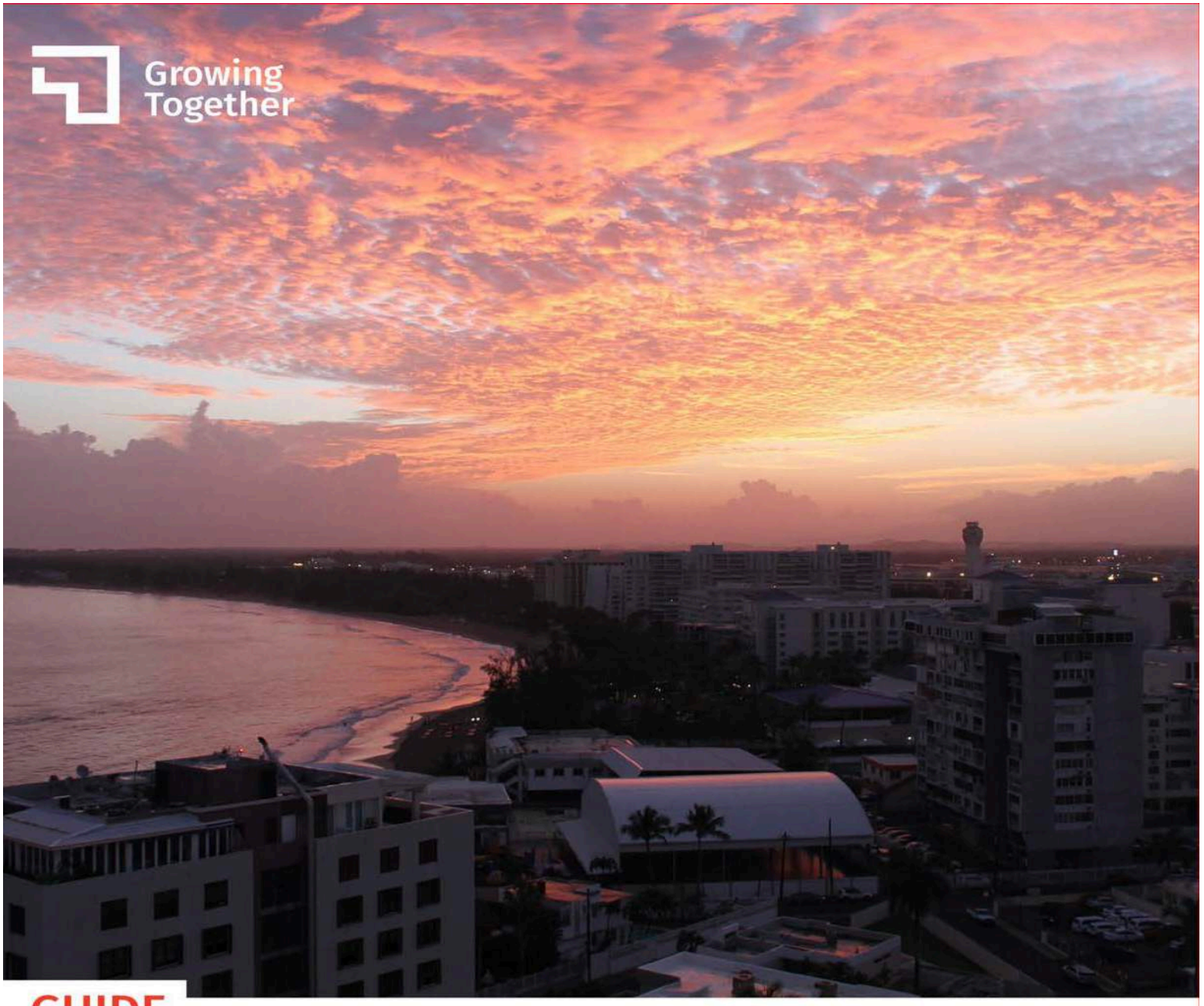

GUIDE

Moving your Sales of Goods, Hub Trading
OR INTERNET BUSINESS TO PUERTO RICO UNDER ACT 20

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Moving your
Sales of Goods, Hub Trading or Internet Business to Puerto Rico under Act 20

Act 20 offers a 4% tax rate on the net income of all services and exported goods provided by a Puerto Rico entity to entities outside of Puerto Rico. Also, income on a Capital gain, dividends and interest on owner-investors' personal transactions could be 100% tax-free under the Act 22 grant. To get more information on these Tax Incentives go to our web page at Tax Incentive, https://torrescpa.com/pr-tax-incentives/ and White Papers on the subject at, https://torrescpa.com/white-papers/.

