



invest
PUERTO RICO

**A New Era in
Puerto Rico: Act 60**
Puerto Rico's Incentives Code



There are several laws that provide tax incentives to local and foreign qualifying business activities that establish operations in Puerto Rico. On July 1, 2019, the Government of Puerto Rico enacted Act 60-2019, known as the Puerto Rico Incentives Code, which compiles all current and outstanding tax incentives laws into a single code.

Qualifying industries such as scientific research and development, manufacturing operations, export services, financial and insurance services, green and efficient energy production, recycling businesses, technology, film, agriculture, hospital facilities, hotels and related tourist activities are eligible to apply for certain preferential tax rates, tax credits, cash grants, and full or partial exemptions from income, property, municipal and other taxes.

Invest Puerto Rico is the island's official non-profit, private organization tasked with promoting the island as a business and investment destination, while the Puerto Rico Department of Economic Development and Commerce, or DDEC for its Spanish acronym, is the primary government institution charged with assisting in the retention and expansion of existing businesses on the island. The DDEC also manages the incentives for businesses and individuals available under Act 60-2019. Invest Puerto Rico will help you navigate this process and liaise with our partners at DDEC.

Overview of Puerto Rico's Incentives Code

Aiming to codify incentives granted for diverse purposes throughout decades in one code and foster economic development more effectively, Act 60-2019 ("Incentives Code") establishes a Return on Investment (ROI) methodology as a measurement tool to grant tax incentive benefits.

Since January 1, 2020, all tax incentive applications are submitted under the Incentives Code. For simplification purposes, this document focuses on benefits from specific chapters from the Incentives Code; however, note that incentives granted under previous laws are subject to the provisions of the law under which the Decree of Tax Exemption ("Decree") was issued.

The Incentives Code adopts a legal and administrative framework for the application, evaluation, and grant or denial of incentive benefits by Puerto Rico's government. The following are some standard terms and benefits provided by the Incentives Code to eligible businesses and individuals:

- 4% fixed income tax rate on eligible income
- 75% exemption on property taxes
- 50% exemption on municipal taxes
- Decree period standardized to 15 years, with an extension of 15 additional years
- Eligible businesses with a Decree for export, with an annual projected or actual volume of business of more than \$3,000,000 must

have at least one full-time employee; while those with a Decree for manufacturing, must have at least three full-time employees

- Research & Development tax credits of up to 50%
 - » According to Act 60-2019, "R&D" means any activity that is performed to advance knowledge or capacity by resolving a "Scientific or Technical Uncertainty" in a science or technology field. The new knowledge resulting from research and development should be useful in the creation of new products or their improvement, processes, or services of commercial value. "Scientific or Technical Uncertainty" refers to those problems that cannot be immediately solved by a subject matter expert without having to apply the scientific method (problem definition, state of knowledge of the problem, hypothesis definition, design of experiments, observation, results, or conclusions, and recording of findings).

The information on the following pages has been excerpted from Puerto Rico's Incentives Code, specifically Subtitles B and C.

For Businesses

Export of Goods and Services

As established in Chapter 3 of Act 60-2019, these tax incentives seek to turn Puerto Rico into an international hub of export services, retain local talent, attract foreign talent and foreign capital, and create a special fund for promoting the establishment of new businesses to export from Puerto Rico.

The Incentives Code offers several benefits to businesses engaged in eligible services in Puerto Rico. The term “eligible service” includes, but is not limited to:

- Research & Development
- Advertising and Public Relations
- Economic, environmental, technology, scientific, managerial, marketing, human resources, information systems, engineering, auditing, and other consulting services

- Advising and consulting on matters related to any industry or business
- Creative Industries, including the sale of tickets outside of Puerto Rico or the purchase of said tickets by tourists in Puerto Rico, as well as revenues related to the transmission or the sale of recording rights for audiences outside of Puerto Rico, of shows, musical productions, eSports, and fantasy leagues events taking place in Puerto Rico
- Production of engineering and architectural blueprints and designs
- Advanced professional services such as legal, tax and accounting services
- Shared Services Centers
- Investment banking and other financial services
- Commercial distribution of products manufactured in Puerto Rico to outside markets

