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**GUIDE**

# Puerto Rico Tax Incentives Act 60 Creative Industries

Chapter 9 of Subtitle B, formerly Act 27



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## GUIDE

# Puerto Rico Tax Compliance Guide

***By TCG, Torres CPA Group, CifrasPR, Torres & Soto Tax***

Torres CPA Group is a Certified Public Accounting Firm that has been offering Audit, Tax, Consulting, and Financial Outsourcing services for over 38 years. If you require any further information or help, please do not hesitate to contact us. We assist in Accounting, Payroll, and Tax Compliance.

Understanding the Puerto Rico tax system and its interrelation with the United States is crucial for individuals and entities doing business in Puerto Rico. Puerto Rico is not a state; it's a territory, with its own business, tax, and Payroll laws and regulations.

The following White Paper is designed to give an insight on Tax Issues in Puerto Rico. It provides relevant background information, which will be of assistance to organizations considering establishing a business in the Island. Nonetheless, it is highly recommended to seek advice and counsel from qualified professional sources before undertaking any business.

Certain exclusions and exemptions may apply, and when specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Puerto Rico and to obtain appropriate accounting and legal advice.

It is understood that the following overview does not constitute any formal rendering of either legal, accounting, tax, or professional services. If legal advice or other assistance is required, an attorney, CPA or tax adviser should be consulted.

In accordance with IRS Circular requirements, you are advised that any discussion of tax issues in these materials is not intended or written to be used and cannot be used to avoid penalties imposed under Internal Revenue Code, as amended or to promote, market, or recommend to another party any transaction or matter addressed herein.

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# **Creative Industries**

## ***Act 60 Chapter 9 of Subtitle B of the new Code (formerly known as Act 27)***

### **Eligible Activities**

A Film Project, in which the production or post production of the Film Project is carried out in Puerto Rico, partially or totally; The Film Project is for commercial scale, for distribution or exhibition to the general public outside of Puerto Rico.

Feature Film Projects, short films or Documentary Films may be displayed, distributed or commercially exhibited to the general public of Puerto Rico but its consumption is considered incidental and minimal in Puerto Rico.

The Film Projects Production Expenditures in Puerto Rico are at least fifty thousand dollars (\$50,000.00), in a short film project or document will be at least twenty-five thousand dollars (\$25,000.00).

Series in episodes, mini-series and television programs of a similar nature, including pilots and those produced for digital distribution, providing that the display, distribution and exhibition outside of Puerto Rico is not considered incidental and minimal.

Ads that are displayed outside our jurisdiction, including campaigns made up of several ads, as long as all campaign ads are accumulated in a single contract or purchase order with aggregate Puerto Rico Production Expenses of at least one hundred thousand dollars (\$100,000.00).

Videogames projects; Film festivals; Music videos

Television projects, including but not limited to, tele-reality programs, known in English as reality shows, interviews, news, game shows, entertainment, comedy and those aimed at children, and variety.

Postproduction of one or more Projects provided that all Film Projects accumulate in a single contract or purchase order with aggregate expenses of at least one hundred thousand dollars (\$100,000.00).

A Film Project that does not include any production that consists primarily of religious or political propaganda; a production that contains pornographic material; a radio show; a production that serves primarily to market a product or service ineligible activities; primary purpose to raise funds; train employees or do internal corporate advertising or any other similar production.

A Film Project may use real images as a source, as well as animation or electronically generated images; use any means currently available or that may be developed in the future, such as, but not limited to, celluloid, tape, disc or paper. The medium may be magnetic, optical, ink, or any other that develops in the future. The way of recording and reproducing images and sound may

be analogous, digital or any other form that is developed in the future; or be disseminated in any medium, including electronic means of information transmission.

Operators of Postproduction Studies or Studies that directly or through an endorsed Business, adequately operate a Postproduction Study, as well as the required components to provide the necessary services to the commercial needs of the Film Projects.

Strategic Suppliers which is bona fide office, business or establishment, as well as its equipment and machinery, which has the capacity and skills necessary to provide the Studio Operator with a commercial scale service, will be considered a strategic supplier, provided the services are directly related to the business of development, preproduction, production, postproduction or distribution of a Film Project, are indispensable for the Study Operator to fulfill its obligations, and are provided to the Operator of the Study, on a recurring and exclusive basis. The Person who provides services to the Study Operator sporadically will not be considered a strategic supplier.

