

# Puerto Rico Where smart money is seeking opportunities

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**2** 00 wealthy individuals and trusts attend investment summit



Just take a look and you will see Act 20/22ers are all around— hanging out at Silk in Condado, eating at Santaella near La Placita in Santurce, drinking a coffee at Cuatro Sombras in Old San Juan or taking an early morning flight to Vieques.

The financiers and entrepreneurs moving to Puerto Rico to cash in on big tax savings that will enable them to substantially grow their money are expected to invest \$10 billion on the island by 2017, said Alberto Bacó Bagué, secretary of the Economic Development & Commerce Department (DDEC by its Spanish initials).

To date, 205 people have moved to the island under Law 20/22 decrees. These include eight billionaires of the caliber of John Paulson, founder & president of Paulson & Co., and Nick Prouty, founder & CEO of Putnam Bridge Funding, who jointly have already invested about \$1.5 billion in Puerto Rico, a capital infusion that is expected to create 1,000 permanent jobs.

"While most people with tax decrees will invest about \$2 million to \$3 million, these billionaires who have come in under

the radar are going to invest \$10 billion over the next two years. When this is coupled with what we are doing in manufacturing, such as the expansion of Lufthansa, we should have economic growth of 3% to 4% in 2015," Bacó said, quoting estimates of the Boston Consulting Group and economist Gustavo Vélez.

Former Gov. Luis Fortuño passed the incentives created under former DDEC Secretary José Ramón Pérez Riera with little publicity in 2012. Then Gov. Alejandro García Padilla's administration began touting these tax breaks—which include a 0% tax on investment income and a 4% tax on service income, such as a hedge fund's management fees—to promote investments in real estate, boost services and consumption, and attract foreign businesses to the island. U.S. citizens, even when they live abroad, have to file U.S. federal income tax, with the sole exception of Puerto Rico, which is the only place in the world U.S. citizens don't have to pay federal income tax unless they report stateside income. Wealthy taxpayers who opt to re-establish overseas to a foreign country have to surrender their U.S. passports and pay an exit tax of 23.8% on unrealized capital gains.

To become eligible for the Puerto Rico tax breaks, a person must live in Puerto Rico for at least 183 days a year and prove that a preponderance of his or her social and family connections is here. Any person who moves to the island signs a contract with the government that guarantees the tax break through Dec. 31, 2035. Only congressional action— or granting Puerto Rico statehood— would put a stop to this.

"This is money that was already going outside of the U.S., to places such as Singapore, Bermuda and the Cayman Islands, and we have brought it here," said Bacó, who just last year was called unrealistic by the media for believing Law 20/22 could serve as an economic motor for Puerto Rico. "Before, we were always touting bonds, now we are touting direct investment in Puerto Rico."

Today, Bacó is slated to address 150 prospective and already existing Act 20/22ers at the Condado Vanderbilt, one of Paulson's recent acquisitions, about the benefits of these tax breaks. This is the first private equity summit conference focused on direct investment on the island, Bacó said.

"Already there are more than 10 spaces reserved for private jets at Luis Muñoz Marín [International Airport]," he said about the conference.

These laws—which are especially favorable to those in finance— already have attracted a slew of hedge, asset management and commodities funds to Puerto Rico.

In addition to Paulson's and Prouty's hedge funds, Randy Swan's Swan Wealth Advisors, Mark Graham's Blue Alternative Asset Management, John Helmers' Long Focus Capital, Damon Vickers' Nine Points Capital Management, Peter Schiff's Euro Pacific Management, Steven Stuart's Garrison Investment Group, and Thomas McOsker's and Nick Paidas' BloxTrade are only some of the financial funds that have set up shop in Puerto Rico. And none of these are little players.

Prior to this onslaught, there were only two hedge funds in Puerto Rico, San Juan Asset Management and Ferré Rangel's

private, family hedge fund.

"This is going to create a thriving financial industry that will be well beyond what we had during the height of Section 936," Bacó predicted.