- Assembly, bottling and packaging of products for markets outside of Puerto Rico
- Distribution in physical form, network, cloud computing or blockchain and income derived from subscriptions, licensing, or fees
- International trading companies

In addition to the 4% income tax rate, and property and municipal exemptions, exporters of goods and services enjoy:

- 100% exemption on dividends or profit distributions to shareholders, partners, or members
- 100% exemption from property taxes on call centers, corporate headquarters, and distribution centers, for the first five years of operations

Keep in mind that rendering services as an employee does not qualify as an eligible business for the incentives for export of goods and services.

Manufacturing

Chapter 6 of Subtitle B of the Incentives Code is dedicated to businesses that manufacture products and devices (including pharmaceutical), that engage in a wide range of specific economic activities, such as scientific research and development, recycling, hydroponics, value-added activities pertaining to port operations, software development,

manufacturing of renewable energy equipment, and aerospace industry research and development.

Benefits

The incentives, which make industry operations in Puerto Rico highly profitable while stimulating additional economic development, include:

- 4% income tax rate on income generated from the eligible activity
- 12% withholding tax rate on royalty payments, creditable against the 4%
- 100% exemption from income tax on distributions to shareholders, partners, or members
- 100% exemption from excise and sales and use taxes on certain raw materials, and machinery & equipment
- 75% exemption on property taxes
- 75% exemption from municipal taxes, excise and other taxes to contractors and subcontractors, not including manufacturing lead time (MLT)
- 50% exemption from municipal taxes
- Tax credits available based on investments made on machinery and equipment and on payroll for full time employees

For Individuals

Resident Individual Investors

Chapter 2 of Subtitle B of the Tax Incentives Code establishes that Nonresident individuals who relocate to Puerto Rico may receive a total exemption from Puerto Rico income tax on certain passive income realized or accrued after becoming bona fide residents of the island.

The tax incentives apply to any individual that becomes a bona fide resident of Puerto Rico on or before the taxable year ending on December 31, 2035, and who was not a bona fide resident of Puerto Rico between January 17, 2006, and January 17, 2012.

Some of the tax incentives are:

- 100% exemption from tax on certain passive income (i.e., interest, dividends)
- 100% exemption from federal taxes on all income from Puerto Rico sources pursuant to Section 933 of the US Tax Code (if individual complies with the bona fide resident tests)

- 5% income tax rate on capital gains from securities or other assets (e.g., cryptocurrency) owned that have appreciated in value prior to becoming a bona fide resident of Puerto Rico, and recognized 10 years after, but prior to January 1, 2036 (special rules apply for federal income tax purposes)
- 100% exemption from tax on the appreciation in value of the securities or other assets (e.g., cryptocurrency) after becoming a bona fide resident of Puerto Rico and realized before January 1, 2036

Incentives for Individual Investors will only be available until December 31, 2035.

As a condition for granting the tax benefits, the Incentives Code requires that the individual:

- Provide evidence of a personal or commercial bank account with a financial institution or credit union that has presence in Puerto Rico.



- Make a \$10,000 annual contribution to a not-for-profit entity authorized by the PR Treasury; provided \$5,000 of the donation made is directed to a not-for-profit entity that works with the eradication of child poverty
- Purchase residential property, from an unrelated person, within two years after the effectiveness of the granted Decree

Qualified Physicians

“Qualified Physicians” are defined as nonresident physicians who relocate to Puerto Rico as bona fide residents and establish their practice on the island.

Every individual admitted to the practice of general medicine or of any specialty, of podiatry, audiology, chiropractic, optometry, a dental surgeon or practices some specialty of odontology, and a medical doctor currently studying in a credited residence program, is considered a Qualified Physician and may request the tax benefits, subject to the limitations discussed below.

Qualified Physicians are exempt from the required annual contributions of at least \$10,000 to not-for-profit entities that are duly certified by the PR Treasury and operating in Puerto Rico.

