



Growing
Together

GUIDE

Puerto Rico Incentives Act 60

Opportunity Zones Gain Source in PR

Chapter 12 of Subtitle B



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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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Opportunity Zones Gain Source in PR

Act 60 Chapter 12 of Subtitle B of the new Code

Public policy

The public policy of the Government of Puerto Rico is to Convert Puerto Rico into an investment destination for Opportunity Zone Funds that invest in Priority Projects in areas of opportunity. Providing the environment for the continuous formation of local and foreign capital for investment funds in Priority Projects in areas of opportunity. Establishing the tax, legal and regulatory framework, streamlines and encouraging in investment in Priority Projects in areas of opportunity.

Eligible Activity is a Priority Project in Opportunity Zones

Priority Project in Zones of Opportunity is an industry or business or other income producing activity that will contribute to the diversification, recovery, or social and economic transformation of the community in the eligible area.

Eligible Residential Priority Project a Priority Project in areas of opportunity that has an vital housing component.

Priority projects within Qualified Opportunity Zones:

1. Development (acquisition of property and construction and/or substantial improvement) of residential real property that is a low-income project, or a residential, commercial, and/or industrial real property that is for sale or rent.
2. Substantial improvement of an existing commercial property for sale or rent.

Eligible Business

A business that meets the following requirements:

- (A) the business activity is carried out in its entirety in an eligible area
- (B) the activity carried out by the business is not eligible under a tax Decree
- (C) the business is carried out by the Fund or invests under Section 1400Z-2 (d) (2) of the Federal Internal Revenue Code;
- (D) the activity carried out by the business is a Priority Project in an area of opportunity.

Eligible area

Is an area of Puerto Rico that has been designated as an area of opportunity under Section 1400Z-1 (b) (3) of the Federal Internal Revenue Code, as delineated on the map maintained by the Federal Department of the Treasury and which has been designated as an area eligible by the Committee through regulations, circular letter, administrative determination or general newsletter.

Tax Exemption Applications

Any entity who has established or proposes to establish in Puerto Rico an eligible business and that has received a designation as a Priority Project in Areas of Opportunity by the Committee may request from the Director the benefits by filing the application corresponding duly sworn before the Exemption Office.

Tax Benefits of Opportunity Zones Entity

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.

18.5% Flat tax rate on Net income of opportunity zones

An exempt business will be subject to a fixed rate of income tax on its net income of opportunity zones of eighteen-point five (18.5) percent instead of any other tax imposed by the Internal Revenue Code.

100% Royalties, Income or Fees ("Royalties") and License Rights to Domestic Entities

Payments made by a exempt business from an entity engaged in industry or business in Puerto Rico, for the use or privilege of use in Puerto Rico of intangible property related to the operation declared exempt from Foreign Corporations, Foreign Societies or Non-Resident Persons Not Dedicated to Industry or Business in Puerto Rico will be imposed if originating exclusively from sources within Puerto Rico, a tax of eighteen point five (18.5) percent.

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.

100% Exemption on Sale or Swap of Assets

No gain or loss will be recognized by an exempt business in the sale or exchange of the assets that are made during its exemption period if the exempt business if the sale or exchange in compliance with the requirements of Section 1400Z-2 (d) (1) of the Federal Internal Revenue Code. If the sale or exchange occurs after the expiration of designation of Section 1400Z-1 (f) of the Federal Internal Revenue Code, the requirements of Section 1400Z-2 (d) (1) of the Federal Internal Revenue Code will continue to be applicable for purposes of this section.

100% Exemption interests of Debt Issue

All entities will be exempt from any tax imposed on the income derived from interest, fees, and other credits received with respect to bonds, notes or other obligations of an Exempted Entity for development, the construction or rehabilitation, or the improvements to an Exempted Entity, subject that the funds are used entirely for development, construction or rehabilitation, or improvements, a Exempt Entity or payment of existing debts used for these activities. The bond, promissory note or any other obligation needs to be issued directly by an Exempted Entity.

Exemption for Individuals, Successions, Corporations, Societies, Limited Liability Companies and Trusts Regarding Interest Paid or Accredited on Bonds, Promissory Notes or Other Obligations of Certain Exempt Businesses.

25% Minimum Exemption on Property Tax

Real Estate, Immovable and Movable Property will be exempt of twenty-five percent (25%) 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% Maximum Exemption on Property Tax

Municipality may grant a Real Estate, Immovable and Movable Property to be exempt up to 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, using exclusive criteria of Municipalities, including on the municipal license and any other taxes imposed by any municipal ordinance.