Under Law 20, hedge funds have to move a significant part of their operations to Puerto Rico, as well as channel assets through local banks, to qualify for 0% tax on all investment income and 4% tax on service income, such as management fees.

"Currently, there are many hundreds of millions of dollars on deposit at local banks and, in the future, this will become billions," the head of the Act 20/22 Society, who wished to remain anonymous, previously said.

## **RENEWED ENTREPRENEURIAL SPIRIT**

Act 20/22ers are bringing the promise of an economic turnaround and renewed entrepreneurial spirit to the island—a reverse brain drain.

"If Puerto Rico had done this 20 years ago, the [commonwealth] government wouldn't have any outstanding debt," said Schiff, 51, financial author and CEO of Euro Pacific Management, which he set up four years ago and today manages \$900 million in assets.

"Over the next five to 10 years, the island's tax base is going to grow dramatically.... If it weren't for Puerto Rico, this business would be in Singapore or Ireland."

Schiff is also CEO of Euro Pacific Capital Inc., a broker dealer that specializes in non-U.S. markets and securities that has offices in Scottsdale, Ariz.; Boca Raton, Fla.; Newport Beach and Los Angeles, Calif.; and New York City. And soon to come—in San Juan, Puerto Rico.



The company is in the process of building out its office in San Juan and hiring about 100 people who will be headed by four brokers working for Schiff, who also have Law 20/22 benefits and have moved to Puerto Rico. Due to custody issues related to a previous marriage, Schiff, who has a condo at Dorado Beach East, hasn't yet been able to move to the island, but said he plans to do so as soon as possible.

Among other positive movements, BloxTrade, which is a market maker in tax liens in various states, is in the process of setting up a public trading desk in Puerto Rico. PricewaterhouseCoopers is setting up an office for tax preparation on the island—something that many times was farmed out to places such as India—thanks to the tax breaks, sources told

CARIBBEAN BUSINESS.

Sun West Mortgage, which is celebrating its third year in Puerto Rico, came to the island because the company's CEO Pavan Agarwal is another early adopter, as those with Law 20/22 decrees who have already moved are called. Today, Sun West Mortgage operates a call center in San Juan that employs more than 100 people to service mortgages in 47 states. The company also is promoting PowerSaver, a federal loan program to help people buy solar panels for their homes.

"We have a big, long-term commitment to Puerto Rico," Agarwal previously said. "We have a center in Southern California, and this adds a nice complement because it is a different time zone. The fact the staff here is bilingual is a nice added bonus."

## **LEADERS OF THE PACK**

Besides the powerful tax lures of Laws 20/22, many affluent people are coming here because those who have already moved and/or are investing in Puerto Rico are considered smart money—those who made a bundle on tech start-ups; those who predicted the meltdown of the subprime mortgage market, such as Paulson, who became a billionaire in 2007 by shorting subprime securities and earning a \$3.5 billion payout; and now, those who are getting out of U.S. currency and into foreign investments and gold in light of the looming devaluation of the U.S. dollar.

Schiff found out about tax breaks after reading an article about Paulson's reported plans to move to Puerto Rico. "When I told my lawyer about it, he said it was too good to be true. Then I found out the tax breaks were real."

Paulson and Prouty paved the way, more people are moving and critical mass is building. Laws 20/22 seem to be having their desired effect, regardless of jabs from the New York Times and Forbes magazine.

"Just as a result of me, hundreds of people are going to move to Puerto Rico," said Schiff, who is among those who predicted the collapse of U.S. housing prices in 2008 and ensuing recession, and those who are warning of a looming hyperinflation of the U.S. dollar. "People are coming down to be around like-minded people. A lot of people are fed up with the environment in the States, with the redistribution of wealth. We can't protest, but we are voting with our feet."

Schiff's father Irwin, a prominent figure in the U.S. tax protestor movement, is currently serving a 13-year sentence in federal prison for tax evasion.

Other early adopters have similar sentiments.

"I believe it's going to bring thousands of people here. It's a major economic stimulator, and Puerto Rico boasts a great, very educated workforce," said Gordon Holmes, 64, financial publisher, investor and founder of Lookout Ridge Winery in the Mayacamas Mountains overlooking the Sonoma and Napa valleys.



