

# CORPORATE BUSINESS TAXATION MONTHLY

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**EPAct Tax Aspects of LED Lighting in  
Movie Theaters**

**Hangars Generate the Largest EPAct Opportunity**

**The Tax Aspects of Government Building  
Public-Private Facility Partnerships**

**U.S. Tax Policy Ramifications in an  
Era of Neomercantilism**

**Economic Nationalism: Tax Incentive Conduits  
for Financial Intermediaries**

**Tax Incentives as Stimulus for Economic  
Development: Puerto Rico's Strategic Model  
for a New Economy**

**Multistate Tax Developments**

**International Tax Developments: IRS May Apply  
Economic Substance Doctrine to Securities Lending  
Transactions Entered to Avoid U.S. Withholding Tax**



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# Contents

## COLUMNS

Multistate Taxation	5
<i>By Phil Tatarowicz and Ted W. Friedman</i>	
International Tax Developments	7
<i>By Edward Tanenbaum and Heather Ripley</i>	

## ARTICLES

EPAct Tax Aspects of LED Lighting in Movie Theaters	9
<i>By Charles Goulding, Andrea Albanese and Jennifer Pariente</i>	
Hangars Generate the Largest EPAct Opportunity	11
<i>By Kenneth Wood, Jennifer Pariente and Andrea Albanese</i>	
Public-Private Partnerships: The Tax Aspects of Government Building Public-Private Facility Partnerships	15
<i>By Charles R. Goulding, Jennifer Pariente and Andrea Albanese</i>	
U.S. Tax Policy Ramifications in an Era of Neomercantilism	17
<i>By Margaret Kent and Robert Feinschreiber</i>	
Economic Nationalism: Tax Incentive Conduits for Financial Intermediaries	21
<i>By Margaret Kent and Robert Feinschreiber</i>	
Tax Incentives as Stimulus for Economic Development: Puerto Rico's Strategic Model for a New Economy	23
<i>By José R. Pérez-Riera</i>	

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# Tax Incentives as Stimulus for Economic Development: Puerto Rico's Strategic Model for a New Economy

*By José R. Pérez-Riera*

José Pérez-Riera, Secretary of Economic Development and Commerce of Puerto Rico, summarizes Puerto Rico's incentives for improving all sectors of the Island's economy—export services, individual investors, international financial entities, manufacturing, rum production, the film industry, tourism, gaming, the cruise ship industry, renewable energy, incentives for scientists, research and development and housing.

**T**his article focuses on certain tax incentives that Puerto Rico has successfully used as engines of economic development and how some of those incentives can benefit individuals or corporations in Puerto Rico to put them in a position to compete with other individuals or corporations from other jurisdictions, as well as attract those that conduct business outside of Puerto Rico to engage in business in Puerto Rico and/or conducted from Puerto Rico. As part of a comprehensive economic development strategy, the Department of Economic Development and Commerce has systematically reviewed all existing incentives to ensure that they are effective and that they do not impose an undue burden on the Department of the Treasury, which has improved on existing incentives, and in some cases, has created new incentives that did not previously ex-

ist in Puerto Rico in order to stimulate certain activities in Puerto Rico in order to foster economic growth, develop a sustainable platform for job creation and reintroduce Puerto Rico to the world as a destination for investment and world-class innovation.

Over the past four years, the Government of Puerto Rico, through its Department of Economic Development and Commerce, which I have had the privilege of heading over the same four years, has taken unprecedented actions through the effective implementation of its *Strategic Model for a New Economy* to jumpstart the economy and, more importantly, position itself for sustained growth in the coming years.

As a result of implementing several structural and institutional reforms to go along with the incentives that have been put in place—such as significant tax reform, renewable energy reform, public-private partnership reform and permit reform—Puerto Rico is once again an extremely competitive jurisdiction set

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**José R. Pérez-Riera** is the Secretary of Economic Development and Commerce of Puerto Rico.

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for economic development and growth. Once mired in a prolonged recession, Puerto Rico's economic turnaround has been widely recognized by many during very difficult economic times.

Puerto Rico now holds its highest competitiveness ranking ever as established by the World Economic Forum (WEF). Puerto Rico is now ranked No. 31 out of 144 economies evaluated in the 2012-2013 Global Competitiveness Report. This is the third consecutive ranking increase for Puerto Rico over the past three years for a cumulative 11-notch increase over that period. Also, the Puerto Rico Government Development Bank's Economic Activity Index for the month of October continued to register year-over-year increases, maintaining the upward trend that commenced in December of 2011, which is a trend unseen since 2006. Similarly, total employment in Puerto Rico in October of 2012 rose to 1,090,000, an increase of 26,000 jobs in the last 18 months. Fiscal year 2012 was the first full year of job creation in Puerto Rico since fiscal year 2006. For the first time since Puerto Rico's recession began in 2006, Puerto Rico's economy expanded during fiscal year 2012, and the Island is now experiencing positive economic growth for the second year in a row in fiscal year 2013.

These trends have been confirmed by the U.S. Bureau of Labor Statistics, as well as by the Government Development Bank of Puerto Rico and the Puerto Rico Planning Board. Clearly, the measures we have taken to achieve fiscal stabilization and stimulate the economy are working.

All of the reforms and incentives we have put in place make it more efficient and profitable to invest in Puerto Rico than anywhere else in the United States, and with an economy that shows signs of having hit bottom and which is now poised for accelerating growth rates in the future, Puerto Rico provides investors with a truly unique opportunity.

As firms consider their next move in a challenging global landscape, we firmly believe that the incentives detailed in these pages provide a compelling argument for Puerto Rico as a global investment destination. These initiatives are at the forefront of Puerto Rico's economic growth strategy and highlight our commitment to a stronger, more attractive economic environment.

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## Acts 20 and 22 of 2012

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CORPORATE BUSINESS TAXATION MONTHLY has already reported on two of these incentives in its May 2012 article, *New Tax Incentives Legislation in Puerto Rico*—discussing Acts 20 and 22 of 2012.<sup>1</sup> We are including summaries on those two acts as part of this article because of the importance of those acts and because the benefits of the acts have been augmented by amendments as well as by regulations that took place after CORPORATE BUSINESS TAXATION MONTHLY reported on them. The main changes are mentioned below, although we recommend that the included summaries for those acts be reviewed for a complete explanation and proper contextualization of the changes mentioned below.

In the case of Act 20, we have amended it to include a 60-percent tax exemption on municipal taxes. A second improvement, this time by regulation, was that we have included the reinvestment of eligible income from export services activities as an eligible activity under Act 20. In other words, any

**Puerto Rico now holds its highest competitiveness ranking ever as established by the World Economic Forum (WEF).**

income derived from the investment of funds earned from providing an eligible service, will be considered income from an eligible service so long as certain conditions are met. This should encourage an accumulation of investment capital in Puerto Rico which is crucial to the development of Puerto Rico's financial services sector and will greatly contribute towards our ultimate goal of converting Puerto Rico into an internationally recognized financial services hub. It will also serve to provide an incentive for non-Puerto Rico resident partners or shareholders of Puerto Rico entities inasmuch as those partners or shareholders would now have the option of investing the earnings from qualifying activities and benefitting from taxes at the 4-percent tax rate established for eligible activities for the profits of said investments. This should provide an incentive for U.S.-based service providers to establish operations in Puerto Rico to take advantage of great investment opportunities for the U.S.-based partners or shareholders. This additional benefit of Act 20 may well become one of the most important economic development tools that Puerto Rico has had in decades.



In the case of Act 22, it has been amended to include short-term capital gains taxes along with long-term capital gains taxes, so that now new Puerto Rico residents will have no tax liability for either of those up until the year 2036. The amended Act 22 also establishes that its benefits will be available through a Tax Exemption Decree, which is a contract between the Government of Puerto Rico and the new Puerto Rico resident. Such Tax Exemption Decrees lock in the benefits of our incentives acts regardless of whether the acts are repealed or otherwise modified.

Below you will find summaries that provide a clear and precise breakdown of the benefits that Puerto Rico's new incentives provide for all sectors of our economy—including export services, individual investors, international financial entities, manufacturing, rum production, the film industry, tourism, gaming, the cruise ship industry, renewable energy, incentives for scientists, research and development and housing.

## **Export Services Incentives Act**

On January 17, 2012, Puerto Rico enacted Act No. 20 of 2012, also known as the Export Services Incentives Act (“Act 20”), to offer the necessary elements for the creation of a world-class International Services Center. Act 20 provides tax exemptions to businesses engaged in eligible activities in Puerto Rico. To avail itself of such benefits, a business needs to become an exempt business by obtaining a tax exemption decree.

### **Eligibility**

Act 20 provides benefits for services provided from Puerto Rico to outside markets. Eligible activities to receive benefits under Act 20 are services in the following areas:

- research and development;
- advertising and public relations;
- economic, scientific, environmental, technological, managerial, marketing, human resources, engineering, information systems auditing and consulting services;
- consulting services for any trade or business;
- commercial art and graphic services;
- production of engineering and architectural plans and designs and related services;
- professional services such as legal, tax and accounting services;

- centralized managerial services, including, but not limited to, strategic direction, planning and budgeting, provided by regional headquarters or a headquarters company engaged in the business of providing such services;
- services performed by electronic data processing centers;
- development of licensable computer software;
- telecommunications voice and data between persons located outside of Puerto Rico;
- call centers;
- shared service centers;
- medical, hospital and laboratory services;
- investment banking and other financial services, including but not limited to asset management, management of investment alternatives, management of activities related to private capital investment, management of coverage funds or high risk funds, management of pools of capital, trust management that serves to convert different groups of assets into securities and escrow accounts management services;
- any income derived from the investment of funds earned from providing an eligible service, so long as such investment is reinvested in the entity that conducts the eligible service, is made in a business with its principal place of business in Puerto Rico, or is held in a financial institution in Puerto Rico; and
- any other service designated by the Secretary of Economic Development and Commerce of Puerto Rico (the “Secretary”).