25% Minimum Exemption on Property in the process of construction

The property in the process of construction will be twenty-five 25% of tax on the property during the period of construction.

75% Maximum Exemption on Property in the process of construction

Municipality may grant property under construction up to seventy-five percent (75%) exemption could be granted, using exclusive criteria of Municipalities, including on the municipal license and any other taxes imposed by any municipal ordinance.

100% Exemption on Property in the process of construction

The property in the process of construction will be fully exempt 100% of tax on the property during the period of construction, using exclusive criteria of Municipalities, including on the municipal license and any other taxes imposed by any municipal ordinance.

25% Minimum Tax exemption on Municipal License Taxes

The gross income of eligible activities has twenty five percent (25%) of exemption in the municipal taxes.

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.

75% Maximum Tax exemption on Municipal License Taxes

Municipality may reduce the gross income of eligible activities up to seventy-five percent (75%) exemption could be granted, using exclusive criteria of Municipalities, including on the municipal license and any other taxes imposed by any municipal ordinance.

100% First two semester exemption

An exemption of one hundred percent (100%) over the municipal licenses applicable to the volume of business during the first two semester of fiscal Year in which it begins operations in any municipality.

Period of prescription for the assessment and collection of licenses.

The period of prescription shall be for three (3) years if the entity gives up the benefit of a discount of five percent (5%) for prompt payment and make the total payment of its license on the due date.

100% Exemption on Gross Capital gains

Only the net capital gains will be subject to municipal tax in addition to any other net gain obtained in the sale of any asset or property used in the operations.

Interruption of the Exemption Period

An Exempt Business that has ceased operations and subsequently wishes to resume them, the time it was without operating will not be deducted from the corresponding exemption period that corresponds to it and may enjoy the remainder of its exemption period while its tax exemption Decree is in force, provided that the Director determines that the cessation of operations was for justified reasons and that the reopening of said exempt business would result in the best social and economic interests of Puerto Rico.

Commencement Date

The exemption period will begin on January 1 of the year in which the Eligible Business begins, but never before January 1 of the year in which the filing of an application occurs.

In the case of Exempt Businesses that have been operating on a commercial scale before applying, the date of commencement of operations will be the date of filing of an application in the Incentives Office, but the date of commencement may be postponed for a period not exceeding two (2) years from the date.

The Exempt Business shall begin operations on a commercial scale within one (1) year from the date of the signing of the Concession. It may be extended at the request for just cause, but no extensions will be granted that extend the date of commencement of operations for a term greater than five (5) years from the date of approval of the grant.

Tax Credit for Eligible Investment

All Eligible Investment made within the Taxable Year qualify for the Eligible Opportunity Zone Investment Tax Credit.

Any Exempt Business may request, subject to the approval of the DDEC, a Tax Credit for tourism investment equal to thirty percent (25%) of its Eligible Investment after July 1, 2019.

May take a Tax Credit of up to ten percent (25%) in the Year in which the Exempt Business completed the total construction or began operations and the remaining in three (3) installments, in subsequent years in equal parts. Any investment credit not used in a taxable year may be carried over to subsequent taxable years until it is used in full.

Maximum credit amount

The maximum amount of the investment credit that will be available for each Fund and exempt business in which the Fund invests may not exceed twenty-five (25) percent of the sum of the cash contributed by the investors in exchange for shares or participations, plus the cash contributed to the exempt business, when the exempt business is carried out by the Fund directly, in exchange for the shares or participations of the exempt business.

Eligible percentage Tax Credit

The eligible percentage of tax credit on investment may not exceed twenty-five (25) percent and a minimum be of five (5) percent. The Committee of Priority Opportunity Zone Investment may establish a different percentage, subject to a maximum of twenty-five (25) percent) to exempt businesses located in those Eligible areas determined by the Committee to assign a different percentage and that meet the criteria determined by the Committee, taking into consideration the following factors:

The potential of the exempt business in creating jobs;

The tax of the exempt business in the areas of education, health, and housing;

The investment made by the exempt business in land, buildings and machinery and equipment.

