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**GUIDE**

# Puerto Rico Act 73



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# OVERVIEW OF PUERTO RICO ACT 73 TAX INCENTIVES FOR PRODUCTION PROCESS AND MANUFACTURING

## PURPOSE

To provide an entrepreneurial environment and the adequate economic opportunities to continue developing a local industry that recognizes entrepreneurship as the cornerstone for the present and future economic development in Puerto Rico.

To bolster the production process and manufacturing sector, Puerto Rico has created an aggressive tax incentive program. As a major manufacturing hub in the world, Puerto Rico offer precision, experience and the best conditions for an efficient production process.

## TAX INCENTIVES

- 4% Fixed income tax rate on industrial development 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 and sales and use tax
- 100% Tax exemption on municipal construction taxes
- 90% Tax exemption from personal property and real estate tax
- 60% Tax exemption from Municipal license taxes
- 100% First year accelerated depreciation
- Up to 50% tax credit on purchases of products manufactured or recycled in PR
- Up to 50% tax credit on Research and Development (R&D) Activities
- Up to \$5,000 for each job created during the 1<sup>st</sup> year of operations
- 100% Credit for training activities
- Special deductions on investments for structure, machinery, and equipment
- 15-year tax Government decree

An exempt under the Act 73 organization using a Puerto Rico entity should not be subject to any taxes (such as a dividend tax, tollgate tax or other similar taxes) on its income from its eligible activities in Puerto Rico.

Upon repatriation, the distributed income would be subject to the tax imposed by the jurisdiction in which the owners of the Puerto Rico entity reside.

A Marketing Incentives Fund is available to pre-qualified companies whose sales are greater than \$100,000 per year and whose commencement of certified operations has been obtained. It also offers a 50% reimbursement, up to \$50,000, of the costs of marketing activities in markets outside Puerto Rico of an approved campaign.

Incentives for Machinery, Equipment, Specialized Systems and Maritime Transportation Incentives that contribute a portion of the investment and reimburse up to 50% of the cost of machinery and equipment, up to a maximum of \$50,000. The company must make a commitment to continue operating for a minimum of three (3) consecutive years as well as to comply with all the requirements of the incentives contract.

Law 73 brings incentives to eligible businesses interested in developing new projects that require the purchase and installation of specialized systems (software).

To encourage the distribution of products and services to foreign markets and the mainland US, this Law offers up to 20% of the transportation costs of each container shipped from Puerto Rico to one of three principal ports (Panamá, Santo Domingo, and Jacksonville) to up to \$2,000.

Incentives offering financial assistance, paid on a reimbursement basis, to assist companies with infrastructure and capital improvements to the facilities leased to Puerto Rico Industrial Company or a private building. Eligible investments include electrical substations, power generators, and fire control systems, among others.

## **ELIGIBILITY**

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

- **Industrial units dedicated to manufacturing on a commercial scale:**

Subcontracted services rendered in Puerto Rico that are essential to a manufacturing unit that belongs to "a high economic impact cluster" as a key supplier of said tax-exempt business that is a group engaged in manufacturing. Key provider services shall be those that are costs directly related to the manufacturing activities of a tax-exempt business, including, among others, the following:

- a. Specialized storage
- b. Inventory management of raw material, the material in process, end product and inventory of parts, including receipt, storage, and inspection

- c. Logistics regarding the distribution of manufactured goods and the export of services by tax-exempt businesses
  - d. Material and equipment
  - e. Insertion and distribution of printed materials
  - f. Digitalization of documents
  - g. Sterilization of instruments, and clean room garments
  - h. Quality control and validation of equipment and systems services
  - i. Rating of equipment, utilities of facilities and calibration and maintenance of equipment and processes
  - j. Repair and remanufacture of products
  - k. Project engineering
  - l. Programming and data system
  - m. Management services
  - n. Specialized technical training
  - o. Development and reproduction of educational programs
  - p. Logistics related to sales functions and purchases such as those about orders and transportation
- **Owners of property used by an exempt business in its exempt operations, such as a lessor of real estate used in operations of an exempt business**
  - **Activities engaged in the breeding of animals for experimental use in laboratories for science and medical research, and other similar applications**
  - **Recycling activities that involve: (i) a transformation of recyclable materials into raw material or ingredients used for the elaboration of a product (partial recycling); (ii) the preparation of such recycled raw material for local sale or use or for exportation; or (iii) the transformation of recycled materials mainly collected in Puerto Rico into commercial articles (total recycling)**
  - **Operations engaged in the sowing and cultivation through the process of hydroponics**
  - **The development of licensed or patented software that may be reproduced on a commercial scale**
    - a. The licensing of intangible property, whether developed or acquired by the exempted business that has a decree under the Act;
  - **An industrial unit that produces purified bottled water**

- **The construction of social interest housing and planning and development of self-sustainable or partially sustainable communities**
  
- **Research and scientific or industrial development laboratories for the development of new products or industrial processes, or to improve the same for experimental purposes, clinical, epidemiological and basic science research in mental health projects, scientific research of medicines and other similar purposes.**
  - a. Certain research and development activities conducted in laboratories.
  - b. A business that is devoted to the production, whether or not on a commercial scale of energy for consumption in Puerto Rico through the use of natural gas or coal, or through the use of renewable sources, including but not limited to : solar energy, wind energy, geothermal energy, ocean energy, ocean kinetic energy, hydroelectric energy, biomass or hydrogen or solid waste, recovery of methane through the use of high technology to produce energy at competitive costs, including but not limited to alternate thermal conversion technology.

## **TAX EXEMPTION DECREE**

An eligible service provider is required of obtain a Tax Exemption Decree that will endure 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.