### **No Nexus with Puerto Rico**

In order to qualify as an eligible activity, the service that is provided cannot have a nexus with Puerto Rico. In other words, the service must not be related to the conduct of a trade, business or other activity in Puerto Rico. (Promoter Services are excepted from this general rule, as further explained below under “Promoter Services.”)

The following services will be considered to have a nexus with Puerto Rico and thus are not considered to be eligible services:

- services provided to business or regarding income-producing activities that are or have been performed in Puerto Rico by the applying business;
- services regarding the sale of any property located in or for use, consumption or disposition in Puerto Rico;

- counseling on the laws, regulations, administrative procedures and/or determinations of the Government of Puerto Rico and its instrumentalities;
- lobbying on the laws, regulations, administrative procedures and/or determinations of the Government of Puerto Rico and its instrumentalities; and
- any other activity designated by the Secretary.

### **Promoter Services**

Some services that are considered noneligible for having a nexus with Puerto Rico can nevertheless be eligible by way of exception if they are Promoter Services. Promoter Services are services provided to nonresident individuals and/or foreign entities that are related to the establishment of a new business in Puerto Rico as defined in Act 20 and its regulations. Only net income derived from Promoter Services provided to a new business that are performed within the 12-month period ending on the day preceding the earliest of the following actions will be considered exempt service income:

- The new business executes a contract to acquire or lease facilities in Puerto Rico;
- The new business begins construction of the facilities to be used in Puerto Rico; or
- The new business commences operations in Puerto Rico.

### **Tax Exemptions**

Eligible activities can benefit from the following benefits on income derived from customers located outside of Puerto Rico in relation to services rendered from Puerto Rico:

- four-percent fixed income tax rate;
- three-percent fixed income tax rate in the case of services considered strategic, which essentially focus on exporting their services;
- 100-percent tax exemption on distributions from earnings and profits;
- 100-percent tax exemption for the first five years of operation from personal property taxes for certain types of businesses, and 90-percent tax exemption thereafter for the term of the tax exemption decree. The taxable portion will be subject to the regular tax rate, which currently can be up to 8.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 0.883 percent;
- 100-percent tax exemption for the first five years of operation from real property taxes for certain types of businesses and 90-percent tax exemp-

tion thereafter for the term of the tax exemption decree. The taxable portion will be subject to the regular tax rate, which currently can be up to 10.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 1.083 percent; and

- 60-percent tax exemption on municipal taxes (90-percent tax exemption if the business operates in the industrial development zone constituted by the municipalities of Vieques and Culebra). Any taxable portion will be subject to the regular tax rate, which currently can be up to 0.5 percent. Therefore, after considering the 60-percent exemption, the effective tax rate could be up to 0.02 percent.

### **Tax Exemption Decree**

To benefit from Act 20, the service provider needs to submit an application with the Office of Industrial Tax Exemption to obtain a tax exemption decree signed by the Secretary, which will provide full detail of tax rates and conditions mandated by Act 20 and which will be considered a contract between the Government of Puerto Rico and the service provider. Once the service provider obtains the tax exemption decree, the benefits granted will be secured during the term of the tax exemption decree, irrespective of any changes in the applicable Puerto Rico tax laws. The tax exemption decree shall have a term of 20 years, with a possible 10-year extension.

### **Puerto Rico Income Taxes**

An exempt business operating in Puerto Rico under Act 20 by means of a Puerto Rico entity should not be subject to any taxes (such as a dividend tax, toll-gate tax or other similar taxes) on its income from its eligible activities in Puerto Rico, other than the Puerto Rico fixed income tax rate established in the tax exemption decree, regardless of whether said income is distributed or retained by the entity. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

### **Individual Investors Incentives Act**

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On January 17, 2012, Puerto Rico enacted Act No. 22 of 2012, also known as the Individual Investors Incentives Act ( "Act 22"). Act 22 provides tax exemptions to eligible individuals residing in Puerto Rico and may have profound implications for the

continued economic recovery of Puerto Rico. To avail themselves of such benefits, individual investors need to become residents of Puerto Rico and apply for a tax exemption decree.

### Eligibility

The benefits of Act 22 are only available to *bona fide* residents of Puerto Rico that were not *bona fide* residents of Puerto Rico for the 15-year period preceding the enactment of Act 22 on January 12, 2012 (“Eligible Individuals”). Generally, a *bona fide* resident of Puerto Rico is a person who:

- is present in Puerto Rico for at least 183 days during the tax year;
- does not have a tax home outside of Puerto Rico during the tax year; and
- does not have closer connections to the United States or to a foreign country than to Puerto Rico.

Although Puerto Rico is a U.S. territory, pursuant to Code Sec. 933 of the Internal Revenue Code of 1986 (“the Code”), as amended, *bona fide* residents of Puerto Rico are not subject to U.S. federal income taxes on income derived from sources within Puerto Rico. Therefore, U.S. citizens that are *bona fide* residents of Puerto Rico benefiting from Act 22 will only be subject to federal income taxation on income derived from sources outside of Puerto Rico.

### Tax Exemptions

Act 22 is designed to primarily attract to Puerto Rico high net-worth individuals, empty nesters, retirees who currently relocate to other states and individual investors from the United States and other countries. Act 22 provides the following benefits to new Puerto Rico *bona fide* residents on qualified investments:

- 100-percent tax exemption from Puerto Rico income taxes on all dividends;
- 100-percent tax exemption from Puerto Rico income taxes on all interest; and
- 100-percent tax exemption from Puerto Rico income taxes on all short-term and long-term capital gains accrued after the individual becomes a *bona fide* resident of Puerto Rico (“Puerto Rico Gain”).

### Built-in Capital Gains

Also, capital gains realized by an Eligible Individual, but accrued before the individual investor became a *bona fide* resident of Puerto Rico (“Non-PR Built-in Gains”), will be subject to preferential Puerto Rico income tax rates. If such gain is realized and recognized within 10 years after the date residence

is established in Puerto Rico, it will be taxed at the income tax rate for capital gains applicable for the tax year in which the gain is realized (currently the capital tax rate is 10 percent) and at a five-percent income tax rate if such gain is realized and recognized after said 10-year period.

Pursuant to U.S. income tax regulations, U.S. residents moving to Puerto Rico will be subject to federal income taxes on any Non-PR Built-in Gains realized within 10 years after moving. However, Puerto Rico income taxes are creditable against such federal income tax, and, therefore, U.S. residents moving to Puerto Rico and realizing Non-PR Built-in Gains within a 10-year period after moving will be subject to the excess of U.S. taxes over Puerto Rico taxes on such Non-PR Built-in Gains. In other words, under current law and tax rates, such individual investors will only pay income taxes for the Non-PR Built-in Gains in an amount equal to the federal income tax rate imposed on such Non-PR Built-in Gains.

**Example 1.** For example, if stock from a publicly traded company is acquired by a U.S. resident in 2006 for \$40 and is worth \$100 just before moving to Puerto Rico in 2012, and then it is sold by the Puerto Rico resident in 2018 for \$200, the individual investor will be subject to income taxes for the gain realized on the sale as shown in Table 1.

**Table 1.**

Cost \$40	U.S. Tax (15% current rate)	PR Tax (10% current rate)	U.S. Tax after PR credit	Net Tax (U.S. and PR)
<b>Non-PR Built-in Gains</b> \$60	\$9	\$6	$(\$9 - \$6) =$ \$3	$(\$3 + \$6) =$ \$9
<b>Puerto Rico Gain</b> \$100	\$0	\$0	\$0	\$0

After 10 years of moving from the United States to Puerto Rico, the income tax on the Non-PR Built-in Gains will not apply and *bona fide* residents of Puerto Rico will only be subject to a five-percent Puerto Rico income tax on any portion of the Non-PR Built-in Gains realized after 10 years from moving to Puerto Rico.

**Example 2.** If the stock acquired by the U.S. resident in Example 1 is sold by the Puerto Rico

resident in 2023 for \$200, the individual investor will be subject to income taxes for the gain realized on the sale as shown in Table 2.

**Table 2.**

Cost \$40	U.S. Tax	PR Tax (5% under the Act)	U.S. Tax after PR credit	Net Tax (U.S. and PR)
Non-PR Built-in Gains \$60	\$0	\$3	\$0	\$3
Puerto Rico Gain \$100	\$0	\$0	\$0	\$0

### Tax Exemption Decree

To benefit from Act 22, the individual investor needs to submit an application with the Office of Industrial Tax Exemption to obtain a tax exemption decree signed by the Secretary, which will provide full detail of tax rates and conditions mandated by Act 22 and will be considered a contract between the Government of Puerto Rico and the individual investor. Once the individual investor obtains the tax exemption decree, the benefits granted will be secured during the term of the tax exemption decree, irrespective of any changes in the applicable Puerto Rico tax laws. The term of the tax exemption decree will be until December 31, 2035.

### Puerto Rico Income Taxes

An individual investor in Puerto Rico under Act 22 should not be subject to any Puerto Rico income taxes (such as a dividend, tollgate, capital gain or other similar taxes) on his or her exempted income (as described herein) from eligible activities in Puerto Rico, other than the Puerto Rico fixed income tax rate established in the tax exemption decree.