The potential effect on the economy and the needs of the geographical area

Ownership and Distribution of Credits

The maximum amount of available investment credit will be distributed among investors, in the proportions establish by owners. The Fund shall notify the distribution of the credit on or before the date provided by the Internal Revenue Code to file the income tax return for the first taxable year of the exempt business, without considering extensions. The distribution will be irrevocable and mandatory for the Fund, exempt business and investors.

Basic adjustment and credit recovery

The tax basis of any eligible investment will be reduced by the amount taken as an investment credit, but it can never be reduced to less than zero. In the event that the investment credit taken by the investors, exceeds the investment credit computed by the Director, the excess shall be due as tax as income to be paid by the investors, in two installments, beginning with the taxable year where the excess was discovered and notified, and the balance remaining in the subsequent year.

Assignment of credit

After the date of notification of the distribution of the investment credit the investment credit may be assigned, sold or in any way transferred, in full or partially, by an investor, to anyone.

The basis of the eligible investment will be reduced by the value of the investment credit assigned but may never be reduced to less than zero (0).

The money or the value of the property received in exchange for the investment credit shall be exempt from taxation, up to an amount that is equal to the amount of the investment credit assigned.

The investment credit may be assigned, sold or in any way transferred only by an Investor, except in the following cases:

May assign, sell, or in any way transfer an investment credit through a broker-dealer who is registered as such with the Commissioner in the circumstances to be established by regulation by the Secretary of Economic Development.

A subscriber (“underwriter”) who, had acquired an investment credit at the time of closing for the financing of a Priority Project in Areas of Opportunity, may assign, sell, or in any way transfer any investment credit to a third party. The assignment, sale or transfer will be considered as made by an Investor if it meets the requirements established by regulation by the Secretary of Economic Development.

The excess of the amount of an investment credit over the money or the value of the property paid shall not constitute gross income for purposes of taxes.

The following entity persons shall notify, sale or transfer by means of an affidavit included with their income tax return for the year the transfer is made:

The Investor who has assigned all or part of his investment credit

The broker-dealer (“broker-dealer”), subscriber (“underwriter”) or creditor of the pledge that has transferred all or part of its investment credit.

The acquirer of the investment credit.

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 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 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 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.

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.

Reports and Penalty under Section 1400Z-2 (d) (1) of the Federal Internal Revenue Code

The exempt business shall render an annual report to the Director and the Secretary, detailing the total investment made in the exempt business at the date of said annual report, complying with the requirements of the Federal Internal Revenue Code and if the Fund is subject to the penalty, the Fund shall owe, as a penalty, an amount equal to the penalty imposed on the Fund under Section 1400Z-2 (f) (1) of the Federal Internal Revenue Code and payable with the income tax return corresponding to the taxable year in which the penalty was imposed.

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.

Treatment of ignored entities (“disregarded entities”)

If an exempt business is an ignored entity, it will be treated for purposes of the Internal Revenue Code in the same manner as it is treated under the Federal Internal Revenue Code.

Permit Procedures applicable to the Zones of Opportunity

Committee attached to the Office of the Governor, with have the powers to establish the Priority Opportunity Zone Project, composed of the Puerto Rico Chief Financial Officer, the Chief Investment Officer the Executive Director of the Financial Advisory Authority and Fiscal Agency of Puerto Rico, the Executive Director of the Authority for Public Private Partnerships of Puerto Rico, the Secretary of the Department Economic Development and Commerce, a member appointed by the Senate of Puerto Rico and a member appointed by the House of Representatives of Puerto Rico.

The Committee will issue annually a list designating all commercial activities or businesses eligible by geographic area that will be recognized as Priority Projects in Opportunity Zones. The first list must be issued on or before July 31, 2019. Valid for at least one (1) year from its publication.

Any entity interested in an activity being considered as a Priority Project in Areas of Opportunity, and who is not designated in the published list may request the designation by a letter addressed to the Committee and will file a copy of this request with the Secretary of Economic Development.

The Committee, within thirty (30) days following the date of application, will approve or deny the designation of the activity as a Priority Project in Zones of Opportunity, or request in writing additional information that it deems necessary to help make a determination or request a meeting to discuss the proposed project within thirty (30) days following the date of said request.

In the event that the Committee does not comply with the terms, the request shall be deemed not approved and the interested party may again request that their activity be considered as a Priority Project in Areas of Opportunity.

Interagency Consideration of Applications

Upon receipt of any request by the Exemption Office, the Director shall send, within a period of five (5) days from the date of filing of the request, to the municipality concerning, so that this one provides a report of eligibility. This verification will not be necessary in the case of non-Puerto Rican shareholders who have not previously been residents of Puerto Rico or have a direct or indirect participation in the Fund of less than ten (10) percent, or corporations whose securities are publicly held.