Some of the tax incentives are:

- 4% income tax rate on eligible income
- 100% exemption from income tax on distributions to shareholders, partners, or members, up to \$250,000 per taxable year

Researchers or Scientists

An eligible researcher or scientist contracted by the University of Puerto Rico, or any other institution of superior education authorized to operate in Puerto Rico and engaged in eligible scientific research - subject to certain requirements and certifications - is eligible for a Decree providing an income tax exemption not to exceed \$195,000 of the salaries received.

Moreover, an eligible researcher or scientist contracted to provide scientific and technology research and development services within the district set forth on Act No. 214 of 2004, known as the Act to Create the Puerto Rico Science, Technology and Research Trust, is eligible for an income tax exemption not to exceed \$250,000 of salaries received.

An eligible researcher or scientist that requests a Decree under the provisions herein included, must render at least 60 hours of community service per year, pursuant to the requirements included in the granted Decree.

International Financial Entities

International Financial Entities (“IFE”) that set up operations in Puerto Rico can request a Decree which will enumerate and secure the standardized incentives of the Incentives Code (i.e., 4% income tax rate, and property and municipal exemptions) for a 15-year period.

Additionally, a granted Decree provides a:

- 6% income tax rate on distributions to shareholders, partners, or members who are residents of Puerto Rico
- 100% exemption on distributions to shareholders, partners, or members who are not residents of Puerto Rico

Like other incentives in Puerto Rico, the IFE tax benefits can interplay with other Incentives Code benefits (i.e., individuals), resulting in dividends received being fully exempt from Puerto Rico income tax. Dividends paid would also be excluded from federal income tax to the extent they are Puerto Rico-sourced income, and the recipient of the dividend is a bona fide resident of the island.



View of the Capitol | Viejo San Juan, Puerto Rico

International Insurer/Reinsurer

Generally, an international insurer is one that provides direct insurance only for risks outside of Puerto Rico, although it can provide surplus line coverage and reinsurance for risks located in Puerto Rico.

To qualify as an international insurer or reinsurer, an insurance company must be licensed and regulated by the Puerto Rico Insurance Commissioner. Protected cell plans and securitization plans are allowed.

One of the competitive planning opportunities and advantages Puerto Rico has is that it provides tax planning opportunities as a foreign jurisdiction for federal income tax purposes, while also being a regulated and accredited member of the National Association of Insurance Commissioners (NAIC), the U.S. Federal Reserve, and the Federal Deposit Insurance Corporation (FDIC).

Some of the tax incentives for international insurers, branches, and international holding companies are:

- 4% income tax rate on the excess of \$1,200,000 of eligible income
- 100% exemption from branch profit tax
- 100% exemption on dividends or profit distributions, or distributions in liquidation
- 75% exemption on property taxes
- 50% exemption on municipal taxes

Private Equity Funds

Any partnership or limited liability company organized under Puerto Rico law, the U.S. or any other foreign jurisdiction that invests in different securities issued by entities that, at the time of acquisition, are not publicly traded, qualify as a Puerto Rico private equity fund (“PRPEF”), or a private equity fund (“PEF”).

If the PEF complies with various requirements, tax benefits are:

- 100% exemption from municipal taxes
- 75% exemption on property taxes
- Decree with a term of 15 years, renewable for an additional 15 years
- For accredited Resident Investors:
 - » 10% income tax rate on the distributable share of interest and dividends, provided exempt interest or dividends preserve their exempt nature
 - » 100% exemption on the distributable share of capital gains
 - » 5% income tax rate on capital gains derived from the sale of ownership interest in the PEF, unless the proceeds are reinvested within 90 days in a PRPEF
 - » For PEF managing and general partners:
 - » 5% income tax rate on the distributable share of interest and dividends
 - » 2.5% income tax rate on the distributable share of capital gains

- » 5% income tax rate on capital gains derived from the sale of ownership interest in the PEF

Resident Investors that invest in a PEF may deduct up to a maximum of 30% of their initial investment within a period of 10 years from the taxable income, provided that the maximum deduction does not exceed 15% of their net income prior to the deduction.