### International Financial Center Incentives Act

On September 25, 2012, Puerto Rico enacted Act No. 273 of 2012, also known as the International Financial Center Incentives Act (“Act 273”). Act 273 provides tax exemptions to businesses engaged in eligible activities in Puerto Rico. To avail itself of such benefits, a business needs to become an International

Financial Entity (IFE) by applying for a permit and license and obtaining a tax exemption decree.

### Eligibility

An IFE may be any person that is not an individual and that is incorporated or organized under the laws of Puerto Rico, the United States or any other country.

Any person interested in organizing an IFE needs to file an application for a permit with the Office of the Commissioner of Financial Institutions and pay a non-refundable application fee of \$5,000. Every applicant must comply with all of the requirements established in the Bank Secrecy Act<sup>2</sup> wherever applicable. Once a permit is issued, the IFE may be organized subject to the following requirements:

- The amount of its authorized capital stock shall not be less than \$5 million, and at least \$250,000 shall be fully paid at the time the license is issued; and
- The IFE shall employ a minimum of four persons at its business office or offices in Puerto Rico. The IFE may request a discretionary waiver to lower said employment requirement.

Once the IFE is organized and the Commissioner receives the organization certification by the Puerto Rico State Department, the IFE may apply for a license. A certified copy of the articles of incorporation and other corporate documents will be required for the IFE license to be issued.

Act 273 provides a list of permitted and prohibited transactions in which the IFE may engage. Permitted transactions will be specified in the IFE’s license.

### Permitted Transactions

With the approval of the Commissioner of Financial Institutions (the “Commissioner”), the IFE may:

- Participate in syndicated nonconforming loans with local banks. This activity will be permitted for the year 2012 and the following five calendar years;
- Acquire classified or nonperforming/distressed loans from local banks. This activity will be permitted for the year 2012 and the following two calendar years. However, the sale of any property that served as guarantee for said loans could be performed after such period, that is, after December 31, 2014;
- Accept deposits from foreign persons;
- Accept properly collateralized deposits or borrow duly secured money from the Governmental Development Bank and the Economic Development Bank; and



- Establish branches outside of Puerto Rico, in the United States mainland and its possessions, or in other foreign countries.

Some other permitted transactions are:

- to make or place deposits in, and otherwise give money as a loan to the Government Development Bank, the Economic Development Bank, any other IFE or any other bank;
- to make, procure, place, guarantee or provide loan servicing to foreign persons, with some exceptions;
- to issue, confirm, give notice, negotiate or refinance letters of credit, provided that the client and the beneficiary requesting the letter of credit is not a domestic person;
- to issue, confirm, give notice, negotiate, or refinance letters of credit in transactions for the financing of exports, even if the beneficiary is a domestic person;
- to discount, rediscount, deal or otherwise trade in money orders, bills of exchange and similar instruments, provided that the drawer and the original debtor are not a domestic person;
- to invest in securities, stocks, notes and bonds of the Government of Puerto Rico;
- to carry out any permitted transaction in the currency of any country, or in gold or silver, and to participate in foreign currency trade;
- to underwrite, distribute and otherwise trade in securities, notes, debt instruments, drafts and bills of exchange issued by a foreign person for final purchase outside of Puerto Rico;
- to engage in any financial activity outside of Puerto Rico that would be allowed by a bank holding company or by a foreign subsidiary of a United States bank;
- to act as fiduciary (executor, administrator, etc.) after obtaining a special permit from the Commissioner, provided that such fiduciary services shall not be offered to nor inure to the benefit of domestic persons;
- to acquire and lease personal property at the request of a lessee who is a foreign person;
- to trade securities outside of Puerto Rico, on behalf of foreign persons;
- to act as a clearinghouse in relation to financial contracts or instruments from foreign persons;
- to organize, manage and provide management services to financial entities located outside of Puerto Rico, such as investment companies and mutual funds, provided that the shares or participation in the capital of such companies are not distributed directly by the IFE to domestic persons;
- to participate in granting and securing loans originated and/or secured by the Government Development Bank and the Economic Development Bank;
- to finance, through loans or financial securities, projects in those areas of priority for the Government of Puerto Rico, in those cases designated as extraordinary by the Secretary of the Treasury and the Commissioner; and
- to provide financial services, such as asset management, management of investment alternatives, management of activities related to private capital investment, management of coverage funds or high risk funds, management of pools of capital, trust management that serves to convert different groups of assets into securities and escrow accounts management services.

## Prohibited Transactions

On the other hand, some of the prohibited transactions are—

- to accept deposits or borrow money from domestic persons, except from the Government Development Bank, the Economic Development Bank and other IFEs;
- except as otherwise permitted by Act 273, to make, procure, place, secure or provide loan servicing, unless all loan proceeds are used outside of Puerto Rico;
- to issue, confirm or give notice of letters of credit, unless all proceeds of the letter of credit are used outside of Puerto Rico, and the issuer and the beneficiary are foreign persons;
- to discount bills of exchange, unless all the proceeds of the bills of exchange will be used outside of Puerto Rico, and the drawer and the beneficiary are foreign persons;
- to purchase or hold any of its own capital stock, except when previously authorized by the Commissioner;
- except when previously authorized in writing by the Commissioner, to grant any kind of financing or credit to any of its employees or stockholders; and
- to, directly or indirectly, underwrite, place, insure or reinsure risks or objects that reside, are located or will be executed in Puerto Rico.

## Tax Exemptions

- Four-percent fixed income tax rate;
- 100-percent exclusion of interest, financing charges or participation in partnerships benefits, which will not be considered gross income from Puerto Rico sources and therefore will not be subject to taxation or withholding provisions for nonresidents of Puerto Rico;
- Six-percent fixed income tax rate on dividends and pro-rated share of benefits of the corresponding IFE for shareholders or partners of an IFE that are residents of Puerto Rico;
- 100-percent tax exemption on all real and personal property belonging to an IFE; and
- 100-percent tax exemption on the payment of municipal license taxes.

Also, for as long as Act 273 is in effect, 7.5 percent of the funds collected from an IFE's income tax will be deposited in the Special Fund for the Development of Export and Promoter Services of the Department of Economic Development and Commerce, created by the Export Services Act to promote growth of services and other eligible businesses in Puerto Rico.

## Tax Exemption Decree

The IFE may submit a copy of its license to the Secretary and may request issuance of a tax exemption decree that provides full detail of tax rates and conditions mandated by Act 273. The tax exemption decree will be considered a contract between the Government of Puerto Rico and the IFE. Once the IFE obtains the tax exemption decree, the benefits granted will be secured during the term of the tax exemption decree irrespective of any changes in the applicable Puerto Rico tax laws. The term of the tax exemption decree will be 15 years. Two extensions of 15 years each may be available.

## Puerto Rico Income Taxes

An IFE operating in Puerto Rico under Act 273 by means of a Puerto Rico entity should not be subject to any taxes (such as a tollgate tax or other similar taxes) on its income from its eligible activities in Puerto Rico, other than the Puerto Rico income tax rate established in the tax exemption decree and taxes imposed on dividends to the exempt business's shareholders residing in Puerto Rico. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

## Economic Incentives for the Development of Puerto Rico Act

For decades, one of the most effective programs in promoting the economic development of Puerto Rico has been the industrial development incentives laws of Puerto Rico. Act No. 73 of 2008, also known as the Economic Incentives for the Development of Puerto Rico Act ("Act 73"), is the current industrial development incentives law in effect. Act 273 provides economic incentives, tax exemptions and tax credits to businesses engaged in eligible activities in Puerto Rico. To avail itself of such benefits, an exempt business must apply for a tax exemption decree.

## Eligibility

Eligible activities that may qualify for the benefits of Act 273 include the following:

- industrial units dedicated to manufacturing on a commercial scale;
- subcontracted services rendered in Puerto Rico that are essential to a manufacturing unit that belongs to "a high economic impact cluster," as designated by the Puerto Rico Industrial Development Company's Executive Director in consultation with the Puerto Rico Planning Board;
- services rendered in Puerto Rico by key suppliers of exempt businesses;
- owners of property, real or personal, used by an exempt business in its exempt operations, such as a lessor of real estate used in operations of an exempt business;
- operations engaged in the breeding of animals for experimental use in laboratories for scientific and medical research, and other similar uses;
- recycling activities that involve: (i) a transformation of recyclable materials into raw material or ingredients used for the elaboration of a product (partial recycling), (ii) the preparation of such recycled raw material for local sale or use or for exportation, or (iii) the transformation of recycled materials mainly collected in Puerto Rico into commercial articles (total recycling);
- operations engaged in the planting and cultivation through the process of hydroponics;
- the development of licensed or patented software that may be reproduced on a commercial scale;
- operation of certain specified strategic projects;
- the licensing of intangible property, whether developed or acquired by the exempted business that has a tax exemption decree under Act 273;

- an industrial unit that produces bottled purified water; and
- certain research and development activities conducted in laboratories.