Infrastructure Projects that include a substantial development or expansion in Puerto Rico of Studios, laboratories, facilities for the international transmission of television images or other media, or other permanent facilities to carry out Film Projects, regardless of whether projects are subject to Decrees, whose direct budgets, known as hard costs, exceed, as certified by the Auditor, five hundred thousand dollars (\$500,000).

## **Tax Benefits**

### **Term of the Decrees**

Decrees of exemption will have a term of 15 years, with a possible renegotiation for additional time of 15 years.

*It is required to apply to Decrees to obtain the benefit, including for Private Capital Funds.*

### **4% Fixed Net Income Tax Rate**

The eligible activities will be subject a preferential tax on net income of four percent (4%), in place of any other income tax. The funds from an insurance policy for the concept of interruption of business (business interruption) to cover the eligible activities, will also be considered.

### **0% Federal Income Tax of 0%**

The eligible activities will not be subject to any US Federal Income Tax on income source in Puerto Rico.

### **100% Tax Exemption on dividends or profit distributions**

The shareholders or partners in a domestic corporation or company that owns a Decree will not be subject to tax on income on distributions of dividends or profits.

However, a non-domestic corporation will pay ordinary taxes on distributions of dividends or profits of income from sources outside of Puerto Rico.

### **75% Exemption on Property Tax**

Real Estate, Immovable and Movable Property will be exempt of seventy-five percent (75%) exemption on the taxes, at the tax rate that is in effect at the date of signing the Decree, regardless of any amendment later made in the Decree.

The Shares in an entity that enjoy a Decree will not be subject to tax on the property.

### **75% Exemption on Property in the process of construction**

The property in the process of construction will be seventy-five percent (75%) exempt of tax on the property during the period of construction.

### **100% Tax exemption on Municipal License Taxes**

The gross income of eligible activities has a one hundred percent (100%) exemption in the municipal taxes, including on the municipal license and any other taxes imposed by any municipal ordinance, including contractors and subcontractors.

The Municipal license tax rate that applies is the rate as of the date of the signature of the Decree, regardless of any amendment made later on.

### **100% Exemption on Gross Capital gains**

Capital gains will not be subject to municipal tax, as well as any other net gain obtained in the sale of any asset or property used in the operations.

### **75% of Exemption on construction Excises tax**

An Exempt Entity, its contractors and subcontractors are seventy-five percent (75%) exempt from any tax, license, excise taxes on construction, or fee imposed by any city ordinance on the construction works to be used in their operations, except municipal license taxes imposed on the volume of business of the contractor or subcontractor.

Is deemed as construction work if it is to be used for the operation and to facilitate the operation, regardless of whether it owns all or partial, lease or any other way.

The Business, nor its contractors or subcontractors will have to submit any certification issued by the municipality as to evidence of having paid the excise tax on construction for the issuance of any permit.

## **100% Tax exemption on Excise Tax and Sales and Use Tax**

An Exempt Entity will not pay Excise Tax or Sales and Use tax on eligible activities sourced in Puerto Rico provided to entities outside of Puerto Rico.

## **100% Tax exemption on Rental Income of Movable Property**

The income of rental Movable Property will not be subject to income taxes on payments made after July 1, 2019, to non-resident individuals, corporations, foreign corporations or other foreign persons not engaged in an industry or business in Puerto Rico, as long as the property is used directly or indirectly in eligible activities. Provided that to enjoy the exemption granted requires obtaining a certification attesting that the movable property was not available in Puerto Rico.

## **Special Tax for Foreign Person or Entity**

A unique tax of twenty percent (20%) on the amount received by any individual Foreign Person or by an Entity that contracts the services of a Foreign Person to provide services will be taxed, in relation to a Film Project, which represents salaries, marginal benefits, allowances or fees.

## **Non-compliance with the Obligation to Withhold**

If the withholding agent does not withhold the tax imposed, unless the person receiving the income has satisfied his or her tax liability, the withholding agent will be imposed.

