includes complying with the Bank Secrecy Act, the Patriot Act, the Foreign Account Tax Compliance Act (FATCA), the Truth in Lending Act (TILA), the Fair Credit Reporting Act (FCRA), the Office of Foreign Assets Control (OFAC), the Security and Exchange Commission (SEC), the Commodity Futures Trading Commission (CFTC), the Consumer Financial Protection Bureau (CFPB) regulations, among others. IFEs must also comply with the International Financial Center Regulatory Act (Act 273-2012), as amended.⁴ In all cases, they must work with the OCIF.

While being a jurisdiction of the United States yet not a state, Puerto Rico can bypass federal taxation locally. However, Puerto Rico must still abide by all the federal banking as well as financial and compliance reporting requirements that all United States financial institutions must follow.

Eligible Businesses and Activities

1. Depository institutions, including collateralized deposits
2. Credit card services and credit card refinance institutions
3. Money order services, including similar services
4. Investing in Puerto Rico securities, notes, and bonds of the government of Puerto Rico
5. Banking transactions in foreign currencies, foreign currency exchanges (FOREX), or traffic in gold and silver

³ Puerto Rico Incentives Code, Art. 2041.01, 13 L.P.R.A. § 45331 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

⁴ *International Financial Center Regulatory Act, Act No. 273 of September 25, 2012*, 7 L.P.R.A. § 3081 (2024). The Rules under the prior law, the International Banking Center Regulatory Act (Act 4-1985), are still used as a reference. See Regulation No. 5653 of 1997.



6. Underwriting securities, bonds, and other instruments
7. Financing trade of imports and exports in all types of exported goods
8. Any financial service permitted by law
9. To act as a fiduciary or administrator, among others, in any fiduciary capacity of foreign persons' bonds and securities (for example, certified financial advisors)
10. Renting personal property for foreign persons
11. Brokerage house or trading platform for foreign persons
12. Management of foreign financial entities
13. Asset management
14. Alternative investments
15. Management related to private equity
16. Management of private equity funds
17. Management of high-risk funds and insurance funds
18. Management of pools of capital
19. Management of trusts that serve to exchange different groups of assets
20. Management of escrow accounts

Eligibility Requirements

As IFEs are regulated by both local and federal entities, they must meet heightened financial compliance requirements. As a result, IFEs are subject to more requirements than are applicable to all other entities in the Act and include the following:

1. The entity must have \$10,000,000 in capital, and it must be paid in full in order to receive the relevant banking license. The law provides that the company may request the amounts required to capitalize the entity be lowered, but in no instance will the amount be less than 10% of the deposits of the entity.⁵
2. In addition to the initial capital paid, and as a requirement to obtain a license, all international financial entities must possess at least \$1,000,000 in unencumbered assets or acceptable financial guarantees.
3. The articles of incorporation or the bylaws of the entity must contain:
 - a. The name and address of the members or stockholders of the entity
 - b. The term for its existence (if the entity will not persist indefinitely)
 - c. The business reasons as to why the entity is formed
 - d. A specification of the business in which the entity will engage
 - e. Any relevant information required by law, regulation, or business needs
 - f. Furthermore, if an entity operates as a division or branch (often called units)⁶ of a banking entity, the articles of incorporation or bylaws must also include the following information for the unit:
 - i. The name under which it will be known
 - ii. The address
 - iii. Capital authorized by the primary entity
 - iv. Specific purposes and specifications of the eligible business

⁵ It can also be capitalized with assets that accrue to the same value.

⁶ An example of this would be the following: Caciue Bank establishes the banking unit Caciue Bank International Finance Division as a subsidiary or division.

v. Any other requirement⁷ that the Secretary of the DDEC may request

4. In all cases, the customers must be foreign persons.

General Benefits

1. The IFE Incentive Decree grants the benefit of a fixed 4% tax rate to that entity that offers eligible financial services to non-residents of Puerto Rico.
2. There is a 50% exemption on municipal taxes.
3. The incentive grants a 75% exemption on personal and real property.
4. It has a duration of 15 years, with an additional 15-year extension if requested.
5. Shareholders pay 6% on dividends or profit distribution of the net income.
6. If the IFE operates as a unit of another bank (for example, the international banking division of ABC bank), a 4% rate applies to the income of that division until it exceeds 20% of the entity's total income, in which case, that surplus is then taxed at the standard rate.

⁷ The "any other requirements" catch-all terms include but are not limited to, reporting, anti-money laundering, provisions and policies, data management, human resources, and oversight.

→ International Insurers⁸

The International Insurers Incentive looks to promote the establishment of more insurance companies in Puerto Rico that cater to both international and local insurance clients.

Eligible Businesses⁹

1. Life insurance
2. Physical Disability insurance
3. Property insurance
4. Insurance against maritime and transportation accidents
5. Agricultural insurance
6. Vehicle insurance
7. Accidents insurance
8. Guarantee Insurance
9. Title Insurance

Eligibility Requirements

1. Insurers must fall under the categories of International Insurers and Reinsurers described in Chapter 61 of the Insurance Code of Puerto Rico.¹⁰
2. Insurers must meet the requirements of the Insurance Code of Puerto Rico related to International Insurers, those included in this chapter, and any released regulations.
3. Insurers must provide the documents required in Article 61.050 of the Insurance Code of Puerto Rico. These include but are not limited to:
 - a. Personal information about the members and stockholders
 - b. The type of license requested

8 Puerto Rico Incentives Code, Art. 2041.02 13 L.P.R.A. § 45332 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

9 Insurance Code of Puerto Rico, 26 L.P.R.A. § 3803 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/C%C3%B3digos/77-1957/77-1957.pdf>

10 Insurance Code of Puerto Rico, 6 L.P.R.A. § 4301 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/C%C3%B3digos/77-1957/77-1957.pdf>

- c. Corporate resolutions for the application
- d. Certified copy of the certificates of formation
- e. Copy of the bylaws, certified by the president or secretary
- f. Designation of a principal representative, who will be a resident of Puerto Rico
- g. Personal information of the auditor and actuary associated with the entity
- h. Recent financial documents
 - i. Certified copy of any audits
 - j. Appropriate certification of which services the company is authorized to engage in
- k. Acceptance of being sued in Puerto Rico
 - l. That the members can show domain knowledge in insurance
- m. That the employees can engage in the activities of the business
- n. That the place of business is adequate for the company

General Benefits

1. Net income over \$1,200,000 is taxed at 4% for 15 years. At the company's request, a 15-year extension is possible.
2. Issuers will enjoy a 75% exemption on personal and real property taxes and a 50% exemption on municipal taxes.¹¹
3. The income derived from dividends and distribution of profits is exempt from taxes and payment of municipal patents.
4. Associated companies and service providers to the International Insurers will not be subject to Puerto Rico withholding requirements and taxes.
5. International Insurers may request to offer insurance to residents. They may insure local clients if the local business volume is less than 50% of the total volume. To wit: this may be as low as 51% in income from foreign clients and up to 49% in income from local clients.
6. Insurers are exempt from all Insurance Code requirements that are not related to international insurance agencies.

¹¹ Puerto Rico Incentives Code, 13 L.P.R.A. § 45341 (C) (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

→ Private Equity Funds and Puerto Rico Private Equity Funds¹²

The Private Equity Funds Decree offers incentives for Accredited Investors (as defined by the U.S. Treasury and the SEC) seeking to invest through a fund and receive tax benefits. The incentives provided are meant to foster the creation of professional fund managers and investors that identify market opportunities in Puerto Rico and other locations. Famous funds like Sequoia Capital, Y Combinator, Union Square Ventures, and Thomas Bravo (run by Puerto Rican entrepreneur Orlando Bravo) have financed startups, such as Apple, Facebook, and Airbnb, among others.

The Private Equity Funds under these incentives can operate as venture capital or traditional private equity funds. These funds buy or invest in all types of businesses, not just in innovative and tech-driven companies. However, most of its capital (80%) must be in shares not sold on the public market. This means that they must invest in private companies or in assets that do not sell their shares on the stock market.

While requirements will vary depending on how much is invested on the island, the Incentives Code includes two types of treatment for these funds. In short, the available designations are Private Equity Funds (PEF) and Puerto Rico Private Equity Funds (PRPEF). What distinguishes them from each other is how much and how early they invest in opportunities on the island.

A. Private Equity Funds

Eligibility Requirements

1. The fund must invest at least 15% of the capital received from its investors in bonds, promissory notes, stock, and notes (including collateralized or otherwise) by a private entity that derives its income from Puerto Rico sources.
2. All investors are Accredited Investors.
3. The fund employs a Registered Investment Advisor with an office in Puerto Rico.

¹² Ibid., ¹³ L.P.R.A. § 45333 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



4. It operates with a diversified portfolio, where, after 4 years, at most 50% of their capital is invested in one business. If the percentage changes due to fluctuations in the values of the investment portfolio, the percentage difference will not be considered from a compliance perspective with this requirement.
 - a. Suppose an investment becomes over 50% because another business took on more debt as part of a broader strategy. Now their liabilities change their on-paper value. In this case, the DDEC will take that into consideration and will not consider this noncompliance with the diversification requirement.
5. The minimum capital amount, including commitments that have yet to be paid, will have to have a minimum of \$10,000,000 before the 24 months of the fund establishing its first investment round.
6. The fund has an advisory board that includes at least one investor or limited partners.
7. If the entity is foreign, its managing partner or Registered Investment Advisor must derive at least 80% of their income from sources in Puerto Rico.

General Benefits

1. The incentive has a duration of 15 years, with an additional 15-year extension upon request.
2. Funds will have a 75% exemption on property taxes and a complete exemption on municipal taxes.

3. The fixed tax rate for investors is 10% for interest and dividends; if the distribution comes from capital gains, the distribution will be completely exempt.
4. If an investor sells their stake in the entity, they will pay 5% (unless they reinvest it in the fund within 90 days).
5. The managing or general partners of the fund and the Registered Investment Advisor will pay a fixed 5% interest on dividend distributions. Both will pay 2.5% when a capital gain is distributed to them.
6. Investors who reinvest their profits straight into another PEF can deduct up to 30% of the adjusted basis of their investment in full or partially for 10 years. However, if the fund is designated as a Puerto Rico Private Equity Fund (as explained below), the deduction will be greater.

B. Puerto Rico Private Equity Funds (PRPEF)

General Benefits

1. Investors in a PRPEF can deduct up to 60% of their investment in full or partially over a 15-year period (subject to restrictions). This exception encourages the PRPEF to focus most of its investments on the island.
2. To be considered as a PRPEF, it must have contributed at least 60% of its capital in the following eligible investments within its first 4 years:
 - a. Bonds, promissory notes, and stock, and notes (including collateralized or otherwise) by a private entity that derives its income from Puerto Rico sources
 - b. Bonds, promissory notes, or other instruments from the Government of Puerto Rico, instrumentalities, agencies, municipalities, and any other political subdivision
 - c. Puerto Rico Investment Trusts qualifying under Section 1112.02 of the Puerto Rico Internal Revenue Code that are taxed as corporations and have eligible investments that benefit their stockholders as they will not be taxed; these investments include, among others:
 1. Lending to tourism companies to remodel hotels and other tourism activities as described in Act 74-2010
 2. Investments in export companies
 3. Investments in developing new technologies and intellectual property

4. Commercializing new products in Puerto Rico
 5. Acquiring closed manufacturing plants to rehabilitate and begin operating a new business, similar to the previous company that operated in the facilities
- d. Investment in a foreign company, but the company must move to Puerto Rico within 6 months of the investment
1. Term can be extended for companies already deriving 80% of their income from Puerto Rico sources

Becoming a Member of a Private Equity Fund and a Puerto Rico Private Equity Fund

While eligible investors may be individuals or entities, only certain people can become members or investors in a PEF or invest in a private offering of stocks. As to the latter, federal regulations establish the criteria to qualify as an investor in a private security offering. Meanwhile, 2020 amendments modified the criteria for what constitutes an Accredited Investor and a Qualified Investor.

Moreover, the amendments allow professionals and founders on the island to obtain similar tax treatment as provided to Resident Individual Investors (see Chapter 2). Any individual or entity may benefit if the distribution is paid through capital gains instead of dividends. The return on capital will be taxed at 0% without having to reside outside of Puerto Rico between 2006 – 2014. The SEC website provides the following descriptions:¹³

Accredited Investor

To obtain the Accredited Investor status, an individual must qualify through one of the following criteria:

- a. Either possess a net worth of over \$1,000,000, excluding the primary residence (individually or with a spouse or partner), or
- b. Receive an annual income exceeding \$200,000 as an individual or \$300,000 with a spouse in the prior 2 years. Furthermore, the individual must reasonably expect the same income for the current year it invests in a fund.

¹³ See the SEC website for additional information: <https://www.sec.gov/resources-small-businesses/capital-raising-building-blocks/accredited-investors>

Qualified Entities

The entities that may invest funds under this incentive are the following:

- a. **Entities** having assets or investments above \$5,000,000
- b. **Corporations** having assets exceeding \$5,000,000, including:
 1. Partnerships, LLCs, trusts, 501(c)(3) organizations, employee benefit plans, “family office,” and any “family client” associated with that office
- c. **Owners as accredited**, including entities where all equity owners are Accredited Investors and may invest as a corporation instead of as individuals
- d. **Any investment advisers** who are duly registered with the SEC or an equivalent organization in their state or jurisdiction, as well as SEC-registered broker-dealers
- e. **Financial entities**, including a bank, savings and loan association, insurance company, registered investment company, business development company, small business investment company, and rural business investment company

Professional Criteria for Employees at a Fund

- a. Investment professionals in good standing and hold the general securities representative license (Series 7), the investment adviser representative license (Series 65), or the private securities offerings representative license (Series 82)
- b. Directors, executive officers, or general partners (GP) of the company selling the securities (or of a GP of that company)
 1. To wit: Stockholders of the company being invested in
- c. Any “family client” of a “family office” that qualifies as an Accredited Investor
- d. For investments in a private fund, “knowledgeable employees” of the fund

Illustrative Example

Horizon Trust Bank is capitalizing on the Puerto Rico Incentives Code to deliver seamless digital banking solutions for international freelancers and entrepreneurs. Through their platform, clients from over 100 countries can open a U.S. bank account and access a virtual debit card without needing U.S. residency or citizenship. Horizon Trust Bank's services allow freelancers in regions like Southeast Asia and Latin America to receive payments in U.S. dollars and easily manage their funds globally. As a SWIFT member, the bank caters to independent contractors, small businesses, and startups, enabling them to securely transact in multiple currencies while benefiting from U.S. banking regulations.

Cost to File

The cost to file for an International Insurance and Reinsurance Company, International Financial Entity, and a Private Equity Fund or Puerto Rico Private Equity Fund is equivalent to \$5,005. These costs do not take into account all business permits, licenses, compliance, and fees incurred hiring service professionals, accountants, or lawyers.

Cost to File		
Filing	Transaction Fee	Service Fee
International Insurance and Reinsurance Company	\$5	\$5,000
International Financial Entity	\$5	\$5,000
Private Equity Fund/Puerto Rico Private Equity Fund	\$5	\$5,000

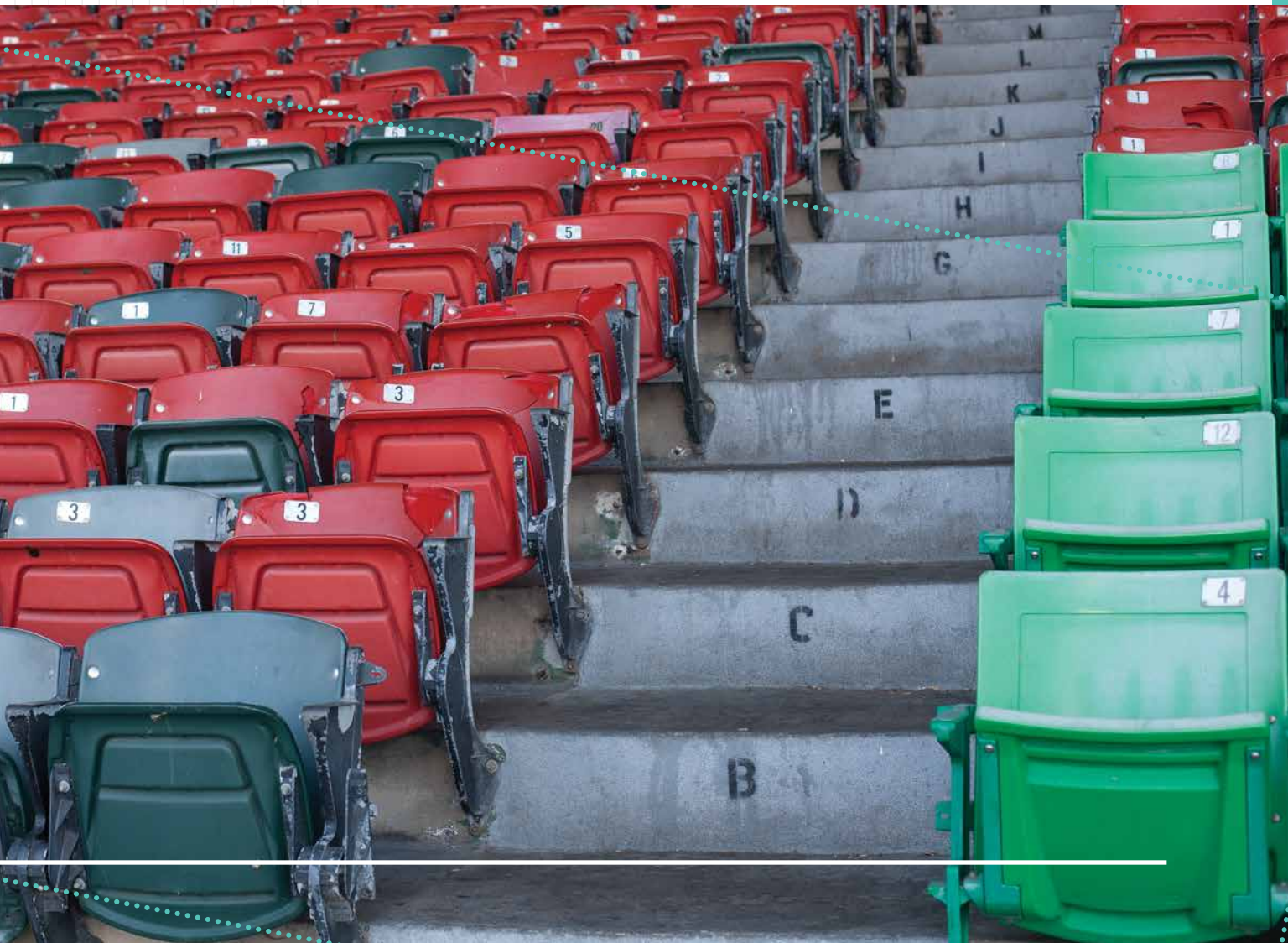


Visitor's Economy



To date, the Puerto Rico Tourism Company¹ has reported 153 endorsed properties, which totals approximately 14,500 rooms. Moreover, data from AirDNA highlights an additional 16,710² units for short-term rental. Between endorsed hospitality projects and short-term rentals, Puerto Rico offers 30,476³ lodging options to more than 3.8 million international and domestic tourists annually.⁴ Compared to the Dominican Republic and its over 80,000 hotel rooms,⁵ Puerto Rico's competitiveness to host Caribbean-bound tourists falls significantly behind.