## Tax Exemptions

Act 273 provides the following tax exemptions:

- four-percent fixed income tax rate;
- one-percent fixed income tax rate for innovative firms introducing “pioneer” activities or operations in Puerto Rico;
- zero-percent fixed income tax rate to the extent that the “pioneer” activities or operations described above are a result of research and development efforts that took place in Puerto Rico;
- a reduction of 0.5 percent in the fixed income tax rate, when the business is located in an industrial area of low or intermediate development (as determined by the Office of Industrial Tax Exemption);
- 12-percent fixed income tax rate, withheld at source, on royalties paid to foreign entities with respect to intangible property used in the exempt business;
- 100-percent tax exemption on dividend distributions;
- four-percent fixed income tax rate on gains derived from the sale of ownership interests or substantially all the assets of the exempt business, in lieu of any other Puerto Rico income tax imposed on such gains;
- 100-percent tax exemption for the first five years of operation from personal property taxes for certain types of businesses and 90-percent tax exemption thereafter for the term of the tax exemption decree. The taxable portion will be subject to the regular tax rate, which currently can be up to 8.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 0.883 percent;
- 100-percent tax exemption for the first five years of operation from real property taxes for certain types of businesses and 90-percent tax exemption thereafter for the term of the tax exemption decree. The taxable portion will be subject to the regular tax rate, which currently can be up to 10.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 1.083 percent;
- 60-percent tax exemption on municipal license taxes, with the first three semesters being 100-percent exempt. Any taxable portion will be subject

to the regular tax rate, that currently can be up to 0.5 percent, so therefore, after considering the 60-percent exemption, the effective tax rate would be up to 0.02 percent;

- 100-percent tax exemption on municipal construction taxes;
- 100-percent tax exemption on excise taxes and sales and use tax on raw material and certain machinery and equipment used in the production process; and
- accelerated depreciation—100-percent first-year bonus depreciation, with ability to carry over to subsequent tax years until exhausted.

## Tax Credits

Act 273 provides various tax credits, including:

- 50-percent tax credit on eligible investment made: (i) to acquire the majority of the stock or substantially all the assets of an exempt business in the process of closing its operations; (ii) to invest in machinery, equipment and improvements of an exempt business in the process of closing its operations; or (iii) to invest in an exempt business considered a small or medium sized business under Act 273;
- 25-percent tax credit on purchases of products manufactured in Puerto Rico;
- 35-percent tax credit on purchases of products manufactured in Puerto Rico made from recycled materials;
- tax credit for job creation during the first year of operations that ranges from \$1,000 per job created in an industrial area of intermediate development (as determined by the Office of Industrial Tax Exemption) to \$2,500 for jobs created in an industrial area of low development;
- in the case of businesses established in the municipalities of Vieques and Culebra, this tax credit is \$5,000 per job;
- 50-percent tax credit on eligible research and development activity costs; and
- 12-percent tax credit for royalties paid to foreign entities with respect to intangible property used in the exempt business.

## Tax Exemption Decree

To benefit from Act 273, the eligible business needs to submit an application with the Office of Industrial Tax Exemption to obtain a tax exemption decree signed by the Secretary, which will provide full detail of tax rates and conditions mandated by Act 273. This

tax exemption decree will be considered a contract between the Government of Puerto Rico and the eligible business. Once the eligible business obtains the tax exemption decree, the benefits granted will be secured during the term of the tax exemption decree, irrespective of any changes in the applicable Puerto Rico tax laws.

Under Act 273, an eligible business can qualify for a 15-year tax exemption decree. Moreover, the exempt business can benefit from a “flexible exemption” for income taxes—that is, the exempt business can decide whether its income will be covered by the exemption on a particular tax year. If it chooses not to be covered by the exemption on a particular year, the exempt business may extend for one additional year its exemption period.

### **Puerto Rico Income Taxes**

An exempt business operating in Puerto Rico under Act 273 by means of a Puerto Rico entity should not be subject to any taxes (such as a dividend tax, tollgate tax or other similar taxes) on its income from its eligible activities in Puerto Rico, other than the Puerto Rico fixed income tax rate established in the tax exemption decree, regardless of whether said income is distributed or retained by the entity. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

### **Incentives for Rum Producers in Puerto Rico**

On December 1, 2010, Puerto Rico enacted Act No. 178 of 2010 (“Act 178”), which provides additional benefits to rum producers in Puerto Rico as part of the Federal Rum Excise Tax Cover-Over Program. These incentives are in addition to tax exemptions and tax credits available to certain rum distilleries under Act 73, as described above.

#### **Eligibility**

To avail itself of the benefits under the Federal Rum Excise Tax Cover-Over Program, a rum distiller must make rum that is produced and bottled in Puerto Rico and sold in the United States mainland. Also, rum exported should be aged in Puerto Rico at least one year in oak barrels, unless a waiver is sought from the Secretary of the Treasury of Puerto Rico.

### **Federal Rum Excise Tax Cover-Over Program**

Section 6053.01(l) of the Puerto Rico Internal Revenue Code of 2011, as amended, provides a rebate to the rum industry of up to 25 percent of the amounts received from the government of the United States by concept of the tax imposed on rum transported from Puerto Rico to the United States and sold to consumers in the United States, known as the Federal Rum Excise Tax Cover-Over Program. This section also gives the Governor of Puerto Rico the discretion to increase up to 46 percent the percentage of the monies to be set aside to support the local rum industry by Executive Order. On June 27, 2012, the Governor of Puerto Rico signed Executive Order OE-2012-30 so stating.

Under the Federal Rum Excise Tax Cover-Over Program, the Government of Puerto Rico currently receives a refund of \$13.25 per proof gallon from the \$13.50 excise tax that is imposed upon every proof gallon of rum sold in the United States. These funds are used to provide incentives to the Puerto Rico rum industry to offset marketing, promotion and production costs. Currently, Puerto Rico is offering rum manufacturers incentives worth 46 percent of the rum rebate revenue generated from branded rum sales and 25 percent from bulk rum sales. Furthermore, the Government of Puerto Rico provides an additional 11 percent for bulk rum sales to be used as an incentive for the benefit of the third-party purchaser of bulk rum. In return, rum producers that have currently signed agreements with the Government of Puerto Rico have agreed to maintain a minimum level of production in Puerto Rico for a period of 20 years.

#### **Tax Exemptions**

Rum manufacturers that establish operations in Puerto Rico may benefit from Act 73, which provides the following incentives:

- Four-percent fixed income tax rate;
- 12-percent fixed income tax rate, withheld at source, on royalties paid to foreign entities with respect to intangible property used in the exempt business;
- 100-percent tax exemption on dividend distributions;
- Four-percent fixed income tax rate on gains derived from the sale of ownership interests or substantially all the assets of the exempt business, in lieu of any other Puerto Rico income tax imposed on such gains;



- 100-percent tax exemption for the first five years of operation from personal property taxes for certain types of businesses, and 90-percent tax exemption thereafter for the term of the tax exemption decree. The taxable portion will be subject to the regular tax rate, which currently can be up to 8.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 0.883 percent;
- 100-percent tax exemption for the first five years of operation from real property taxes for certain types of businesses and 90-percent tax exemption thereafter for the term of the tax exemption decree. The taxable portion will be subject to the regular tax rate, which currently can be up to 10.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 1.083 percent;
- 60-percent tax exemption on municipal license taxes, with the first three semesters being 100-percent exempt. Any taxable portion will be subject to the regular tax rate, which currently can be up to 0.5 percent. Therefore, after considering the 60-percent exemption, the effective tax rate could be up to 0.02 percent;
- 100-percent tax exemption on municipal construction taxes;
- 100-percent tax exemption on excise taxes and sales and use tax on raw material and certain machinery and equipment used in the production process; and
- Accelerated depreciation—100-percent first-year bonus depreciation, with ability to carry over to subsequent tax years until exhausted.
- Tax credit for job creation during the first year of operations that ranges from \$1,000 per job created in an industrial area of intermediate development (as determined by the Office of Industrial Tax Exemption) to \$2,500 for jobs created in an industrial area of low development;
- In the case of businesses established in the municipalities of Vieques and Culebra, this tax credit is \$5,000 per job;
- 50-percent tax credit on eligible research and development activity costs; and
- 12-percent tax credit for royalties paid to foreign entities with respect to intangible property used in the exempt business.

### **Tax Exemption Decree**

To benefit from Act 73, a rum distiller needs to submit an application with the Office of Industrial Tax Exemption to obtain a tax exemption decree signed by the Secretary of Economic Development and Commerce of Puerto Rico that will provide full detail of tax rates and conditions of the concession and will be considered a contract between the Government of Puerto Rico and the rum distiller. Once the rum distiller obtains the tax exemption decree, the benefits granted will be secured during the term of the tax exemption decree, irrespective of any changes in the applicable Puerto Rico tax laws. The term of the decree will be 15 years. However, the rum distiller can benefit from a “flexible exemption” for income taxes—that is, the rum distiller can decide whether its income will be covered by the exemption on a particular tax year. If it chooses not to be covered by the exemption on a particular year, the rum distiller may extend for one additional year its exemption period.

### **Tax Credits**

Act 73 also provides various tax credits, including:

- 50-percent tax credit on eligible investment made: (i) to acquire the majority of the stock or substantially all the assets of an exempt business in the process of closing its operations; (ii) to invest in machinery, equipment and improvements of an exempt business in the process of closing its operations; or (iii) to invest in an exempt business considered a small or medium-sized business under the Act;
- 25-percent tax credit on purchases of products manufactured in Puerto Rico;
- 35-percent tax credit on purchases of products manufactured in Puerto Rico made from recycled materials;

### **Puerto Rico Income Taxes**

An exempt business under Act 73 operating in Puerto Rico by means of a Puerto Rico entity should not be subject to any taxes (such as a dividend tax, tollgate tax or other similar taxes) on its income from its eligible activities in Puerto Rico, other than the Puerto Rico fixed income tax rate established in the tax exemption decree, regardless of whether said income is distributed or retained by the entity. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

## Film Industry Incentives Act

On March 4, 2011, Puerto Rico enacted Act No. 27 of 2011, also known as the "Film Industry Incentives Act" ("Act 27"), to solidify its position as one of the leading jurisdictions for the production of film, television and other media projects. Act 27 provides tax exemptions and tax credits to businesses engaged in film production in Puerto Rico.