Act 20 applies to any entity with a bona fide establishment in Puerto Rico that is engaged in the export of eligible and qualified services or goods. Qualified services and goods include but are not limited to, trading of products, investment banking, and other financial services, research and development, advertising and public relations, consulting, electronic programming development, call centers, professional services, and centralized management services.

Exports include qualified services and goods made by a Puerto Rico Act 20 for a foreign entity (USA or Worldwide) or non-resident individual that does not relate to business activities within Puerto Rico.

There is a current misconception that USA extraterritorial business consists of evading taxes and hiding money from the government. There are 100% legitimate ways to structure your business in Puerto Rico and obtain significant benefits from asset protection and taxes.

Puerto Rico is a territorial possession of the US. Under the US Internal Revenue Code, an American who becomes a resident of Puerto Rico begins a new tax rule, all the income the person earns from Puerto Rican sources is subject to Puerto Rican income tax only, not to US income tax. A Puerto Rico corporation is a resident and citizen of Puerto Rico, no an US resident or citizen.

Under the US Internal Revenue Code Section 933 and Section 861, if the person performing the service (whether an individual or a corporation) is a Puerto Rican resident working in Puerto Rico, the income is exempt from US tax.

Section 933 enables the government of Puerto Rico to offer Americans any benefit on their locally generated income that low-tax countries provide to anyone who is not an American. The passage of Acts 20, reducing taxes for incoming investors and businesses respectively, is the exercising of that tax opportunity.

Many companies choose to move to Puerto Rico, mainly of the USA. USA taxes on capital gains and ordinary income is notoriously high. Managing your business through a Puerto Rico Act 20 company can provide a variety of benefits, especially a lower 4% tax obligations.

You can do this too, SAVE ALOT IN TAX.

These are things to consider when moving your company to Puerto Rico:

1) Prepare a Strategic Business plan. Before doing anything to move your business to Puerto Rico, it is crucial to put together a complete business plan that covers objectives, goals, costs, and structure.
2) Business plan must take into account the comprehensive logistics in the financial forecast, where it anticipates that your business will be related to profits for at least the first six months, preferably for a larger time lapse of 12, 24 and 36 months.
3) Evaluating Critical areas to consider:
   a) Functions and activities to relocate.
   b) Validate the source of income, the nature, and location for compliance with Puerto Rico and USA IRS regulations.
   c) Identify related party transactions that may be subject to IRS rulings on transfer pricing.
   d) Identify Assets or Intellectual Property to be transfered that could be subject to IRS rulings on Fair Value Transfer.
   e) Understand parties' ownership, to determine if the Control Foreign Corporation or GILTI minimum tax rulings apply.
4) Determine legal and operational structures that support the Tax advantages Startegy.
5) Seek specific advice from professionals that understand Puerto Rico and USA ruling and regulations during the planning process. This will enable you to make suitable amends if there are any logistical issues with your business plan or your tax position.

WHAT HAPPENS IF YOU DO NOT FOLLOW IRS RULES?

Follow the rules. We do not say this lightly.

The punishment can be severe and will interfere with double (or, in some cases, triple) taxes; in addition the imposition of fines for delaying the payment of taxes to the IRS.
If your international company is reclassified as a US company, you may encounter the double taxation issue. This means:

1) US corporate taxes **plus.**
2) Branch Profit Tax (BPT): a flat tax of 30%: Branch income tax is an additional income tax imposed by the IRS on foreign companies that make profits from their business operations in the United States **plus**.
3) When paying the dividends, they will be taxable as non qualified ordinary income, 100% taxable.