- 1 Tourism Analytics. "Latest News on Puerto Rico Tourism." Accessed August 26, 2024. <https://tourismanalytics.com/latestnews.html>.
- 2 AirDNA. "San Juan, Puerto Rico Market Overview." Accessed August 26, 2024. <https://www.airdna.co/vacation-rental-data/app/us/puerto-rico/san-juan/overview>.
- 3 Foundation for Puerto Rico, National Association for Latino Community Asset Builders [NALCAB], and Francis Pérez, "The State of Housing in Puerto Rico," Foundation for Puerto Rico, accessed May 12, 2023, <https://foundationforpuertorico.org/en/housing-in-puerto-rico/>.
- 4 "Desarrollo e importancia del turismo para Puerto Rico," DatosMundial, accessed May 1, 2023, <https://www.datosmundial.com/america/puerto-rico/turismo.php>.
- 5 Dominican Republic Ministry of Tourism. Dominican Republic Tourism Official Website, accessed April 14, 2023, <https://www.godominicanrepublic.com/>.



In an effort to increase and strengthen the position of Puerto Rico as a leading player in the Caribbean basin, incentives are available for more than just casinos and hotels. It invites new tourism opportunities from unique lodging experiences, showcasing the island's natural resources to e-sports and fantasy leagues that overlap with the incentives provided to companies manufacturing a product (see Chapter 6), exporting a service (see Chapter 3), or increasing the agricultural output of the island (see Chapter 8).

Eligible Businesses¹

1. Experiences: businesses providing tours, excursions, and experiences on land or at sea.
2. Accommodations: properties that design lodging and living accommodations for tourists and visitors.
3. Attractions: businesses that attract tourists to the island, such as events, concerts, and other activities that have a direct economic impact on the tourism industry.

5.1

→ Experiences

1. Nautical Tourism Activity

This designation includes businesses that provide services to nautical tourists such as chartering nautical tourism vessels for leisure, recreation, or educational purposes to tourists, including excursions; and the leasing of small boats, watercraft, kayaks, sailboats, or other similar vessels.

2. Agritourism

This designation expands to Bona Fide Farmers (see Chapter 8) and includes agri-lodging, agri-theme parks, and food processing plants. Services can be rendered to local schools, visitors, and tourists if an educational component is included. A Bona Fide Farmer must conduct all organized activities, tours, classes, and experiences for a fee.

¹ Puerto Rico Incentives Code, Art. 2051.01, 13 L.P.R.A. § 45441 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

3. Corporations Committed to Tourist Activity

This designation includes businesses leasing one or more sail or motor vessels for a minimum of 6 months per calendar year. Additionally, these corporations must operate within the Puerto Rico Convention Center District and be engaged in entertainment, gastronomy, or other activities with a unique design, popularity, and reputation in their respective markets, attracting local and international tourists.

4. Businesses Dedicated to Tourism Activities (E-Sports and Fantasy Leagues)

This designation includes events and activities that increase tourism to Puerto Rico and certain entertainment districts on the island. Some examples include e-sport events and fantasy leagues. These types of competitions profile Puerto Rico as a destination for gaming enthusiasts.

5. Vessel Leasing Program

This designation includes businesses dedicated to renting 32-foot or greater sailboats or motorboats for leisure or recreation.

5.2

→ Accommodations²

1. Agri-lodging

This designation is reserved for Bona Fide Farmers (see Chapter 8) who wish to receive and accommodate visitors. This type of lodging enables visitors to participate in activities related to nature or agritourism and explore rural areas of Puerto Rico. This designation requires operators to reside on the property, provide breakfast, and follow the Bed and Breakfast (B&B) requirements.

Minimum: 3 rooms | Maximum: 6 rooms

2. Bed and Breakfasts

This designation includes properties where the owner or operator resides on-site and offers overnight accommodations and breakfast to their guests. This arrangement provides visitors a more personal and intimate experience and serves as an additional source of income for the property owner or family.

Minimum: 3 rooms | Maximum: 6 rooms

² Puerto Rico Incentives Code, Art. 2051.01, 13 L.P.R.A. § 45441 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



3. Guesthouses

This designation includes lodging options that provide personalized experiences for guests. They can be private homes or small inns offering short-term room rentals. While guesthouses may vary in comfort and luxury, they are known for their warm atmosphere. In addition, they may offer amenities like homemade meals, shared spaces, and outdoor areas for relaxation.

Minimum: 7 rooms | Maximum: None

4. Condo Hotels

This designation includes real estate property that combines the features of a condominium with those of a hotel. Condo hotels are typically multi-unit buildings managed by a hotel or resort operator, where each unit is individually owned by a person or an entity. These are often horizontal property and must comply with Puerto Rico Condo Hotels Act.

These hotels must have at least 15 rooms dedicated to tourists and visitors. All other units may be sold in the open market during the construction phase or whilst operating, which is something that enables the company to secure additional capital to develop the project without raising additional debt.

Furthermore, this designation may extend the eligible operational investment period from 12 to 48 months. Additional restrictions and requirements will apply for the owner of each unit and the time they may reside there. In no scenario will these units be eligible as primary residences.

Minimum: 15 units | Maximum: None

5. Hotels

These are commercial establishments that provide lodging and other related services to travelers, tourists, and residents. Generally, a hotel offers guests a temporary place to stay for a fee, with various amenities, such as beds, private bathrooms, and sometimes meals. This designation allows income from additional amenities, such as a spa, waterpark, or restaurant, to be eligible for preferential tax treatment.

Minimum: 7 rooms | Maximum: 25 rooms

6. Puerto Rican Paradores

This designation is reserved for properties and accommodations outside the metropolitan area. Each one looks to promote destinations representative of the island's history, culture, and character.³ Moreover, additional income from their restaurants, tours, spas, and other offered amenities may be eligible to receive preferential tax treatment.

Minimum: 7 rooms | Maximum: 75 rooms

7. Villas

These include any buildings or dispersed buildings that contain 7 to 50 housing units, with each unit having at least one bedroom, living room, bathroom, and kitchen. Tourism villas are usually outside the metropolitan area and cater to families looking for extended stays.

Minimum: 7 units | Maximum: 50 units

8. Hostels

These are lodging accommodations offering guests a bed in a private or shared room while adhering to safety and hygiene standards. This designation allows communal bathrooms and showers and does not require ensuite bathroom facilities.

Minimum: 12 beds⁴ | Maximum: 25 beds

³ Puerto Rico Tourism Company, "Lodging Categories and their Definitions," n.d., <https://tourism.pr.gov/project-categories/>.

⁴ See Reglamento de Hospederías at Page 8, letter Q, *Reglamento-de-Hospederías-Aprobado-22-de-noviembre-de-2016-1.pdf*, <https://tourism.pr.gov/wp-content/uploads/2019/06/Reglamento-de-Hospederi%CC%81as-Aprobado-22-de-noviembre-de-2016-1.pdf>

9. Inns

This designation is meant for the network of small- and medium-sized themed lodgings in historic urban centers. Inns' objective is to provide visitors with an opportunity to experience a town's history and culture through their lodging accommodations, which in turn aids the urban center's economic revitalization.

Minimum: 7 rooms | Maximum: 25 rooms

10. Glamping, Eco-Tourism, Alternate Designations

These are alternative accommodations that include luxury camping areas (for glamping), ecolodges, and sustainable tourism. They fall under designations that may also consider innovative proposals for creative or sustainable lodging approaches. Other types of development may apply as well, provided they meet the minimum established requirements under one or more of the designations.

Minimum: 7 rooms | Maximum: None

11. Timeshares

Timeshares allow individuals to pool money into acquiring a hotel room, suite, or villa for a fraction of the price. In return, they can schedule a week or two out of the year to enjoy these properties. Although developing timeshare properties is an eligible activity under this designation, investors who purchase these assets may not claim any investment as an eligible investment or tax credits.

Minimum: None | Maximum: None

5-3

→ Attractions⁵

1. Marinas

This designation includes marinas when more than half of their spaces are reserved for boats dedicated to rental activities. The facilities will primarily cater to tourists, generating most of their revenue from activities related to tourism.

⁵ Puerto Rico Incentives Code, Art. 2051.01, 13 L.P.R.A. § 45441 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



2. Theme Parks

These are permanent structures or facilities that stimulate tourism under a specific or unifying theme by offering residents and visitors an opportunity for recreation, leisure, and enjoyment. These parks may be associated with or operated by an eligible accommodation. In addition, operators may combine the main attraction with additional ones, such as intriguing rides or roads, theme rides, arcades, kiosks, and others.

3. Clinics for Medical Treatment

This designation includes facilities that offer medical treatment to patients. In order for a facility to be eligible, the clinic must either be part of a hospitality project or affiliated with or run by a hospitality project recognized as an exempt business under the Tourism Office program.

4. Medical Tourism

This designation includes certified and accredited medical facilities in Puerto Rico developing lodging options for patients and their families, whether inside hospitals or adjacent.

5. Golf Courses

To be considered as part of this designation, these courses must contain a minimum of 9 holes and be associated with or operated by eligible accommodations or lodging businesses. Likewise, the designation applies to the land used to practice the sport.

6. Property Dedicated to Tourism Activities

This applies to any property (and its improvements) that is used specifically for operating a tourism business. It encompasses a comprehensive range of machinery, furniture, fixtures, and equipment essential or beneficial for any tourism business to operate.

7. Casinos

This designation includes establishments in which betting and games of chance are practiced and where shows, dances, or other types of entertainment are sometimes offered. They can operate within a hotel or independently, which means that the operator is not required to be a hotel or have lodging available to guests.

The Benefits

Decree Length In Years	15
Corporate Income Tax	4%
Real Estate Tax Exemption	75%
Excise Tax and Construction Tax Exemption	75%
Dividends Tax Exemption	100%
Municipal Tax Exemption	50%
Local Purchase Tax Credit	25%
Tax Credit For Eligible Investments	30% - 40%
Sales and Use Tax Exemption	100% on Eligible Purchases
Stamps and Property Registry Exemption	90%
Bond and Promissory Notes Exemption (Loan Issuer)	100%

Eligibility Requirements

Eligibility requirements vary depending on the type of hospitality project reviewed. These take zoning laws, proximity to natural assets, and the experience of the operators into consideration. For all tourism businesses, the following is a list of the criteria and requirements that apply.

In order to yield benefits for Puerto Rico, these businesses must pledge to:

- a. Generate jobs during their construction and operation phases

- b. Harmoniously merge with the place and community in which the tourism activity takes place
- c. When feasible, purchase materials in Puerto Rico
- d. To the extent possible, purchase agricultural products from Puerto Rico
- e. Contract locally or through intermediaries based in Puerto Rico
- f. Demonstrate a relationship with banks and cooperatives in Puerto Rico
- g. Submit proposals for the purchase of properties that would qualify for the tax incentive before they are purchased

General Benefits

1. The incentive has a duration of 15 years. If requested, it can be extended for 15 additional years, providing up to 30 years of preferential tax treatment to the business.
2. The corporate income tax rate is 4%.
 - a. If the company is less than 3 years old and has not surpassed \$3,000,000 in gross revenues at the moment of applying for the incentive, the eligible business may obtain a 2% corporate income tax during the first 5 years in operations as a new SME (see Chapter 1).
3. Royalties, rents, and licenses will be taxed at 12%.
4. It includes a 75% exemption for all real estate taxes, including excise taxes or taxes on construction. This right is to be shared with contractors and subcontractors.
5. The entity's shares are not subject to the payment of property taxes.
6. There is a 50% exemption from municipal taxes or municipal patents for the duration of the decree.
7. The partners and shareholders of the entity will be tax-exempt on dividend distributions.
8. Any person with a bond or promissory note from the eligible business will not be subject to taxes on the payments to such bonds or promissory notes.
 - a. That debt must have been used for the exempt tourist business's construction, rehabilitation, or improvements.

9. There is a 90% exemption on stamps and other expenses required to register the property in the Property Registry of Puerto Rico.
10. It includes a 100% exemption on excise taxes as well as the sales and use tax (SUT). These exemptions apply to products purchased for the entity's tourist activities, including fuel and items purchased for construction work. If paid, all these taxes are subject to credit or refund.
11. There is a 30% or 40% tax credit for the total eligible investment required to rehabilitate or remodel a property that will serve as lodging under this incentive (see the Tax Credits section below).
12. It includes a 25% or 30% tax credit for all purchases of locally manufactured items.

Regulations

While the requirements for developing a lodging project vary by design, style, and amenities, some of the most common elements defined in the regulations include:



1. Total number of parking spaces available to guests
2. Types of amenities available to guests
3. Number of bathrooms⁶
4. Ensuite furniture and security provisions (i.e. safes and door locks)
5. Types of lock and access mechanisms to each room
6. Number of rooms
7. Food, beverage, spa, or other operating income
8. Front desk and the hours of operation

Tax Credits

Tax credits are given by Hacienda through a certificate that can be used to offset current or future taxes. Tax credits can be sold to other businesses for income. Some financial entities even accept credits as collateral for loans or as a down payment for acquiring a property or other assets. Banks like Oriental, Banco Popular, and First Bank often navigate acquisition and construction loans with additional ease if businesses produce a tax credit.

Tourism Tax Credits Formula

All tax credits are calculated based on the Total Project Cost (TPC) of the hospitality project to be developed. The three variables that contribute to the final total project cost are:

P = Property value (when the site and structure are acquired)

R = Remodeling costs (the cost to remodel or develop the property)

O = Operating costs for the first 12 months (the costs incurred during the first 12 months of operations)⁷

TPC = Total Project Cost

6 A hostel does not need to have a private bathroom per bedroom, per Reglamento de Hospederías. See P. 44, letter B of the document. A hostel, per the applicable regulation, must meet the physical requirements imposed by the corresponding regulations. Id. To conclude, those requirements do not include a private bathroom per bedroom. Id.

7 Some developments, such as condo hotels or timeshares, may seek additional months due to the costs incurred marketing a condo or timeshare unit; the costs to close a transaction; and other marketing, operational, and closing costs.

When calculating the TPC, two formulas dictate if the value of the property is eligible to receive a tax credit. The formulas are as follows:

Formula 1: If P is greater than $R + O$, then $TPC_1 = R + O$

Formula 2: If P is less than $R + O$, then $TPC_2 = P + R + O$

If the sum of the operating costs during the first 12 months and the remodeling or development costs are greater than the property value of the site acquired, the sum of only the remodeling or development and operating costs will constitute the project's Total Project Cost (TPC₁).

If the sum of the operating costs during the first 12 months and the remodeling or development costs are less than the property value of the site acquired, the sum of all three investments is the project's Total Project Cost (TPC₂).

Tax Credits of 30% or 40%⁸

After determining the Total Project Cost (TPC₁ vs. TPC₂), the operator of a tourism development may ask in their decree application to receive 30% or 40% of the total project cost in the form of tax credits. Each amount has different requirements, and it will be disbursed by Hacienda at different stages of the project.

Choosing 30% in Tax Credits

If a business opts for 30% in tax credits for the TPC, the company will receive four installments. The first payment of 10% will be due whenever the project obtains 100% of the financing that is required (usually before the beginning of the construction phrase). The remaining 20% will be divided into three equal payments across the second, third, and fourth years of operations.

Choosing 40% in Tax Credits

If the business opts for 40% in tax credits for the TPC, the company will receive three equal installments throughout the first 3 years of operations. After an independent audit is conducted by a third-party accountant, Hacienda will disburse the first third of the tax credits in the second year of operations. Consecutively, the other two-thirds will be disbursed in the third and fourth years of operations.

⁸ Puerto Rico Incentives Code, 13 L.P.R.A. § 47011(b) (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

Illustrative Examples

Tourism Tax Credits

José bought a property for \$200,000 and invested \$125,000 in construction and remodeling. During the first 12 months, he spent \$100,000 in operating costs. The TPC equals \$425,000. Of this amount, the total tax credits eligible of 30% or 40% would look as follows:

Eligibility	Tax Credits	
	Claim 30%	Claim 40%
At Filing	\$42,500.00	\$0.00
Year 2	\$28,333.33	\$56,666.66
Year 3	\$28,333.33	\$56,666.67
Year 4	\$28,333.34	\$56,666.67
Total	\$127,500.00	\$170,000.00

Historic Inn

Diane acquired a historic inn for \$350,000 and invested \$250,000 in restoring and modernizing the property. Over the first 12 months of operations, she spent an additional \$100,000 on operating costs such as utilities, payroll, and marketing. The Total Project Cost (TPC) for her venture adds up to \$700,000. The potential tax credits available at either 30% or 40% would be calculated as follows:

Eligibility	Tax Credits	
	Claim 30%	Claim 40%
At Filing	\$70,000.00	\$0.00
Year 2	\$46,666.66	\$93,333.33
Year 3	\$46,666.67	\$93,333.33
Year 4	\$46,667.00	\$93,333.34
Total	\$210,000.00	\$280,000.00

When the Property Value is Higher than Remodels and Operations (TPC1)

Jack plans to open a boutique guesthouse on the coast. He submits his proposal to the DDEC and moves forward with purchasing a charming 7-suite beachfront property for \$400,000. He establishes Coastal Retreats LLC and transfers ownership of the property into the business entity. Jack then invests \$250,000 into renovating the space and furnishing it with luxurious fixtures and top-tier amenities. In the first year of operations, he incurs \$70,000 in expenses, including the mortgage, utilities, payroll, and initial supplies. Since the value of the property (\$400,000) exceeds the combined renovation and operating costs ($\$250,000 + \$70,000 = \$320,000$), the Total Project Cost (TPC) is \$320,000. Jack is eligible to apply for tax credits amounting to either 30% or 40% of the TPC.

When the Property Value is Lower than Remodels and Operations (TPC2)

Rebeca plans to operate a luxury eco-lodge in the mountains. She submits her project proposal to the DDEC and acquires a scenic 10-acre property with a main lodge and six cabins for \$300,000. She forms Eco Escapes LLC and transfers the property to the company. Rebeca then invests \$450,000 in transforming the lodge, adding eco-friendly amenities, and upgrading the cabins to high-end standards. In the first year of operations, expenses—including the mortgage, utilities, payroll, and supplies—amount to \$120,000. Since the property purchase price (\$300,000) is lower than the renovation and operational costs combined ($\$450,000 + \$120,000 = \$570,000$), the Total Project Cost (TPC) is \$870,000. Rebeca is eligible to claim tax credits for either 30% or 40% of the TPC.