If the investment is made into a PRPEF, the deduction is 60% of the initial investment within a maximum period of 15 years and that maximum deduction does not exceed 30% of the net income prior to the deduction. The deduction may be claimed for the preceding taxable year in which the initial investment is made if it is made prior to the filing due date for the income tax return for the preceding taxable year.

Net capital losses may be claimed as a deduction, if derived from investments made in companies that generate at least 80% of gross income from Puerto Rico sources.

Agroindustry

Tax benefits are available to bona fide farmers and agricultural businesses. A livestock and agro-industrial business must be engaged in the operation of one or more of the following businesses: arming and/or cultivation of land for the production of fruits and vegetables, spices for condiments, seeds, and foodstuffs for human beings or animals, or raw material for other industries

- Raising of animals for the production of meat, milk, and eggs to be used as foodstuff for human beings, or raw material for other industries
- Breeding of thoroughbred racehorses, “paso fino” horses, and saddle horses
- Agricultural or livestock operations that buy raw materials produced in Puerto Rico
- Production, pasteurization, and sterilization of milk and their agents, from milking that has been done in Puerto Rico
- Packing, crating or labeling operations for fresh agricultural produce cultivated in Puerto Rico that are part of the same agricultural business.

- Commercial marine fishing and aquaculture
- Commercial production of ornamental flowers, plants, and grasses for the local and export market, without including the professional services of landscape designers
- Cultivation of vegetables by hydroponic methods, the buildings and other equipment used for these purposes
- Production of grain by bona fide farmer’s associations to be consumed by agricultural enterprises

Benefits

- 90% exemption from tax on income derived directly from the eligible agroindustry business
 - » Does not apply to interest, dividends, royalties, or gains derived from the sale of assets, including those assets used in the eligible business, or any other income derived from the eligible business, which does not directly proceed from the eligible activity



Entrepreneurship

- 100% exemption from tax on interest on bonds, promissory notes and other debt instrument for debts issued on or after January 1, 1996, by bona fide farmers and financial institutions defined under Act 4-1985, or issued in authorized transactions by the Commissioner of Financial Institutions, related to the financing of the eligible businesses
- 100% exemption from property taxes, including real and personal, tangible, intangible property (such as land, buildings, equipment, accessories, and vehicles), if they are owned, leased, or held in usufruct by a bona fide farmer, and used in 35% or more in the eligible activities
- 100% exemption from municipal license taxes
- 100% exemption from excise, sales, and use taxes on certain articles imported or directly/indirectly acquired for use in eligible activities
- 100% exemption from the payment of Internal Revenue stamps and registry fees in the execution and registration of documents in the Puerto Rico Property Registry

In addition to the above benefits for the Agroindustry, there is an annual bonus for agricultural workers between of \$165 or 4% of the annual salary of the employee, whichever is greater, up to \$235; and a wage subsidy program for eligible farmers.

Incentives for entrepreneurship apply to any individual resident of Puerto Rico, whose age falls between 16 and 35, who is interested in creating and operating a long-term new business in Puerto Rico.

Benefits

- 100% exemption from tax on the first \$500,000 of the net income subject to tax
- Stockholders, members, or partners are subject to income taxes on the dividends distributed by the eligible business (when it is taxed as a corporation in Puerto Rico) or profits distributions from the eligible business (when it is taxed as a partnership in Puerto Rico)
- 100% exemption on personal property taxes and on municipal license taxes

Specific requirements for the business include:

- Must commence operations on or after filing application
- Must be operated exclusively by the eligible individual
- May not being operated through an affiliate or result from a reorganization

The benefits are limited to one new business per eligible individual.

Renewable/Highly Efficient Energy

Puerto Rico has entered a new age in terms of its diversification of energy sources with the implementation of a new public energy policy and programs to diversify energy sources, ensuring that the generation of electricity on the island is affordable, viable and sustainable.