## **Tax Responsibility**

Any Person obliged to deduct and withhold the tax imposed must respond to the Secretary of the Treasury for the payment and will not have to answer to any other Person as to any payment.

## **Accounting Records**

The Exempt Business will have an obligation to maintain, in Puerto Rico, separately, the accounting related to its exempt operations, as well as the supporting records and necessary files.

## ***Special Donation Deductions to Businesses Dedicated to the Film Industry***

A special deduction will be allowed for donations from private persons to nonprofit entities duly authorized for the production of Feature Films Projects, short films, documentaries, film festivals or educational activities aimed at training and development of the film industry, not exceeding one hundred thousand dollars (\$100,000.00) per film project.

Donations may be deducted on the tax return of private persons up to twenty-five percent (25%) of their total tax liability. Donors may not be linked to the Film Project or receive any benefit for its production.

## **90% Exemption of collection of duties and tariffs for public or private instruments**

Any deed, instance or document, judicial, public or private, related to the registration, entry, cancellation, release, restriction, constitution, modification, extension, rectification, limitation, creation or renewal of any real or contractual right that has access to the Registry of the Property and that relates to a real property will be exempt from ninety percent (90%) of the payment of: (i) internal income stamps, legal assistance or any other required by law or regulation for its granting, issuance of any certified, partial or total copy of the document, its presentation, registration and any other operations in the Property Registry; and (ii) tariffs, taxes, contributions and rights for submission, registration and any other operations in the Property Registry.

This exemption is subject to the prior approval of the DDEC and will be evidenced by certification issued for such purposes. A certified copy of the certification must be presented before a notary public, Registrar, Court or any other Entity to benefit from this exemption and will be attached to any document that is presented in the Property Registry. The entity to whom the certification is given may rely on the reliability of the certification which shall be presumed to be correct and final for all relevant legal effects.

The term "real or contractual right that has access to the Property Registry" includes all real or personal rights that by way of exception have access to the Property Registry, recognized at present or that may be recognized in the future, and include, but are not limited in any way to: easements, whether legal, fair, property or personal; constitution of the regimes of horizontal property, of Timeshare or Vacation Club, and of Condo hotel; surface and building rights, and any building or certification of completion of works by means of which the registration of a building or improvement is requested; leases; mortgages; mortgage cancellations; buying and selling; swaps donations; score, withdrawal and censuses; waters of private domain; Administrative concessions; Purchase option; and restrictions of use.

## **Establishment of Creative Industries Development Districts**

The Secretary of the DDEC will designate land plots (contiguous or not) as "Creative Industries Development Districts." The geographical areas will consist of property or real estate dedicated to the development, construction and operation of Studies and other related developments, regardless of who owns them. In those cases in which the ownership of the plot or plots of land is a private person or a government agency, it can only be designated as a Creative Industries Development District with the consent of the owner or government.

## ***Granting of the Tax Credit***

### **General Rules of Tax Credits**

The Secretary of the DDEC is authorized to establish Tax Credits for particular programs and projects to maximize their economic impact, the Return on Fiscal Investment and their performance. The Tax Credits will be granted through an incentive contract between the DDEC and the Exempt Business.

Tax credits will be granted to Exempt Businesses that have a Decree.

The tax credits may be used, against one hundred percent (100%) of the tax liability determined for that year, any unexpired return, including under valid extension, even if it is one year before the granting of the tax credit.

Tax credits may be carried over until they are exhausted but cannot be refunded, may be assigned, sold or in any way transferred.

The base of the assets that comprise all the investment that generates the tax credits will be reduced by the amount taken as a credit for such investment, but it can never be reduced to less than zero.

### **Tax Credit**

Film Projects may request a Tax Credit concerning Puerto Rico Production Expenses, the Tax Credit will be available for Exempt Businesses at the beginning of the activities.

In Film Projects, the Tax Credit will be up to forty percent (40%) of the amounts certified by the Auditor as disbursed concerning the Production Expenses in Puerto Rico, payments made to any Foreign Persons will be reduced to twenty percent (20%).

