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**GUIDE**

# Puerto Rico Act 22



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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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# **PUERTO RICO ACT 22 INCENTIVE FOR BUSINESS OWNERS AND RELOCATION OF INDIVIDUAL INVESTORS**

## **PURPOSE**

Along with Act 20, Puerto Rico adopted an additional incentive, the "Act to Promote the Relocation of Individual Investors" (Act 22), to stimulate economic development by offering nonresident individuals 100% tax exemptions on all interest, all dividends, and all long-term capital gains. A complement of Act 20, Act 27 and Act 73, Act 22 offers special incentives to business owners, entrepreneurs and executives.

## **TAX INCENTIVES**

**0% Taxes on Dividends and Interest:** A qualified individual's income from dividends and interest are exempt from Puerto Rico income taxes during the exemption period.

**0% - 10% Taxes on Capital Gains:** A qualified person's income from long-term capital gains is exempt from Puerto Rico income taxes during the tax exemption period after the individual becomes a resident of Puerto Rico. A qualified individual's long-term capital gains before becoming a resident of Puerto Rico are subject to a 10% tax rate if realized within ten years of residency of 5% if realized after ten years of residency.

**0% Federal Taxes on Puerto Rico source Income:** Under the US Internal Revenue Code, income derived from sources within Puerto Rico by individuals qualified as bona fide residents are exempt from federal income taxation.

# ELEGIBILITY

Individuals who become residents of Puerto Rico are considered eligible under Act 22 unless the individual was a resident of Puerto Rico at any time beginning on January 16, 1997, and ending on January 16, 2012.

An individual that becomes domiciled in Puerto Rico establishes a presumption of residency as a Puerto Rico resident with a 183-day physical presence in Puerto Rico.

# TAX EXEMPTION DECREE

An eligible individual is required to obtain a Tax Exemption Decree that will endure for a term the Government decrees valid until 2036. 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.

# REQUIREMENTS

An individual that becomes domiciled in Puerto Rico is considered a Puerto Rico resident.

- First, an individual's 183-day physical presence in Puerto Rico establishes a presumption of residency under the Puerto Rico Tax Code.
- Second, the individual must not have a tax home outside of Puerto Rico during the year. A tax home is determined to be located near a person's principal place of business.
- Third, the individual must have a closer connection to Puerto Rico than to the US or another country. This is determined by a variety of factors including but not limited to the location of the individual's home, family, personal belongings, and voting district.

The tax exemption period begins on that date an individual becomes a resident of Puerto Rico. For more details, see our white paper "Becoming a Puerto Rico Resident."