Cost to File

The application for this tax incentive may be completed in phases. First, the operator must submit a pre-application to the Puerto Rico Economic Development Department. Secondly, after submitting the pre-application, the operator has 18 months to complete the decree application. Lastly, after 12 months of operations, an independent audit must be conducted by a third-party accounting firm to quantify and validate the total tax credits the business is eligible to receive. As of 2023, each audit must be conducted by someone trained and licensed by Hacienda.

In total, the cost to file should be at most \$1,110. This cost does not include any additional fees for professional services.

Cost to File		
Filing	Transaction Fee	Service Fee
Pre-Application for Tourism Activities	\$5	\$100
Business Dedicated to Tourism Activities	\$5	\$1,000

Manufacturing



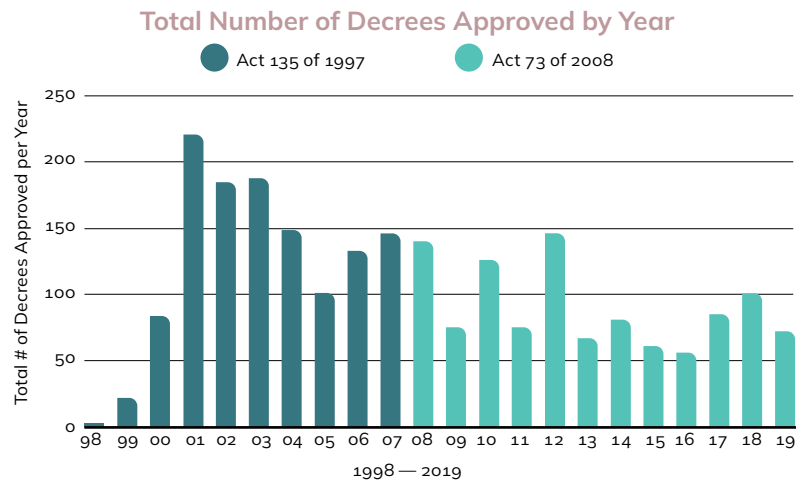
Puerto Rico has offered tax incentives for manufacturing companies since the early 1940s. In the past 30 years, the incentives transitioned away from the textile industry and moved towards supporting pharmaceutical and tech-enabled manufacturing activities. The latter now include software, video game design, artificial intelligence, and other designations included in this chapter, as all types of manufacturing businesses (even the non-traditional ones) fall under manufacturing.



Since the introduction of the amendment of the manufacturing incentives of 1998,¹ 2008, and 2019, over 2,300 corporations have filed and obtained a tax incentive.² By 2022, these firms comprised just under 5% of the total businesses registered and operational in Puerto Rico.³

Unlike exporting activities, manufacturing and tech-enabled manufacturing activities may apply these tax incentive benefits to all their Puerto Rico and global-sourced income. Most big-name Puerto Rican companies and brands benefit from this incentive, from Medalla to Pan Pepín and Productos La Aguadillana, among many others.

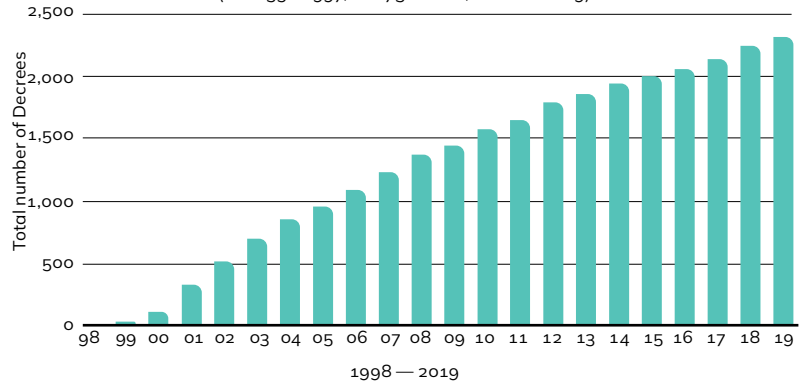
Additionally, most of Puerto Rico's research and development (R&D) activities are also included under this incentive. By offering competitive tax credits for creating new products or innovating existing tools, the island's government has consistently emitted over \$40,000,000 annually to corporations, sometimes even emitting over \$75,000,000. When considering a 50% tax credit rate for all research and development activities, the economic activity related to experimentation and innovation translates into over \$80,000,000 and even up to \$150,000,000 per year.⁴



- 1 Tax Incentives Act of 1998, 13 L.P.R.A. secs. 10101 et. seq. <https://virtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/135-1997.pdf>
- 2 Department of Economic Development and Commerce. "Acceso a la información," n.d., <https://www.desarrollo.pr.gov/acceso-informacion>.
- 3 United States Census Bureau. "U.S. Census Bureau QuickFacts: Puerto Rico," n.d., <https://www.census.gov/quickfacts/fact/table/PR/BZA010221>.
- 4 Office of Economic and Financial Affairs of the Puerto Rico Department of Treasury (Hacienda), "Puerto Rico Tax Expenditure Report for Tax Year 2023," accessed May 5, 2023, https://hacienda.pr.gov/sites/default/files/tax_expenditure_report.pdf.

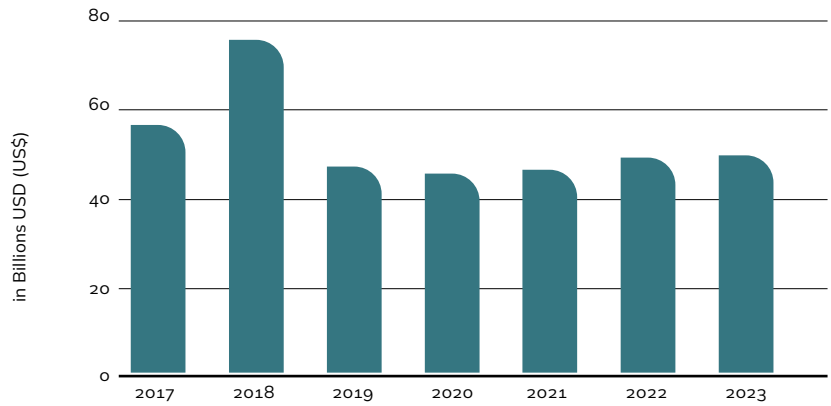
Total Number of Decree Applications by Year

Tax Incentive Application Under Manufacturing
(Act 135 - 1997, Act 73 - 2008, Act 60 - 2019)



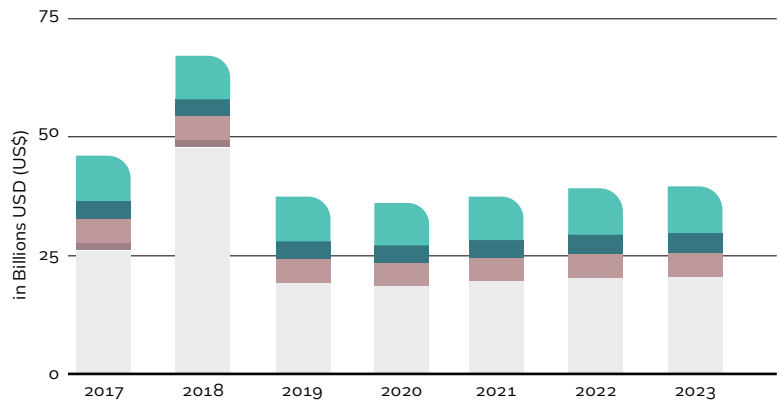
Total Research and Development Tax Credits Granted Annually

Total Research & Development



Total Research and Development Tax Credits by Expenditure Type

● TEB 116 - R&D
 ● TEB 117 - Strategic Project
 ● TEB 203 - Investment
● TEB 208 - R&D
 ● TEB 262 - R&D





Eligible Businesses⁵

1. Manufacturing Businesses

These are businesses that are permanently established to produce manufactured goods. They include any unit, plant, factory, machinery, or set of machinery (an industrial unit). As an additional requirement for eligibility, the output of said businesses must be sold at scale to qualify.

2. Businesses Finishing Unfinished Goods

This designation includes any business whose product cannot be completely produced on the island due to the monetary costs, whether those are expensive raw materials, personnel, or other reasons. It includes businesses that import or purchase unfinished goods or materials and finish the assembly or manufacturing in Puerto Rico or its ports.

3. Enterprises Providing Manufacturing Services at Scale

These involve offices, businesses, or establishments with equipment, machinery, and the expertise to provide services on a commercial scale, such as:

- a. Essential services to business conglomerates (a “Business Cluster”)
- b. Key supplier services, which include:
 1. Specialized storage
 2. Raw material inventory management and all kinds of processed materials

⁵ Puerto Rico Incentives Code, Art. 2061.01, 13 L.P.R.A. § 45551 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

3. Logistics regarding distribution and export of manufactured products
4. Document digitization and quality control
5. Equipment qualification
6. Repair and remanufacturing
7. Process engineering
8. Technical training
9. Development and generation of educational programs
10. Programming services and data systems management, etc.

4. **Property Dedicated to Industrial Machinery**

This designation applies to businesses renting a property and machinery for industrial use, such as machine shops or maker spaces.

5. **Animal Breeding for Research**

Overlapping with the incentives covered in Chapter 8, this designation includes companies breeding animals with the purpose of selling them to research laboratories, medicine research facilities, or other similar institutions.

6. **Research and Development**

This involves any scientific or industrial research and development conducted by any company to create new products or develop new services or industrial processes through basic or applied experimentation. The research carried out must be conducive to creating new products, improving existing products, or creating new services or processes of commercial value.

7. **Partial or Total Recycling Activities**

This designation applies to any business that fully or partially collects, distributes, reconditions, compacts, crushes, pulverizes, or employs another physical or chemical process to transform recyclable articles and materials into new goods.

8. **Hydroponics, Aquaculture, Biotechnology, and Pasteurization**

Eligible activities that fall under this designation are vertically integrated crops with value-adding processes, such as hydroponics, aquaculture, milk pasteurization, agricultural biotechnology, and any other agri-industrial or agricultural processes, including packaging, preservation, or processing of agricultural products.

9. Value-Added Activities Through Ports

This designation includes tugboats, storage and dispatch of merchandise, repackaging products for shipment from the port, and finishing semi-processed products to be shipped to other markets.

10. Software Development

This designation is for any company developing software to be sold at scale, be it to companies, governments, or individuals. Moreover, it applies to businesses developing software as a service and charging a fee (recurring or not) to their users.

11. Telecommunications, Data Storage, and Satellites

Eligible businesses under this designation are those that provide telecommunication services, data storage, and other connectivity services to businesses and individuals at scale. They can also be companies engaged in the research, development, manufacturing, transportation, launch, and operation of satellites from Puerto Rico.

12. Intellectual Property and Intangibles

This designation is for any business licensing intangible property, whether developed or acquired. This may include patents, intellectual property, software, or other intangible assets.

13. Repair of Air and Sea Vessels

Any business that repairs or maintains airplanes, boats, or other vessels used for commercial or individual purposes can apply under this designation.

14. Video Game Development

This designation is for any business coding and developing a video game with the intent of selling it through a mobile app store, online, or for any console.

Eligibility Requirements

New Businesses

1. Any business or individual may apply if they qualify for any of the designations.



Decree-Bearing Businesses

If a company received manufacturing tax incentives in recent years, such as through Act 135-1997 or Act 73-2008, the company may apply again for the Act 60 incentives. The requirements are as follows:

1. The business should be operational. If the business does not operate for 6 consecutive months, it will not be eligible to apply.
2. At the time of application, the business should have at least as many employees as the business employed, on average, over the past 3 years. If the average number of employees is less than that average, the business may not be eligible to apply.
3. During the first year of operations, the business must increase the number of employees by 25%.
4. The business must not use physical facilities, land, buildings, machinery, equipment, inventory, patents, distribution facilities, trademarks, and marketing outlets with a value of \$50,000 or more that were also used under the past decree. This does not apply to the designation of businesses leasing industrial properties. The business must invest in said properties and expand.

The DDEC may grant some exceptions to the above requirements.

General Benefits

1. The incentive has a duration of 15 years. It can be extended upon request for 15 additional years, providing a total of up to 30 years of preferential tax treatment to the business.
2. The corporate income tax rate is 4%.
 - a. If the company is less than 3 years old and has not surpassed \$3,000,000 in gross revenues at the moment of applying for the incentive, the eligible business may obtain a 2% corporate income tax during its first 5 years of operations as a new SME (see Chapter 1).
 - b. An 8% fixed tax rate applies if a license for using intellectual property in manufacturing is made to people outside Puerto Rico.
3. The incentive has a 25% tax credit for purchasing goods manufactured in Puerto Rico and a 30% tax credit if a new SME makes the purchases during its first 5 years.
4. There is a 50% tax credit for expenses related to research and development.
5. The incentive has a 100% exemption on eligible investment income.⁶
6. It includes a full deduction on the incurred costs on the purchase, acquisition, or construction of buildings, structures, machinery, and equipment when:
 - a. It was not previously depreciated in Puerto Rico.
 - b. It is used to manufacture eligible products or render eligible services assigned to the company.
7. The incentive has a credit for intangible license payments that cannot be sold or transferred but can be carried forward for 8 years. This credit is meant for those bringing foreign technology to the island.
8. It has a 75% exemption on personal and real estate property and municipal taxes.
9. The incentive has a 50% exemption on municipal patents.
10. There is a 100% exemption on real estate to expand operations.

⁶ Interest, dividends, capital gains, rental and royalty income, and non-qualified annuities.

11. The incentive has a 50% exemption on property tax for properties dedicated to industrial development (this applies to someone leasing their property for industrial use).
12. There are complete exemptions from the sales and use tax on the following items acquired by the business:
 - a. Raw materials to be used in Puerto Rico in the production of finished products, including:
 1. Natural gas and propane gas used to produce electrical or thermal energy
 2. Products in their natural form derived from agriculture or extractive industries, including by-products, residuals, or partially manufactured or finished products
 3. Sugar in bulk or in 50-pound or more bags to be used for manufacturing products
 4. Machinery, equipment, and accessories used in the manufacture, construction, and repair of vessels, on or off the factory premises (including trucks or forklifts), including equipment required by law
 5. Administrative or commercial equipment, when 90% is used in manufacturing
 6. Equipment used in laboratories of an experimental and research nature, for the development of science and technology, including renewable energy
 7. Mineral analysis equipment for mineral exploitation development
 8. Fuel needed for business operations
 9. Materials for wastewater treatment
13. It allows the deduction of expenses incurred in the purchase, acquisition, or construction of buildings, structures, machinery, and equipment if they have not been previously used in Puerto Rico and are used for the manufacture or services covered by the decree.
14. Operations can be established in other municipalities without requesting a new decree if the business notifies the government within 30 days of the start of operations at the additional unit. The new unit would be entitled only to the remaining time of the decree at the time of its establishment. In other words, if a business establishes a unit at Year 5, the unit is entitled to the benefit for the remaining 10 years.

Tax Credits

Puerto Rico's research and development (R&D) tax credits are the most aggressive in the United States, at twice those of New York and Texas. Entrepreneurs should always keep detailed documentation about eligible research, purchases, and investments. To apply for these credits, businesses must prove to the agency that they were used for eligible purposes.

A 25% Tax Credit on Local Purchases

This tax credit is meant to incentivize businesses to collaborate with Puerto Rican companies and make their purchases on the island, especially when locally manufactured products tend to be more expensive.

A 50% Tax Credit on R&D

The availability of this tax credit for R&D purposes illustrates the government's interest in promoting and investing in new products and operations. While not every type of research or development qualifies, the regulations define the following as eligible activities:

- a. Activities to design a prototype or experimental manufacturing or any activity eligible under the Incentives Code that contributes directly to advancing science and technology, or to creating new products or processes
- b. Activities to test a prototype through research and development to determine if the design is appropriate before its commercial launch
- c. Development of new processes to enable an eligible activity under the Incentives Code
- d. Software development lifecycle activities up to the product launch

Any other activities that are not mentioned above will not be considered eligible R&D. However, the government added the Incidental Activities designation, recognizing that other activities help make R&D possible. These incidental activities can comprise up to 20% of the total activities claimed for R&D tax credits. Activities are considered "incidental" if their operational costs are directly related to the R&D activities.

The operating costs are the following:

- a. Payroll, including marginal benefits
- b. Insurance premiums
- c. Employer payroll taxes, municipal taxes, and licenses
- d. Net costs in electricity, water, and telecommunications
- e. Materials
- f. Depreciation or rent payments for the building that solely houses the R&D activities
- g. Rent cost or depreciation of equipment and machinery used for R&D
- h. Repair costs of R&D equipment
- i. Technical professional services
- j. Technical training related to R&D projects (does not include required continued education)

Activities that are ineligible for the R&D tax credits include the following:

- a. Quality control activities for a manufactured product or process
- b. Activities made to adapt a product to a specific client
- c. R&D activities in the creation or improvement of a product, process, or service for just one client instead of a market
- d. R&D for a third party when there is no financial risk in such activities
- e. Market tests and marketing
- f. Adapting to comply with regulations and routine materials analysis, with the main objective of adjusting the products to the rules
- g. Activities that could be readily ascertained by consulting a competent professional in the field without having to go through R&D
- h. Investigations financed by the government of Puerto Rico or any instrumentality, including public-private partnerships, via grants or any other form of subsidy
- i. Fine-tuning or any other process that does not affect the underlying science or technology
- j. Compiling information or other type of content—something must be done with the data to be considered R&D

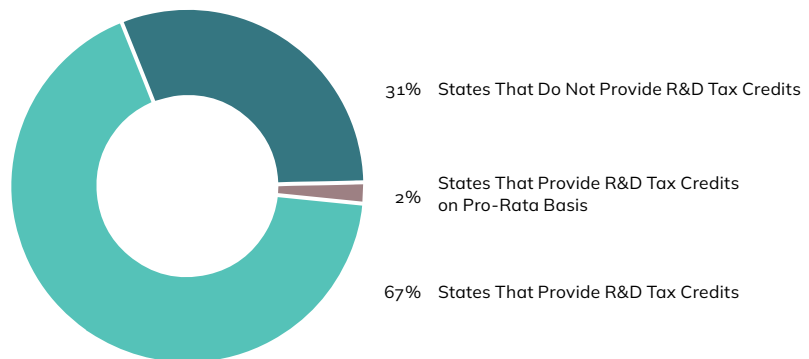
- k. Management of pilot plants, machinery, and equipment after the scientific or technological uncertainties are resolved
- l. Design activities that do not contribute to resolving technological or scientific uncertainties
- m. Activities to improve the appearance of a product
- n. Regulatory activities that do not advance knowledge to generate new products
- o. Maintenance phase in the software development lifecycle

An Overview of Tax Credits in the United States

Tax credits for R&D are not new. Many jurisdictions worldwide, including most states in the United States, promote the creation of new products and technologies by granting tax credits for eligible investments. These credits may be issued by a county, a state, or a central government. To highlight Puerto Rico's unique position in the United States, the following data explores the total amount of tax credits granted by each state for eligible R&D activities.