*Peter Schiff, 51, financial author and CEO of Euro Pacific Capital Inc., a broker dealer that specializes in non-U.S. markets and securities*



*Old San Juan's Café Cuatro Sombras features specialty coffee of single origin from Yauco.*

Lookout Ridge produces award-winning wines by having a "portfolio" of master winemakers focus on the certain wines for which they have a passion. The wines are sold exclusively over the Internet and, for every case of wine sold, Lookout Ridge donates a wheelchair to one of the more than 150 million children, teens and adults worldwide who are in need of, but can't afford, a wheelchair. Lookout Ridge is going to donate 100 wheelchairs here next January, he said.



*The Ponce Art Museum has one of the world's most important Pre-Raphaelite collections, holding some 4,500 pieces of art, including Flaming June.*



*The \$415 million Puerto Rico Convention Center, with 600,000 sq. ft. of meeting space, is the largest and most technologically advanced in the Caribbean.*



*Alex Daley, chief technology investment strategist & senior technology editor for Casey Research. He is also an angel investor, who placed money in tech companies in Silicon Valley with a long history of successes, and previously was a senior executive at Microsoft.*

followed the hedge funds to Puerto Rico. Among them are Alex Daley and Louis James from Casey Research's financial website that is also a victim of the collapse of the market.

Daley—who is among the top 100 of Puerto Rico's wealthiest—said "Why I Really Moved to Puerto Rico, and You Should Too"—told CARIBBEAN BUSINESS of his move. "It's exciting to me. I love

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"When meeting other Act 20/22ers, I feel that I am with kindred spirits. You just don't find that anywhere in the world. I feel that I can help turn Puerto Rico around," said Holmes, who is a fifth-generation Californian who moved because "California is actually disincentivizing people from doing business there."

Holmes now runs his investment-research website—streetwisereport.com—that specializes in Canadian markets and gets anywhere from 5,000 to 50,000 unique visitors each day from his new home at Palmas del Mar, Humacao. Once he gets his feet wet, Holmes said he plans to explore buying a farm to grow vegetables and other things since his parents were ranchers.

Just as with Holmes, other financial analysts/investors have followed the hedge funds to Puerto Rico. Among them are Alex Daley and Louis James from Casey Research, a financial website that is also foretelling the collapse of the U.S. dollar.

Daley—who is touting the virtues of Puerto Rico in his web article "Why I Really Moved to Puerto Rico, and You Should Too"—told CARIBBEAN BUSINESS of his move. "It's exciting to me. I love motivated people. My biggest interest has gone from tax benefits and life on the beach to all the potential businesses I can help."

Daley is Casey's chief technology investment strategist & senior technology editor, as well as an angel investor, who invested in tech companies in Silicon Valley with a long history of successes, and who previously was a senior executive at Microsoft.

Daley moved from Vermont to Palmas del Mar. His wife and two children will move once the latter finish the school year.

"The entrepreneurial opportunities are exceeding my expectations... and more than anything, I like the people," said Daley, adding he wants to bring a tech incubator down to Puerto Rico.

Daley's co-worker Louis James and his wife have moved to Condado from Seattle. James is chief metals & mining investment strategist and senior editor of the International Speculator and Casey Investment Alert.

"For someone who is an active investor like me, the tax benefits tipped the scale for me. There is no competition," said James, who has lived in Switzerland, Spain and Mexico, among other places.

Other interesting people moving include Frank L. Holder, chairman of the Latin American region of FTI Consulting, which includes offices in Buenos Aires, Bogota, Madrid, Mexico City, Panama City, São Paulo and Rio de Janeiro. Holder, who was previously based in Miami, is a specialist in forensic and litigation consulting, with expertise in risk management, national security, operational risk and uncovering money-laundering operations.

"He has directed corporate investigations and security consulting assignments in Latin America and the U.S., including large-scale internal fraud and public corruption investigations, product protection, litigation support, due diligence and hostile takeovers," states the FTI website.