Since 1999, close to 90 productions have taken advantage of Puerto Rico's film and media incentive programs, including most recently: Fox/New Regency's "Runner, Runner," Disney's "Pirates of the Caribbean 4," Universal Picture's "Fast 5," Warner Brothers' "The Losers," ABC's "The River" and "Off the Map," USA Network's "White Collar" and "Royal Pains," HBO Film's "Eastbound and Down" and Showtime's "The Big C." As a result of this depth of experience, Puerto Rico has developed the necessary technical expertise to film projects in Puerto Rico, from location scouting to permit clearances to credit financing. This includes four U.S.-trained, bilingual crews working year-round and specially dedicated infrastructure provided by the Government of Puerto Rico to guide investors, studios, production companies and independent producers through everything necessary to film in Puerto Rico.

### Eligibility

Eligible media projects and related requirements are as follows:

- feature films, short films, documentaries, television programs, series in episodes, mini-series, music videos, commercials both international and national, video games, recorded live performances, original soundtrack recordings and dubbing;
- \$100,000 minimum spend requirement per project (\$50,000 for short films);
- no principal photography requirement: full development, partial development, pre-production and post-production are eligible activities; and
- no per-project or individual wage caps.

Recognizing the importance of complementing a low-cost structure with a state-of-the-art infrastructure specially dedicated to the industry, the Act also provides incentives for eligible infrastructure projects, which include:

- the development construction and operation of studios, laboratories, post-production, animation and special effects facilities, transmission facilities and related infrastructure.

## Tax Exemptions

Tax exemptions for eligible production businesses, including film producers and studio operators, are the following:

- Four-percent fixed income tax rate on income derived from the production (6-percent to 10-percent fixed income tax rate in the case of studio operators);
- 100-percent tax exemption on dividend distributions;
- 90-percent tax exemption from personal property taxes. The taxable portion will be subject to the regular tax rate, which currently can be up to 8.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 0.883 percent;
- 90-percent tax exemption from real property taxes. The taxable portion will be subject to the regular tax rate, which currently can be up to 10.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 1.083 percent;
- 100-percent tax exemption on municipal license taxes, construction taxes and other municipal taxes; and
- 100-percent tax exemption on excise taxes on articles imported by the grantee to be used in the eligible activities.

## Tax Credits

Act 27 offers the following tax credits:

- 40-percent tax credit on all payments to Puerto Rico resident companies and individuals. Act 27 provides an annual limit of \$50 million of tax credits available for film projects. However, film projects may apply for up to \$50 million additional tax credits in excess of the \$50 million limit if any portion of its Puerto Rico production expenses is incurred within a Film Development Zone that has a Large-Scale Studio. An additional \$150 million of tax credit will be available if the film project is produced within a Film Development Zone having a Large-Scale Studio with a cost of \$200 million or more. The Act provides that, after attaining the previous limits, additional tax credits in an amount of \$100 million will be available if the film credits program has conceded at least \$250 million for two consecutive years;
- 20-percent tax credit on all payments to nonresident "Above-the-Line" talent, including actors, producers, directors and writers. No annual cap is established with respect to nonresident Above-the-Line payments. However, the grantee of a

tax exemption decree under the Act (or its representative) will be responsible for withholding, remittance and reporting to the Puerto Rico Treasury Department a 20-percent tax on payments to nonresident Above-the-Line talent. Some jurisdictions, including the United States, have rules to avoid double taxation that may include foreign tax credit systems. Under a foreign tax credit system, the 20-percent tax withheld from payments made to nonresident Above-the-Line talent should be credited against the income tax liability determined with respect to such income in his/her primary tax jurisdiction. Each nonresident Above-the-Line individual should consult his or her own tax advisor;

- 25-percent infrastructure tax credit on costs incurred in the development of a film studio or other eligible infrastructure project. The Act provides an annual limit of \$10 million of tax credits available for infrastructure projects;
- Excess credits not taken in a particular year may be rolled over to a subsequent year. These credits have a lifetime cap for all projects of \$150 million. The minimum investment for individual infrastructure projects is \$1 million; and
- Under regulations issued by the Secretary, the island municipalities of Vieques and Culebra will be considered Film Development Zones. As such, film projects developed therein that comply with certain filming parameters described in the regulations will not be subject to the annual tax credit limitations established by Act 27.

### Film Development Zones

Act 27 provides that the Secretary may designate certain geographical areas as Film Development Zones. The Film Development Zones will be designated by the Secretary on his own initiative or after considering an application made by a developer of an infrastructure project. In order to be considered, the application must include a Large-Scale Studio proposal.

### Tax Exemption Decree

To benefit from Act 27, the film development company or studio operator needs to submit an application with the Puerto Rico Film Commission to obtain a tax exemption decree signed by the Film Commissioner (as delegated by the Secretary), which will provide full detail of tax rates and conditions mandated by the Act and will be considered a contract between the

Government of Puerto Rico and the applicant. Once the applicant obtains the tax exemption decree, the benefits granted will be secured during the term of the decree, irrespective of any changes in the applicable Puerto Rico tax laws.

### Puerto Rico Income Taxes

An exempt business operating in Puerto Rico under Act 27 by means of a Puerto Rico entity should not be subject to any taxes (such as a dividend tax, toll-gate tax or other similar taxes) on its income from its eligible activities in Puerto Rico, other than the Puerto Rico fixed income tax rate established in the tax exemption decree, regardless of whether said income is distributed or retained by the entity. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

### Tourism Development Act

On July 10, 2010, Puerto Rico enacted Act No. 74 of 2010, also known as the "Tourism Development Act" ("Act 74"), to provide incentives that will allow for substantial growth of Puerto Rico's tourism industry and all infrastructure related thereto. Act 74 provides tax exemptions and tax credits to businesses engaged in eligible activities in Puerto Rico. To avail from such benefits, a business needs to become an exempt business by applying for a tax concession and obtaining a tax exemption decree.

### Eligibility

Eligible activities that may qualify for the benefits under Act 74 include the following:

- Ownership, operation and/or hotel administration, timeshares or vacation club programs, condohotels, guest-houses, theme parks, golf courses, marinas for tourism purposes, port facilities, agrotourism, medical tourism, nautical tourism and other facilities that are a source of active, passive or recreational entertainment and that are a stimulus to internal or external tourism;
- Ownership of a lease made to a business with a tax exemption decree under the Act or predecessor tourism incentive laws. This includes the leasing of real property and whatever improvements have been made to the property, such as machinery and equipment, furniture and fixtures. Financing leases are not eligible activities;

- Development and administration of natural resources such as caverns, forests, canyons, natural reserves and lakes; and
- The purchase of existing hotels or other eligible activities, if a substantial renovation or expansion to the existing business is made. If the substantial renovation or expansion costs exceed the purchase price, the acquiring investors would also qualify for the tax credit described further below.

## Tax Exemptions

- Up to 90-percent tax exemption on income tax (100-percent tax exemption if business is located in Vieques or Culebra). The taxable portion of the income will be taxed at the income tax rates effective at the date of the Act's approval, which in the case of corporations was 39 percent, so therefore, after considering the 90-percent exemption, the effective tax rate could be as low as 3.9 percent;
- Up to 90-percent tax exemption on dividend distribution tax (100-percent tax exemption if business is located in Vieques or Culebra). The taxable portion of the dividend distribution will be taxed at the dividend distribution tax rates effective at the date of the Act's approval, which in the case of corporations was 10 percent, so therefore, after considering the 90-percent exemption, the effective tax rate could be as low as 1 percent;
- 100-percent tax exemption on alternative minimum taxes and additional income taxes on undistributed income;
- 90-percent tax exemption from personal property taxes. The taxable portion will be subject to the regular tax rate that currently can be up to 8.83 percent, so therefore, after considering the 90-percent exemption, the effective tax rate would be up to 0.883 percent;
- 90-percent tax exemption from real property taxes. The taxable portion will be subject to the regular tax rate that currently can be up to 10.83 percent, so therefore, after considering the 90-percent exemption, the effective tax rate would be up to 1.083 percent;
- Up to 90-percent tax exemption on municipal licenses and other municipal taxes (100 percent in the case of new business). Any taxable portion will be subject to the regular tax rate, that currently can be up to 0.5 percent, so therefore, after considering the 90-percent exemption, the effective tax rate could be as low as 0.05 percent;

- Up to 100-percent tax exemption on excise tax on imported goods;
- Up to 100-percent tax exemption on sales and use tax; and
- Up to 100-percent tax exemption on municipal construction excise tax.

## Tax Credits

Under Act 74, any person who acquires an equity interest or contributes land to an entity that develops an exempt tourism business will be entitled to an investment tax credit equal to 50 percent of the cash paid for such equity investment or 10-percent tax credit on total project cost, whichever is lowest. The tax credit is to be taken in two installments—half of the tax credit during the first year of the investment, while the remaining tax credit may be used in the second year. Any unused tax credits may be carried forward. The tax credits may also be assigned, transferred or sold. Puerto Rico has a healthy secondary market for the immediate sale of such credits. Many developers choose to inject such credits into the project, reducing the amount of equity required.

## Tax Exemption Decree

To benefit from Act 74, the eligible business needs to submit an application with the Puerto Rico Tourism Company to obtain a tax exemption decree signed by its Executive Director, which will provide full detail of tax rates and conditions mandated by the Act. This tax exemption decree will be considered a contract between the Government of Puerto Rico and the eligible business. Once the eligible business obtains the tax exemption decree, the benefits granted will be secured during the term of the tax exemption decree, irrespective of any changes in the applicable Puerto Rico tax laws.