Up to fifteen percent (15%), not including payments made to a Foreign Person, in feature films, or episode series, or documentaries in which a Domestic Producer is in charge of the Film Project, and the director, the cinematographer, the publisher, the production designer, the post-production supervisor, or the line producer are Domestic Persons, up to a maximum of four million (\$4,000,000) of tax credit per Film Project.

The approved Tax Credit may be used in two (2) or more terms. Fifty percent (50%) of the Tax Credit may be used in the Tax Year during which the activities covered by the Decree begin, subject to the delivery of an acceptable bond and the remaining in subsequent years.



The Tax Credits granted for payments to Domestic Persons may never exceed fifty-five percent (55%) of the total Production Expenses in Puerto Rico, including payments made to a Foreign Person.

## **Bond or Certification of the Auditor and Tax Credit available**

In the case of Film Projects, up to fifty percent (50%) of the Tax Credit will be available in the Tax Year in which the Exempt Business delivers an acceptable bond to the Secretary of the DDEC or the Auditor certifies to the Secretary of the DDEC that fifty Percent (50%) or more of Puerto Rico Production Expenses have been disbursed, the that Exempt Business has begun the operations covered by the Decree.

The remaining fifty percent (50%) of the approved Tax Credit will be available in the Tax Year in which the Auditor certifies that all Puerto Rico Production Expenses have been paid.

The Tax Credit Certification must be provided within thirty (30) days after the Auditor Certification is received. The thirty (30) day period will be interrupted if the DDEC requests additional information.

Any Exempt Business shall pay the DDEC rights equivalent to one percent (1%) of the Puerto Rico Production Expenses that qualify for the Tax Credit, up to a limit of two hundred and fifty thousand dollars (\$250,000).

## **Incentive Program** ***General Information***

### **The Mission of the Code of Incentives**

Convert Puerto Rico in a tourist destination of first order as to a global level, as it promotes the strengthening of municipalities through tourism.

Encourage the promotion and development of Medical tourism and service facilities of physicians in Puerto Rico.

Take intense action to modernize the infrastructure and reduce the costs of energy through the investment in infrastructure and different alternatives of sources of Renewable Energy.

Encouraging the use of technologies that promote the sustainability and production of utilities that are cost-efficient and cleaner than those provided by current infrastructure.

Encourage the service industry to export of all kinds of services and technology.

Develop Puerto Rico as an International Center of Financial Services and Insurance.

Promote Puerto Rico as a unique location for the film industry and related activities, including postproduction.

Offer manufacturing, research, development, and high technology industries incentives so that they can preserve and expand their investment in Puerto Rico.

Promote the exporting of goods and services in a more competitive way to other jurisdictions.

Strengthen the agricultural sector and promote the export and added value of its products.

Strengthen the construction sector to make viable crucial works for the economic recovery and reconstruction of Puerto Rico.

## ***New approach of the Puerto Rico Economic Incentives Act***

Leading change to the law of economic incentives is the establishment a Code of Incentives, including the organization by segments and sectors of the industry so that laws can be a group within the same category referred as Chapters.

Chapters:

1. Incentives of general application
2. Individuals
3. Export ( Services and Goods )
4. Financial and Insurance Services
5. Economy of Visitor
6. Manufacturing, including the component of Research and Development
7. Infrastructure
8. Farming
9. Creative Industries
10. Entrepreneurship
11. Air and sea transport service activities
12. Other

## **Clause of Validity**

The changes established by the new Code of Incentives are of prospective application and do not affect the companies or individuals with Decrees, credits, or incentives granted before its approval.

This Act shall enter into force immediately after for its approval on July 1, 2019. They will receive applications for new Decrees under the previous law of incentives until December 31, 2019.

The impositions provided by this Act shall remain in force during the term in which the Decrees issued remain valid.

Entities dedicated to Creative Industries that established, or that will establish a Business in Puerto Rico, may request the Economic Incentive Decree when the Entity is established in Puerto Rico to engage in an eligible activity:

## ***Bill Of Rights For Decree Holders***

The Decrees constitute a contract between the Government of Puerto Rico, the Exempt Business and its shareholders. The terms and conditions to be agreed upon in the contract will be honored during the validity of the Decree of exemption tax subject to complying with its terms and conditions.