And this is so even if your company does not have to be physically present in the USA.
If you do not plan the non-USA structure carefully and appropriately, it would be much better to simply,

Tax-A-Lot.

Following the US IRS Regulations is a **GOOD PAY LESS STRATEGY**

SOURCE OF TRANFER OF TITLE OF INVENTORY INCOME

The source of income inventory sales is were the transfers of the title of the inventory is done.

"Title" is a legal concept that confirms ownership of an asset. The title of a car, for example, indicates who is the current owner of the vehicle. For tax purposes, the title means who has the risk of loss if the product is damaged or destroyed.

Transfer of Title to goods, which have been identified to the contract of sale, passes from the seller to the buyer in any manner and on any conditions agreed upon by the parties to the contract of sale. The rule is that title to the goods passes when the parties intend it to pass.

Where parties have no explicit agreement as to the transfer of title, then title passes to the buyer:

A. At the time and place at which the seller completed his performance with reference to delivery of the goods.
B. At the time and place of shipment, if the contract authorizes shipment but does not require the seller to deliver the goods to the buyer at destination.
C. Upon tender of the goods to the buyer at destination, if the contract requires delivery at destination.
D. Upon delivery of a document of title where the contract calls for delivery of such document without moving the goods.

Let's start with the most important legal concept that will shape this whole section: to whom does the title of the product belong once it arrives at the store of the third-party location? Yours? Or a third-party store or warehouse? All products that you see on the website of the third-party web store, including those that are on the shelves in the stores of the third-party web store, are owned by someone.

Even if you establish a Puerto Rico company and sell your product in a third-party web store, technically your Puerto Rico company should still own the title of the property in the third-party web store located in the US. Once the customer buys, the "title" transfers to him from the PR entity.

That is true even if the manufacturer is in the USA. The title passes at the moment in which the seller delivers the merchandise to the shipping company. The PR entity buys from a US entity, obtains title, then resells to a non PR entity and tranfers title to the buyer.

DIRECT/DROP-SHIPPING

Drop shipments involve a customer in one location who places an order with a seller in a second location, which requests that a supplier in yet another location fill the order and ship the item directly to the customer.

Today, with the advent of e-commerce, many small companies use drop shipments because they do not maintain an inventory of goods. Rather than maintaining an inventory of goods, the seller contacts a manufacturer or wholesaler (the drop shipper), who fills the order and ships the product directly to the customer. The manufacturer or wholesaler bills the seller, who then bills the customer.

The Nexus Standards as Applied to Drop Shipment Transactions

The key to a taxing of a jurisdiction to a foreign seller is that the seller must have substantial nexus within that jurisdiction. The Supreme Court in Quill held that before imposing a tax liability on a seller both the Due Process and Commerce Clause standards must be met. In determining if the meeting Commerce Clause standards have, it must be establish that substantial nexus exists between the foreign seller and the taxing jurisdiction.

The early Supreme Court decisions suggest that significant presence equates to physical presence in the taxing jurisdiction. Supreme Court reaffirmed its earlier bright-line physical presence, and rejected the "slightest presence" standard of physical presence. Thus, based on the holding in Quill, "de minimis (incidental)" physical presence does not create nexus for tax purposes.
If you drop shipping from outside of US, buying from the foreign supplier and they ship direct to the US customer, seller's shipping point terms, then the entity is transferring the title outside the USA, therefore not source in the USA.

If USA client requests a product on the website of the third-party web store, to a foreigh seller and seller;

a) is using third web store receives an order
b) uses a third party warehouse
c) instructs the manufacturer or supplier to deliver to the USA client,
d) the seller controls transfer of title terms,
e) the seller transfers title, FOB Seller Puerto Rico,

f) The seller does not have a permanent location in the USA,

even though the third party sends directly to the customer in the USA, the seller is not doing trade or business in the USA, wherefore then it would not be USA source income, therefore no USA taxation.

Drop shipping is straightforward and clear. There are no title problems at all, seller controls its tranfering. There is a possible structure to discuss with your tax advisor that you can consider for direct shipping, F.O.B, Seller, Puerto Rico.