As all 50 states, Puerto Rico, and the U.S. Virgin Islands are examined, 35 states and jurisdictions provide R&D tax credits. One state, Hawaii, offers tax credits on a pro-rata basis and does not declare a fixed percentage. Sixteen states do not offer any tax credits.

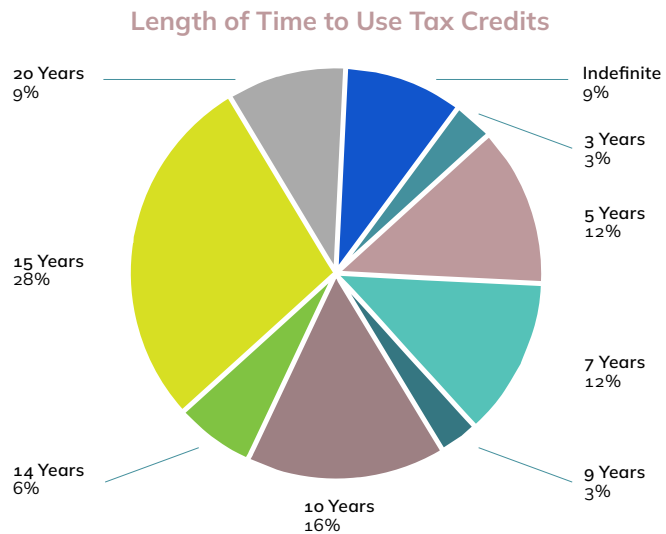
Percentage of States and United States Jurisdictions that Provide R&D Tax Credits



Puerto Rico's R&D credits (of up to 50%) position the island ahead of every state and jurisdiction. Only when paired with the federal government's R&D incentives do states like Nebraska surpass this amount. On average, most states provide a tax credit for R&D that sits below 10%.

Furthermore, most states and jurisdictions regulate the fungibility of these credits, with only 7 (13%), allowing the sale of tax credits to other individuals, corporations, or financial institutions. Seven additional states and jurisdictions allow the partial sale of credits, and the remaining 39 (73%), do not allow the sale of tax credits. Each state and jurisdiction have different requirements, evaluating agencies, and operability.

An additional element that distinguishes Puerto Rico from other jurisdictions is the length of time during which these credits may be implemented. Usually, R&D tax credits in Puerto Rico may be claimed during the 15 years of the decree. If a company extends the decree after the first 15 years, these benefits may be accessible for up to 30 years. In the case of most states and jurisdictions in the United States, 52% offer R&D tax credits for a length of 15 years or less. Twenty-eight percent offer a length of 15 years, and the remaining 19% offer a length of 20 years or more.





Illustrative Example

Hailey, a chemical engineer, identified a growing market for plant-based packaging. With rising consumer demand for sustainable products, she launched GreenPack Solutions. In the first year, Hailey invested \$45,000 in payroll, \$12,000 in materials, \$6,000 for rent, and \$3,000 for utilities, totaling \$66,000 directly related to R&D expenses.

Applying for tax credits, she secured \$33,000, equivalent to 50% of the total R&D costs.

After a year, Hailey developed a biodegradable food container prototype that attracted interest from restaurant chains. To scale production and meet demand, she set out to raise \$600,000 from investors to purchase advanced machinery and raw materials. Hailey assured investors that tax credits would be available as part of their investment activities. Additionally, she highlighted that dividends would be tax-free, and GreenPack Solutions would enjoy a reduced 2% corporate tax rate for the first 5 years.

Hailey successfully raised \$600,000 and created a budget for the second year. Her plan allocated \$66,000 for continued R&D, \$300,000 for new equipment, \$150,000 for local agricultural materials, and \$84,000 for operational expenses.

Ultimately, Hailey would obtain:

- » 50% tax credits on R&D activities, totaling \$33,000 for Year 1 and \$330,000 for Year 2, yielding \$363,000 in tax credits.
- » 30% tax credits on local agricultural materials, resulting in \$45,000 in credits for the \$150,000 spent in year 2.

Cost to File

The cost to file the decree without additional professional help is \$1,005. The timeline to obtain an approved decree is unpredictable and varies; currently, it may take over 18 months for decrees to be evaluated.

Cost to File		
Filing	Transaction Fee	Service Fee
Manufacturing Business	\$5	\$1,000
Property Dedicated to Industrial Development	\$5	\$1,000
Property Dedicated to Industrial Development - Machinery	\$5	\$1,000

Infrastructure, Housing, Historic Zones, and Renewable Energy



This chapter encompasses key industries that play vital roles in Puerto Rico's housing, energy accessibility, and preservation of its heritage. It includes provisions for the development of affordable housing properties, historical preservation efforts, and support for manufacturers of green and renewable energy. The incentives provided are aimed at individuals and corporations looking to expand housing options for low-income and middle-class tenants, the older adult population, and individuals in need of assisted living.

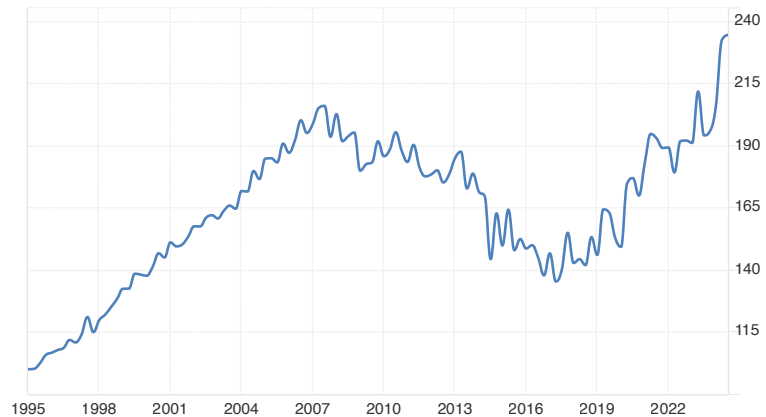


→ Housing¹

Data provided by the Statistics Institute of Puerto Rico highlight that the local housing price index (HPI), which measures changes in single-family housing prices, reached 212.11 as of Q2 2023, up a staggering 65.4 points since Q1 2020.² This marks the index's first new all-time high since Q3 2007, a clear indicator that affordable housing in Puerto Rico is in decline.³

In 2020, the United States Census Bureau assessed Puerto Rico's housing inventory at a total of 1,598,159 residential properties. Out of these units, 1,340,534 are occupied, and 257,625 are vacant.⁴ Furthermore, the Center for Habitat Reconstruction published an additional 2021 report highlighting the over 300,000 properties in disrepair.⁵

Puerto Rico House Price Index



Source: tradingeconomics.com | Statistical Institute of Puerto Rico

- 1 Puerto Rico Incentives Code, Sec. 2071.01, 13 L.P.R.A. § 45651 (2023).
- 2 "Puerto Rico House Price Index - 2023 Data - 2024 Forecast - 1995-2022 Historical," Trading Economics, n.d. <https://tradingeconomics.com/puerto-rico/housing-index>.
- 3 Statista. "Real Estate in Puerto Rico." Statista, accessed August 26, 2024. <https://www.statista.com/outlook/fmo/real-estate/puerto-rico#value>.
- 4 United States Census Bureau, U.S. Census Bureau QuickFacts: Puerto Rico, n.d., <https://www.census.gov/quickfacts/PR>.
- 5 Centro para la Reconstrucción del Hábitat, "Proyectos," n.d., <https://www.crhpr.org/proyectos>.



The following four types of developments and property uses are designed for the private sector to work side-by-side with the government to develop, restore, and repair the over half-million properties that sit vacant and in disrepair.

Eligible Businesses

1. Affordable Housing

This designation includes the construction or rehabilitation of affordable housing to be rented or sold to low- or middle-income families, as well as housing for Puerto Rico's middle class.

2. People Dedicated to Construction and Rental for Elderly Persons

Individuals, entities, and businesses that build for or rent to older adults who do not possess a home and whose income falls within the federal government's income limits apply under this designation.

3. Government-Subsidized Developments

This designation includes developers of affordable housing whose projects are approved and subsidized, in part or in full, by the government of Puerto Rico.

4. Assisted Living Developers

This designation includes developers who create assisted living housing. Assisted living including caretakers, nurses, specialized machinery, and potential medical services aiding residents in their daily needs.

Eligibility Requirements

1. Development must begin the construction or rehabilitation of housing units after January 1, 2019.
2. Development must submit a list of costs approved by the Secretary of the DDEC before commencing the construction or rehabilitation.
3. Upon the sale or rent of each housing unit, development must be duly certified as a low-income family, moderate-income family, middle-class family, or older adult.
4. Assisted living will require a joint determination between the DDEC and the Puerto Rico Department of Housing (PRDOH).
5. Development must establish a maximum rental payment amount that is at most 30% of the income consideration of the United States Department of Housing and Urban Development (HUD).⁶

General Benefits

1. The decree is for 15 years.
2. Corporate income tax from the sale or rent of housing units is 4%.
3. There is a 100% exemption from personal and real property taxes.
4. Unlike other incentives, no tax exemption on dividends or profit redistribution will be granted to developers, investors, or stakeholders.
5. There is a 90% exemption of any other municipal taxes.
6. There is a 100% tax exemption on the sales and use tax.

⁶ Data per region may be accessed here: https://www.huduser.gov/portal/pdrdatas_landing.html

→ Puerto Rico's Historic Zones⁷

A Historic Zone is an officially designated geographical area established in collaboration with the government of Puerto Rico, the Institute of Puerto Rican Culture, and the Puerto Rico Planning Board. These zones encompass a collection of structures that possess notable historical, artistic, cultural, or environmental significance. Each of these zones contributes to and represents a part of Puerto Rico's heritage, and their structures offer opportunities for observation and contemplation.

Since 1949, the Historic Zone designation has been awarded to only 11 locations in nine municipalities. To be considered a Historic Zone, a structure or plot of land must be located within the following municipalities: Arecibo, Arroyo, Caguas, Coamo, Guayama, Manatí, Ponce, San Juan, and Vega Baja.

Eligible Businesses

1. Improvements, Restorations, Reconstruction, or Developments

This designation applies to companies or individuals who enhance, renovate, rebuild, or develop real estate properties for rental purposes within vacant lots in Historic Zones.

Eligibility Requirements

1. The property must receive a Certification from the Institute of Puerto Rican Culture.
2. The property must reside within one of the 11 Historic Zones.
3. Decrees are dependent on the scope of renovations and restorations.
 - a. **Partial Renovation (5-Year Decree)**
 1. The partial restoration of historic buildings must include the facade and other main architectural elements, such as the *zaguán* in the entryway and main stairs.
 2. A non-historical building is eligible if it undergoes renovations to align with the aesthetics and

⁷ Puerto Rico Incentives Code, Sec. 2071.01, 13 L.P.R.A. § 45651 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



qualities of a historical property and is found in a Historic Zone.

b. Complete Restoration (10-Year Decree)

1. There is a complete restoration of a historical building.
2. There is a complete restructuring that involves the incorporation of over 50% new elements into the building so that it may align with the surrounding historical sites.

c. Potential Extension (10-Year Decree)

1. The Secretary of the DDEC has the authority to grant a 10-year extension of the tax exemption benefit for the properties, provided that the Institute of Puerto Rican Culture certifies their deserving preservation, minimal substantial alterations, and the commitment to maintain or improve their condition compared to their state before restoration.

General Benefits

1. The length of the decree varies from 5 to 10 years per property, depending on the scope of the renovation/restoration.

2. The incentive has a 4% corporate income tax for all revenues obtained from properties in Historic Zones.
3. It has a 100% tax exemption on personal and real property.
4. Note: unlike other incentives, no tax exemption on dividends or profit redistribution will be granted to developers, investors, or stakeholders.

7.3

→ Green and Renewable Energy⁸

To date, 97% of Puerto Rico's energy grid is dependent on fossil fuels. Only 3% is from renewable sources, according to the Puerto Rico Electric Power Authority.⁹

Eligible Businesses/Eligibility Requirements

1. Owners and Operators of Green Energy Units

Any individual or business that produces or sells green energy at scale to industries or businesses is included. As such, corporations, clients, and operators may apply for this incentive.

2. Alternative Renewable Energy Producers

This includes companies that produce energy through gas derived from landfills, anaerobic decomposition, fuel cells, or waste heat.

3. Sustainable Renewable Energy Producers

These are companies that produce energy through solar panels, wind turbines, geothermal installations, biomass incineration, biomass-derived gas, and other sustainable renewable sources such as micro-algae, hydroelectric, and marine energy.

4. Property Dedicated to Green Energy Production

This is a designation that applies to all properties used for green energy production and its phases. Income derived from the leasing of said property will receive the benefit of this

8 Puerto Rico Incentives Code, Sec. 2071.01, 13 L.P.R.A. § 45651 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/lleyesreferencia/PDF/2-ingles/60-2019.pdf>

9 Financial Oversight and Management Board for Puerto Rico, "2023 Certified Fiscal Plan for the Puerto Rico Electric Power Authority," n.d., <https://bvirtualogp.pr.gov/ogp/Bvirtual/reogGubernamental/PDF/PROMESA/PFPR23-english.pdf>

incentive, as long as a tenant installs, operates, assembles, maintains, or sells green energy at scale.

5. Storage Energy System

This designation applies to any business that installs, operates, assembles, maintains, or sells energy from a designated Storage Energy System (SES). The SES must be an interconnected system with an aggregate capacity of at least 1 megawatt (MW). The SES must absorb and store energy generated and make it available when needed by consumers or the power grid.¹⁰

6. Highly Efficient Energy Producer

Any individual or business that produces or sells highly efficient energy (efficiency rate above 60%) at scale to industries or businesses. Corporations, clients, system owners, operators, or owners of a property dedicated to such activities may apply for this incentive.

General Benefits

1. Corporate income tax is 4%.
2. The tax exemption for renewable energy businesses is valid for 15 years with a 15-year extension upon request.¹¹
3. The investment in a green or renewable energy company can be deducted entirely if such investment is used for the company.
4. It allows renewable energy generation businesses to benefit from the sale of Renewable Energy Certificates (RECs). A REC is a certificate equivalent to 1 megawatt-hour (MW).
5. Any canceled RECs can be deducted against ordinary income for their acquisition cost or tax base.
6. RECs are exempt from 75% of municipal and state property taxes.
7. Contractors, developers, and businesses of sale, production, or assembly of renewable energy equipment will be exempt from up to 75% of personal and real property taxes and 50% of municipal taxes. In addition, businesses (contractors

¹⁰ 13 L.P.R.A. § 45018 (a)(28).

¹¹ See 13 L.P.R.A. § 48523 (a) & (c). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

and subcontractors) will be exempt from up to 75% of any municipal construction tax or decree.

8. Contractors will also be exempt from taxes on raw materials, machinery, and other materials necessary for construction and the business.
9. It provides a 100% tax exemption on the sales and use tax, including specific raw materials, machinery, and equipment used in the operations of the business.

Illustrative Examples

Affordable Housing in Historic Zones

Abril, an architect and the daughter of a Puerto Rican real estate developer, noticed a lack of community spaces and housing options for artists in San Germán. Inspired by the cultural history of the town, she proposed a project to her father to transform an abandoned colonial building in the historic district into a mixed-use space. Her father supported her vision and purchased the rundown property, giving Abril the opportunity to bring her idea to life. Abril conducted extensive research in local archives, discovering old architectural drawings and photos that guided her design.

Abril's project combines art and affordable living. She formed Creations by the Plaza LLC, which will operate a gallery and artisanal shop on the first floor, showcasing work from local artists. The two upper floors, managed by San Germán Living Inc., will be converted into six affordable live-work lofts for artists. To ensure affordability, Abril consulted with the Puerto Rico Department of Housing to establish rent guidelines. She then submitted her project costs to the DDEC and received the necessary approvals, including certification from the Puerto Rico Historic Preservation Office.

Abril applied for separate decrees under the Puerto Rico Incentives Code. Creations by the Plaza LLC qualifies for a 10-year tax decree, benefiting from a 4% income tax rate and a 100% exemption on property taxes for both real estate and inventory. San Germán Living Inc. secured a 15-year tax decree, which provides a 100% exemption from property taxes, a 4% tax rate on rental income, and a 90% exemption on municipal taxes.

Green Energy

Eduardo runs a wind turbine installation company, GreenWind Solutions, in Arizona, specializing in residential properties. After learning about Puerto Rico's tax incentives for renewable energy,

he decides to expand his operations to the island. He establishes GreenWind PR Inc. and sets his sights on building a presence in Puerto Rico.

Eduardo signs a 5-year lease for a vacant industrial space in Mayagüez through a government program that offers properties for \$1 leases (see Chapter 10). The facility serves as a storage and distribution center for imported wind turbine equipment. In his first year, Eduardo secures contracts to install wind turbines for 75 single-family homes across the island. The excess energy generated by these turbines is converted into Renewable Energy Credits (RECs), which are managed and sold by GreenWind PR.

GreenWind PR Inc. qualifies for a 15-year tax decree, with the possibility of a 15-year extension. Under the decree, corporate income is taxed at 4%, with property tax exemptions of up to 75%, full exemptions on sales and use taxes, and up to 50% exemption on municipal taxes. Additionally, the RECs benefit from a 75% exemption on municipal and state property taxes.

Cost to File

Applications generally cost \$1,005 without legal assistance. Decrees take 18 months or more to obtain.

Cost to File		
Filing	Transaction Fee	Service Fee
Construction and Development in Historic Zones (If the Applicant is a Developer)	\$5	\$1,000
Construction and Development in Historic Zones (If the Applicant is an Individual Owner of the Real Estate Property)	\$5	\$100
Construction and Development of Affordable Housing, Elderly Persons, or Assisted Living	\$5	\$1,000
Green Energy Business and Highly Efficient Energy Business	\$5	\$1,000
Property Dedicated to Green Energy Production	\$5	\$1,000
Property Dedicated to Green Energy Production - Machinery	\$5	\$1,000
Property Dedicated to Highly Efficient Generation	\$5	\$1,000



Agribusinesses



Agricultural work requires time, labor, expertise, and capital investment. As an industry, it encompasses all products derived from agricultural or agro-industrial activities for human and domestic animal use and consumption. This includes fresh or processed forms of production or preservation. It also involves products derived from livestock, including those resulting from beekeeping and poultry farming.