Entities dedicated to the production of renewable or highly efficient energy on a commercial scale, in addition to the standardized benefits previously mentioned (i.e., 4% income tax rate and municipal and property tax exemptions), may benefit from:

- 12% withholding tax rate on royalty payments, creditable against the 4%
- 100% exemption from tax on distributions to shareholders, partners, or members
- 100% deductibility of investment in buildings, structures, and machinery and equipment
- 100% exemption from excise, sales, and use taxes on certain raw materials, and machinery and equipment
- 75% exemption on property taxes
- 75% exemption from municipal, excise and other taxes to contractors and subcontractors, not including municipal license taxes
- 50% exemption from municipal taxes
- Tax credits are also available

An eligible business totally disconnected from the electric system of the Puerto Rico Electric Power Authority (“PREPA”) is not required to

sell the energy produced to PREPA to receive or keep the Decree. Alternative and sustainable renewable energy types include:

- Landfill gas combustion
- Anaerobic digestion
- Fuel cells
- Waste heat
- Solar energy
- Wind energy
- Geothermal energy
- Renewable biomass combustion
- Renewable biomass gas combustion
- Combustion of biofuels derived from renewable biomass
- Qualified hydropower
- Marine and hydrokinetic energy
- Ocean thermal energy

Pioneer Activities

Pioneer business activities refer to those not previously performed in Puerto Rico within a 12-month period by an eligible business filing an application for a Decree, and that possesses special attributes, characteristics, or qualities for the socioeconomic development of Puerto Rico.

If an eligible business is designated as a pioneer activity, it enjoys a 4% fixed income tax rate on eligible income, that could be lowered down to 1%, at the discretion of the DDEC in consultation with the PR Treasury.

Small and Medium Businesses (PYMES)

Under the Incentives Code, PYMES (the Spanish acronym) are defined as an eligible business with average gross receipts of \$3,000,000 or less during the previous three years and are subject to additional benefits during the first five years of operations. If an eligible business classifies as a PYME, it will enjoy the following incentives during the first five years of operations:

- 2% income tax rate on eligible income
- 100% exemption on property taxes
- 100% exemption on municipal taxes
- Up to 30% tax credits on purchases of manufactured products in Puerto Rico

Hotel and Hospitality Services

The Puerto Rico tax incentives package offers hotel developers a competitive advantage over developing in other destinations. The incentives aim to facilitate the establishment of tourism development projects throughout Puerto Rico.

Tax credits and incentives are available to both new and existing tourism businesses that are deemed eligible.

An existing business is one that, at the time of requesting the Decree, is operating a tourism activity and will undertake a substantial expansion or renovation of the existing physical facilities used on the tourism activity. A new business is defined as one that, at the filing date, will utilize facilities that:



- Have not been used for tourism activities during the 36 months prior to the filing date
- Have not been used for tourism activities during the 18 months prior to the filing date, and the DDEC waives the aforesaid 36-month requirement

Irrespective of the above-referenced terms, any existing business or property that is subject to an expansion and/or renovation which exceeds 100% of its acquisition cost or fair market value at conveyance, said investment must be completed within 36 months after the acquisition or conveyance.

The following qualify as tourism activities:

- Ownership or administration of:
 - » Hotels, condo hotels, timeshares/ vacation clubs, hostels, guesthouses, bed & breakfasts, and inns under the “Paradores de Puerto Rico” program
 - » Theme parks, golf courses, marinas for tourism purposes, port facilities in areas that promote tourism activities
 - » Natural resources as a source of entertainment value
 - » Other entertainment or recreational tourism-related facilities
- Leasing or rental of property to an exempt business dedicated to tourism-related activities



Tax Credits

Any person who acquires an equity interest in an entity that develops an eligible business, is entitled to choose between the following two options for the investment tax credit:

1. 40% tax credit on the eligible investment made in the tourism project, claimed in three equal installments, beginning in the second year of operations
2. 30% tax credit on the eligible investment made in the tourism project, claimed in four installments as follows:
 - » 10% in the year the tourism activity secured the financing for development of the tourism project
 - » Remaining balance will be made available in three equal installments, beginning when the tourism activity receives its first paying guest

Since the tax credits may be assigned, transferred, or sold, developers typically sell the tax credits in the local Puerto Rico capital market and invest the proceeds into the project. The tax credit lowers the amount of equity the developer must come up with as part of the project's capital structure.