FLASH TITLE

Another type of transaction involves something called a "flash title." Flash title occurs in a trade where a foreign seller holds legal title to an item in the stream of US commerce, but the thing is in the control of a third party (typically a common carrier). The sellers does not control tranfering of posesion

During the course of shipment, title passes at a contractually agreed upon point at which neither the seller nor the purchaser has business operations and thus theoretically no nexus. To grasp the nexus issues associated with flash title transactions, one first must understand what constitutes such an operation.

In a typical flash title transaction, a foreign seller enters into a deal with a buyer in US and ships a good in the US via a third party warehouse and common carrier. Although the warehouse and common carrier control the item during storage and shipment, the seller retains legal title. At some point during the delivery, the title is legally transferred according to contract terms from the seller to the buyer. The seller can transfer the title along with a transfer of a risk of loss but not the possession point; This is usually effectuated in the US where the seller has no nexus.

Logically examining a flash title transaction, it does not appear that such an operation would create nexus on behalf of either the seller because the seller has no physical presence in the US even if the passes were presuming to has been done in the US.

In the context of an agency relationship, the question would be whether the seller had "control" over the item when the title passed. Besides, it does not seem as though either party has satisfied the requirements for an attributional nexus.

Several US cases have ruled that a flash title transaction not establish income tax nexus of a foreign seller. In Wascana Energy Marketing (U.S.), Inc., the judge held that holding flash title to natural gas within the jurisdiction would not subject the taxpayer to the corporate tax of the jurisdiction, because the taxpayer was not carrying on business within that jurisdiction.

The Missouri Department of Revenue came to a similar conclusion, an out of state retailer sold items to customers via a website, in which the only connection with the state was the "momentary ownership of tangible personal property." The department held that such brief ownership of property within the state was not enough to indeed

establish property ownership for purposes of the corporate income and franchise tax because it would have violated the Commerce Clause, which requires substantial nexus, not a mere de minimis contact with the USA.

Flash Title does not create a nexus or permanent establishment within the jurisdiction in which it occurs, therefore Seller would not be subject to taxes in that jurisdiction.

However, if a flash title is considered as a title transfer within the jurisdiction of the buyer, it could create effectively connected income as to dividend received by the Seller stockholders. Based on the general source rules applicable to dividends, dividends paid by a Puerto Rican corporation and received by a U.S. citizen who is a bona fide resident of Puerto Rico, if 25 percent or more gross income for prior three periods is U.S. effectively connected income, the dividend will be considered to be from U.S. sources taxable income, in the ratio that the corporation's U.S. income versus other location income, as a qualified dividend.

Effectively Conected Trade or Business in Puerto Rico

Income on Trade or Business of a PR entity to an entity outside of PR through an Office or other fixed places of business in PR is considered the PR source. It also includes property for use, consumption or disposition outside of PR.

To consider the income from sources outside Puerto Rico to be treated as effectively connected with a trade or business in Puerto Rico, you must comply with the following:

a) Have an office or other fixed places of business in Puerto Rico to which the income can be attributed; and that office or area of the company is a material factor in producing the income.
b) The income is generated in the ordinary course of the trade or business carried on through that office or other fixed places of business.
c) An office or other fixed places of business is a material factor if it significantly contributes to, and is an essential economic element in, the earning of the income.
d) No other office or another fixed place of business outside of Puerto Rico has a material factor in the sale of the property for use, consumption, or disposition outside Puerto Rico.

Engage in Trade or Business in the US

For a Puerto Rico entity to be engaged in a U.S. trade or Business in the USA, it is required that substantial, regular and continuous business activities be carried on by the Puerto Rico entity in the United States.

The degree of economic activities which will subject a Puerto Rico corporation to U.S. tax is substantially similar to the "permanent establishment" concept considered in many U.S. income tax treaties with foreign countries.

The 2017 updated Model Tax Treaty of the Organization for Economic Cooperation and Development (the "Model Treaty," "Tax Convention") provides guidance as to business profits of an enterprise of one country will be taxed only by that country unless the enterprise has a "permanent establishment" in another country.

The definition of "permanent establishment" for purposes of the treaty is a fixed place of business through which the business of an enterprise is wholly or partly carried on.