The Decrees are valid in all Puerto Rico, including its municipalities. When one Business starts operations in a new municipality, they do not need to request an amendment to the Decree to perform the activities covered by the Decree.

When a new law is approved, or regulations are adopted, which provides much favorable terms and conditions, the Business may request an amendment that reflects the benefits or better terms for the Business and its shareholders.

Every Exempt Business and its Shareholders will have the right to:

Receive a worthy treatment, considered an impartial by part of all the officials and employees of the DDEC in any management issues.

Negotiate with the Secretary of DDEC in the matters of economic development and Decrees concerning matters of tax and accounting nature, you will need the endorsement of the Secretary of the Treasury.

A clear and expedient process for obtaining a Decree.

Guarantee the confidentiality of the information they submit to the DDEC.

The Business and its Shareholders have the right to know the purpose for the requesting of the information, how it will be used and the consequences of not providing it.

That they may be assisted by any person authorized to represent them, except that in the case of Professional Certificates, these will have to be licensed lawyers or public accountants authorized in Puerto Rico.

They will be notified by letter of any amendment to Decree made by DDEC as a result of any audit that demonstrates non-compliance. The DDEC will inform the nature of the modification of the Decree and the grounds for the changes, allowing to be heard within the framework of the due process of law.

## **Administration of the Decrees**

The Office of Incentives for Businesses in Puerto Rico (“Office of Incentives”), attached to the DDEC, will be responsible for processing, evaluating, and supervising requests for incentive Decrees, Decrees granted and requests for amendments.

## **Nature of the Decrees**

The Decrees grants are considered a contract between the DDEC, its shareholders, and the Government of Puerto Rico, the contract is the law between the parties.

It shall be the obligation of any government agency or instrumentality, public corporation or municipality, to honor and respect such contractual obligations in any administrative or judicial forum.

The contract is construed liberally, in a way consonant to promote the socioeconomic development of Puerto Rico.

A Business that possesses a Decree will perform its operations as represented in its application unless a request for change is filed and approved by the DDEC.

*The date of effectiveness of the Decree shall be the date of submission of the request or a time later agreed.*

## **Creation of Jobs Requirements**

Businesses with an annual volume, actual or projected, more than three million dollars (\$3,000,000.00) need to hold at least for Export of Services & Goods, one (1) employee full-time equivalent; Manufacturing, three (3) employees full-time equivalent; Other activities will not require the creation of jobs.

A qualifying employee is any individual resident of Puerto Rico that the Business hires as an employee, whether full- time, part-time or temporary, to participate directly in the activities covered by the Decree.

For purposes of determining the number of direct employees equivalent maintained during the year, the entity must add the total hours worked by all the direct employees during the year and divide by two thousand eighty (2,080).

Vacation hours and other authorized working licenses may be taken into account as hours worked. However, hours of time extra, over 40 hours per week, will not be considered.

## **An employee resigns and dismissal**

In cases in which a regular employee resigns or is dismissed, the Business will have a period of ninety (90) days to hire a new employee. If the Exempted Business hires a new employee during that period, the days on which the vacancy took place will be considered hours worked in the computation of two thousand eighty (2,080) hours.

## **Reaching Threshold Volumes**

In cases in which the requirement of employment is imposed as a result of reaching the current annual volume of more than three million dollars (\$3,000,000.00), after the granting of the Decree:

During the first six (6) months, you should keep twenty five percent (25%);

then after six (6) months but before the twelve (12) months, you must keep fifty percent (50%);

then after twelve (12) months but before the eighteen (18) months, you must comply with seventy-five percent (75%);

then after the eighteen (18) months, you must abide by a hundred percent (100%) of the arranged requirement.

In those cases in which the requirement of employment is imposed as a result of the annual projected volume, the provisions will be applied in the year following the taxable year in which the Business reached the amount of more than three million dollars (\$3,000,000.00).

## **Other Business Employee**

The Secretary will take into consideration the employees at full-time equivalent of the entity providing services to the employees who have been hired by another Business that provides services directly related to the activities covered by the Decree, including those working under a lease of employee's contract.

