



Act No. 20 & 22 of 2012

Background

On January 17, 2012, the former Governor of Puerto Rico, Hon. Luis Fortuño, passed the incentive Act No. 20 & 22. Under the current administration, led by Hon. Alejandro Garcia Padilla, the Puerto Rico government has been actively seeking to promote the investments, boost services, and attract foreign businesses to Puerto Rico with these two Acts.

Act No. 20: Exportation of Services

Purpose

The Act 20 was established to offer the necessary elements for the creation of a World Class International Service Center in Puerto Rico. The goal of this act is to build strong relationship with clients that are located outside of Puerto Rico by focusing on service.

The Act provides benefits for services provided from Puerto Rico to outside markets and will apply to any entity with a bona fide establishment in Puerto Rico that is engaged in an eligible service for export.

Tax Incentives

- 4% Income Tax Rate
 - Income generated from export services will obtain advantage of a 4% flat income tax rate.
- 0% Tax on Dividends
 - Exoneration of 100% Puerto Rican taxes in distributions from earnings and profits derived from export service income.
- 60% Exemption on Municipal Taxes
 - Municipalities in Puerto Rico may collect a gross receipts tax of up to 0.5%. (1.5% for financial services)
 - Elected businesses will obtain a 60% exemption on such municipal taxes.
- 90% Tax- Exemption on Property Tax
 - Tax exemption from personal and real property taxes for certain types of businesses (100% tax exemption for the first five years of operation).

Puerto Rico is the only place in the world that U.S. citizens don't have to pay federal income taxes unless they report stateside.

Examples of Elected Services

- Research and development
- Advertising and public relations
- Professional services, such as legal, tax and accounting
- Call centers
- Investment banking and other financial services
- Economic, scientific, environmental, technological, managerial, marketing, human resources, engineering, information systems, auditing and consulting services
- Production of engineering and architectural plans and designs, and related services.
- Services performed by electronic data processing centers
- Development of licensable computer software
- Shared service centers
- Medical, hospital and laboratories services
- Any other service designated by the Secretary of the Department of Economic Development and Commerce of Puerto Rico

Tax Exemption Decree

The service provider should request and obtain a tax exemption decree under the act which will be signed by the Secretary of the Department of Economic Development and Commerce of Puerto Rico. The Tax Exemption Decree will constitute a contract with the Puerto Rico Government exempt to subsequent legislative changes. That decree will have term of 20 years, renewable for 10 additional years.

"My biggest interest has gone from tax benefits and life on the beach, to all the potential businesses I can help."
 Alex Daley – Casey
 Research & Angel
 Investor



Act No. 22: Relocation of Individual Investors

Purpose

To attract new residents to Puerto Rico by lending a total exemption from insular income taxes on passive income realized or accrued after such individuals become bona fide residents of Puerto Rico.

The Act is designed to primarily attract to Puerto Rico high net worth individuals, empty nesters, retirees who currently relocate to other States and investors from U.S and other countries.

Tax Incentives

- 0% Tax on Dividends and Interest
 - New residents will obtain a 100% tax exemption from Puerto Rico income taxes on all dividend and interest income.
 - Interest and dividends that qualify as Puerto Rico source will not be subject to federal income taxation under Section 933 of the U.S Tax Code.
- 0% Tax on Short and Long-Term Capital Gains
 - All capital gains accrued after becoming a New Resident will be 100% exempt from Puerto Rico taxes. The profit will not be subject to federal taxes.
 - To qualify for the Act 22 incentives, all revenues must be recognized prior to January 1, 2036.

Tax Exemption Decree

To enjoy the benefits granted under the Individual Investor Act the new resident must apply for and obtain a tax exemption decree under the Act, which will be signed by the Secretary of the Department of Economic Development and Commerce of Puerto Rico.

The Tax Exemption Decree will be a contract with the Puerto Rico Government exempt to subsequent legislative changes.

For more information, please contact us at:

LPG CPA, P.S.C.
Tax Department

Ph: 787.793.1616

F: 787-793.1620

E: info@lpgpr.com

www.lpgpr.com

Physical Address:
624 Ave. Escorial
Urb. Caparra
Heights
San Juan, PR 00920

Postal Address:
PMB 516
1353 Ave. Luis
Vigoreaux
Guaynabo, PR 00966

Note: This is only an informative bulletin and does not constitute an opinion or advice of the matters herein presented, or a form to avoid to paid any type of tax.