"It's bringing in a diversity in terms of orders of magnitude, and it's the little people who will probably have the bigger impact," said Bill Garner, founder of Update Pharma, who moved with his wife from San Francisco to Puerto Rico in January. "It's sorta like being in a foreign country but with the same cellphone plan and U.S. post office."

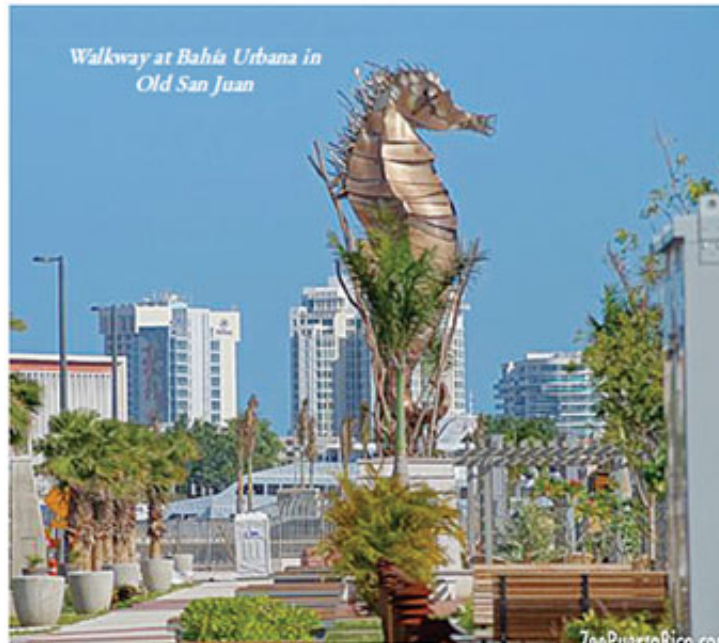


*Louis James and his wife have moved to Condado from Seattle. James is chief metals & mining investment strategist and senior editor of the International Speculator and Casey Investment Alert.*



*Poolside at the St. Regis Bahia Beach Resort in Río Grande*

"I think it's going to have the intended impact and be very successful over time. People are going to end up feeling comfortable and doing more stuff here in the future," Garner said.



*Walkway at Bahía Urbana in Old San Juan*



*Gordon Holmes, 64, financial publisher, investor and founder of Lookout Ridge Winery*

Update Pharma is following the recent pharmaceutical trend of revisiting old drugs for other treatments or, as in the case of its patented UPI-928 to treat acute myeloid leukemia (AML), resurrecting a drug on which hundreds of millions were spent to develop, but which fell through the cracks due to pharmaceutical company takeovers.



*Puerto Rico—best waves on the Eastern Seaboard and the Caribbean*

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Update Pharma is among the handful of companies Garner has founded that specialize in boutique pharmaceutical

commercialization or cashing in on the potential of drugs for small, specific niches, such as the treatment for AML, a rare disease that affects fewer than 200,000 people in the U.S. Prior to becoming a pharmaceutical entrepreneur, Garner worked in medical affairs at Hoffmann-La Roche in oncology. Prior to Roche, Garner was in the venture capital department at Paramount Capital Investments in New York City.

And many of these people are seeing Puerto Rico for the long haul, and not just a quick tax fix.

"I'm 51 and planning to retire in Puerto Rico. I have a little ninemonth- old boy and he's going to grow up a Puerto Rican," said Schiff, CEO of Euro Pacific Capital.

## **Laws 20/22 made easy**

Contrary to popular belief, there are no net-worth requirements to qualify for these tax breaks, and anyone who hasn't been a resident of Puerto Rico for the past 15 years can apply as long as he or she is willing to move to Puerto Rico. The process is relatively quick, simple and inexpensive. It costs about \$1,000 to file paperwork to get a Law 22 tax decree and the Economic Development & Commerce Department is taking around 30 days to 45 days to grant its approval and a tad longer for Law 20 tax breaks for companies, said tax attorney Fernando Goyco, partner of Adsuar Muñiz Goyco Seda & Pérez-Ochoa PSC, who has 34 clients seeking tax-exempt status.