## **Compliance Flexible**

A business that fails to comply with the requirement of employment provided for a year tax:

If met with at least eighty percent (80%) of the jobs required, it is deemed in compliance. This exception will not be able to be used in more than three (3) occasions during the validity of the Decree.

If the Business has not complied with at least the eighty percent (80%) of the jobs required, it must request the Secretary to allow complying with the requirement during following year. The request shall contain the reasons for the failure, the corrective measures to adhere to for the fulfillment of the provision of jobs. This cannot be used more than two (2) times during the validity of the Decree.

## **Employee require amendment**

Any Exempt Business with a Decree granted under Law 73, Manufacturing; Law 20, the exportation of Services & Goods, or Law 135 Young Entrepreneur, may request one amendment to the Decree.

## ***Filing of Reports & Compliance***

### **Reports Required for Exempt Businesses and their Shareholders:**

Businesses must file and pay income tax return annually, regardless of the amount of their income gross or net income.

All Shareholders must file and pay the annual income tax return.

Businesses will comply with the obligation to maintain in Puerto Rico, accounting segregating their exempt operations, as well as all supporting records and files.

Businesses and Shareholders will comply, pay, and submit all require declarations, rules, and regulations in force concerning the taxation and collection of all kinds of contributions.

Businesses, will annually file electronically with the Office of Incentives, no later than thirty (30) days after the date prescribed by law for the filing form of tax on income, including the extensions granted by a report of compliance.

All Shareholders under a Decree, must annually file electronically with the Office of Incentives, not later than thirty (30) days after the date prescribed by law for the filing form of tax on income, including the extensions granted by a report of compliance.

*The Office of Incentives will create an audit of compliance concerning the terms and conditions of the Decree granted every two (2) years or less.*

## **Payment subject to withholdings**

Business payments in excess of \$500 for services performed within Puerto Rico are subject to a ten percent (10%) withholding. The amount withheld should be deposited at the Puerto Rico Treasury Department on or before the tenth (10) day of the month following the close of the month in which the tax was deducted which may be subject to specific exclusions and exemptions. The amount withheld or deposited will be credited against their income tax liability.

## **Non-compliance with the Obligation to Withhold**

If the withholding agent does not withhold the tax imposed, unless the person receiving the income has satisfied his or her tax liability, the withholding agent will be impose.

## **Tax Responsibility**

Any Person obliged to deduct and withhold the tax imposed, must respond to the Secretary of the Treasury for the payment and will not have to answer any other Person as to any payment.

## ***System of Compensation for Accidents of Work Fund Insurance, Workers' Compensation***

The exemptions and tax benefits will not include fees payable under the Law System of Compensation for Accidents of Work Fund Insurance.

## **Administrative Fines**

The Director may impose an administrative fine of ten thousand dollars (\$10,000) on any exempt business that fails to file any of the reports that the Secretary or the Director may require, or if file them after the expiration date.

The filing of an incomplete report will be considered as not filed, if the agency concerned notifies the business exempt from any omission in the required report and the exempt business does not submit the missing information within fifteen (15) days of being notified, or does not reasonably justify the lack thereof.

## ***Other Benefits***

### **Flexible Tax Exemption**

The entities will have the option to choose the specific years to be effective under their Decrees and will notify the DDEC no later than the filing income tax date, including the extensions granted. An Exempted Entity that opts for this benefit, will have the period of exemption extended for purposes of the tax on income by the number of taxable years they have not enjoyed a Decree.

### **Automatic benefit Application**

The other terms, conditions, and benefits contained in the new Code that do not conflict with the current Decree will apply to the Exempt Business without needing to file an amendment.

## **Businesses with previous eligible activities**

If by the date of submission of the application of Decree, the Entity is dedicated to an activity eligible through any time during the period of three (3) tax years prior to the date of submitting the application, the "time base", the entity can enjoy the fixed rate on income only in regard to the increase of net income of the activity. The base period requirement will include any operation under another legal name, or with other owners.

The net income of time base shall be subject to the ordinary rates, which will be adjusted by twenty five percent (25%) annually, until reduced to zero (0) at the fourth year.