Benefits

- 4% income tax rate on income generated from the eligible activity
- 12% withholding tax rate on royalty payments, creditable against the 4%
- 100% exemption from tax on distributions

to shareholders, partners, or members

- 100% exemption from excise, sales, and use taxes on certain raw materials and machinery and equipment
- 75% exemption on property taxes
- 75% exemption from municipal, excise, and other taxes to contractors and subcontractors, not including MLT
- 50% exemption from municipal taxes

Cruise-Line Industry

The cruise industry is one of Puerto Rico's main tourism and economic sectors, not only for its economic impact, but also because of the role it plays in promoting the island's image in the world. Puerto Rico is, in turn, a top-tier destination for the cruise industry.

Incentives strengthen Puerto Rico's competitiveness in this industry, including with supply chains, service providers, and cruise-lines. Act 60 offers incentives to promote transit and homeport cruise visits, spur travel agencies to sell packages to nonresidents that include both a cruise and a stay in a hotel in Puerto Rico; the purchase of products in Puerto Rico; the local procurements of ship maintenance and repair services; and the promotion of excursions for cruise-ship passengers.

The Incentives Code provides cruise-ship operators a reimbursement of 10% for food and beverage purchases or engaging maintenance and repair services while docked at any Puerto Rico port. An additional 5% is granted for purchases of products manufactured in Puerto Rico, as duly certified by the Puerto Rico Industrial Development Company, or agricultural products as duly certified by the Puerto Rico Department of Agriculture.