A "permanent establishment" does not include using facilities or maintaining a stock of goods or merchandise solely for storage, display, delivery, or processing by another enterprise. In particular, shall be deemed not to include:

. a) the use of facilities solely for storage, display or delivery of goods or merchandise belonging to the enterprise;

. b) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for storage, display or delivery;

. c) the maintenance of a stock of goods or merchandise belonging to the enterprise solely for processing by another enterprise;

. d) the maintenance of a fixed place of business only to purchase goods or merchandise or of collecting information, for the enterprise;

. e) the maintenance of a fixed place of business solely to carry on, for the enterprise, any other activity of a preparatory or auxiliary character;

. f) the maintenance of a fixed place of business solely for any combination of activities mentioned in subparagraphs a) to e). Provided that the overall operation of the fixed place of business resulting from this combination is of a preparatory or auxiliary character, provided that such action or, in the case of subparagraph f), the overall operation of the fixed place of business, is of a preparatory or auxiliary character.

An enterprise shall not be deemed to have a permanent establishment in the USA merely because it carries on business through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business.

PERMANENT ESTABLISHMENT COURT CASES

In the seminal case of Piedras Negras Broadcasting Co. v. Commissioner, in which 95 percent of their income came from American advertisers, and about 90 percent of the listener came from the US, the court ruled that the situs of the taxpayer's advertising activities be at the site of its broadcasting facilities in Mexico. The court's focus on the site of the broadcasting equipment and labor indicate that these activities should be characterized as services.

The location of broadcaster's audience (mainly in the US) was not a relevant consideration even though advertisers paid for access to that audience.
Certain incidental activities were carried in the U.S. by employees crossing the border to collect mail and meet with advertisers to get paid and the solicitation of business in the US by either dependent (an employee) or independent agents, did not change these conclusions since the compensation under the contracts was for the services performed in Mexico.

The place where end users are using the product or services is also inconsequential in determining the entity's source of income.

In another formative case, a taxpayer sold advertising to US advertisers for publication in a magazine to be distributed only outside the United States. For purposes of determining the source of the advertising income, they only considered the sourcing rules for compensation for labor or personal services. They characterized the payments as remuneration for its activities in disseminating their advertisements in the magazine published and distributed outside the United States.

The source of advertising revenue to be received from US advertisers is the capital and labor employed in the publishing and distribution centers outside the United States that will carry out the activities to produce the advertising revenue. In other words, the employed capital and labor for publicity, resulting in income from services is a source from where they are rendered.

In other court cases, the judge stated:

"if an income be tax, the recipient thereof must have a domicile within the jurisdiction or property or activities within the jurisdiction so that the source of income may be said to have a situs in this country." –Piedras Negras Broadcasting Co v. Commissioner

"Shipping goods into a state is not doing business therein," Novelty Manufacturing v Connell.

"nor is a sale by a solicitor, transportation of merchandise into a state, and collecting, therefore," Brumer v Kansas Moline Plow Co

"nor distributing a magazine by a foreign corporation," Systems Co. v Advertiser's Cyclopedia Co.

" Internal activities of a corporation, such as holding a stockholders' meeting, do not constitute transacting business. Nor is a collection of debts, nor litigation to so collect, nor the place of signing a contract", Equitable Credit Co. v Rogers

Regulations 94, article 231-1(b), " Whether a foreign corporation has an office or place of business within the United States depends upon the facts in a particular case. The term office or place of business, however, implies a place for the regular transactions of business and does not include a place where casual or incidental transactions might be, or are affected."

Before US IRS can impose a tax on foreign business, the IRS must overcome the limitations of the Commerce Clause, which the U.S. Supreme Court has interpreted in a number of important cases. Most notably, in *Complete Auto Transit, Inc. v. Brady*, the Court established a four prong test. One of those prongs, the Court explained, is the requirement that a tax is applied to an activity with a substantial nexus within the a USA taxing location.

Ten years prior to *Complete Auto*, the Court, without specifically defining the term "substantial nexus," established in *National Bellas Hess, Inc. v. Department of Revenue*, the principle that nexus, for tax purposes, requires a USA physical presence.