## ***Investor Resident Individual Trusts***

### **Trusts for Benefits of the Trustee**

A Resident Investor Individual with Decree may establish trusts under the laws of Puerto Rico and may elect that the trusts be treated as trusts for the benefit of the trustor ("grantor trust") for purposes of income tax in Puerto Rico.

The election will be made in accordance with the rules established, irrespective of whether the trust is not considered for the benefit of the trustor under the applicable income tax rules.

The nature of income, gain, loss, deduction or credit included in the income attributable to the settlor shall be determined as if was made directly from the source as if trust made it, or accrued in the same way the trust earned it. An election made, once made, may only be revoked by the procedure established by the Secretary of the Treasury.

### **Revocable Trusts**

An Investor Resident Individual may establish a revocable or irrevocable trust under the laws of Puerto Rico, as determined by the trustor in the articles of incorporation; in the absence of a provision in this regard, it shall be presumed irrevocable. Revocable trusts established following this provision may only be revoked by the trustors, or by the trustor who retains this power in the articles of incorporation.

### **Trusts granted outside of Puerto Rico**

The provisions of any Trust validly granted outside of Puerto Rico, by an Investor Resident Individual to which a Decree is issued, may not be challenged by any person based on any Puerto Rico Law or Regulation that could be contrary to or inconsistent with the provisions of said Trust. This will continue to be applicable after the termination of the exemptions granted provided that the Decree has not been revoked.



A Resident Investor Individual to whom a Decree is issued may freely transfer or donate in life, and in its sole discretion, all or part of their assets to the trusts, irrespective of whether they are tangible or intangible movable or immovable property, of the location of said assets, and of any legal or regulatory provision in Puerto Rico that is contrary or inconsistent with said transfer, donation, testamentary disposition of the flow and/or the terms and conditions of said Trusts.

## ***Conversion of exempted businesses under Laws of Previous Incentives***

Businesses exempted under Laws of Previous Incentives may apply to the new provisions, provided that they can demonstrate that they comply with all the legal applicable requirements. The benefits granted in the converted Decrees may not be greater than those provided under the new law.

Businesses that as of July 1, 2019, have not begun operations, may apply to convert the remainder of the period of the Decree, to adjust its Decree according to the benefits granted under the new Code.

Businesses whose Decrees were granted on or before July 1, 2019, and have begun enjoying the exemption may apply to convert it according to the benefits granted under the new Code.

The conversion will have to be requested within a term of twelve (12) months from July 1, 2019, and can be reset to the first day of the taxable Year but never before July 1, 2019.

Revenues accrued for the business until the date of effectiveness of the conversion, which is distributed after the date effective of the conversion, will be subject to treatment tax which is arranged in the law under which they were accumulated.

*The other terms, conditions, and benefits contained in the new Code which do not represent a conflict will apply to Exempt Businesses automatically.*

## ***Exempt Business Ownership Transfers***

The transfer of the Decree, or the Shares or majority ownership of an Exempt Business to another person who, in turn, will continue to devote himself to the Activity to which he was previously engaged in a substantially similar manner, will require the prior approval of the Secretary of the DDEC.

Making a transfer without prior approval will void the Decree at the time of the transfer. Notwithstanding the preceding, the Secretary of the DDEC may approve any transfer made without its approval with retroactive effect.

Any transfer request must be approved or denied within sixty (60) days following its filing. The denial of a transfer request must be made in writing and will detail the reasons why it is rejected. Any transfer request that is not authorized or denied within this period will be considered approved.

The following transfers will be authorized without prior consent:

The transfer of the assets of a descendant to his estate or the assignment by legacy or inheritance;

The transfer of Shares of the Exempt Business when the said transfer does not directly or indirectly result in a change in the domain or Control of the Exempt Business;

The pledge or mortgage granted in the ordinary course of business to provide a guarantee of a bona fide debt does not prevent any transfer of Control, title or interest under the said contract, however, this shall be subject to notification;

The transfer by operation of law, by order of a court or a bankruptcy judge to a trustee. Any subsequent transfer to a third person other than the same debtor or bankrupt above will be subject to the notification provisions.

The Exempt Business will report any transfer of the exceptions to the Secretary of the DDEC within thirty (30) days of being made.