Submits its Eligibility Report and recommendation, send within five (5) working days of, to the agencies concerned, including the municipality and the Municipal Revenue Collection Center (CRIM), for its evaluation and recommendation, any unfavorable recommendation on Decree will have to include the reasons for it.

The agencies and municipalities shall have ten (10) days to submit their report or recommendation. In the event that the recommendation of the agency or municipality is favorable, or that it is not received by during the term of ten (10) days, said Decree has received a favorable recommendation.

In the event that the municipality raised any objection, the Exemption Office will proceed to give consideration to the objection, as it deems necessary, will notify the parties and the corresponding agencies, for the administrative action or revision of the Decree deemed pertinent.

Once the reports are received, or the terms have expired, the Director shall submit the Decree and its recommendation, for the consideration of the Secretary of Economic Development, within the following five (5) days.

The Secretary of Economic Development shall issue a final determination, in writing, within a term not exceeding five (5) days from the date of submitting the Decree for consideration.

Jurisdiction

Regardless of the provisions of any other law, any request for permission for a Priority Project in Areas of Opportunity will be evaluated by the Office of Permit Management (OGPe), regardless of the location and any agreement of transfer of hierarchies that exist within the municipality where it is located. Provided, however, that the OGPe will be obliged to request the municipality where the Priority Project in Opportunity Zones, comment on the proposal.

Deadline

The agencies or municipalities to which the OGPe requests comments will have the non-extendable term of ten (10) working days from the request for comments to submit them. If no reply is received, after said term of ten (10) working days, the proposal will be understood as favorable.

Term to Process Environmental Documents

A term of twenty (20) working days is established, from the moment the environmental document is filed for a Priority Project in Areas of Opportunity for the OGPe to express its agreement or objection to according to the "Law on Environmental Public Policy". This term may be extended by the OGPe when the environmental document presented is incomplete, when additional information is required or for other meritorious reasons.

The final evaluation and determination regarding the environmental document will be carried out by an Inter-Agency Subcommittee on Environmental Compliance, whose representatives will have the power to evaluate and adjudicate the possible environmental impacts that the projects to be developed.

In extraordinary situations, the majority vote of the Interagency Subcommittee may extend the term to evaluate and award the possible environmental impacts up to a period not exceeding thirty (30) days.

Term to evaluate Location Consultation

Once the Priority Project in Opportunity Zones has obtained the environmental compliance certification, the OGPe will have twenty (20) working days to evaluate the location query submitted for the project.

Term for other Development Permits

The permits for urbanization, construction, segregation (lotification) and others for the development of the Priority Project in Opportunity Zones, other than a location consultation and other specific, general or consolidated permits under the jurisdiction of OGPe, within ten (10) working days once the corresponding permit application has been satisfactorily filed.

Notifications

In any procedure in which it is required to notify interested parties, the publication of a single notice in two (2) newspapers of general circulation will be sufficient. In addition, a sign will be placed in a place with prominent exposure indicating, among other things, the object of the work or project, the address on the Internet and the telephone number of the relevant agency.

Regulations and Administrative Orders

The Permit Management Office (OGPe) is empowered to establish alternate procedures to issue the granting of permits, licenses, endorsements, consultations or certifications related to Priority Projects in Opportunity Zones.

Priority

The projects that will be carried out under the provisions of this Law will have priority in the programming of all government agencies. However, projects that qualify as emergency will have priority over Priority Projects in Opportunity Areas.

Request for Review and Order of Paralyze

The party adversely affected by any resolution or order issued by OGPe or any other agency with interference shall have the sole remedy to submit a request for review before the Court of Appeals.

Any request for judicial review of the administrative agency concerned must be submitted to said court, within the jurisdictional term of twenty (20) calendar days, counted from the date on which a copy of the notification of the resolution or final order is filed in the file.

If the Court of Appeals so requests, the administrative agency shall submit within ten (10) calendar days following the order of the Court.

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 (Goods and Services)
4. Financial and Insurance Services
5. Visitor Economy
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 D Decrees issued remain valid.

This white paper relates to Puerto Rico sources Capital Gains and operation income for USA source Capital Gains review white paper 12 Investing in Opportunity Zone Gain Source in USA.

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.

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.