In 1992, *Quill Corp. v. North Dakota*, Quill was a mail-order vendor of office supplies that had no physical presence in North Dakota. The Court concluded that an in US Source physical presence was required to satisfy the substantial nexus test under the

Commerce Clause and therefore North Dakota could not force Quill to collect sales tax on sales within the US Source. In denying that argument, the Court indicated that the "slightest physical presence" did not equate to substantial nexus under the Commerce Clause.

TRADE OR BUSINESS THROUGH OFFICES OR FIXED PLACES OF BUSINESS OUTSIDE PR

Having an Office in USA

A critical point: If the Puerto Rican entity that performs the service maintains an office or agent in the US that is involved in performing the service, the income will be taxable by the US. So to benefit from Act 20, your business must avoid doing anything in the US that contributes to producing of the service. If any services are require to be done within US, they should be perform by a US entity.

A fixed site of business maintained by Puerto Rico entity in the United States is a source of income to the US. However, this rule does not apply to sales for use, disposition, or consumption outside the if your office or another fixed place of business outside Puerto Rico **WAS NOT** a material factor in generating the income.

A sales meeting in the US with a customer or potential customer would not drag the service income back into the US, the logic being that selling a service is not an element in performing the service. However fixing things or giving training related to the service from the US probably would make the income taxable in the US. Maintaining a sales office in the US is problematic unless it demonstrably restricts itself to selling only with no management discreation.

Owned Servers

Do not own a physical server in the United States. If you have your own (not third party) website as a sales platform, you should avoid having a physical web server in the US. If you have one, it could be considered a "permanent establishment" according to the US tax code. What makes your company responsible for US taxes.
It will be much better to use the service of the third-party web store, where you can host your website. The third-party web shop represents the most convenient and optimal sales channel that you can use today. The third-party web store does not require you to have your own sales platform or credit card processing solutions, etc. All you need is a bank account.

Collection Gateway Merchants Services

If you require using a US entity to process credit card payments, it may be necessary to establish separate Company, it would be in charge of setting a credit card line and processing account for a company located outside of the US.

The customer's processing payment, and depositing in the Bank account of the US entity. The bank of the US entity would transfer from its bank account to the company of Puerto Rico. Note, it is necessary that the US company charge a fee to the Puerto Rican company for performing this credit card processing servicing. It would be preferable that it either be conducted from outside USA or by an independent third party.

In Spermacet Whaling & Shipping Co. v. Commissioner, (1958), a major shareholder of the taxpayer (a foreign corporation for federal income tax purpose) was a U.S. resident who received and dispersed certain funds of the taxpayer in the United States and received bank statements and correspondence addressed to the taxpayer. The Tax Court found that these activities of the taxpayer's agent did not constitute a U.S. business because they were "ministerial or clerical in nature, involving very little exercise of discretion or business judgment necessary to the production of the income in question."

ACTING AGENT OR UNRELATED THIRD PARTIES PERFORMING SERVICES

Special rules apply to determine whether an office or other fixed places of business of an agent or third party provider is attributed to a Puerto Rico taxpayer. When the provider is an independent agent that is, a general commission agent, broker, order fulfillment, inventory store or other agent of independent status, acting in the ordinary course of its business, then the facility is not attributed to the Puerto Rico taxpayer.

However, a person that acts exclusively or almost exclusively on behalf of one or more entities to which it is closely related, that person shall not be considered to be an independent agent.

Complexities can arise when a PR entity contracts an independent, unrelated party to perform some or all of the activities needed to provide the service. When an entity hires unrelated entities in different locations outside of Puerto Rico, it should be mindful of situations in which actions of these individual agent attributes as to the PR enity purposes of applying the source of income rules.

If a dependent agent conducts activities outside of PR on behalf of the PR entity, income earned by the PR entity but generated in part by that agent's actions could be deemed outside PR source.

However, if an independent agent unrelated party conducts activities in another country on behalf of the PR entity, income earned by the PR entity but generated in part by that agent's actions could be deemed PR source if directly perform and delivered to the PR entity with no client contact.