"Before, there was no movement, but when Bloomberg published a story last year on the tax breaks, the interest in Laws 20 and 22 really exploded," Goyco said. "Every week, I get about four or five calls from people interested in learning more about Law 20 or 22."

The law firm of Solomon Blum Heymann LLP gives the following succinct synopsis of the tax breaks under Law 20 to Promote Exportation of Services of 2012 and Law 22 to Promote the Relocation of Individual Investors of 2012:

"Law 20 was designed to create jobs and economic stimulus for Puerto Rico by encouraging the formation of companies that would export services from Puerto Rico to locations elsewhere around the world. Examples of the types of services in the law include advertising and public relations, R&D, consulting, call centers, data processing, telecommunications, computer programming and training.

"Tax benefits granted under Law 20 include a corporate income-tax rate of 4%, no tax on dividends paid to Puerto Rico residents and no withholding tax on outbound dividends to nonresident owners. There are also exemptions, or partial exemptions, on local real estate and municipal taxes and licenses.

"[Law 22] is designed to attract new residents to Puerto Rico, and it does so by exempting these residents from Puerto Rico taxes on investments and passive income, namely, interest, dividends and capital gains," states Solomon Blum Heymann LLP.

"With respect to capital gains accrued after becoming a Puerto Rico resident, the exemption is 100%. But the exemption



applies to a more limited degree with respect to gains on properties owned by an individual when he or she becomes a resident. Such gains are subject to a 10% tax if the gains are realized within 10 years of becoming a resident, and a 5% tax if realized thereafter."

Another piece of legislation, Law of 273 of 2012, also known as the International Financial Center Regulatory Act, seeks to broaden the scope of banking activities for international financial entities organized in Puerto Rico, and establishes additional tax incentives for this sector.

## The thinking behind their move

Puerto Rico's unique position as a U.S. territory with U.S. companies, agencies and legal system, as well as easy air travel combined with new tax breaks are making the island the new land of opportunity, said billionaire Nick Prouty, CEO of Putnam Bridge Funding, who has invested \$750 million here to date, and Alex Daley, senior technology editor for Casey Research.



"Under the new tax regime, Puerto Rico is especially apt for call centers because of the island's highly educated workforce with better average English skills than India; time zone—Atlantic Standard Time—which is the same as New York and Florida for six months, and then one hour earlier for another six months; and plenty available labor to expand," said Daley in his web article, "Why I Really Moved to Puerto Rico, and You Should Too."

"This is the new land of opportunity. There is a critical combination here of an underutilized but well-educated workforce, a culture that is obviously changing for the better and a tax regime that is committed to letting entrepreneurs reinvest more of our money back into our businesses," Daley said. "Add those three together and there would be something good going on down here. But there's another factor: The Internet. With the ability to do many jobs from the convenience of anywhere...that finally makes the home office a reality, the opportunity is enormous. Computer programming. Asset management. Graphic design. Public relations. Marketing and advertising. Research and development. Information processing. Customer service. The number of service-based businesses that can operate from here is amazing—far more potential than the manufacturing sector ever brought."

"Puerto Rico is in the process of a great reinvention and the smart money knows it and that money will soon make its way into your hands," said Prouty in his recent keynote speech at the Puerto Rico CIO & IT Leadership Conference.

The island has great potential in aerospace, alternative energy, creative and technological sectors, Prouty said. "Puerto Rico has all the potential to become a technological powerhouse.

"As of 2003, 70 out of the 115 Hispanics working at NASA's Goddard Space Flight Center in Maryland were Puerto Ricans or of Puerto Rican descent. 70 out of 115 Hispanics— that statistic blows my mind," Prouty said.

"The professional track record of Puerto Ricans easily demonstrates that human capital is the island's most important asset," Prouty added. "Look to the works of Arturo Schomburg in favor of racial equality and Puerto Rican heritage....What about Dr. Antonia Novello, a pediatrician who served as the 14th surgeon general of the U.S., or Supreme Court Justice Sonia Sotomayor."