Under Act 74, an eligible business can qualify for a 10-year exemption that can be extended for an additional 10-year term. Moreover, the exempt business can benefit from a "flexible exemption" for income taxes—that is, the exempt business can decide whether its income will be covered by the exemption on a particular tax year. If it chooses not to be covered by the exemption on a particular year, the exempt business may extend for one additional year its exemption period. The date of commencement of the exemptions is fixed pursuant to the Act. However, to provide the exempt business more flexibility, the effective dates can be postponed for up to three years.



## Puerto Rico Income Taxes

An exempt business operating in Puerto Rico under Act 74 by means of a Puerto Rico entity should not be subject to any taxes (such as a tollgate tax or other similar taxes) on its income from its eligible activities in Puerto Rico, other than the Puerto Rico income tax rate established in the tax exemption decree. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

## Municipal Economic Development and Tourism Incentives Act

On August 1, 2010, Puerto Rico enacted into law Act No. 118 of 2010, also known as the "Municipal Economic Development and Tourism Incentives Act" ("Act 118"). This Act seeks to stimulate Puerto Rico's tourism sector by facilitating the establishment of new tourism development projects that include gaming, hospitality and commercial components in different municipalities throughout Puerto Rico, particularly those that have been most affected by economic hardship.

### Eligibility

A Selection Committee established by Act 118 will select, through the vote of a simple majority, which projects will be established. The Selection Committee is comprised by the Secretary of Economic Development and Commerce, who presides the Selection Committee; the Secretary of the Treasury, the Executive Director of the Puerto Rico Tourism Company, the Municipal Affairs Commissioner and a public interest representative named by the Governor of Puerto Rico, with the consent of the Senate of Puerto Rico. The Act establishes that the eligible projects must comply with the following elements:

- a world-class hotel that holds at least a four-star rating;
- varied commercial and recreational establishments;
- other entertainment facilities typical of a four-star hotel, including a casino, as such facilities are defined in Act No. 221 of 1948, known as the "Games of Chance Act"; and
- the project is developed exclusively with private capital.

Projects should be developed in municipalities that are economically distressed, showing a decrease in municipal business taxes during the period covering

fiscal years 2007 and 2008 as compared to the period of fiscal years 2002 and 2003. Projects can also be developed in other municipalities as determined by the Selection Committee.

Act 118 also designates the area composed by El Yunque National Rain Forest, Vieques and Culebra as "The Green Triangle" to promote ecotourism and economic development in the area. The Act establishes a special fund to be funded from operations incentivized by the Act, which will provide funds for development of the infrastructure necessary to promote tourism in The Green Triangle. Specifically, the Act provides that one-fourth of the funds are to be used in Vieques and one-fourth of the funds are to be used in Culebra. These funds will be distributed by the Selection Committee.

### Tax Exemptions

The Government of Puerto Rico provides extremely attractive tax rates on its tourism gaming net revenues. The operative tax rate will depend on the concessionaire's total investment of private capital, as provided below:

- investments of \$500 million or more shall be granted a fixed, 25-percent tax rate;
- investments of \$750 million or more shall be granted a fixed, 15-percent tax rate;
- investments of \$1 billion or more shall be granted a fixed, 10-percent tax rate; and
- investments of \$1.25 billion or more shall be granted a fixed, eight-percent tax rate.

### Tax Exemption Decree

The Selection Committee will issue a tax exemption decree providing full detail of tax rates and conditions mandated by Act 118. This tax exemption decree will be considered a contract between the Government of Puerto Rico and the developer and will ensure the developer's incentives for the term of the tax exemption decree, irrespective of any changes in the applicable Puerto Rico tax laws. Any decree granted by the Selection Committee must be received within the first five years after the approval of the Act, which is the limit established for submitting proposals.

The tax exemption decree shall initially remain in effect for a period of 30 years, and developers would have a 10-year period to fulfill their investment and job creation commitments. Any violation of the terms of Act 118 or the tax exemption decree may result in the increase of the special tax rate imposed, up to 70 percent. Should the concessionaire undertake

a substantial renovation or expansion of the project, the tax exemption decree, at the discretion of the Selection Committee, may be renewed at any time during its life for two additional 10-year terms.

### **Puerto Rico Income Taxes**

An exempt business operating in Puerto Rico under Act 118 by means of a Puerto Rico entity should not be subject to any taxes (such as a tollgate tax or other similar taxes) on its income from its eligible activities in Puerto Rico, other than the Puerto Rico income tax rate established in the tax exemption decree and taxes imposed on dividends to the exempt business' shareholders, if any. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

### **Cruise Industry Incentives Act**

On July 4, 2011, Puerto Rico enacted Act No. 113 of 2011, also known as the "Cruise Industry Incentives Act" ("Act 113"), to strengthen the integral link between Puerto Rico's economy and its \$3.6 billion tourism industry and its \$250 million cruise industry. Act 113 establishes an annual promotional fund of \$11 million designed to increase both homeport and transit cruise visits to Puerto Rico by providing several incentives, including the incentives described below.

#### **Discounts on Port Tariff Incentive**

Act 113 provides increasing benefits depending on the passenger volume in order to incentivize the cruise industry to increase passenger volume to Puerto Rico. The Puerto Rico Ports Authority's (the "Ports Authority") passenger tariff is currently \$13.25 per passenger. For the first 140,000 passengers that a cruise line manages in Puerto Rico per year, a tariff discount or reimbursement of \$4.95 is provided by the Ports Authority under the *Discounts on Port Tariff Incentive*. For passengers after 140,000, this incentive increases to \$7.45, reducing the passenger tariff by more than half.

#### **Cash Incentive for Homeport Embarks**

Puerto Rico also provides increasing cruising incentives through the Ports Authority, depending on the number of homeport cruise embarks, as a way to increase home-porting in Puerto Rico. The *Cash Incentive for Homeport Embarks* begins with \$1.00

per passenger for cruise companies that homeport in any port in Puerto Rico's jurisdiction. After the cruise company has reached its 20th embark in Puerto Rico, the incentive increases to \$2.00 per passenger from visit 21 and thereafter. If the cruise company exceeds 120 embarks, the incentive payable increases to \$4.00 per passenger for any embark in excess of the 61st Embark.

#### **Cash Incentive for Time in Port**

It is estimated that each cruise passenger on a transit ship spends \$69.74 in Puerto Rico in restaurants, shops, transportation, excursions, etc. A *Cash Incentive for Time in Port* was created to stimulate longer cruise ship stays in Puerto Rico ports in order to increase this expenditure. A cash incentive of \$1.00 per passenger is provided by the Ports Authority to cruise ships that stop in any port in Puerto Rico's jurisdiction for a minimum of eight hours, thus incentivizing them to stay in Puerto Rico for at least that long.

#### **Incentives for Purchases of Goods and Services**

Puerto Rico has created Incentives for Purchases of Goods and Services that provide that any cruise ship that stops in any port in Puerto Rico's jurisdiction will be eligible to receive an incentive equivalent to 10 percent of the cost of the purchase of provisions and/or the cost of maintenance services or repairs that may be done on the cruise ships in Puerto Rico, excluding the cost of materials, products or equipment that may be installed as part of the service provided.

An additional five-percent reimbursement applies to the purchase of products that are manufactured in Puerto Rico, as certified by the Puerto Rico Industrial Development Company, or agricultural products of Puerto Rico, as certified by the Department of Agriculture. This incentive will also benefit local distribution companies that supply food and beverage and other products to cruise ships, as well as service providers that serve this industry, such as mechanics, divers and many others. This incentive is provided by the Puerto Rico Tourism Company (the "Tourism Company").

#### **Coop Marketing Program**

Act 113 also creates a Coop Marketing Program to increase awareness of Puerto Rico as a homeport and to position Puerto Rico as the primary port of the Caribbean. The incentive creates a fund in which a cash incentive of \$1.00 per passenger will be provided for marketing programs developed jointly with the

Tourism Company and cruise companies to promote Puerto Rico as a homeport.

### **Incentive for Vacation Packages and Incentive for Tour Transportation Providers**

Act 113 also creates an Incentive for Tour Transportation Providers that provides an incentive of \$1.00 for every passenger that buys an excursion on board the cruise ship. The incentive has an annual cap of \$500,000 and is regulated by the Tourism Company, which has been working on an expanded on-board tour offering program. As an additional incentive, the Tourism Company is working with local travel agents to promote cruise vacation packages that include hotel nights in Puerto Rico as part of its Incentive for Vacation Packages. This incentive should result in higher revenues for cruise ships in Puerto Rico ports and therefore increased transit visits.

### **Green Energy Incentives Act**

On July 19, 2010, Puerto Rico enacted Act No. 82 of 2010, also known as the "Puerto Rico Energy Diversification Policy through Sustainable and Alternative Renewable Energy Act" (the "Renewable Energy Policy Act" or "Act 82") and Act No. 83 of 2010, also known as the "Green Energy Incentives Act" ("Act 83"), to stimulate the development of renewable energy generation through the creation of a \$290 million Green Energy Fund, significant tax benefits, the creation of a Renewable Portfolio Standard and Renewable Energy Credits. These laws are discussed below.