Due to its importance in society, the difficulties involved in its processes, decreasing local production, and an increasing dependency on imported food products, the government of Puerto Rico has established incentives for agribusinesses. These are extended to individuals and corporations alike, regardless of if they work off the land or sea, and can cover everything related to the dairy industry, mariculture (cultivation at sea), aquaculture, hydroponics, animal breeding, crops of all kinds, gamecocks, and agricultural research.

Eligible Businesses/Eligibility Requirements¹

Since 2019, the requirements for eligible agriculture and agribusinesses dropped significantly. Now, instead of demanding that farmers use 75% of their land for agricultural activities, the requisite has decreased to at least 35%. This reduction allows additional flexibility for established operators to consider supplemental income sources from tourism, small manufacturing operations, or, in some instances, conducting additional research and development activities. Furthermore, it reduces the barrier to entry for new founders looking to enter the industry.

As described below, the eligible businesses that fall under the designations of this chapter are enterprises in the agricultural sectors and those that process or produce agricultural byproducts that include or utilize raw materials, packaging, storage, and other related services.

1. Dairy Producers, Processors, or Pasteurizers

Any company that produces, processes, or pasteurizes milk

¹ Puerto Rico Incentives Code, Sec. 2080.01, 13 L.P.R.A. § 45761 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

is eligible. When compared with the other agribusinesses, the dairy industry and all businesses in the dairy supply chain receive additional benefits, including exemptions from income taxes, municipal license taxes, property taxes, excise taxes, and duties.

2. Businesses Growing Fruits, Vegetables, Spices, Seeds, and Other Similar Products

This designation includes businesses growing fruits, vegetables, spices, seeds, and various types of food for human and animal consumption, as well as for raw materials to be used in other industries. Some examples of the crops considered are citrus fruits, coffee, cinnamon, vanilla, and other similar products. The harvest of these items falls within this scope as well.

3. Animal Husbandry

This involves raising animals for the purpose of producing meat, milk, and raw materials (i.e. animal feed made from eggs and corn).

4. Breeders of Racehorses, Paso Fino Horses, and Others

This designation includes businesses who breed Paso Fino horses, horses for racing, equine therapy, and other commercial or tourism purposes.

5. Agricultural Research and Development

This type of research and development encompasses activities that involve professionals trained in science, engineering, mathematics, or any other fields, and whose knowledge is required to conduct tests, observations, analysis, and evaluations using instruments and scientific methods to solve problems or create new knowledge on scientific or technological advancements. In agriculture, this may take the form of research and development of new or more resilient plant seedlings, new fertilizers, new products or technologies for agricultural use, or the advancement and improvement of existing tools.

6. Hydroponics, Aquaponics, and Other Methods

This designation includes projects involving industrial cultivation for plants using aqueous solutions with dissolved chemical nutrients or with sterile substrates. These substrates may be sand, gravel, ground glass, or other materials. Over the last several decades, Puerto Rico has seen more of these projects proliferate across the island.²

² University of Puerto Rico at Mayagüez. "Agriculture Sector." Accessed August 26, 2024. <https://www.uprm.edu/agricultores-desventajados/wp-content/uploads/sites/413/2022/08/Chaptero2-Agriculture-Sector.pdf>.

7. Packaging Companies

These are businesses dedicated to packaging exclusively agricultural products and their byproducts. These include vegetables, seeds, meats, and other items meant for human or animal consumption, as well as packaging goods for laboratories or scientific research organizations.

8. Mariculture, Commercial Fishing, and Aquaculture

This designation includes all fishing conducted for commercial benefit. Fishermen who sell to other businesses or individuals may apply.

9. Ornamental Flowers

This focuses on the cultivation of ornamental flowers. Eligible flowers are those that, due to their aesthetic qualities, are used to decorate common or private places. Some of the most common flowers cultivated in Puerto Rico include anthuriums, orchids, and poinsettias.³

10. Breeding of Game Fowl and Reproduction of Spurs

This designation includes breeding game fowl and the reproduction of spurs. Eligible game fowls are those that are explicitly bred for cockfighting.⁴ Participating in the trade or production of these birds and/or spurs opens one to legal liability under federal statutes.

11. Grain Processing Plants

This designation includes any manufacturing or agro-processing plant that processes grains. Grain processing plants enrich the nutritional value of a variety of grains that are used on a daily basis, as fattening agents for animal feed, or in other commercial products.

12. Agribusiness Companies Purchasing Raw Materials

This designation includes any business that purchases raw materials and local goods for the production or manufacturing of a new product or byproduct. Examples of these products are fertilizers, feeds, pre-packaged salads, and other market-ready items.

13. Other Businesses Related to Agriculture

Other business that are considered to be agribusinesses and are recommended by the Secretary of the DDEC, together

3 José A. Mari Mut, Flores comunes de Puerto Rico (Aguadilla: Ediciones Digitales, 2015), <https://issuu.com/coleccionpuertorriquena/docs/florescomunes/res>.

4 Since 2021, the Supreme Court of the United States has deemed cockfights illegal. As a result, the transportation of roosters to countries where this practice is still legal will be fined.

with a recommendation of the Secretary of Agriculture, are also eligible. These include corporations that conduct significant agricultural activities but may not fit under any of the designations defined in the Incentives Code.

The Benefits

Decree Length in Years	15
Personal Income Tax Exemption	90%
Corporate Income Tax	4%
Personal Property Exemption	75%
Real Estate Tax Exemption	50%
Sales and Use Tax Exemption	100% on Eligible Purchase
Local Purchase Tax Credit	25%
Research and Development	50%
Municipal Patent Exemption	75%
Dividends Exemption	100%
Excise Tax Exemption	100%

General Benefits

This incentive includes the Bona Fide Farmer Incentive, which refers to a person or corporation that obtains more than 51% of its income from agricultural work. The general benefits and exemptions are as follows:

1. The incentive has a duration of 15 years. It can be extended for 15 additional years upon request, which would provide up to 30 years of preferential tax treatment to a business.
2. The corporate income tax rate is 4%.
 - a. However, if a company is under 3 years old and has yet to surpass \$3,000,000 in gross revenues when applying for the incentive, the eligible business may obtain a 2% corporate income tax during the first 5 years of operations as a new SME (see Chapter 1).
2. The incentive has a 90% exemption on personal income tax from agricultural or agro-industrial revenues. This excludes income from dividends, interests, royalties, or capital gains from the sale of assets.
3. It offers 25% in tax credits for purchasing goods manufactured in Puerto Rico. The credit may increase to 30% during the first 5 years if the business is a new SME (see Chapter 1).

4. It has a 100% exemption from income tax on interest bonds, promissory notes, and other debt instruments.
5. It has a 100% exemption from property taxes, including on real, personal, tangible, and intangible property (land building, equipment, accessories, and vehicles), as long as the property is used by a Bona Fide Farmer and at least 35% of the property's activities qualify as eligible activities.
6. It has a 100% exemption from municipal license taxes.
7. It has a 100% exemption from the sales and use tax only when purchasing specific agricultural equipment, including machinery, power generators, incubators, brooders, honey, molasses, some vehicles, tractors, diesel, and irrigation systems, among others. Farmers acquiring tax-free items must have an Exempt Purchases Certificate.
8. The incentive has a 100% exemption from stamps and registration fees of real estate property.
9. There are up to 50% in tax credits for all eligible research and development activities.
10. There is an annual bonus per agriculture worker equivalent to \$165.00, or 4% of the annual salary per employee, whichever is greater. The amount is capped at \$235.00 per worker per year.
11. A wage subsidy program is provided to eligible farmers.

Agro-Lodging Designation

As part of the tourism incentives included in Chapter 5, the Incentives Code provides a special designation for Bona Fide Farmers who aspire to host guests and tourists on their property. Bona Fide Farmers may apply for this second incentive if the income derived from tourism activities is at most 49% of the total income of their respective farms. This designation requires that the owner develop at least 3 units (bedrooms with private or communal bathrooms), that an operator resides on the property, and that breakfast is provided to each guest every morning.

Farmers with both agriculture and tourism incentives may use the revenue from the tourism activity to increase the production of agricultural goods inside their farms. This may be through the reinvestment of proceeds to purchase new seedlings, new equipment, or commence research and development activities. Applying for this designation (See Chapter 5) may grant the operator an additional 30% to 40% tax credit for the purchase of the property, remodeling or construction, and the operational costs during the first 12 months.

Agro-Lodging Balance Sheet Example

	Base Investment		For Illustrative Purposes Only	
	Amount + \$1		Stabilized Year of Operations	
	2023			
Number of Units	4		Agriculture Income:	54.99%
Occupancy	52.30%		Tourism Income	45.01%
Average Rate	\$ 105.00		\$ 125.00	
Rev ARPU	\$ 54.92		w/ service charge	
Beds Occupied	2,092			
Revenues	Amount	Percent	\$/Avail Bed	\$/Occ Bed
Private Bedrooms	\$ 80,175.90	36.26%	\$ 20,043.98	\$ 306.60
Agricultural Business	\$ 93,530.65	42.30%	\$ 23,382.66	\$ 357.67
Agricultural Tours and On-Site Sales	\$ 28,059.20	12.69%	\$ 7,014.80	\$ 127.74
Other Departments	\$ 4,073.67	1.84%	\$ 1,018.42	\$ 15.58
Service Charge	<u>\$ 15,271.60</u>	6.91%	<u>\$ 3,817.90</u>	<u>\$ 58.40</u>
Total Revenues	\$ 221,111.02	100.00%	\$ 55,277.75	\$ 865.99
Department Expenses				
Private Bedrooms	<u>\$ 13,950.61</u>	17.40%	<u>\$ 3,487.65</u>	<u>\$ 53.35</u>
Other Operated Areas (Reception)	<u>\$ 998.63</u>	1.25%	<u>\$ 249.66</u>	<u>\$ 3.82</u>
Total Departmental Expenses	\$ 14,949.24	18.65%	\$ 3,737.31	\$ 57.17
Undistributed Operating Expenses				
Payroll (Farm and Lodging)	\$ 62,019.00	28.05%	\$ 15,504.75	\$ 237.17
Marketing	\$ 7,681.00	3.47%	\$ 1,920.25	\$ 29.37
Prep Oper and Maintenance	\$ 6,300.00	2.85%	\$ 1,575.00	\$ 24.09
Utilities (Energy, Water, Telecom)	<u>\$ 16,917.60</u>	<u>7.65%</u>	<u>\$ 4,229.40</u>	<u>\$ 64.69</u>
Total UDOEs	\$ 92,917.60	42.02%	\$ 23,229.40	\$ 355.33
Fixed Charges				
Management Fee	<u>\$ 11,055.55</u>	5.00%	<u>\$ 2,763.89</u>	<u>\$ 42.28</u>
Mortgage	\$ 11,964.00	5.41%	\$ 2,991.00	\$ 45.75
Property Tax	\$ 1,977.00	0.89%	\$ 494.25	\$ 7.56
Insurance	\$ 1,177.00	0.53%	\$ 294.25	\$ 4.50
Reserve for Replacement	<u>\$ 5,800.00</u>	<u>2.62%</u>	<u>\$ 1,450.00</u>	<u>\$ 22.18</u>
Total Fixed Charges	\$ 31,973.55	14.46%	\$ 7,993.39	\$ 122.27
Net Income	\$ 81,270.63	24.87%	\$ 20,317.66	\$ 331.22

Illustrative Example

After Carmen's uncle passed away, she decided to help her aunt, Lorena, manage their 12-acre ornamental flower farm. Lorena always dreamed of opening a bed and breakfast where visitors could experience the flowers' serene beauty while staying in charming cottages scattered across the property.

Carmen created a new LLC called Flower Farm PR, transferred the family property into the business, and registered in the Bona Fide Agricultural Program. She then renovated the main farmhouse to include 4 guest suites. Carmen collaborated with the Puerto Rico Tourism Company to secure 30-40% tax credits for her renovation and operating expenses in the first year (see Chapter 5).

To qualify for the tax benefits, Carmen ensured that 51% of Flower Farm activities remained focused on ornamental flowers while the remaining 49% were tourism related. The business is now eligible for a 15-year tax decree, a 2% corporate income tax rate, a 90% exemption on personal income derived from the farming operation, and a 100% exemption on property taxes.

Cost to File

Prior to filing the application under the desired designation or program, the Puerto Rico Department of Agriculture must provide the corresponding certification. Once an eligible business sets out to apply for the Bona Fide Farmer Program, it is essential to select the appropriate designation that aligns with the eligibility criteria of the business. If the business is currently operational, it is crucial to ensure that all corporate documents, such as bylaws and operating agreements, are up to date and free from any outstanding debts.

Fishermen who wish to apply for the Bona Fide Farmer Program must verify that licenses with the Department of Natural and Environmental Resources (DRNA, by its Spanish acronym) are current. Similarly, dairy farmers have to confirm that licenses with the Milk Industry Regulation Office (ORIL, by its Spanish acronym) are in good standing.

The filing cost for the Bona Fide Farmer Certification with the Puerto Rico Department of Agriculture may vary depending on the industry and business formation (individual, corporation, LLC). However, it is important to note that the cost to file for the tax incentive at the DDEC is a fixed amount. Businesses applying for the incentive for the first time should budget at least \$1,930 for filing costs and servicing fees. These fees are paid directly to the government of Puerto Rico through the incentives.ddec.pr.gov website and do not include any



additional charges. When preparing the application, it is advisable to consider the expenses associated with hiring a business consultant, accountant, lawyer, or other service professionals who have experience designing and submitting tax decree applications.

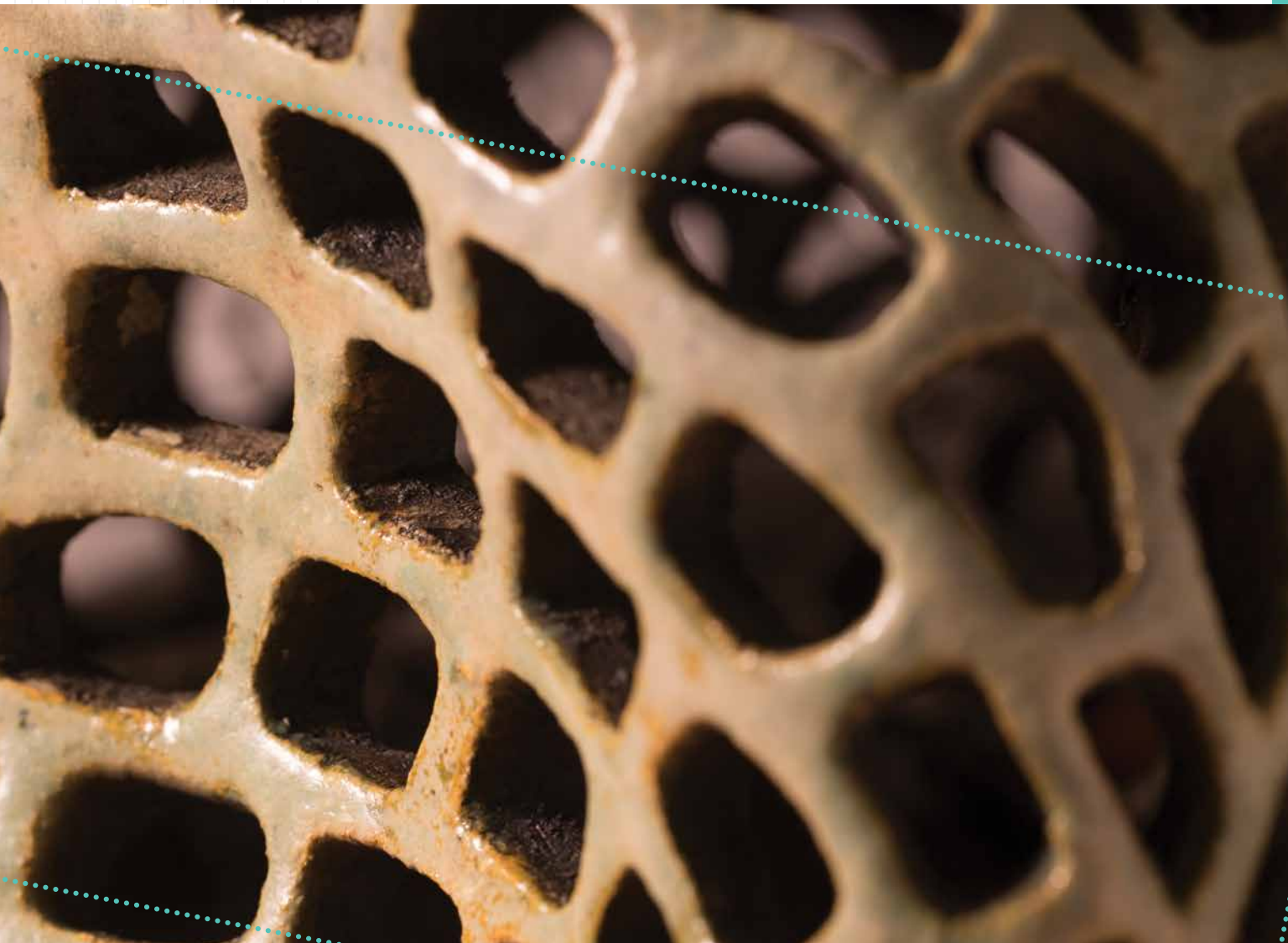
Cost to File

Filing	Transaction Fee	Service Fee
Bona Fide Farmer	\$5	\$100
Incentives for Agricultural Research and Development	\$5	\$100
Decree Extension	\$5	\$1,000
Annual Report	\$5	\$500
Acceptance of Decree	\$5	\$100
Notification of Commencement of Operations	\$5	\$100
Total	\$30	\$1,900

Creative Industries



In order to promote and support the creative and visual arts, this chapter places a particular emphasis on the film and television industry in Puerto Rico. The incentive covers various artistic works, including music videos, short and feature films, advertisements, documentaries, series, events, and more. Moreover, it also benefits businesses that offer services to the film industry, such as production or post-production studios and suppliers. Furthermore, the incentive provides advantages for new infrastructure projects related to the arts and entertainment sector.



For creators or artists who have a following, audience, or performance opportunities beyond Puerto Rico, this incentive program becomes a vital tool for expanding their business. This incentive is often combined with the Export of Services and Goods Incentives (see Chapter 3), which includes design studios, music recording studios, video game developers, digital services, multimedia, and other creative sectors that generate new revenues for Puerto Rico-based companies. By combining both incentives, production activities and international sales may qualify for all the benefits outlined in these provisions.

