



VALERM LAW GROUP

PUERTO RICO TAX INCENTIVES CODE

ACT NUM. 60-2019

PUERTO RICO

STRATEGIC LOCATION IN THE CARIBBEAN, TO SERVE AS AN ENTRY GATEWAY TO AMERICA FROM EUROPE, AND A BRIDGE BETWEEN NORTH AND SOUTH AMERICA.

LOCATION

HIGHLY SKILLED BILINGUAL WORKFORCE WITH U.S. CITIZENSHIP ACQUIRED AT BIRTH. OVER 40 POST SECONDARY INSTITUTIONS (INCLUDING A TOP 10 U.S. RANKED UNIVERSITY IN THE FIELD OF ENGINEERING).

WORKFORCE

PUERTO RICO'S ADVANTAGE

POLITICAL STRUCTURE

INFRASTRUCTURE

EXTENSIVE HIGHWAY SYSTEM (OVER 4,629 MILES); 8TH BUSIEST MARITIME PORT IN THE U.S. IN SAN JUAN AND PONCE; LARGEST AND BUSIEST AIRPORT IN THE CARIBBEAN; SOPHISTICATED LOGISTIC CAPABILITIES INCLUDING UPS, FEDEX, CROWLEY AND HORIZON; CONVENTION CENTER WITH A 4,000 PERSON CAPACITY; COLISEUM WITH A 18,000 PERSON CAPACITY; AND OVER 60 HOSPITAL FACILITIES.

U.S. CONSTITUTION AND U.S. FEDERAL AND REGULATIONS ARE APPLICABLE TO PUERTO RICO (AMONG OTHERS, U.S. CURRENCY AND BANKING SYSTEM). LOCAL LAWS AND REGULATIONS AS ENACTED BY THE PUERTO RICO GOVERNMENT ARE ALSO APPLICABLE.



RESIDENT INVESTORS
(PRIOR ACT NUM. 22-2012)

RESIDENT INVESTORS

PURPOSE

PROMOTE THAT INDIVIDUALS WHO HAVE NOT BEEN RESIDENTS OF PUERTO RICO AND HAVE INVESTMENTS DOMICILE IN PUERTO RICO

REQUIREMENTS

- NOT BEEN DOMICILED IN PUERTO RICO AT ANY TIME DURING THE 6 YEAR PERIOD ENDING ON JANUARY 17, 2012
- RELOCATE AND DOMICILE IN PUERTO RICO (PRESENCE TEST, TAX HOME TEST AND CLOSER CONNECTION TEST)
- \$10,000 YEARLY DONATION TO A PUERTO RICO CERTIFIED TAX EXEMPT CHARITY NOT CONTROLLED BY THE GRANTEE FROM A PUBLISHED LIST (OF WHICH AT LEAST \$5,000 MUST BE TO AN ENTITY DEDICATED TO ERADICATE CHILD POVERTY)
- PURCHASE OF RESIDENTIAL PROPERTY (INDIVIDUALLY OR WITH A SPOUSE) WITHIN 2 YEARS OF THE DECREE APPROVAL
- YEARLY ANNUAL REPORT FILING FEE OF \$5,000

EXEMPTION PERIOD

EXEMPTION PERIOD BEGINS ON THE DATE THE INDIVIDUAL IS DOMICILED IN PUERTO RICO AND ENDS ON DECEMBER 31, 2035

RESIDENT INVESTORS

PUERTO RICO

- **100%** TAX EXEMPTION ON **INTEREST** AND **DIVIDENDS**
- “PRIOR RELOCATION” CAPITAL GAINS WILL BE TAXED AT **15%** IF DISPOSED WITHIN **10** YEARS AND **5%** AFTER **10** YEARS
- **100%** TAX EXEMPTION ON “AFTER RELOCATION” CAPITAL GAINS