### **Renewable Energy Policy Act**

Act 82 mandates that retail energy providers in Puerto Rico establish and comply with a Renewable Portfolio Standard (RPS) that requires that a specified percent of their production be from renewable energy sources. The RPS requires that a retail energy provider produce 12 percent of its power needs through renewable energy by 2015, 15 percent by 2020, and it is advised that retail energy providers aspire to reach 20 percent by 2035. Currently, the only retail energy provider in Puerto Rico is the Puerto Rico Electric Power Authority (PREPA), but the RPS would be applicable to any other retail energy provider that sells more than 50,000 megawatt-hours (MWh) of electricity during

a given year. Co-generators whose energy is destined for re-sale are not subject to the percentage requirements of the RPS.

The Renewable Energy Policy Act also introduced the concept of the Renewable Energy Credit (REC) as a legally recognized asset that can be purchased, sold, traded and transferred separately from electric power. An REC represents the equivalent to 1 MWh of renewable energy produced. Every energy producer shall register with the Puerto Rico Renewable Energy Commission, established by the Renewable Energy Policy Act, to keep an inventory of renewable energy generated and the corresponding RECs produced. Retail energy providers may acquire RECs to comply with the percentage requirements of the RPS.

### **Green Energy Incentives Act**

Act 83 grouped and reformed existing incentives for renewable energy sources, including economic incentives, tax exemptions and tax credits, and created the \$290 million Green Energy Fund. To avail itself of such benefits, a business needs to apply for a tax exemption decree.

#### **Eligibility**

Under the Green Energy Incentives Act, businesses engaged in the following activities will be considered eligible to apply for a tax exemption decree:

- production and sale of renewable energy;
- operating renewable energy production units;
- businesses involved in the assembly of renewable energy equipment; and
- owners of property, real or personal, used by an exempt business in its exempt operations, such as a lessor of real estate used in operations of an exempt business.

#### **Tax Exemptions**

The Green Energy Incentives Act provides various tax exemptions, including:

- Four-percent fixed income tax rate on income derived from the production of energy in Puerto Rico;
- 12-percent fixed income tax rate, withheld at source, on royalties paid to foreign entities with respect to intangible property used in the exempt business;
- 100-percent tax exemption on dividend distributions;
- Four-percent fixed income tax rate on gains derived from the sale of ownership interests or substantially all the assets of the exempt busi-

ness, in lieu of any other Puerto Rico income tax imposed on such gains;

- 90-percent tax exemption from personal property taxes. The taxable portion will be subject to the regular tax rate, which currently can be up to 8.83 percent. Therefore, after considering the 90-percent exemption, the effective tax rate could be up to 0.883 percent;
- 90-percent tax exemption from real property taxes. The taxable portion will be subject to the regular tax rate, which currently can be up to 10.83 percent, so therefore, after considering the 90-percent exemption, the effective tax rate could be up to 1.083 percent;
- 60-percent tax exemption on municipal license taxes, with the first three semesters being 100-percent exempt. Any taxable portion will be subject to the regular tax rate, which currently can be up to 0.5 percent, so therefore, after considering the 60-percent exemption, the effective tax rate would be up to 0.02 percent;
- 100-percent tax exemption on municipal construction taxes;
- 100-percent tax exemption on excise taxes and sales and use tax on renewable energy equipment; and
- Accelerated depreciation—100-percent first-year bonus depreciation, with the ability to carry over to subsequent tax years until exhausted.

## Tax Credits

The Green Energy Incentives Act also provides various tax credits, including:

- 25-percent tax credit on purchases of products manufactured in Puerto Rico;
- 35-percent tax credit on purchases of products manufactured in Puerto Rico made from recycled materials;
- Tax credit for job creation during the first year of operations that ranges from \$1,000 per job created in an industrial area of intermediate development (as determined by the Office of Industrial Tax Exemption) to \$2,500 for jobs created in an industrial area of low development;
- In the case of businesses established in the municipalities of Vieques and Culebra, this tax credit is \$5,000 per job;
- 50-percent tax credit on eligible research and development activity costs; and
- 12-percent tax credit for royalties paid to foreign entities with respect to intangible property used in the exempt business.

## Rebate Program Incentives

The Green Energy Incentives Act also created a rebate program under the Green Energy Fund to stimulate the adoption of renewable energy production by the private sector, which provides investment-based incentives as follows:

- Tier 1: Project Size: 1 – 100kW; incentive: up to 60 percent (fixed at 60 percent for projects in Vieques or Culebra) of eligible project costs; Funds currently granted on a first-come, first-served basis; and
- Tier 2: Project Size: + 100kW to 1MW; incentive: up to 50 percent of eligible project costs; funds allocated through a quarterly competitive tendering process.

## Other Energy Initiatives

- Pursuant to Executive Order 2010-034, the Governor of Puerto Rico authorized an Expedited Permitting process that calls for a sub-committee to consider an Environmental Assessment (EA) for all energy projects in 20 business days;
- Under Act No. 114 of 2007, as amended by Act No. 103 of 2012, PREPA was authorized to establish a Net Metering Program that allows clients to export any excess renewable energy from renewable energy net metering projects up to 5 MW in exchange for a credit on their utility bills for such excess at retail energy rates, with the ability to rollover to future months of the billing year; and
- A Wheeling System was created that allows independent power producers to sell power directly to other private consumers using PREPA's electrical grid distribution network.

## Tax Exemption Decree

An energy producer or facility operator needs to submit an application with the Office of Industrial Tax Exemption to obtain a tax exemption decree signed by the Secretary, which will provide full detail of tax rates and conditions mandated by the Green Energy Incentives Act. The tax exemption decree will be considered a contract between the Government of Puerto Rico and the energy producer. Once the energy producer obtains the tax exemption decree, the benefits granted will be secured during the term of the tax exemption decree, irrespective of any changes in the applicable Puerto Rico tax laws. The tax exemption decree shall have a term of 25 years, with a possible 10-year extension. The energy pro-



ducer can also benefit from a “flexible exemption” for income taxes—that is, the energy producer can decide whether its income will be covered by the exemption on a particular tax year. If it chooses not to be covered by the exemption on a particular year, the energy producer may extend its exemption period for one additional year.

## Puerto Rico Income Taxes

An exempt business operating in Puerto Rico under the Green Energy Incentives Act by means of a Puerto Rico entity should not be subject to any taxes (such as a dividend tax, tollgate tax or other similar taxes) on its income from its eligible activities in Puerto Rico, other than the Puerto Rico fixed income tax rate established in the tax exemption decree, regardless of whether said income is distributed or retained by the entity. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

## Incentives to Promote Scientific Activity in Puerto Rico

The Government of Puerto Rico and the Puerto Rico Science, Technology and Research Trust (the “Trust”), in collaboration with industry and the academic community, have taken a number of measures to help create an environment conducive to stimulating competitive research. Specifics on these initiatives follow.

### At the Researcher/Scientist Level

- Section 1031.02(a)(26) of the Puerto Rico Internal Revenue Code of 2011 (the “2011 Code”), as amended, provides that eligible researchers/scientists residing in Puerto Rico will benefit from a 100-percent income tax exemption on income generated for services rendered to the University of Puerto Rico or other institutions of higher education in relation to certain eligible scientific investigations. Such exemption will be limited to an amount equal to the maximum salary amount established by the National Institutes of Health for researchers receiving grants under their programs;
- Section 1031.02(a)(27) of the 2011 Code provides that up to \$250,000 of the compensation received by eligible researchers/scientists residing in Puerto Rico and conducting an investigation within the Puerto Rico Science District created by Act No. 208 of 2011 (“Act 208”) will be exempt from Puerto Rico income taxes;

- The Trust provides for applicants for Small Business Innovation Research Grants (SBIR) to receive grants of up to \$5,000 for application assistance, as well Phase I and II Matching Grants;
- With the assistance of the Trust and subject to availability, researchers with locally developed technology can receive a package of patent or other intellectual property support, prototype development, incubator support and matchmaking to potential funding sources as part of the Trust’s In-kind Business Assistance Program; and
- 100-percent tax exemption on Puerto Rico income taxes for interest, dividends and short-term and long-term capital gains generated while being a Puerto Rico resident for all new *bona fide* residents of Puerto Rico that have not been Puerto Rico residents for the 15-year period preceding the approval of Act No. 22 in January of 2012.

### At the Corporate Level

- 50-percent tax credit for eligible investments in research and development, clinical trials, toxicology tests and others under Act 73;
- Four-percent fixed income tax rate available for eligible laboratories engaged in scientific or industrial research and development activities and other businesses engaged in eligible activities under Act 73;
- One-percent fixed income tax rate for innovative firms introducing “pioneer” activities or operations in Puerto Rico by businesses engaged in eligible activities under Act 73 and a zero-percent fixed income tax rate to the extent that the “pioneer” activities or operations are a result of research and development efforts that took place in Puerto Rico;
- A reduction of 0.5 percent in the fixed income tax rate, when the business is located in an industrial area of low or intermediate development (as determined by the Office of Industrial Tax Exemption) under Act 73;
- 100-percent tax exemption from taxation in Puerto Rico for all dividends under Act 73; and
- Four-percent fixed income tax rate and a 100-percent tax exemption on dividend distributions under Act No. 20 for firms providing export services, such as environmental, technological, scientific, information technology or engineering consulting services. Eligible businesses may also qualify for a three-percent fixed income tax rate in the case of services considered strategic that essentially focus on exporting their services.

### **At the University Level**

- The Trust provides support programs for local universities seeking to recruit and retain accomplished scientists with the research expertise and leadership capabilities to attract other top researchers in strategic areas that can contribute significantly to Puerto Rico's economic development; and
- The Trust also helps local universities acquire the facilities and equipment that will help develop their capacity to compete for more advanced research grants.