Eligible Productions/Businesses

9.1

→ Film Projects¹

Film projects typically qualify for tax incentives throughout pre-production, production, and post-production. Expenses incurred during each phase could be eligible for the general benefits and tax credits provided by the incentive program. Some of the film projects designations are the following:

- a. **Short Films**
These are projects with 40 to 60 minutes of screen time.
- b. **Feature Films**
This designation includes feature film productions with a total screen time that exceeds 60 minutes.
- c. **Documentaries or Live Events**
This designation encompasses documentaries or live show productions whose distribution includes markets outside Puerto Rico. Some examples include live broadcasts, beauty pageants, award ceremonies, and shows. Live music events, such as Electric Holiday, have also received this incentive in the past.
- d. **Series or Docuseries**
Episodic series, mini-series, and television programs, including pilots and other projects produced for digital distribution, fall under this designation.
- e. **Advertisements**
This designation includes advertisements filmed

¹ Puerto Rico Incentives Code, Sec. 2091.01, 13 L.P.R.A. § 45871 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



in Puerto Rico. If the production expenses exceed \$100,000 and the distribution is oriented towards audiences outside the island, the advertisements may also apply under said designation. If the total production expenses do not reach the established amount, multiple ads for different clients may be bundled to surpass the minimum production value.

f. **Video Games**

Businesses developing audio, visual effects, and graphics for mobile or video games may apply under this designation. Moreover, the incentive provided may also be stacked with research and development tax credits for all of the software development costs involved (see Chapter 6 for more information).

g. **Television Projects**

This designation includes television productions such as reality shows, talk shows, news, game shows, entertainment, comedy, and children's programs. Famous Puerto Rican shows like *La Comay* and *Atención Atención!* have used this designation for their productions.

h. **Film Festivals**

Any film festival that charges for tickets or entrance cover fees can apply.



i. **Music Videos**

This designation encompasses explicitly short films that visually depict a corresponding song. Since introducing this incentive, several renowned music stars from Puerto Rico, including Tego Calderón and Bad Bunny, have utilized and benefited from it.

9.2

→ **Studio Operators**²

This incentive is intended for companies involved in transforming a script into a final product that is suitable for the screen. It explicitly targets studio operations, post-production businesses, and strategic suppliers.

a. **Studio Operators**

This designation includes studio operators with all the necessary components, staff, equipment, and any other necessary resources to meet the commercial needs of film projects.

b. **Post-Production**

This involves companies dedicated to the post-production of a film project, including finishing touches,

² Puerto Rico Incentives Code, Sec. 2091.01, 13 L.P.R.A. § 45871 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>

special effects, sound mixing, color grading, and other activities.

c. **Strategic Suppliers**

This designation includes suppliers of filming equipment, transportation, and other materials crucial for producing a creative project.

9.3

→ **Development Projects**³

This incentive is intended for companies and developers that will invest in establishing, improving, or expanding infrastructure for the creative economy. In addition, it also provides municipal and state governments the opportunity to develop innovative districts, sectors, and corridors to advance the economic development of this industry.

a. **Infrastructure Projects**

This designation is meant to develop production studios, laboratories, facilities for international transmissions, or other permanent projects through investments towards substantially developing or expanding the industry. The minimum investment requirement is \$500,000.

b. **Creative Industries Development Districts**

This designation is typically granted to corporations or municipalities that aim to develop an economic district. It is reserved for geographic areas of property or real estate dedicated to the advancement of the creative economy through the development, construction, and operation of studios.

Eligibility Requirements

This incentive is available for all types of production, subject to various restrictions.

- » Feature film production costs must be connected to Puerto Rico and of at least \$50,000.
- » Short films and documentaries must have costs of at least \$25,000.

³ <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>

- » Advertisements displayed outside Puerto Rico must have aggregate campaign expenses of at least \$100,000.
- » If post-production work is done in Puerto Rico, the added expenses of the Film Project must be at least \$100,000.

General Benefits

1. The incentive for corporations lasts 15 years. If requested, it can be extended for an additional 15 years, providing a total of up to 30 years of preferential tax treatment to the business. The same term and extension also apply for studio operators and infrastructure developers.
2. For film projects and productions, the incentive lasts for the duration of the activities.
3. The corporate income tax rate is 4%.
 - a. If the eligible business is under 3 years old and has yet to surpass \$3,000,000 in gross revenues when applying for the incentive, it may obtain a 2% corporate income tax during the first 5 years of operations as a new SME (see Chapter 1).
4. The incentive includes a 100% exemption on the sales and use tax for personal property acquired, such as film equipment, cameras, and others necessary for the operation of the business.
5. It has a 75% exemption for personal and real property, municipal and state taxes, and construction excise taxes.
6. There is a 100% exemption from municipal taxes.
7. Donors may contribute up to \$100,000 and deduct up to 25% of their annual tax obligation.

Ineligible Businesses and Activities

1. A production of religious or political propaganda
2. A production including pornographic material
3. Radio shows
4. A production of visual or audio materials to promote a service or product but does not comply with the requirements of an advertisement designation



5. A production whose purpose is to raise funds
6. A production to train employees or conduct public relations for a company or individual
7. Any other project the Secretary of DDEC deems ineligible through circular letters or clauses included in the Puerto Rico Incentives Code

Tax Credits Prioritize the Promotion of Local Artists⁴

To unleash the potential of Puerto Rico's cinema and creative industries, the Incentives Code creates three tax credits for all film projects.

a. **Up to 40% in Tax Credits for Local Productions**

Companies may claim up to 40% in tax credits for all expenses incurred on the island in the pre-production, production, and post-production of film projects in Puerto Rico.

b. **A 20% Tax Credit for Qualified Non-Residents**

This tax credit is reserved for expenses incurred hiring above-the-line (ATL) talent outside of Puerto Rico. ATL

⁴ Puerto Rico Incentives Code, Sec. 2091.01, 13 L.P.R.A. § 45871 (2023).

includes talent, creatives, and employees responsible for creative development, production, and direction. This consists of all personnel required to take a film from an idea to a working script to the screen.

c. **An Additional 15% Tax Credit for Puerto Rico Production Expenses**

An additional 15% tax credit may be granted when a local producer leads a full-length film, documentary, or series. The credit may be claimed if the producer is entitled to 30% of the net income and crew members are Puerto Rican residents. This benefit is capped at \$4,000,000 per film project.

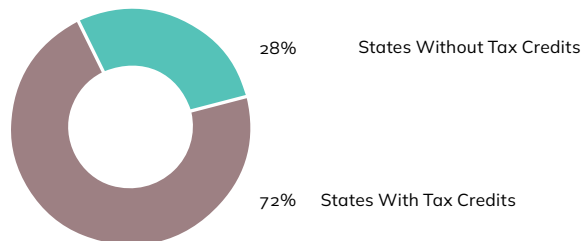
The Incentive's Limitations

The tax credits for films are capped at an industry-wide total of \$38,000,000 per year. This equates to roughly \$95,000,000 to \$152,000,000 in annual film production costs incurred on the island and with off-island talent.

Film Industry Benefits in Puerto Rico vs. The United States

Tax credits for the film industry are not specific to Puerto Rico, though the island's benefits are among the most competitive. Many jurisdictions worldwide, including most states in the United States, promote benefits through grants, credits, and rebates for film productions. The average amount disbursed by these governments stands at an average of 25% of the total production budget. States such as California, Georgia, Louisiana, and Illinois are famous for their competitive benefits that attract producers and film studios.⁵

Film Industry Tax Credits Available
in the United States and Jurisdictions



⁵ <https://www.castandcrew.com/services/financial-services/incentives-map/>

Only 38 of all the 50 states, Puerto Rico, and the U.S. Virgin Islands, provide tax credits for the film industry. The remaining 14 have yet to develop an economic development policy for this industry. The disbursement of the established tax credits and benefits is usually delivered in four ways:

1. **Non-Transferable Tax Credits**

These are tax credits that must be used by a company in order to reduce its tax liability to zero and below zero. A company that opts for these credits may not sell or transfer them nor use them as collateral when seeking financing.

2. **Rebates or Grants**

These are cash rebates that the state directly pays to a production company. They are usually a percentage of a company's qualified expenses or paid pro-rata to the state annual budget.

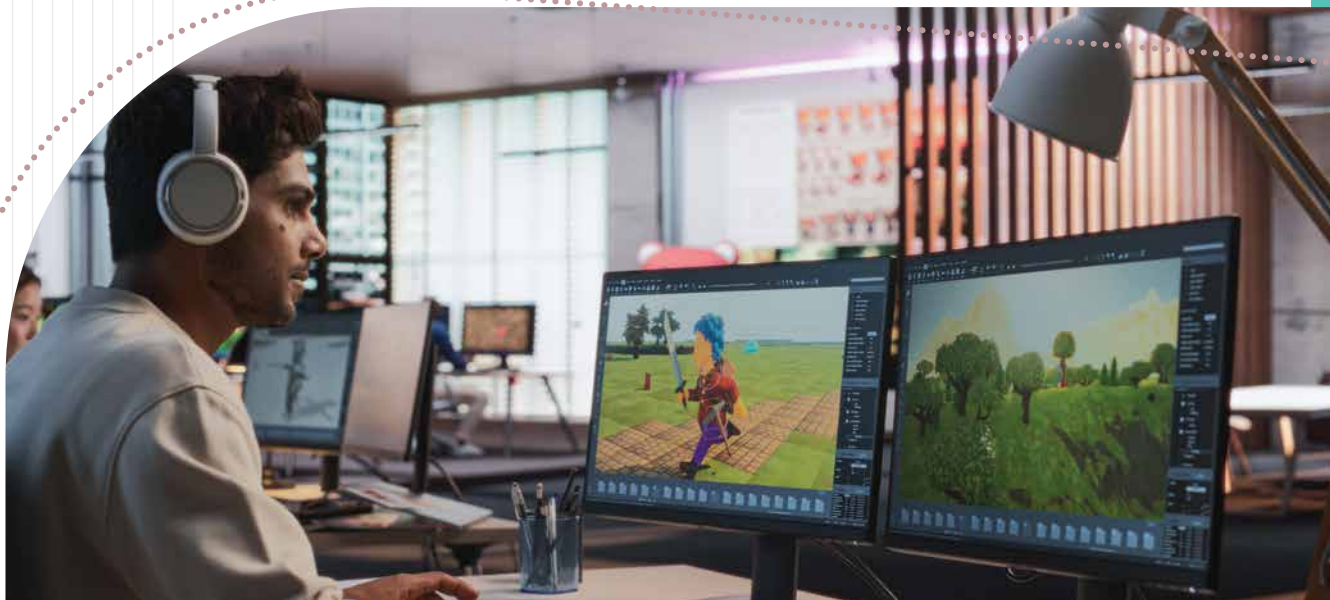
3. **Refundable Tax Credits**

These are credits that allow a company to be refunded its eligible investment no matter how much the tax liability is. These credits can take this liability below zero, and the complete amount is refunded in cash to the company.

4. **Transferable Tax Credits**

These credits reduce a company's tax liability to zero and below zero. A company may sell or transfer these credits to individuals or corporations looking to decrease their tax liability further.

These four types of disbursements have a fundamental impact on the capitalization of each film production. In the same way businesses take out loans and collateralize them with their assets, the type of tax credit, rebate, or grant allows film producers to raise capital, secure financing, and use these amounts as collateral for each production.





The unincorporated territory of Puerto Rico joins 4 states in terms of the total tax credits available per film project. With tax credits ranging from 25% to 40% for eligible projects and the ability to transfer these credits, the Puerto Rico Incentives Code offers competitive production benefits compared to other jurisdictions in the United States

State ⁶	Incentive	State ⁶	Incentive
South Dakota	No benefits	U.S. Virgin Islands	9% - 29%
North Dakota	No benefits	Connecticut	10% - 30%
New Hampshire	No benefits	Nevada	12% - 15%
Missouri	No benefits	Arizona	15% - 25%
Michigan	No benefits	Washington	15% - 35%
Iowa	No benefits	Montana	15% - 35%
Kansas	No benefits	Virginia	15% - 40%
Idaho	No benefits	Nebraska	20%
Indiana	No benefits	Colorado	20%
Alaska	No benefits	Oklahoma	20% - 38%
Wisconsin	No benefits	Georgia	20% - 30%
Wyoming	No benefits	Utah	20% - 25%
Vermont	No benefits	Minnesota	20% - 25%
South Dakota	No benefits	South Carolina	20% - 30%
Florida	No benefits	California	20% - 40%
Delaware	No benefits	Puerto Rico	20% - 40%
Maine	5% - 12%	Washington DC	21% - 35%
Texas	5% - 22.5%	Hawaii	22% - 27%
Oregon	6.2% - 25%	Arkansas	25% - 35%

⁶ This table provides information on the production incentives of each state and territory, as shown on the following website: <https://www.castandcrew.com/services/incentives-map/>. To learn more, visit the Incentives Map provided through this source.

State ⁶	Incentive	State ⁶	Incentive
North Carolina	25%	Maryland	28% - 30%
Massachusetts	25%	Rhode Island	30%
Pennsylvania	25% - 30%	Ohio	30%
New Mexico	25% - 35%	Kentucky	30% - 35%
Mississippi	25% - 35%	New Jersey	30% - 37%
Alabama	25% - 35%	Illinois	30% - 45%
Louisiana	25% - 60%	New York	30% - 40%
West Virginia	27% - 31%		

Illustrative Example

María is a content creator who has garnered a considerable following through her unique insight on Act 60. Her videos emphasize the impact of new residents in Puerto Rico, sparking intense discussions around gentrification.

In order to continue her pursuit of new stories and publications, María opened a Patreon account, launching a subscription service with a tiered structure ranging from \$5 to \$25 per month. In her first year, she gathered an impressive community of over 300 subscribers, each contributing an average of \$15 a month. As she delved deeper into Act 60, she started to understand the intricacies of the economic development tools involved, including the provided tax incentives, which she learned could also benefit her as a young entrepreneur.

Having begun her revenue stream through the subscription service, she could not apply for the Young Entrepreneurs incentives (see Chapter 10 for more information). Instead, she used the funds she had accumulated over the previous year and embarked on a mini-series project to discuss the issues she perceives as prevalent in Puerto Rico. Investing \$72,000 from her subscription business, she applied for service export incentives under the creative industry designation, including creative industry film projects.

María's goal is to create six episodes that shed light on Puerto Rico's structural challenges and the organizations committed to addressing them. In doing so, she aims to lower her tax liability on subscription income and mitigate the entrepreneurial risks associated with her film projects. By adopting these strategies, she is positioned to receive a 40% tax credit on production expenses and a 15% tax credit for the intellectual property that comes with her scripts. Consequently, her production could benefit from over \$39,000 in tax credits, all while spotlighting grassroots leaders and issues of concern for the island.

This newfound understanding of leveraging these incentives is poised to significantly reduce María's corporate income tax from over 18% to a mere 4% annually for the next 15 years. By doing so, she not only recognizes the benefits of establishing a business in Puerto Rico but also understands the possibility of claiming tax credits for future productions, which could eventually enhance her financial outlook as well.

Cost to File

The estimated cost to file a decree for creative industries incentives is \$1,005. This applies to film projects, studio operators, and infrastructure projects, as well as Creative Industries Development Districts. This sum does not consider additional costs for service professionals, accountants, and attorneys.

Cost to File		
Filing	Transaction Fee	Service Fee
Film Project	\$5	\$1,000
Studio Operator or Infrastructure Project	\$5	\$1,000
Creative Industries Development District Designation	\$5	\$1,000



Entrepreneurship



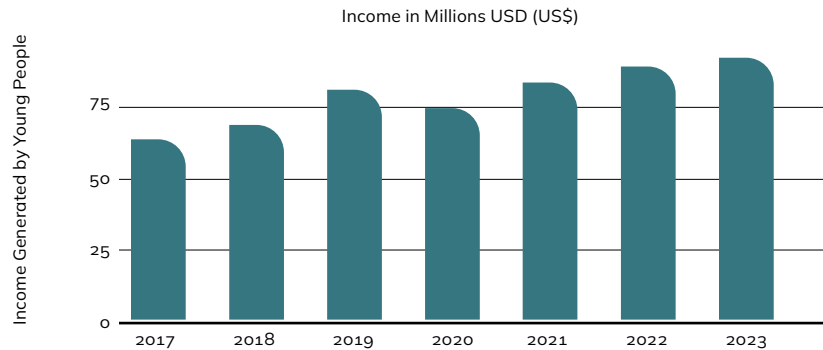
This chapter encourages Puerto Ricans under 36 years of age to become young entrepreneurs. The decree application process is straightforward, which means that it can be filed without the assistance of an attorney, lawyers, or service professionals. It also establishes preferential leasing terms of government properties to small- and medium-sized enterprises (SME), as well as sets a provision for the development and funding of business incubators on the island.



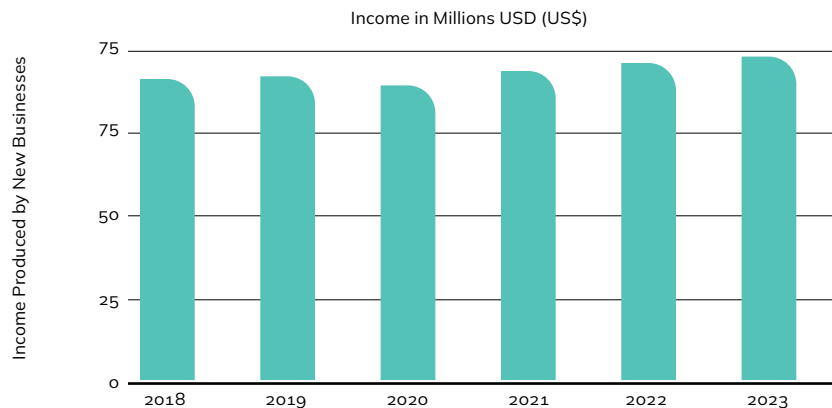
→ Young Entrepreneurs¹

The Young Entrepreneurs Incentive extends for the first 3 years of operations and may serve as a stepping stone to other stimuli and business benefits. Recent data from Hacienda's Tax Expenditure Report for Tax Year 2023² highlight the economic development spurred by young founders. Since 2017, the income from Young Entrepreneurs in wages, services, and self-employment under this incentive (formerly Act 135-2014) has steadily increased by an average of 5.4% annually, from \$42.3M in 2017 to over \$61M in 2023.

Income Generated by Young Entrepreneurs 2017-2023



Income Produced by New Businesses 2018-2023



¹ <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

² Office of Economic and Financial Affairs of the Puerto Rico Department of Treasury (Hacienda), "Puerto Rico Tax Expenditure Report for Tax Year 2023," accessed May 5, 2023, https://hacienda.pr.gov/sites/default/files/tax_expenditure_report.pdf



Furthermore, the income produced by new businesses that operate under these benefits has consistently increased over the past 5 years. With a compounded annual growth rate of 1.2%, more young people are applying and starting their businesses under this incentive. Since 2018, the yearly reported income produced by these companies has increased from \$91.9M to over \$98M in 2023.

Eligible Businesses

If the applicant is between 16 and 35 years of age, the Young Entrepreneurs Incentive is the easiest to obtain and the first incentive one should consider pursuing. Any type of business in any industry, as long as it is legal, is eligible for the benefits it offers.