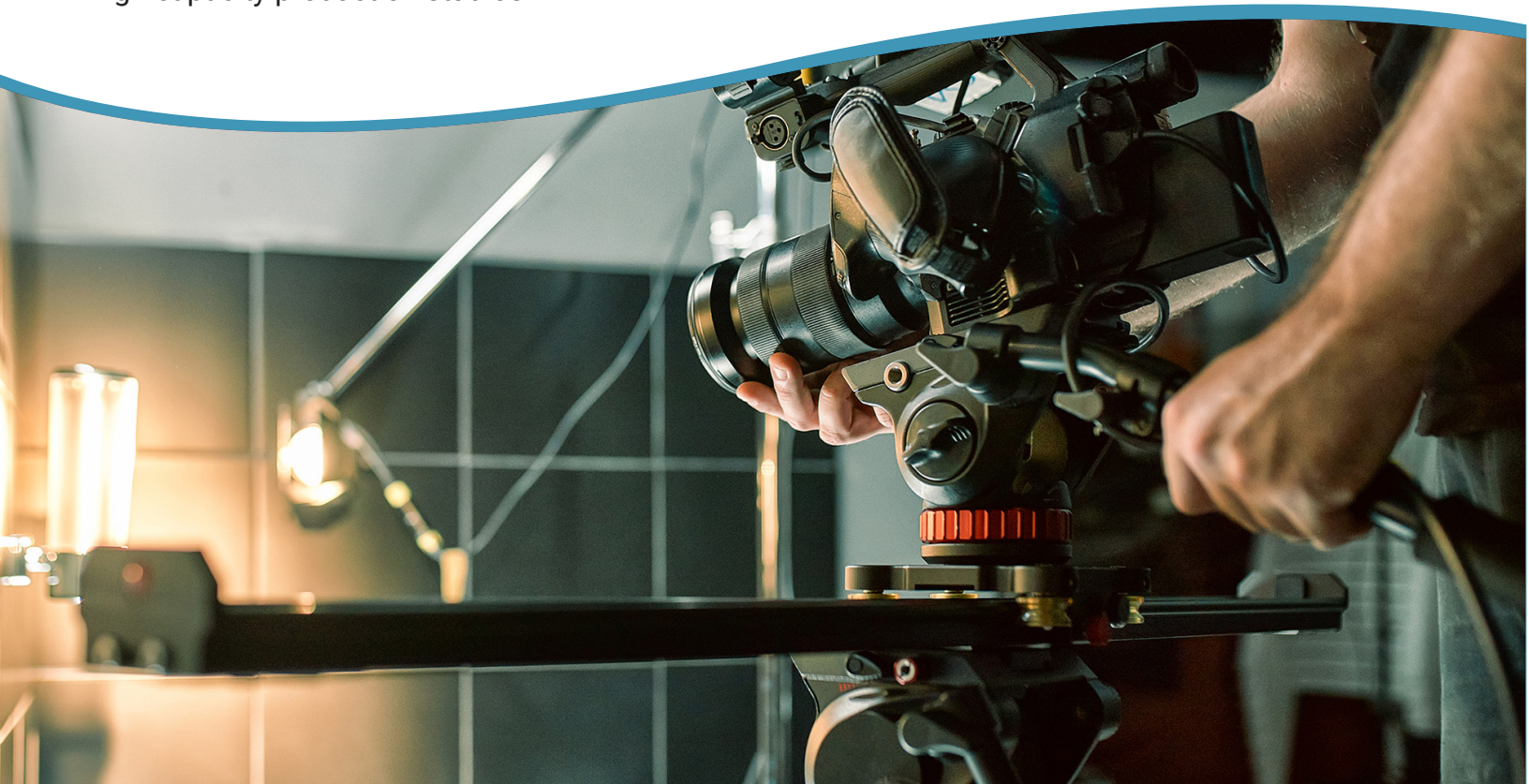
Film Industry

Benefits aim to bring the island's production cost structure in line with other leading jurisdictions through innovative and competitive tax incentives. In recognition of the importance of complementing a low-cost structure with state-of-the-art and dedicated infrastructure, the benefits also provide for numerous incentives for the development and operation of related infrastructure, specifically high-capacity production studios.

Production Incentives

Besides the standardized tax incentives previously mentioned, film industry services enjoy:

- 40% tax credit on all payments to Puerto Rico residents
- 20% tax credit on all payments to nonresident talent (including stunt doubles); payments made to nonresident talent are subject to a 20% withholding
- Up to 15% tax credit of Puerto Rico production expenses (with a maximum of \$4 million), excluding payments made to a foreign person, in full-length films, series or documentaries in which a domestic producer is in charge of the film project, and the director, cinematographer, editor, production designer, post-production supervisor or the line producer are domestic persons.
- Qualifying projects:
 - » Feature films



- » Short films
- » Documentaries
- » Television programs
- » Episodic series
- » Mini-series
- » Music videos
- » National and international commercials
- » Video games
- » Recorded live performances
- » Original soundtrack recordings and dubbing
- 100% exemption from income tax, withholding or sales and use tax, on personal property rent payments made by the eligible business to nonresident and foreign persons not engaged in trade or business in Puerto Rico, to the extent said personal property is used in eligible activities
- 20% income tax rate on income generated or paid as compensation to nonresident individuals or to an entity that hires such nonresident individuals, to provide services in Puerto Rico in connection to a film project;
- 100% exemption from excise, sales, and use taxes on certain raw materials, and machinery and equipment
- 100% exemption from income taxes on partial or full liquidation distributions made out to its stockholders, partners, or members to the extent such distributions are attributed to the income derived from eligible activities
- 75% exemption from municipal, excise, and other taxes to contractors and

subcontractors, not including municipal license taxes

- Decree for the duration of the film project, as determined by the Secretary of the DDEC
- Decree issued to studio operators has a 15-year term

Vieques and Culebra

An eligible business operating in the municipalities of Vieques and Culebra enjoy the following incentives during the first five years of operations:

- 2% income tax rate on eligible income
- 100% exemption on property taxes
- 100% exemption on municipal taxes
- Up to 30% nontransferable tax credits on purchases of manufactured products in Puerto Rico

Foreign Trade Zones (FTZs)

Puerto Rico has the largest noncontiguous FTZ system in the U.S. Approximately, 98% of Puerto Rico has been designated as an OZ, which creates an attractive investment alternative for U.S. investors.

The system allows entities to obtain significant financial savings, since raw material, components, and packaging can be transported tax-free throughout these zones and items shipped abroad after processing are exempt from federal taxes.