### **At the Multi-Sectorial Level**

- The Trust is establishing a Technology Transfer Program that will help local researchers from academia and the private sector accelerate the commercialization of their innovative technology developed in Puerto Rico. This program will be an effective and cost beneficial collaboration for research institutions partnering with the Trust for the provision of technology transfer services;
- The Puerto Rico Science District, currently under construction, has been designed to spur the development of Puerto Rico's knowledge economy. This state-of-the-art enclave located in San Juan should serve as a magnet for attracting top researchers to Puerto Rico by integrating high-tech research and development facilities, commercial laboratories, incubators and training facilities; and
- The Trust has sponsored initiatives to compile databases that will assist with the identification and connection of key researchers, on- and off-island, that may be interested in conducting advanced research in Puerto Rico.

### **Tax Exemption Decree**

To benefit from Act 73, Act 20 and Act 22, an eligible business or individual needs to submit an application with the Office of Industrial Tax Exemption to obtain a tax exemption decree signed by the Secretary, which will provide full detail of tax rates and conditions mandated by the Acts. This tax exemption decree will be considered a contract between the Government of Puerto Rico and the eligible business or individual. Once the eligible business or individual obtains the tax exemption decree, the benefits granted will be secured during the term of the tax exemption decree, irrespective of any changes in the applicable Puerto Rico tax laws.

Under Act 73, an eligible business can qualify for a 15-year tax exemption decree. Under Act 20, the

tax exemption decree shall have a term of 20 years, with a possible 10-year extension. Under Act 22, the term of the tax exemption decree will be until December 31, 2035.

### **Puerto Rico Income Taxes**

An exempt business operating in Puerto Rico under Act 73 or Act 20 by means of a Puerto Rico entity, as well as any resident of Puerto Rico that qualifies under Act 22, should not be subject to any taxes (such as a dividend tax, tollgate tax or other similar taxes) on income from eligible activities in Puerto Rico other than the Puerto Rico fixed income tax rate established in the tax exemption decree, regardless of whether said income is distributed or retained by the entity. Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside, if any.

### **Puerto Rico Housing Incentives**

On November 1, 2011, Puerto Rico enacted Act No. 216 of 2011 ("Act 216"), which together with various housing programs, is intended to promote the acquisition and investment in the housing market on the Island. Investors, executives and business owners already benefiting from other incentives laws in Puerto Rico or individuals simply wanting to invest in a property in the Caribbean can benefit from this and other incentives that range from total exemption of property taxes to cash incentives for transaction costs.

### **Program to Promote the Housing Market**

Act No. 216 of 2011 grants individual residents and nonresidents of Puerto Rico various incentives for sale and purchase of certain real property executed between November 1, 2011 and December 31, 2012 (the "Closing Period"). Currently, eligible property under Act 216 includes:

- newly constructed residential real property acquired from a developer ("Newly Constructed Property"), which should be suitable for family occupation, but have not been previously occupied; and
- qualified residential real property ("Qualified Residential Property"), which includes any property suitable for family occupation other than Newly Constructed Property.

Some of the benefits provided under Act 216 include:

- 100-percent tax exemption from income taxes, including the alternative minimum tax, imposed

on the capital gain derived from the sale of real property constituting the seller's principal residence made during the Closing Period;

- 100-percent tax exemption from income taxes, including the alternative minimum tax, imposed on the capital gain derived from the sale of Newly Constructed Property acquired during the Closing Period;
- 50-percent tax exemption from income taxes, including the alternative minimum tax, imposed on the capital gain derived from the sale of a Qualified Residential Property acquired during the Closing Period;
- Seller of a Qualified Residential Property during the Closing Period may claim capital losses from the sale of such property against ordinary income up to \$5,000. The carry-forward period for such losses is 15 years, instead of the five years generally available under the Puerto Rico Internal Revenue Code of 2011, as amended;
- 100-percent tax exemption on property taxes of Newly Constructed Property acquired during the Closing Period, available for five years after the acquisition;
- 100-percent exemption from the stamps, fees, vouchers and other transfer costs applicable to the deed of purchase and sale, deed of lease and/or deed of mortgage of Newly Constructed Property sold during Closing Period;
- 100-percent exemption from the stamps, fees, vouchers and other transfer costs applicable to the deed of cancellation of mortgage of Qualified Residential Property sold during the Closing Period; and
- 50-percent exemption from the stamps, fees, vouchers and other transfer costs applicable to the deed of purchase and sale and/or deed of mortgage of Qualified Residential Property sold during the Closing Period.

### Program to Stimulate the Leasing Market

Act No. 132 of 2010 ("Act 132") provides a 100-percent tax exemption from income taxes, including alternative minimum tax, imposed on rent payments received from a lease agreement of Newly Constructed Property and/or Qualified Residential Property executed prior to or after September 1, 2010. The exemption is available for 10 years, commencing on January 1, 2011, and ending on December 31, 2020.

### My New Home Program

Act No. 209 of 2009 ("Act 209") creates "My New Home Program," a program administered by the Puerto

Rico Housing Financing Authority (the "Authority") that grants a subsidy to cover certain costs incurred in the acquisition and/or rehabilitation of eligible property (the "Subsidy"). The Subsidy will be five percent of the acquisition price or appraised value of the property, whichever is lower, up to a maximum of \$10,000.

Only residential property with Fair Value not exceeding the loan limits of the Federal Housing Administration (FHA) and, in the case of property acquired for rehabilitation purposes, the maximum price of social interest properties under Act No. 147 of 1987 will be eligible to benefit from the Subsidy ("Eligible Properties"). However, such limitations shall not apply with respect to Eligible Properties having a use permit with an effective date of more than 18 months. Any individual who complies with the following requirements will be considered an Eligible Individual for the Subsidy:

- Uses the Subsidy to cover the prompt payment or closing costs incurred in the acquisition of Eligible Property;
- Uses the Eligible Property as his/her principal residence;
- Is the first time he/she participates in this program or similar program, except as otherwise authorized by the Authority; and
- The Eligible Individual has an annual gross income not exceeding \$125,000.

The Subsidy is subject to recapture if the Eligible Property is sold, exchanged, donated or otherwise transferred within the 10-year period following the closing date as shown in Table 3.

**Table 3.**

Year	Recapture Percentage
First	100%
Second	90%
Third	80%
Fourth	70%
Fifth	60%
Sixth	50%
Seventh	40%
Eighth	30%
Ninth	20%
Tenth	10%

Eligible Individuals shall be exempt from the foregoing recapture restrictions if within the 12-month period following the closing date, such individual provides 50

hours of community services to any of the organizations certified by the Authority. Also, the Eligible Property cannot be leased or used for purposes other than the permanent and primary residence of the Eligible Individual.

### **Program to Stimulate the Acquisition and Investment of Accumulated New Housing Inventory**

Act No. 226 of 2011 ("Act 226") provides various incentives to any individual or entity, resident or nonresident of Puerto Rico that between November 1, 2011, and December 31, 2012 (the "Acquisition Period"), invests a minimum of \$1 million in, or acquires five property units suitable for family occupation that have not previously been occupied, so long as the property is acquired from the developer, the contractor or the financial institution that acquired the unit from the developer (the "New Housing Inventory"). Some of the benefits provided to New Housing Inventory under Act 226 include:

- 100-percent tax exemption on the income taxes, including alternative minimum tax, imposed on rent payments received with respect to New Housing Inventory from lease agreements executed after November 1, 2011. This exemption shall be available for 10 years or up to December 31, 2021, whichever is earliest;
- 100-percent tax exemption on income taxes, including the alternative minimum tax, imposed on the long-term capital gain derived from New Housing Inventory acquired between November 1, 2011, and March 31, 2013, if an option agreement was executed on or before December 31, 2012;
- 100-percent tax exemption on property taxes for five years, commencing on January 1, 2012, and ending on December 31, 2017; and
- 100-percent exemption from the stamps, fees, vouchers and other transfer costs applicable to the deed of purchase and sale, deed of lease, deed of constitution of mortgage and/or deed of constitution of horizontal property regime of New Housing Inventory acquired during the Acquisition Period.

### **Homeownership Stimulus Program**

Act No. 9 of 2009 ("Act 9") establishes a governmental program that allows for the origination of a second mortgage of 15, 20, 25 or 30 years on the acquisition of residential property used as the primary residence of the buyer. The buyer will not repay principal for the first 10 years and will not repay or accrue interest during such 10-year period. At the end of the 10 years, the individual begins to pay principal and interest for the remaining term of the mortgage, with an interest rate set by the Authority. The maximum amount of the second mortgage is \$25,000 for residential property considered of new construction under the program and \$10,000 for other existing residential property.

### **Additional Information**

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For more information on the various incentives provided under the Puerto Rico laws, please visit [www.prdoesitbetter.com](http://www.prdoesitbetter.com) and access our incentives alerts on the following topics:

- Tourism Development Act;
- Municipal Economic Development and Tourism Incentives Act;
- Cruise Industry Incentives Act;
- Film Industry Incentives Act;
- Green Energy Incentives Act;
- Economic Incentives for the Development of Puerto Rico Act;
- Incentives for Rum Producers in Puerto Rico;
- International Financial Center Incentives Act;
- Export Services Incentives Act;
- Individual Investors Incentives Act; and
- Incentives to Promote Scientific Activity in Puerto Rico.

### **ENDNOTES**

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<sup>1</sup> Jose R. Perez-Riera, *New Tax Incentives Legislation in Puerto Rico*, CORP. BUS. TAX'N MONTHLY, May 2012, at 33.

<sup>2</sup> Bank Secrecy Act of 1970 (P.L. 91-508). Codified at 31 USC §5311, *et. seq.*

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