Eligibility Requirements

1. Entrepreneur must be between 16 and 35 years old.
2. Entrepreneur must have graduated high school or equivalent.
3. Entrepreneur must not have any active debt with Hacienda or, alternatively, have a payment plan in place.



4. Entrepreneur must establish a new business.³
5. The business operator must be a young person.

General Benefits

1. The incentive offers a total corporate income tax exemption for the first 3 years of the decree, or the first \$500,000 earned in net, whichever occurs first.
2. There is a complete exemption from personal property taxes and municipal taxes.
3. It has 0% personal income tax on the first \$40,000 earned in salaries per year until the 3 years of the decree or the \$500,000 in net income are fulfilled.

The Benefits

Decree Length in Years (Max)	3
Corporation Income Tax (First \$500K Net Income)	0%
Personal Income Tax (First \$40K Per Year)	0%

³ Acquiring a new business or continuing operations of a family business are not eligible.

→ Preferential Treatment to Small- and Medium-Sized Enterprises Leasing Government Property⁴

Any small- or medium-enterprise (SME) can benefit from leasing a property owned by the government of Puerto Rico. Each property will offer at least one feature: areas to dock cargo; strategically located near roads, ports, and airports; and plant sizes that range between 2,000 and 100,000 square feet. Although most properties require significant improvements by the tenant, all are equipped with a 1½- to 2-inch diameter water intake valve, 120/208 kV electrical capacity (some may be upgraded to 50 kV), parking areas, and a ceiling height of at least 12 feet.

The Puerto Rico Industrial Development Company (PRIDCO) has a catalog of over 1,500 properties that is accessible for business owners seeking to expand and grow their ventures. If a property is in disuse for 3 years, and the tenants (for example, an SME) are willing to conduct minor repairs and improvements, an annual rent may be offered for the first 3 years for as little as \$1 per year.

After 3 years, the rental fee will be negotiated in a rental contract, establishing a price in the range of \$2 to \$10 per square foot. The length of the contract after the first 3 years would range between 1 and 5 years. For an office or manufacturing space, applicants must contact the DDEC and PRIDCO to inquire about this opportunity.

Eligibility Requirements

1. Operations cannot have started before 2020.
2. SME cannot have a decree for Young Entrepreneurs or for Individuals.
3. SME cannot exceed an average gross revenue of \$3,000,000 per year for the last 3 years.

⁴ Puerto Rico Industrial Development Company, "Meet PRIDCO," Industrial Development, n.d., accessed May 19, 2023, <https://www.pridco.pr.gov/about>.

General Benefits

1. The incentive can be added to most decrees.
2. It offers discounted property and municipal taxes pending negotiations with PRIDCO.

10.3

→ Business Incubator Programs⁵

This incentive defines business incubators as nonprofit organizations that serve as training development centers for improving the business skills of founders. These incubators serve founders at different stages and usually assist with marketing and accounting, as well as providing mentoring on the sources available to obtain and raise investment capital for their startups.

Besides founders being able to benefit from this assistance, this incentive also creates an opportunity for local incubators to receive funding from the government of Puerto Rico and sustain operations for the first 5 years of expansion or creation. Since 2020, the federal government's Department of Housing and Urban Development (HUD) has provided grants that enabled the creation and growth of more than 30 accelerators and incubators.⁶ Some of the established accelerators and incubators in the ecosystem include Parallel 18 (part of the Puerto Rico Science, Technology and Research Trust), StartupPR, El Nodo Business Acceleration Hub, the Núcleo program by Centro para Emprendedores, and the Rising Entrepreneurs Program by the Bravo Family Foundation. While most of these programs cater to founders across the island, others provide funding, free office space, and other perks.

Incubators and accelerators have proliferated due to federal funding, each receiving up to \$2.5M from HUD. At the state level, this incentive establishes a provision for the DDEC to continue HUD's work through the creation of the Economic Incentive Fund. This fund is capitalized using 10% of all corporate taxes collected from Act 60 decree holders. The fund may receive up to \$125,000,000 annually.

⁵ *Puerto Rico Incentives Code, Sec. 2100.03, 13 L.P.R.A. § 45973 (2023).*

⁶ Puerto Rico Department of Housing, "Small Business Incubators and Accelerators Program," CDBG-DR/MIT Program, accessed May 19, 2023, <https://cdbg-dr.pr.gov/en/small-business-incubators-and-accelerators/>.

Eligibility Requirements (Pending)

Although the eligibility requirements have not been formally established by the Secretary of the DDEC, some of the proposed eligibility requirements related to the operations of business incubators include the following:

- » There may be requirements around the number of jobs to be created within the first 5 years of operations, beginning on the date the decree is received.
- » There may be required funding to create or expand a business incubator during the first 5 years of operations, beginning when the decree is received.
- » There may be requirements regarding the type of businesses and entities in the community that may participate in the business incubator, as well as those organizations that conduct research and development activities.
- » The Secretary of the DDEC may set any additional requirements they consider appropriate.

Percentage of entrepreneurs in early activity by driving reason to start a business, by geographical region and income level, 2020

	Make a Difference (% of TEA)	Build great wealth (% of TEA)	Continue family business (% del TEA)	Make a living because jobs are scarce (% del TEA)
Puerto Rico	73.4%	44.6%	23.1%	78.2%
Ranking among participating countries	3/44	33/44	29/44	13/44
Geographical Region:				
Latin America & Caribbean	62.2%	52.9%	34.7%	82.0%
United States	68.2%	66.0%	28.6%	50.2%
Income Levels:				
Low-Income Countries	44.2%	68.0%	40.0%	77.9%
Medium-Income Countries	43.5%	68.1%	28.2%	71.1%
High-Income Countries	43.8%	56.0%	28.6%	62.1%

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Eligible Activities

1. Development of viability studies and plans related to the creation or expansion of business incubators
2. Implementation of said studies and plans to support the creation or expansion of business incubators, including technical assistance and appropriate programmatic activities



3. Temporary operational assistance of the business incubators until the organization reaches financial sustainability and can continue operating without the program

Illustrative Example

Mitchel, 19, created popular fitness video during his freshman year in college that quickly gained attention, making him an influencer overnight. Fitness brands and wellness companies started reaching out to him, and Mitchel realized he could fund his education through this side business. He formed FitLife Solutions LLC and applied for the Young Entrepreneur Decree. In its first year, FitLife Solutions LLC earned \$45,000 and paid no corporate tax. In Year 2, FitLife Solutions LLC grew to \$140,000 in revenue, again paying no corporate tax. Mitchell focused on expanding the app and took a modest salary of \$35,000, which was fully exempt from personal income tax.

By Year 3, FitLife Solutions LLC reached \$220,000 in earnings, allowing Mitchel to give himself a larger salary while the company continued to enjoy zero corporate and personal income taxes under the Young Entrepreneur Incentive.

As the incentive ended after Year 3, Mitchel incorporated FitGlobal Solutions LLC and applied for an Export Services Decree (see Chapter 3). In Year 1, FitGlobal Solutions LLC made \$320,000, which was taxed at 4%. Mitchel paid himself a yearly salary of \$40,000 and received \$120,000 in dividends, all of which were tax-exempt.

Cost to File

Whether filing for a Young Entrepreneur Decree, Preferential Rent Program Decree, or Business Incubator Decree, the cost is the same for all. A tax decree may be submitted for \$105 if prepared without professional assistance. Depending on the application, additional expenses may be incurred, such as incorporation, business licenses, permits, and notarized documents.

Cost to File		
Filing	Transaction Fee	Service Fee
Young Entrepreneurs Decree Application	\$5	\$100
Preferential Rent Program (New SME Decree Applications)	\$5	\$100
Business Incubator Decree Application	\$5	\$100

Other Industries



Strengthening Commercial, Logistic, and Tourism Transportation

This chapter illustrates the available tax incentives for public carriers in air transport services, maritime transport, and incentives for the cruise ship industry. These incentives increase the island's capacity to move commercial goods and create capital benefits to corporations taking on the risk of carriers or cruise ships.





11.1

→ Carriers¹

Since the incentives seek to encourage more cargo and transportation services within Puerto Rico, there is a strong focus on carriers. These are companies that transport goods and, as cargo operators, may serve island municipalities as well as facilitate trade.

Eligibility Requirements

Neither the Code nor regulations state any eligibility requirements.

General Benefits

1. The incentive offers a 100% exemption on net income during the 15-year exemption period, provided that the business complies with the requirements and conditions established in the decree.
2. It has a 100% exemption on excise taxes, state and municipal taxes, and personal and real property taxes. This exemption does not extend to fuel.

¹ <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

→ Cruise Ships²

The cruise ship industry incentives seek to attract new ships that choose Puerto Rico as their base port, promote consumption on the island by passengers and crew, and schedule a more significant number of visits. These incentives are available for all cruise ships.

Eligibility Requirements

1. Cruise ship owners must file a monthly (or at other intervals if separate agreements exist with the DDEC Secretary) report with the DDEC detailing the number of passengers that disembarked in any ports of Puerto Rico.
2. Cruise owners must have and continue to promote a total amount not less than the number of passengers that traveled, embarked or disembarked in any port in Puerto Rico.

² Sec. 2110.03, 13 L.P.R.A. § 46053 (2023).



General Benefits

1. The incentive provides a discount of \$4.95 on government fees per passenger ticket for the first 140,000 passengers who arrive in 12 months (the standard price is \$13.25). When the 140,000 threshold is exceeded, the amount deducted will be \$7.45 per passenger.
2. When a cruise ship has Puerto Rico as its base port, the government provides \$1.00 for each passenger that visits the jurisdiction. After 21 visits, the government will provide \$2.00 per passenger. After 53 trips, the government will provide \$3.00 per passenger.
3. If a cruise ship uses Puerto Rico as its home port from on a weekday, an additional \$0.50 per passenger is provided to the company.
4. If the cruise ship has its home port in Puerto Rico and it visits another port on the island during the same week, it will benefit from an additional \$0.50 per passenger.
5. If the home port ship leaves San Juan before 4:00 p.m., it will receive \$1.50 per passenger.
6. Besides the above, the company can apply for a match of \$1.00 for each passenger brought to Puerto Rico from their marketing efforts. To claim any amount, the cruise company must have contributed that same amount to the government's marketing program.

Cost to File

Applicants must pay \$5,005 for any of the three designations. This amount does not include permits, licenses, federal and state registries, and service professionals.

Cost to File		
Filing	Transaction Fee	Service Fee
Air Transportation Services	\$5	\$5,000
Maritime Transportation Services	\$5	\$5,000
Cruise Ships from Puerto Rico	\$5	\$5,000



Afterword

There is no easy way to address and solve the economic problems of Puerto Rico. The complexity associated with the imbalance generated by the traces of colonialism and asymmetrical federalism permeates the island's history, culture, identity, economy, and fiscal policies. The next era must be led by constituents seeking to create a more equitable and inclusive economic development strategy.

The importance of learning from the experiences of local governments in other countries and jurisdictions cannot be overstated. By studying and understanding the tax incentive policies that have been implemented in different parts of the world, governments can gain valuable insights into practical strategies for promoting economic growth, attracting investments, and supporting businesses.

These comparative studies allow policymakers to assess the strengths and weaknesses of various approaches, identify best practices, and adapt them to suit their unique circumstances. By exploring a running list of tax incentive policies from around the globe, valuable lessons can be obtained and these will ultimately inform the development and improvement of Puerto Rico's tax incentives, fostering an environment conducive to business success and economic prosperity. The following tax incentive policies can inspire the next generation of local policymakers.

Appendix A: R&D Tax Credits in the United States and Jurisdictions

State	R&D Tax Credit	Refundable/ Saleable	Length of Time Unused Credits May be Implemented (Years)
New Mexico ¹	5%-10%	Partial	3
Florida ²	10%	No	5
Illinois ³	6.50%	No	5
Louisiana ⁴	5% - 30%	No	5
New Hampshire ⁵	10%	No	5
Maryland ⁶	10%	Partial	7
New Jersey ⁷	10%	Partial	7
Ohio ⁸	7%	No	7
Rhode Island ⁹	16.9%- 22.5%	No	7
Arkansas ¹⁰	20%-33%	No	9
Georgia ¹¹	10%	No	10
Indiana ¹²	10% - 15%	No	10

- 1 New Mexico Taxation and Revenue Department. "Tax Credits Overview & Forms: Tax Professionals," accessed May 18, 2023, <https://www.tax.newmexico.gov/tax-professionals/tax-credits-overview-forms/>.
- 2 Georgia Department of Economic Development. "Research and Development Tax Credit," n.d., <https://www.georgia.org/research-and-development-tax-credit>.
- 3 Illinois General Assembly. "Public Act 100-0022," 2020, <https://www.ilga.gov/legislation/publicacts/100/PDF/100-0022.pdf>
- 4 Louisiana Economic Development. "Research and Development Tax Credit," n.d., <https://www.opportunitylouisiana.gov/incentive/research-and-development-tax-credit>
- 5 New Hampshire Department of Revenue Administration. "The New Hampshire Research & Development Tax Credit (R&D) Program," n.d., <https://www.revenue.nh.gov/assistance/research-tax-credit.htm>.
- 6 Maryland Department of Commerce. "Article - Tax – General §10-721," n.d., <https://commerce.maryland.gov/Documents/Tax%20General%2010%20721.pdf>.
- 7 New Jersey Division of Taxation. "Corporation Business Tax Credits and Incentives," n.d., <https://www.state.nj.us/treasury/taxation/cbt-creditlist.shtml#Research>.
- 8 Ohio Rev. Code, § 5726.56 (2023).
- 9 Rhode Island Division of Taxation. "Ruling Request No. 95-05," n.d., <https://tax.ri.gov/guidance/declaratory-rulings/ruling-request-no-95-05>
- 10 Arkansas Department of Finance and Administration. "Business Incentives and Credits," n.d., <https://www.dfa.arkansas.gov/excise-tax/tax-credits-special-refunds/business-incentives-and-credits/>.
- 11 Georgia Department of Audits & Accounts. Tax Incentive Evaluation: Research and Development Tax Credit," last modified December 29, 2022, <https://www.audits2.ga.gov/reports/summaries/research-and-development-tax-credit/>.
- 12 Indiana Department of Revenue. "Indiana Research Expense Credit," n.d., <https://www.in.gov/dor/i-am-a/individual/tax-credits/research-expense-credit/>.

State	R&D Tax Credit	Refundable/ Saleable	Length of Time Unused Credits May be Implemented (Years)
South Carolina ¹³	5%	No	10
Vermont ¹⁴	27%	No	10
Virginia ¹⁵	10%	Partial	10
Idaho ¹⁶	5%	No	14
Utah ^{17 18}	5%-7.5%	No	14
Connecticut ¹⁹	2% -20%	Partial	15
Maine ²⁰	7.30%	No	15
Massachusetts ²¹	7.5%-10%	No	15
Minnesota ^{22 23}	4%-10%	No	15
North Dakota ²⁴	8%-25%	No	15
Pennsylvania ²⁵	10%-20%	Yes	15
Wisconsin ²⁶	5.75%	Partial	15
Arizona ²⁷	15%-24%	Partial	15
Puerto Rico ²⁸	50%	Yes	15-30

13 "Are R&D Tax Credits Available in South Carolina?" KBKG, n.d., <https://www.kbkg.com/research-tax-credit/south-carolina-rd-tax-credit>.

14 Vermont Department of Taxes. "Investment Tax Credit," n.d., <https://tax.vermont.gov/business/tax-credits#:~:text=Research%20And%20Development%20Credit,allowed%20in%20the%20taxable%20year>.

15 Texas Comptroller of Public Accounts. "Sales Tax Exemption or Franchise Tax Credit for Qualified Research," n.d., <https://comptroller.texas.gov/taxes/qualified-research/>

16 Idaho State Tax Commission, Search, n.d., https://tax.idaho.gov/search/?_sf_s=Research.

17 Utah Code, § 59-10-1012 (2023).

18 Utah Code, § 59-10-1013 (2023).

19 Connecticut State Department of Revenue Services, "Research and Experimental Incremental Expenditures Tax Credit," Connecticut's Official State Website, accessed March 22, 2022, <https://portal.ct.gov/drs/publications/corporation-credit-guide/research-and-experimental-incremental-expenditures-tax-credit-25jan2017>

20 Maine Legislature, Title 36, §5219-K (2023).

21 Commonwealth of Massachusetts, "Research Credit," n.d., <https://www.mass.gov/info-details/massachusetts-research-tax-credit>

22 Minnesota Statutes, § 290.068 MN Statutes (2023).

23 Department of Revenue of Minnesota, "Credit for Increasing Research Activities (R&D Credit)," n.d., <https://www.revenue.state.mn.us/credit-increasing-research-activities-rd-credit>.

24 North Dakota Office of State Tax Commissioner, "Research Expense Credit," n.d., <https://www.tax.nd.gov/tax-exemptions-credits/income-tax-exemptions-credits/research-expense-credit>.

25 Pennsylvania Department of Community and Economic Development, "Research and Development (R&D) Tax Credit Assignment Program," accessed April 4, 2023, <https://dced.pa.gov/programs/research-development-tax-credit/>.

26 State of Wisconsin Department of Revenue, "Wisconsin Research Credits," n.d., <https://www.revenue.wi.gov/Pages/Businesses/incentives-research.aspx>.

27 Arizona State Legislature, "Credit for increased research activities," n.d., <https://www.azleg.gov/viewdocument/?docName=http://www.azleg.gov/ars/43/01074-01.htm>.

28 Omar Mues, et al. "The Ins and Outs of Puerto Rico Tax Credits as a Tax Saving Tool," Grant Thornton, n.d.,

State	R&D Tax Credit	Refundable/ Saleable	Length of Time Unused Credits May Be Implemented (Years)
Nebraska ²⁹	15%	Yes	20
Texas ³⁰	5%	No	20
Alaska ³¹	18%	No	20
California ³²	15%	No	Indefinite
Colorado ³³	3%	No	Indefinite
Kansas ³⁴	6.50%	No	Indefinite
Delaware ³⁵	10% - 20%	Yes	N/A
Washington D.C. ³⁶	No Credit	N/A	N/A
Hawaii ³⁷	Pro Rata	Yes	N/A
Kentucky ³⁸	No Credit	N/A	N/A
Michigan ³⁹	No Credit	N/A	N/A
Mississippi ⁴⁰	No Credit	N/A	N/A
Missouri ⁴¹	No Credit	N/A	N/A

<https://www.granthornton.pr/insights/kevane-grant-thornton/articles/06.29.2023-The-Ins-and-Outs-of-Puerto-Rico-Tax-Credits-as-a-Tax-Savings-Tool/>.