If a portion of the activity perform by an independent agent is a material factor in the income activities outside of Puerto Rico, that portion could be consider outside Puerto Rico source, taxable in the country of the independent agent.

If it has been determined that a Puerto Rico taxpayer has a U.S. office or other fixed place of business, the next question is whether particular income is attributable to that US office or other fixed places of business.

If the agent is a material factor in providing the services and has direct contact with the client, this portion could be considered source outside of Puerto Rico, therefore taxable

by country of the agent. However, if the services are for back office support services, or does not add direct value to the services provided to clients, these would not change the source of income for the services, it would continue to be Puerto Rico source.

In sumary, income from an PR entity permanet establishment in another country, is treated as attributable to an other country office or other fixed places of business only if, (1) the office or another fixed place of business is a material factor in the realization of the income, and (2) the income "is realized in the ordinary course of the trade or business carried on through the office or other fixed place of business"

In a important court case, Piedras Negras Broadcasting Co. v. The United States, 1942), a general advertisement was broadcasted to the United States by a foreign entity (a Mexican corporation), and mail responses were obtained from U.S. customers. The foreign entity maintained a mailing address at Eagle Pass, Texas, and used a hotel room there in which it counted and allocated the funds received in the mails each day. Contracts with advertisers in the United States were handled through an advertising agent, an independent contractor. After analyzing these facts, the Court found no U.S. trade or business by the foreign entity. Using Piedras Negras, as a guideline (in particular, considering that the advertising agent, in that case, was an independent contractor), it could be argued that a foreign taxpayer's activities conducted through an independent contractor does not create a U.S. trade or business.

RELATED PARTY CONTRACTS

AND TRANSFER PRICING

Businesses should be mindful of how they contract with related parties to provide any activities that are necessary to generate the PR office's profits. The characterization of related party relationships, the corporate form, and the agreements are critical to effective planning of international tax planing, and the sourcing of income in particular.

The fact that a PR company and its outside PR related Company contract with each other for the provision of services should not automatically create a relationship that would affect the source of income.

The Supreme Court has maintained that the corporate entity doctrine serves a useful purpose in business life and that a corporation will remain a separate taxable entity as long as the company carries on a business purpose. However, the Court noted that the corporate form might be disregarded when it is a mere sham or is not a real entity.

The courts have already ruled on services performed by a related company that did not create US source income for the foreign parent company in that the relationship between related companies was essentially no different from that of an independent contractor. In these cases, a foreign corporation was paid by US entities to perform research and development. Since the foreign corporation did not itself perform services in the United States, the court held that there could not be any US source income attributable to the foreign corporation, and that transactions between the related parities were being conducted at arm's length. Even though the U.S. company was a wholly-owned subsidiary of the foreign corporation, it was doing business under its name as a separate, distinct entity, and thus the activities of the U.S. entity did not cause the foreign corporation to have U.S. source service income.

Pricing the amount charged in a controlled related party transaction must be determined arm's length. A controlled service transaction is define as any activity by one member of a group of controlled taxpayers that results in a benefit to one or more other members of the controlled group. Controlled requires more than 50% ownership of a USA citizenship and USA residency.

THE ARM'S LENGTH PRINCIPLE, If two independent companies trade with each other, a market price for the transaction will result. It is known as "arms-length" trading because it is the product of a genuine negotiation in a market. This arm's length price is

usually considered to be acceptable for tax purposes. But when two related companies trade with each other, they may wish to artificially distort the price at which the trade is recorded to minimize the overall tax bill. They might, for example, record the profit as much as possible in a tax haven with low or zero taxes.

Market Rate Transfer Price, the simplest and most elegant transfer rate is to use the market price. By doing so, the upstream and downstream revenue of related can sell or provide services either internally or externally and earn the same profit with either option.

Many US investors try to duplicate Big Companies strategy were the US company buy from the PR company, an up stream revenue. That is for Big company that have a lot of funds for transfer pricing studies. Smaller entity should use the down stream approach, the PR company buys from the USA company, only those that it can not bring to PR. Getting prices from independent companies or entities would be a good base to determine fair value of services or products.