Benefits

- Deferment of federal customs duties
- Deferment of Puerto Rico excise taxes
- 100% exemption on manufacturing lead time on exports outside of the U.S.
- 100% exemption on tangible property and equipment used
- 60% exemption on the value of the property that is designated intangible
- 100% exemption on exports from the zone and sub-zones

OZs in Puerto Rico

Adopted as part of the federal Tax Cuts and Jobs Act of 2017 (“TCJA”), the opportunity zones program (“OZs”), was designed to attract private investment into economically distressed areas. The OZs regime, paves the way for low-income communities to be designated as qualified opportunity zones (“OZs”). Meanwhile, the program offers federal income tax incentives to a taxpayer who invests capital gains in a business located within an OZ.

Act 60 states that it is the public policy of Puerto Rico to make the island an investment destination for qualified opportunity funds (“OZ Funds”) that invest in Priority Projects located in OZs.



Eligible Investment

Means the cash contributed to an:

- OZ Fund in exchange for stock or interest
- OZ Fund in exchange for stock or interest, and the OZ Fund invests the contributions as capital in an eligible business in exchange for stock or interest, and the investment is in qualified opportunity zone property (“OZ Property”)
- Entity that is an eligible business in exchange for stock or interest, if an OZ Fund invests in such entity and the investment is in OZ Property

Eligible Business

Means a business that meets the following requirements and the business activity:

- Is performed in its entirety in an OZ
- Is performed is not eligible for a Decree under previous tax incentives laws
- Is performed by an OZ Fund or an entity that invests in OZ Property
- Being performed is a Priority Project

A business in the export services, manufacturing, tourism, energy, and film sectors is not precluded from benefitting from the special treatment of capital gains invested in an OZ Fund. A business cannot use the investment benefit credit to obtain a Decree, regardless of the nature of the business activity to be executed as described in the corresponding chapter of the Incentives Code.

Priority Project

A Priority Project is defined as a trade, business, or other activity that produces income that contributes to the social and economic diversification, recovery, or transformation of the community in the OZ.

The OZ Committee published Resolution 2019-01 on August 19, 2019, to approve and adopt a list of the initial priority projects, referred to as the “OZ List”. The OZ List is reported to be revised annually.

Priority Projects included within the OZ List are considered eligible to apply for a Decree. If a proposed project is not on the OZ List, the proponent shall request the designation of the project as a Priority Project from the OZ Committee before filing an application for a Decree.

Commercial Activity Within OZ List

“Commercial Activity” means any activity engaged in the primary purpose of making a profit. Commercial activity, including operating, investing, and financial activities, are ongoing and focused on creating value for shareholders. The OZ List includes four eligible activities designated as Priority Projects for which a Decree may be requested:

1. Development (acquisition of property, construction, and/or substantial improvement of existing property) of residential property that is a low-income housing project, as defined in §42(g) of

the US Tax Code, or by the Puerto Rico Department of Housing, that is for sale or rent

2. Development (acquisition of property, construction, and/or substantial improvement of existing property) of residential or commercial property that is for sale or rent
3. Development (acquisition of property, construction, and/or substantial improvement of existing property) of industrial property that is for sale or rent
4. Substantial improvement of an existing commercial property that is for sale or rent

to shareholders, partners, or members

- 100% exemption for interest income received on bonds, promissory notes, or other obligations of an eligible business for the development, construction, or rehabilitation of, or improvements to an eligible business
- 25% exemption on property taxes
 - » Municipalities may provide an additional exemption up to 75%
- 25% exemption on municipal license, excise, and any other municipal taxes
 - » Municipalities may provide an additional exemption up to 75%
- Guaranteed 5% transferrable investment tax credit which may be increased to 25%

Priority Project Tax Benefits

An approved Decree includes the following local tax incentives (in addition to any federal benefits):

- 18.5% income tax rate on income generated from the eligible activity
- 18.5% withholding tax rate on royalty payments
- 100% exemption from tax on distributions





Thinking of doing business in Puerto Rico? We'd love to help you achieve your goals and get the most out of your operations. Contact the Invest Puerto Rico team today at info@investpr.org or call +1 (787) 966-7642.

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