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Puerto Rico Act 60:

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

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

Overview of Puerto Rico's Incentives Code

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

Since January 1, 2020, all tax incentive applications have been submitted under the Incentives Code. This document focuses on benefits from specific chapters of the Incentives Code for simplification purposes. Note that incentives granted under previous laws are subject to the provisions of the law under which the Decree of Tax Exemption (“Decree”) was issued.

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

- 4% fixed income tax rate on eligible income
- 75% exemption on property taxes
- 50% exemption on municipal taxes
- Decree period standardized to 15 years,
- with an extension of 15 additional years
- Eligible businesses with a Decree for export, with an annual projected or actual volume of business of more than \$3,000,000 must have at least one full-time employee; while those with a Decree for manufacturing, must
- have at least three full-time employees





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PUERTO RICO'S INCENTIVES CODE INCENTIVES PROGRAMS UNDER ACT NO. 60-2019

CREATIVE INDUSTRIES

Eligibility:

- Feature films, short films, documentaries, series, mini-series, commercials, music videos, etc.

Benefits:

- 4% income tax rate
- 75% property tax exemption
- 75% municipal tax exemption
- Tax credit up to 40% on production expenses in Puerto Rico; and up to 20% on payments to foreigners

EXPORT ACTIVITIES

Eligibility:

- Export of services or goods from Puerto Rico to foreign markets.

Benefits:

- 4% income tax rate
- 75% property tax exemption
- 50% municipal tax exemption
- 100% income tax exemption on dividends

INFRASTRUCTURE

Eligibility:

- Construction of social interest homes for elderly citizens or assisted living, and historic zones.

Benefits:

- 4% income tax rate
- 100% property tax exemption
- 90% municipal tax exemption

INDIVIDUAL RESIDENT INVESTOR

Eligibility:

- Not a bona fide resident of Puerto Rico at any time between January 17, 2006, and January 17, 2012.
- Become a bona fide resident of Puerto Rico.

Benefits:

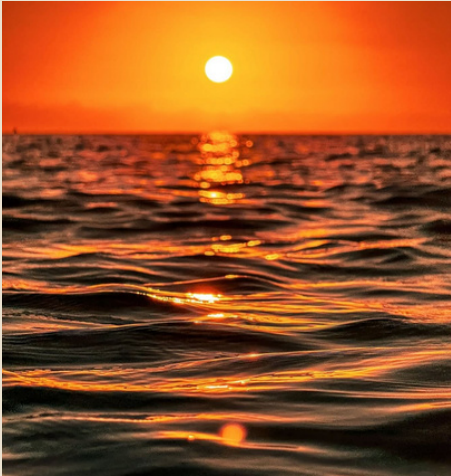
- 100% tax exemption on income derived from dividends, interest and capital gains.
- Benefits effective until December 31, 2035.





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INTERNATIONAL FINANCIAL ENTITIES

Eligibility:

- Provides banking or financial services to foreign persons or entities.
- Permit to operate issued by the Office of the Commissioner of Financial Institutions of Puerto Rico (OCIF).

Benefits:

- 4% income tax rate
- 75% property tax exemption
- 50% municipal tax exemption
- Non-Resident Individual: 100% tax exemption on income derived from interest, finance charges, dividends or membership participation.

PRIVATE EQUITY FUNDS

Eligibility:

- Fund engaged in the business of buying and selling non-public securities.

Benefits:

- Accredited Investors: 10% tax rate on income derived from interest and dividends
- 100% tax exemption on capital gains
- Tax deduction of 30% or 60% of the investment made in the Fund

YOUNG ENTREPRENEUR

Eligibility:

- New business created by an individual with less than 36 years of age.

Benefits:

- 100% tax exemption on the first \$500,000 of net income derived from the new business
- 100% exemption on personal property and municipal taxes
- Decree valid for 3 years

INTERNATIONAL INSURANCE COMPANIES

Eligibility:

- Business dedicated to assume risk outside of Puerto Rico.
- Permit to operate issued by the Office of the Commissioner of Insurance of Puerto Rico.

Benefits:

- 4% income tax rate on net income in excess of \$1,200,000
- 75% property tax exemption
- 50% municipal tax exemption
- 100% income tax exemption on dividends





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AERIAL TRANSPORTATION

Eligibility:

- Business dedicated to public aerial transportation.

Benefits:

- 100% tax exemption on income and property tax

MARITIME TRANSPORTATION

Eligibility:

- Business dedicated to the transportation of cargo between Puerto Rico's and foreign ports.

Benefits:

- 100% exemption on income tax, property tax, municipal tax and on dividends

CRUISE SHIPS

Eligibility:

- Cruise ships that dock in a Puerto Rico's Port.

Benefits:

- Contributions and discounts to passenger fares, based on visits, passenger numbers, time in the port, etc., which will not exceed \$13.25 (fee per passenger).

CASH GRANTS

Eligibility:

- Carry out an eligible activity under Act No. 60-2019, as amended.

Benefits:

- Cash incentives subject to return on investment evaluation, for job creation, infrastructure development, purchase of machinery and equipment, etc.



MANUFACTURE

Eligibility:

- Business dedicated to the manufacturing of products, scientific research and development activities, recycling, development of programs or applications, licensing of intangible property, maintenance and repairment of airplanes and vessels, etc.

Benefits:

- 4% income tax rate
- 75% property tax exemption
- 50% municipal tax exemption
- 100% tax exemption on raw material, machinery and equipment, and dividends distribution



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OPPORTUNITY ZONES

Eligibility:

- Development of real estate for sale or lease, located in a Puerto Rico's Opportunity Zone.