Do and Don't under the Act Hub Trading

Follow a Strategy to further emphasize the transparency of the structure in the eyes of the IRS. That will consolidate the legality of your business in the eyes of the IRS and still pay only 4%, **SAVE A LOT OF TAXES**.

Critical things to consider when setting up your Puerto Rico Business Strategy is that Income from sources outside Puerto Rico will be treated as effectively connected with a trade or business in Puerto Rico. To do so, it must comply with:

1. Sales of Goods

    a. Sales of inventory Goods is source where the transfer of title of the goods or the services takes place.

    b. A corporation can only sell goods through its employees or web base server, hired Puerto Rico residents to sell and provide support to servers, to start qualifying under the Act.

    c. Sells generated by PR entity to a US resident (Individuals or Entities) or worldwide entity through its Puerto Rico resident employees, is considered PR source income, if transfer of title is done from the PR entity, not US source income, so employee PR residents and transfer title FOB Seller.

    d. If the owner significantly contributes and is an essential economic element in the earning of the income, hire the owner as an employee of the Act entity.

2. Location
    a. Have an office or other fixed places (location) of business in Puerto Rico.

    b. The Puerto Rico office or other fixed places (location) of business the main address as disclose to providers and clients.

    c. The income of the Puerto Rico location should be in the ordinary course of the trade or business carried through that office or other fixed places of business.

    d. The Puerto Rico office or other fixed places of business should be a material factor and it significantly contributes to, and is an essential economic element in, the earning of the income.

    e. Do not have office or other fixed places of business in a foreign country or USA that is a material factor in the generation of revenue outside of Puerto Rico.

    f. If server is located outside Puerto Rico, use third party websites.

    g. If you use your own sales platform have the server located in Puerto Rico.

    h. Have the principal entities bank accounts in Puerto Rico. Use and document US banks use only for services or products not effectively provided in Puerto Rico.

    i. Use Puerto Rico provider for product and services. Use and document US providers only for services or products not effectively provided in Puerto Rico.

    j. Perform all mayor critical functions of procurement, marketing, sales and logistic management in Puerto Rico.

    k. Have the principal entities bank accounts in Puerto Rico. Use and document US banks use only for services or products not effectively provided in Puerto Rico.

l. Use Puerto Rico provider for product and services. Use and document US providers only for services or products not effectively provided in Puerto Rico.

m.

3. Leaving behind activities

    a. If required, relocate critical services to Puerto Rico and leave behind, in a separate US company, any activities that is not practical to move. That would require billing clients separately for services from the US company and for services from the Puerto Rican company.

    b. Stay away from the strategy of a partial move, a US company to buy or sell services from or to the Puerto Rican company. It takes the entities into the highly technical tax rules for "transfer pricing". This approach is practical only for a large business.

    c. Smaller entity should use the down stream approach, the PR company buys from the USA company, only those that it can not bring to PR or provide from PR.

    d. If you have to store inventory in USA, use a USA independent warehouse to store and do not transfer title of inventory to the warehouse.

    e. Have delivering logistics thought an independent delivering entity.

4. Independent Agents

    a. If you need to conducts activities in the US on behalf of the PR entity, use an independent agent or US Corporation, non related party, to conducts activities these activities in the US on behalf of the PR contractor.

    b. Income earned generated in part by independent agent's or US Corporation from their activities could be deemed PR source, if directly perform and deliver to the PR entity with no client contact, and the independent agent did not significantly contribute and is not an essential economic element in the earning of the income.

5. To not have more than 50% ownership of a USA entity.

    a. Transaction with a controlled or own over 50% bear a Transfer Pricing Risk

    b. Pricing the amount charged in a transaction with controlled or own over 50% related entity, must be determine as an arm's length transaction between independent entities.

    c. Identify and asses crucial control related entity transactions in the early stage of the planning, pricing risk requires assessment to be sufficient, relevant and reliable information at an early stage and periodically updated.
    d. Getting prices from independent entities that provide the same service or product that the PR entity is buying from a related entity in USA, would be a good base to determine fair value of services or products between related entities.