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GUIDE

Puerto Rico Act 27



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Puerto Rico Tax Compliance Guide

*By Torres CPA Group
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Understanding the Puerto Rico tax system and its interrelation with 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 and Payroll laws and regulations.

The following White Paper is designed to give an insight Tax Issues in Puerto Rico. It provides relevant background information, which will be of assistance to organizations considering establishing 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.

Torres CPA Group is an Advice Certified Public Accounting Firm offering Audit, Tax, Consulting and Financial Outsourcing services for over 33 years. If you require any further information or help, please do not hesitate to contact us.

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OVERVIEW OF PUERTO RICO ACT 27 TAX INCENTIVES FOR FILM PRODUCTION INDUSTRY

PURPOSE

To provide an entrepreneurial environment and fair economic opportunities that expands a local industry and recognizes business enterprises as the cornerstone for the present and future economic development of Puerto Rico.

Its objective is to bolster Puerto Rico as a viable a destination for the production of film projects. This law is directed to companies or individuals engaged in qualifying film and infrastructure projects or in managing studios. Such activities include: purpose-build media facilities, production of feature films, short films, documentaries, television programs, including pilots, series episodes, mini-series, music videos, commercials, video games, recorded live performances, and original soundtrack recordings and dubbing, among others.

TAX INCENTIVES

- 4% Fixed income tax rate on development, preproduction, production and post-production income
- 1% Fixed Income Tax Rate for pioneer or novel product manufacture
- 12% Fixed Income Tax Rate on Intangible Property
- 0% Federal Income Tax
- 100% Tax exemption on dividend distributions
- 100% Tax exemption on Excise Tax
- 100% Sales and use tax
- 100% Tax exemption on municipal construction taxes
- 90% Tax exemption from personal property and real estate tax
- 100% Tax exemption from Municipal license taxes
- 40% Transferable tax credit on payments made to residents of Puerto Rico for services physically performed in Puerto Rico.

- 20% Transferable tax credit on payments to "Above-the-Line" Non-Resident Talent for services physical rendered in Puerto Rico.
- 25% Infrastructure transferable tax credit on the amounts disbursed in connection with the development or substantial expansion of studios, laboratories, facilities for the international transmission of television images or other media and other permanent facilities to carry out film projects within Puerto Rico, whose budget of hard costs exceed \$1,000,000.
- 50% Transferable tax credit of cost documentary up to:
 - 9% When at least 1 of the screenplay writers, the director or cinematographer is a resident of Puerto Rico
 - 8% When the film composer or the editor is a resident of Puerto Rico;
 - 7% When at least 2 of the sound engineers, gaffers or key grips are residents of Puerto Rico
 - 10% Of the amounts certified by the auditor are being disbursed on the cost of production in Puerto Rico.

ELIGIBILITY

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

- Carry out their production and post-production in whole or in part within Puerto Rico
- Airing, commercial distribution or exhibition outside of Puerto Rico
- Production expenses of at least \$100,000
- Full length films; short films; documentaries; television programs; series in episodes; mini-series; music videos; national and international commercials; video games; recorded live performances; and original soundtrack recordings and dubbing

TAX EXEMPTION DECREE

An eligible individual is required of obtain a Tax Exemption Decree that will last for a term of 15 years. The Tax Exemption Decree constitutes a contract between the service provider and the Government of Puerto Rico and will be unaffected by any future legislation.