*CAPITAL GAINS ON SECURITIES, COMMODITIES, CURRENCY, AND OTHER BLOCKCHAIN BASED ASSETS

UNITED STATES

NON-PUERTO RICO INTEREST, DIVIDENDS, AND “PRIOR RELOCATION” CAPITAL GAINS

BUSINESS SECTORS

BUSINESS SECTORS

EXPORT SERVICES

TOURISM

CREATIVE
INDUSTRIES & FILM

MANUFACTURING

FINANCE,
INVESTMENT &
INSURANCE

ENTREPRENEURSHIP

INFRASTRUCTURE &
GREEN ENERGY

AGROINDUSTRY

MARITIME & AIR
TRANSPORT

EXEMPTION PERIOD OF **15** YEARS, WITH A POSSIBLE
EXTENSION OF **15** ADDITIONAL YEARS



TAX INCENTIVES

GENERAL INCENTIVES

4% INCOME TAX RATE ON INCOME FROM ELIGIBLE ACTIVITIES

50% TAX EXEMPTION ON MUNICIPAL LICENSE TAX

75% TAX EXEMPTION ON REAL AND PROPERTY TAXES

0% TAX FOR SHAREHOLDERS ON DISTRIBUTIONS FROM ELIGIBLE ACTIVITIES

ADDITIONAL BENEFITS FOR PYMES (\$3M OR LESS) IN THE FIRST 5 YEARS

BENEFITS MAY VARY AMONG BUSINESS SECTORS

GENERAL INCENTIVES

CAPITAL GAINS
GENERATED BY A PRIVATE
EQUITY FUND (“PEF”)

0% TAX FOR ACCREDITED INVESTORS

2.5% TAX FOR GENERAL/MANAGING PARTNER

TAXABLE INTEREST
AND DIVIDENDS
GENERATED BY THE PEF

10% TAX FOR ACCREDITED INVESTORS

5% TAX FOR GENERAL/MANAGING PARTNER

5% TAX ON THE SALE OF ACCREDITED INVESTORS’ PEF INTEREST

ADDITIONAL TAX INCENTIVES

- 12%** FLAT TAX RATE ON ROYALTIES PAID TO FOREIGN PERSONS NOT DOING BUSINESS IN PUERTO RICO
- 100%** TAX EXEMPTION ON EXCISE, USE AND SALES TAX ON ITEMS ACQUIRED AND USED FOR THE ELIGIBLE ACTIVITY
- 100%** EXPENSING FOR “ORIGINAL USE” M&E AND BUILDINGS
- 75%** TAX EXEMPTION ON MUNICIPAL CONSTRUCTION EXCISE TAXES
- 90%** TAX EXEMPTION ON STAMPS, AND FEES REQUIRED BY THE OFFICE OF THE REGISTER
- No** INCOME TAX WITHHOLDING FOR FOREIGN CLIENTS

NOT ALL BUSINESS SECTORS ARE BENEFITED, AND BENEFITS MAY VARY AMONG BUSINESS SECTORS



TAX CREDITS

TOURISM

TRANSFERABLE CREDITS AMOUNTING TO:

40% OF THE TOTAL PROJECT COST, TAKEN IN **3** INSTALLMENTS BEGINNING IN THE **SECOND YEAR** AFTER ELIGIBLE ACTIVITY'S START OF OPERATIONS

OR

30% OF THE TOTAL PROJECT COST, IN WHICH **10%** CAN BE TAKEN IN THE YEAR IN WHICH THE EXEMPT BUSINESS **OBTAINED THE NECESSARY FINANCING** FOR THE TOTAL CONSTRUCTION OF THE TOURISM PROJECT, AND THE REMAINING BALANCE TAKEN IN **3** INSTALLMENTS BEGINNING IN THE YEAR THE ELIGIBLE ACTIVITY HAS ITS FIRST PAYING GUEST

FILM PROJECTS

TRANSFERABLE CREDITS AMOUNTING TO:

40% PRODUCTION TAX CREDIT ON QUALIFYING PAYMENTS TO
PUERTO RICO RESIDENT COMPANIES AND INDIVIDUALS

AND

20% PRODUCTION TAX CREDIT ON PAYMENTS TO QUALIFIED
NON-RESIDENTS

SUBJECT TO A \$38,000,000 ANNUAL CAP



OTHER

25% TAX CREDIT ON PURCHASE OF PRODUCTS MANUFACTURED
IN PUERTO RICO*

50% R&D TAX CREDIT**



PUERTO RICO
OPPORTUNITY ZONES

GENERAL INCENTIVES

18.5% INCOME TAX RATE ON INCOME FROM ELIGIBLE ACTIVITIES

25% (UP TO 75%) TAX EXEMPTION ON MUNICIPAL LICENSE TAX AND CONSTRUCTION EXCISE TAXES

25% (UP TO 75%) TAX EXEMPTION ON REAL AND PROPERTY TAXES

0% TAX FOR SHAREHOLDERS ON DISTRIBUTIONS FROM ELIGIBLE ACTIVITIES

ADDITIONAL TAX INCENTIVES

18.5% WITHHOLDING ON ROYALTY PAYMENTS MADE TO ENTITIES NOT-ENGAGED IN TRADE OR BUSINESS IN PUERTO RICO

NO GAIN OR LOSS RECOGNITION ON CAPITAL GAINS
(SUBJECT TO U.S. CODE REINVESTMENT REQUIREMENTS)

100% TAX EXEMPTION ON INTEREST RECEIVED BY LENDER ON DEBT ISSUED TO DEVELOP, CONSTRUCT OR REHABILITATE THE ELIGIBLE BUSINESS

EXPEDITE PERMIT PROCESS IN THE GENERAL PERMIT OFFICE (OGPE)

SALE FROM A PEF PARTNERSHIP INTEREST AND/OR A QOF PARTNERSHIP INTEREST WILL **NOT** BE PUERTO RICO SOURCED

INVESTOR INCENTIVES

TAXATION DEFERRAL OF GAINS UPON THEIR REINVESTMENT IN A QOFUND DOING BUSINESS IN PUERTO RICO WITHIN **180-DAYS** OF THE DATE OF THE SALE OR EXCHANGE

10% EXEMPTION OF THE GAINS REINVESTED IF THE INVESTMENT IS HELD AT LEAST **5** YEARS

OR

15% EXEMPTION IF THE INVESTMENT IS HELD FOR AT LEAST **7** YEARS

100% EXEMPTION FOR POST-ACQUISITION GAINS ON INVESTMENTS IN QOFUNDS THAT ARE HELD FOR AT LEAST **10** YEARS

TAX CREDITS

TRANSFERABLE CREDITS AMOUNTING TO:

UP TO 25% OF THE CASH INVESTMENT MADE BY INVESTORS TAKEN IN 4 INSTALLMENTS

25% IN THE YEAR IN WHICH THE CONSTRUCTION IS FINALIZED, OR THE ELIGIBLE ACTIVITY'S START OF OPERATIONS (IF NO CONSTRUCTION IS NECESSARY), WITH THE REMAINING BALANCE TAKEN IN THE SUBSEQUENT 3 YEARS

- TAX CREDIT PERCENTAGES WILL BE PUBLISHED (BY ACTIVITY AND GEOGRAPHIC REGION)
- INVESTORS MUST REDUCE THEIR BASIS IN THE INVESTMENT BY THE AMOUNT OF THE TAX CREDIT ALLOCATED/GRANTED

NOTICE

THIS PRESENTATION IS A SUMMARY OF THE PUERTO RICO LEGISLATION REFERRED TO HEREIN AND IS NOT INTENDED TO SUBSTITUTE LEGAL ADVICE. WE ENCOURAGE YOU TO CONTACT US OR YOUR TAX ADVISOR IF YOU HAVE ANY QUESTIONS OR NEED ASSISTANCE REGARDING ANY OF THE MATTERS PRESENTED HEREIN. AN ATTORNEY-CLIENT RELATIONSHIP WITH VALERM LAW GROUP LLC CANNOT BE FORMED BY READING OR RESPONDING TO THIS PRESENTATION.