Benefits:

- 18.5% income tax exemption
- 25% property tax exemption
- 25% municipal tax exemption
- 100% exemption on dividends distribution

VISITORS ECONOMY

Eligibility:

- Business dedicated to tourist activities, such as casinos and hotels operations, condo hotels, hostels, guest houses, bed and breakfasts, vacational clubs, golf courses in a hotel, agrotourism, theme parks, nautical tourism, tourist marinas, etc.

Benefits:

- 4% income tax rate
- 75% property tax exemption
- 50% municipal tax exemption
- 100% income tax exemption on dividends
- Tax credit of 30% or 40% on Eligible Investment made in the tourism activity.

AGROINDUSTRY

Eligibility:

- Business dedicated to agricultural activities, such as animal husbandry, vegetable cultivation, species, milk processors, mariculture, etc.

Benefits:

- 90% income tax exemption
- 100% property tax exemption
- 90% municipal tax exemption
- 100% tax exemption on raw material, and machinery and equipment

GREEN ENERGY

Eligibility:

- Business dedicated to the production of green or highly efficient energy for consumption in Puerto Rico.

Benefits:

- 4% income tax rate
- 75% property tax exemption
- 50% municipal tax exemption
- 100% tax exemption on raw material, machinery and equipment, and dividends distribution

DIFFICULT TO HIRE EMPLOYEE

Eligibility:

- An individual with specialized and indispensable knowledge related to the exempted operations of an Exempt Business in Puerto Rico.
- Become an Exempt Business' employee.

Benefits:

- 100% tax exemption on income in excess of \$100,000, derived from wages and benefits.



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RESEARCHERS AND SCIENTISTS

Eligibility:

- Conduct scientific research through a Higher Education Institution (Public or Private Universities) or an entity located at the Sciences District.

Benefits:

- 100% income tax exemption on compensation, up to: (i) \$195,000 in research conducted in a Higher Education Institutions | (ii) \$250,000 in research conducted in a Sciences District's entity.

CREDITS FOR RESEARCH AND DEVELOPMENT

Eligibility:

- Exempt Business carrying out Research and Development activities.

Benefits:

- Up to 50% tax credit on expenses in Research and Development activities performed in Puerto Rico, that contribute to scientific advances and create new processes or products.

NEW PYME*/ VIEQUES AND CULEBRA

Benefits during the first 5 years of the decree:

- 2% income tax rate
- Total exemption on property taxes
- Total exemption on municipal taxes





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Puerto Rico Law Firms Focused on Act 60 (Incentives Code)



Rebeca Vargas PARTNER

Education

-**University of Puerto Rico** - Bachelor in Business, Major in Accounting (Magna Cum Laude 1990)
-**State University of New York** (Master of Science in Taxation 1991)
Interamerican University School of Law - (Juris Doctor 1998)

Services

- Tax
- Corporate Law
- Industrial Tax Incentives
- Representation before government agencies

José J. Ledesma PARTNER

Education:

-**Boston College** (B.S., Finance, 1990)
-**University of Puerto Rico Law School** (J.D., Cum Laude, 1993)

Services:

- Corporate Finance
- Project Finance
- Real Estate
- Commercial Leasing
- Mergers & Acquisitions
- Wills & Estates

Ledesma & Vargas, a multi-service law firm with over 13 attorneys with an extensive and skillful background in Financing, Corporate, Taxes, Mergers & Acquisitions, Contracts, Real Estate, Notarial, Commercial Leasing, Bankruptcy, Trusts and Estates, Labor and Employment Law, Health and Insurance Law, Consumer and Commercial Collections, Administrative, both Federal and Commonwealth Courts. While maintaining our roots as a boutique law firm where every client is the most important, our attorneys are dedicated members of the legal profession with the highest regards to ethical standards and professional excellence. Quality, Results, Integrity, and Experience best defines our profile as a firm.

““Our Mission is to protect our client’s interest and promote their long-term business success and reputation through high quality and personalized cost-effective legal services.””

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PIRILLO•LAW

OMARA MÉNDEZ-BERNARD

Member

-Marquette University Law School, J.D.

-Omara interned for the Honorable L. Coffey, U.S. Court of Appeals for the Seventh Circuit.

University of Puerto Rico (B.A.),

-Exchange student in the University of Hawaii at Manoa and Oxford Study Centre in England.

- Investment Adviser Certified Compliance Professional® NRS, co-sponsored by the Investment Advisers Association).

University of Miami – School of Business Administration Executive Directors Development Program Certification).

- Previously licensed as a General Securities. (FINRA Series 7).
- Bloomberg Market Concepts Certificate.

MARTÍN PIRILLO

Managing Member

-University of Puerto Rico, B.A with a concentration in Finance.

-Interamerican University of Puerto Rico, School of Law, J.D.

Martín Pirillo has become a leader in many fields;

- international financial entities, banks, financing and factoring companies
- securities broker-dealer firms, investment advisers, private fund sponsors, real estate developers, start-ups and growing enterprises entering growth equity or financing transactions.

Known for his pragmatic and hands-on approach to business counseling, acting as strategic advisor on transactions and on day-to-day situations.

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We are a team of attorneys with hands-on experience and knowledge in laws and regulatory processes that govern the financial and securities industries. A full-service boutique law firm, recognized as a leader in the financial industry landscape. Legal and regulatory services specialized in the financial industry to banking institutions, international financial entities, investment funds, broker-dealer firms, investment advisers and insurance related companies, under state and federal laws and regulations.

We also service clients on all aspects of: Real estate, joint ventures, acquisitions, financing, construction. We advise clients on tax incentives, tax credits and other economic incentive programs, and assist clients in filing for tax decrees and negotiating with government offices and advise matters of corporate formation, organization and capital raising, consistently providing excellent value in a variety of areas.

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