- 29 Nebraska Department of Revenue, "Nebraska Advantage Research and Development Act FAQs," Official Nebraska Government Website, accessed February 11, 2020, <https://revenue.nebraska.gov/about/frequently-asked-questions/nebraska-advantage-research-and-development-act-faqs>.
- 30 Texas Comptroller of Public Accounts, "Sales Tax Exemption or Franchise Tax Credit for Qualified Research," n.d., <https://comptroller.texas.gov/taxes/qualified-research/>.
- 31 Alaska Department of Revenue - Tax Division, "Alaska Tax Credits," n.d., <http://tax.alaska.gov/programs/programs/credits/index.aspx>.
- 32 California Franchise Tax Board. "California Research," n.d., <https://www.ftb.ca.gov/file/business/credits/>
- 33 Colorado Office of Economic Development and International Trade, "Enterprise Zone Research and Development Tax Credit," n.d., <https://oedit.colorado.gov/enterprise-zone-research-and-development-tax-credit>
- 34 Kansas Department of Revenue, "Research and Development Credit," n.d., <https://www.ksrevenue.gov/prtaxcredits-research.html>.
- 35 Delaware Code, Title 30, Chapter 20, §§2070 (2023).
- 36 Department of Small and Local Business Development, "Technology Incentives/Resources," n.d., <https://dslbd.dc.gov/service/technology-incentivesresources>.
- 37 State of Hawaii Department of Business, Economic Development and Tourism, "Hawaii Film Tax Credit and Hawaii Research Credit," n.d., <https://dbedt.hawaii.gov/taxcredits/>.
- 38 Kentucky Department of Revenue, "Qualified Research Facility Tax Credit," n.d., <https://revenue.ky.gov/Business/Pages/Qualified-Research-Facility-Tax-Credit.aspx>.
- 39 Michigan Department of Treasury, "New, Retained, and Expanded Credits," n.d., <https://www.michigan.gov/taxes/business-taxes/mbt/details/new-retained-and-expanded-credits>.
- 40 Mississippi Development Authority, "Mississippi Incentives," Mighty Mississippi, accessed August 20, 2021, <https://mississippi.org/doing-business/incentives/>.
- 41 John Rappa, Missouri's R&D Tax Credit Program, last modified October 3, 2008, <https://www.cga.ct.gov/2008/rpt/2008-R-0536.htm>.

State	R&D Tax Credit	Refundable/ Saleable	Length of Time Unused Credits May be Implemented (Years)
Montana ⁴²	No Credit	N/A	N/A
Nevada ⁴³	No Credit	N/A	N/A
North Carolina ⁴⁴	No Credit	N/A	N/A
Oklahoma ⁴⁵	No Credit	N/A	N/A
Oregon ⁴⁶	No Credit	N/A	N/A
South Dakota ⁴⁷	No Credit	N/A	N/A
Tennessee ⁴⁸	No Credit	N/A	N/A
Washington ⁴⁹	No Credit	N/A	N/A
West Virginia ⁵⁰	No Credit	N/A	N/A
Wyoming ⁵¹	No Credit	N/A	N/A
Alabama ⁵²	No Credit	N/A	N/A
Iowa ⁵³	4.5% - 6.5%	Yes	N/A
New York ⁵⁴	3%-20%	Yes	N/A

42 Montana Code Annotated, Title 90, Chapter 3 (2023).

43 Nevada Governor's Office of Economic Development, "Business Incentives," accessed May 11, 2023, <https://goed.nv.gov/programs-incentives/incentives/>.

44 North Carolina Department of Revenue, "Research and Development," n.d., <https://www.ncdor.gov/taxes-forms/information-tax-professionals/revenue-laws/personal-taxes-law/research-and-development>.

45 Center for the Advancement of Science and Technology, "Legislation and Tax Incentives," n.d., <https://oklahoma.gov/ocast/about-ocast/legislation-and-tax-incentives.html>.

46 Oregon Transparency, "Tax Credits & Energy Programs," n.d., <https://www.oregon.gov/transparency/pages/tax-credits.aspx>

47 South Dakota Governor's Office of Economic Development, "Tax Incentives," accessed October 15, 2021, <https://sdgoed.com/partners/financing-incentives/tax-incentives/>.

48 Tennessee State Government, "Tax Incentives," Transparent Tennessee, n.d., <https://www.tn.gov/transparenttn/state-financial-overview/open-ecd/openecd/openecd-tax-incentives.html>.

49 Washington Department of Revenue, "Credits," n.d., <https://dor.wa.gov/taxes-rates/tax-incentives/credits>.

50 West Virginia Legislature, n.d., <https://www.wvlegislature.gov/>; West Virginia Code, Chapter 1, Arts. 1-7, n.d.

51 Wyoming Department of Revenue, "Tax Relief," n.d., <https://wyo-prop-div.wyo.gov/tax-relief>.

52 Alabama Department of Revenue, "Tax Incentives," accessed January 26, 2022, <https://www.revenue.alabama.gov/division/tax-incentives/>.

53 Iowa Department of Revenue, "Research Activities Credit (RAC)," n.d., <https://tax.iowa.gov/research-activities-credit>.

54 New York State Department of Taxation and Finance, "Research and Development," accessed September 10, 2019, https://www.tax.ny.gov/pubs_and_bulls/tg_bulletins/st/research_and_development.htm

Appendix B: Business Incubator Programs

Entity	Program Name	Incubator or Accelerator	Location
Boys & Girls Club of Puerto Rico	Project Makers - Startup / Project Makers - Accelerate	Incubator / Accelerator	Entire island
Business Atelier	Incubation 360	Incubator	North, East
Business Atelier	Growth 360	Accelerator	North, East
Business Atelier	Immersion 360	Incubator	Entire island
Carbono3	C3 Impact Lab	Accelerator	Entire island
CDVCA	Unlock Capital	Accelerator	Entire island
Centro para Emprendedores	Núcleo	Incubator	Entire island
Centro Sor Isolina Ferré	Desarrolladora Empresarial Surcos	Incubator	Entire island
Cooperativa La Sagrada Familia	Incubadora de Negocios Ahora	Incubator	Center
Cooperativa La Sagrada Familia	Incubadora de Negocios Ahora	Accelerator	Center
Eco Recursos Comunitarios, Inc.	Incubadora Ganas	Incubator	Center, East, South
Eco Recursos Comunitarios, Inc.	Incubadora Ganas	Accelerator	Center, East, South
EXI Network Corp	Nuevo Norte	Accelerator	Entire island
FIDECOOP	EmprendeCoop	Accelerator	Metropolitan area
Fundación Comunitaria de PR CMTAS YAUCO	CMTAS Yauco	Incubator	South
Fundación Comunitaria de PR OPDH INC.	OPDH INC.	Incubator	North
Fundación Comunitaria de PR SIS Culebra	Sede de Incubadora Solidaria	Incubator	Culebra
Fundación Sila M. Calderón	Impulso	Accelerator	Entire island
Fundación Sila M. Calderón	Desarrollo Empresarial	Incubator, Accelerator	Entire island
Fundación Sila M. Calderón	Capacitación Empresarial	Incubator, Accelerator	Entire island
Lote 23	Jump All Inn	Incubator	North, East
Mujer Emprende	IncúbaME	Incubator	Entire island

Nuestra Escuela, Inc.	Sembrando para el Mañana	Incubator	Center
P.E.C.E.S.	Entrepreneurship	Incubator, Accelerator	East
Ponce Neighborhood Housing Services, Inc.	Fortaleciendo tus Finanzas y Emprendiendo al Futuro	Incubator, Accelerator	South
Puerto Rico Science, Technology and Research Trust	Fase1	Incubator	Entire island
Puerto Rico Techno-Economic Corridor	Finca Explora	Incubator	Entire island
Puerto Rico Techno-Economic Corridor	VITEC	Incubator	Entire island
SACED Inc.	INPESO	Incubator	South, West
Ana G. Méndez University, Carolina	Kingbird	Incubator, Accelerator	North, East
University of Puerto Rico, Humacao	Programa de Incubadoras y Aceleradoras	Incubator	East
University of Puerto Rico, Mayagüez Campus	ÁREA-E	Incubator, Accelerator	Entire island
University of Puerto Rico, Río Piedras Campus	UPR i+c Labs	Incubator	Entire island
Universidad del Sagrado Corazón	La Cepa	Incubator, Accelerator	North, East
Interamerican University of Puerto Rico	InterEmprende	Incubator, Accelerator	Entire island
Vitrina Solidaria	El Yunque Emprende	Accelerator	East

Appendix C: Exploring Other Economic Development Incentives in Nearby Jurisdictions

Tax and Urban Development Zones

To address urban decay, the South African government has issued special tax incentives and considerations for developers and business owners.¹ These incentives encourage investment in specific properties by providing an accelerated depreciation allowance on buildings within Urban Development Zones (UDZs). Various rules and regulations govern the claim process, determining eligible costs, the position of the developer, treatment of purchases from developers, deductible amounts, handling building improvements, and deductions for buildings on third-party-owned land.

Country: South Africa

Tax Expenditure Provision: ZAF0019

Type: Special deduction

Purpose: Slow urban decay

Income Deduction for Investment in Startup Companies

In 2017, Norway introduced a policy that encourages individuals to invest in startups and support entrepreneurial activities.² Investors can deduct a portion of their investment from their taxable income, reducing their overall tax liability. The deduction aims to stimulate investment in early-stage companies and promote economic growth. This benefit can be obtained without establishing or investing in a fund. In addition, there are minimum and maximum investment amounts per company.

Country: Norway

Tax Expenditure Provision: NOR0029

Type: Deduction

Purpose: Increased risk capital

1 South African Revenue Service, "Tax and Urban Development Zones," n.d., <https://www.sars.gov.za/businesses-and-employers/my-business-and-tax/tax-and-urban-development-zones/>.

2 The Norwegian Tax Administration, "Income deduction in connection with investments in start-up companies (private limited liability companies) – tax incentive scheme," n.d., <https://www.skatteetaten.no/en/person/taxes/get-the-taxes-right/shares-and-securities/about-shares-and-securities/tax-deductions-in-connection-with-investments-in-start-up-businesses---the-tax-incentive-scheme/#:~:text=The%20share%20contribution%20must%20amount,for%20contributions%20made%20before%202020>.

Decreased Usual Wage for Startups

The Netherlands offers a tax incentive called WBSO to support startups.³ Under this incentive, directors and significant shareholders (DGAs) of qualifying startups can pay themselves a lower salary than the usual wage, which in turn enables them to retain more earnings within the company during its early stages. To be eligible, startups must meet certain conditions and be classified as young innovative companies. As tax laws change over time, it is essential to seek up-to-date information from tax advisors or the Dutch tax authorities in order to see the current status of this type of tax incentive.

Country: Netherlands
Tax Expenditure Provision: NLD0049
Type: Reduced rate
Purpose: Promote and protect SMEs

SME Profit Exemption

The SME profit exemption is a tax benefit from the Netherlands that allows eligible entrepreneurs operating as sole proprietors, partnerships, or specific types of limited liability companies to exempt a percentage of their business profits from income tax.⁴ In comparison to Puerto Rico, these are industry-agnostic SME incentives.

Country: Netherlands
Tax Expenditure Provision: NLD0010
Type: Reduced rate
Purpose: Promote and protect SMEs

Measures to Encourage the Inflow of Venture Capital Toward New Enterprises

Italy introduced provisions to facilitate access to venture capital and support the growth of startups and new enterprises.⁵ There are known as Funds for Venture Capital (FVC) and are defined as closed collective investment funds and fixed capital investment companies that invest at least 85% of their assets in SMEs not listed on regulated markets. Unlike private equity funds, the majority of the investments must be in small and growing businesses.

Country: Italy
Type: Reduced rate
Tax Expenditure Provision: ITAo810
Purpose: Risk capital

³ "R&D tax credit (WBSO)," Business.gov.nl - Information for entrepreneurs, n.d., <https://business.gov.nl/subsidy/wbso/>.

⁴ "SME profit exemption reduced to 13.31%," Business.gov.nl - Information for entrepreneurs, n.d., <https://business.gov.nl/amendment/sme-profit-exemption-reduced/>.

⁵ "Venture Capital," Cassa Depositi e Prestiti, n.d., https://www.cdp.it/sitointernet/en/venture_capital.page

Tax Credits for Startup Jobs

Sweden implemented a support program for employers aiming to hire individuals who have been unemployed for an extended period or are newcomers to the country.⁶ This incentive encourages employers to provide job opportunities and support the integration of long-term unemployed persons into the workforce in exchange for tax credits, rebates, and refunds. Moreover, the program, which is industry agnostic, aims to reduce unemployment and facilitate the transition of individuals into stable employment by providing wage subsidies to employers who hire eligible candidates.

Country: Sweden

Tax Expenditure Provision: SWEo212

Type: Tax credit, rebate, and refunds

Purpose: Reduce unemployment

Startup Refunds for Entrepreneurs

Ireland's Start-Up Refunds for Entrepreneurs (SURE) program allows entrepreneurs to claim a refund of income tax paid in previous years and up to 41% of the capital invested in their new business.⁷ To qualify, entrepreneurs must meet specific criteria, including full-time self-employment, owning a minimum of 15% of the company's shares, and not having prior involvement in a similar trade. The established program aims to support new business ventures, foster entrepreneurship, and financially assist startup founders.

Country: Ireland

Tax Expenditure Provision: IRLo143

Type: Tax credit, rebate, and refunds

Purpose: Promote and protect SMEs

Establish Credit for Donations to Public Universities

Chile allows taxpayers to deduct 50% of cash donations to universities and institutes. This deduction is reflected as a limited tax credit and applies to state professionals and individuals recognized by the state. Any excess donation that cannot be credited can still be deducted as a tax expense for the year.⁸

Country: Chile

Tax Expenditure Provision: CHLoo38

Type: Tax credit, rebate, and refunds

Purpose: Support educational institutions

6 The Swedish Trade & Invest Council, "Incentives Guide 2022: For companies looking to invest in Sweden," n.d., https://www.sgi-network.org/docs/2024/country/SGI2024_Sweden.pdf

7 Irish Tax and Customs, "Start-Up Refunds for Entrepreneurs (SURE): Part 16-00-11," Revenue, last modified March 2018, <https://www.revenue.ie/en/personal-tax-credits-reliefs-and-exemptions/investment/relief-corporate/start-up-relief-for-entrepreneurs.aspx>

8 "Accessing Tax Benefits," Pontificia Universidad Católica de Chile, n.d., <https://www.ing.uc.cl/en/retribuye/beneficios-tributarios/>.

Tax Credits for Technological Innovation-Oriented Mergers

South Korea enacted an incentive providing a 10% tax credit for tech innovation-oriented mergers⁹. This incentive accelerates mergers of intellectual property-enabled businesses and SMEs, fostering technological advancements and competitiveness. It also encourages collaborations that drive innovation and strengthen the overall economy. This incentive hopes to aid the expansion of SMEs through acquisitions.

Country: South Korea

Tax Expenditure Provision: KOR0020

Type: Tax credit, rebate, and refunds

Purpose: Promoting SMEs

Re-Employing Career-Interrupted Women

In September 2021, South Korea enacted a tax credit program to encourage the re-employment of career-interrupted women in SMEs. Under this program, SMEs can benefit from up to a 30% tax credit if they hire women who have taken a career break and are looking to re-enter the workforce. For medium-sized enterprises employing from this pool, the tax credit is set at 15%. The incentive aims to support women's workforce participation, improve gender diversity in the workplace, and provide opportunities to return to gainful employment for women who paused their careers.

Country: South Korea

Tax Expenditure Provision: KOR0055-56

Type: Tax credit, rebate, and refunds

Purpose: Gender equality

Angel Investor Tax Credit

Multiple states in the U.S. have issued an incentive for companies raising capital before a Series-A. For example, Iowa's Angel Investor Tax Credit Program provides qualified investors with a 25% tax credit on investments in innovative and high-growth startups, capped at \$120,000 per year per individual.¹⁰ To be eligible, investors must meet specific criteria and recipient startups must operate in specified industries and have less than \$5 million in equity capital. The program aims to incentivize angel investors to support early-stage companies, which fosters innovation and economic growth within the state.

Country: United States

Tax Expenditure Provision: N/A

Type: Tax credit, rebate, and refunds

⁹ "Korean Tax Brief: Update on Current Issues and Trends," KPMG, February 2021, <https://assets.kpmg.com/content/dam/kpmg/kr/pdf/2021/korea-tax-brief-202102-eng-final.pdf>.

¹⁰ Iowa Economic Development Authority, "Angel Investor Tax Credit," Iowa Economic Development, n.d., <https://www.iowaeda.com/innovate/angel-investor-tax-credit/>.

Purpose: Risk capital

Apprenticeship Job Creation Tax Credit

Since 2006, Canadian employers can claim a 10% non-refundable tax credit on wages paid to qualifying apprentices during their first 2 years of the contract, with a maximum of \$2,000 per apprentice per year. A qualifying apprentice works in a prescribed trade registered under an apprenticeship program certified by the federal or provincial government. Unused credits can be carried back 3 years or forward 20 years to offset taxes payable in those years.

Country: Canada

Tax Expenditure Provision: CAN0035

Type: Tax credit, rebate, and refunds

Purpose: Human capital

Employee Training

Since 1917, Canada has enacted an incentive that allows businesses to fully deduct current expenditures for employee training.¹¹ This has enhanced the quality of their human capital while offering benefits both currently as well as in the future, like physical capital investments. The benchmark tax system typically capitalizes and depreciates some of these costs over the expected revenue-generating period.

Country: Canada

Tax Expenditure Provision: CAN0222

Type: Other

Purpose: Human capital

Exemption on Pension Insurance

Starting entrepreneurs in Finland can benefit from savings on their YEL insurance (Finnish pension insurance for self-employed individuals).¹² Eligible entrepreneurs can qualify for a reduced insurance and pension contribution rate during the first 48 months of their business, calculated based on a lower estimate of their annual income. This reduced rate helps ease the financial burden during the initial phase of their venture.

Country: Finland

Tax Expenditure Provision: FIN0178

Type: Other related to pension fund

Purpose: Promote and protect SMEs

¹¹ <https://www.canada.ca/en/revenue-agency/services/tax/individuals/topics/about-your-tax-return/tax-return/completing-a-tax-return/deductions-credits-expenses/line-22900-other-employment-expenses/commission-employees/training-costs.html>

¹² "For new entrepreneurs," Ilmarinen, n.d., <https://www.ilmarinen.fi/en/self-employed/for-new-entrepreneurs/>.

Last Words

The abovementioned tax incentive provisions are just summarized examples of how other countries, states, and jurisdictions think about economic development. For additional information, the Global Tax Expenditure Database (GTED) offers comprehensive data on preferential tax treatments used by over 90 governments worldwide. The GTED covers 106 countries with tax provision and expenditure data and has information on 24,128 tax expenditure provisions across 33 calendar years and 1,277 reported overall years. The initiative is undertaken by the Council of Economic Policies and The German Institute of Development and Sustainability and serves as a tool for the next generation of data-driven economic developers and policymakers.

