

## IN FULL FORCE THE PUERTO RICO INCENTIVES CODE

As Puerto Rico welcomed the New Year 2020, the government ushered on January 1st the implementation of Law No. 60 of 2019 known as the Puerto Rico Incentives Code (IC) in its entirety, as only parts of the law had become effective on July 2019 when it was approved. On January, 1st 2020 all the provisions of IC became effective, and would therefore group and govern all Puerto Rico cash and tax incentives previously found in countless laws and governmental programs. The IC is Puerto Rico's first catalog of tax and monetary benefits for different economic sectors. The following are the general tax benefits included in the law:

- A 4% fixed income tax rate.
- A 0% income tax rate to dividend payments.
- A 75% exemption on the payment of property taxes.
- A 50% exemption in municipal license taxes.

The IC places the agriculture industry and Opportunity Zones projects in a different category granting these industries (and others as well) certain specific tax benefits as they fit in an exempted category of the general tax benefits.

The following are answers to some common questions about the IC and its benefits.

### **Who can benefit from IC?**

The IC benefits: 1) certain professionals (see the categories below); 2) new and existing entities; 3) international insurers and financial



entities; 4) Small and Medium-sized Enterprises ("SME" or "PYMES", by its Spanish acronym for *Pequeñas y Medianas Empresas*) and; 5) businesses in the municipalities of Vieques and Culebra provided that applicants for each of these categories fulfill specific requirements in the law.

The IC recognizes a new tax benefit to SMEs in Puerto Rico, as well as to businesses that would establish operations in Vieques and Culebra.

### **Which businesses are considered SMEs under the IC?**

To be considered an SME, the business must have an average of 3 million dollars in volume of business during the last 3 years. PYMES will enjoy a special income tax rate of 2% and a 100% exemption from municipal and property taxes during the first 2 years of operations. After the initial 2 years, these companies will enjoy an income tax rate of 4% and a 75% and 50% exemption from property and municipal license taxes, respectively.

## Can individuals benefit from IC?

Yes, individuals who are professionals like some doctors, scientists, young entrepreneurs and individual resident investors (formerly Law No. 22 of 2012) will benefit from the incentives under the Code.

## Difficult Recruitment Professionals

The IC creates a new tax benefit for individuals who fall under the "Difficult Recruitment Professionals" category. This type of professionals are individuals who reside in Puerto Rico with specialized knowledge in the operation of a business that currently benefits from the Code or under any of the previous incentive laws. The individuals under this category will not pay income taxes for the first \$ 100,000.00 of their salary in a year.

## What are the industries or business sectors with tax benefits under the IC?

An abundant amount of businesses and a diversity of business sectors will now enjoy tax benefits under the IC including but not limited to manufacturing activities, renewable energy, technology including blockchain, agriculture, creative industries such as the film industry, tourism, export services, among others.

## Are there any incentives for the construction industry?

Yes, the IC includes significant tax benefits for construction projects some of which were

part of Law No. 21 of 2019 known as Puerto Rico Opportunity Zones legislation in the *Priority Project* category.

*Priority Projects* within the Opportunity Zones legislation, are construction projects of new and existing residential, commercial and industrial real property.

Some of the benefits for projects under the Opportunity Zones provisions of the IC are the following:

- A fixed income tax rate of 18.5%.
- A 0% tax rate on income in dividends received.
- A 25% exemption in the payment of property taxes, municipal license and construction taxes.
- A tax credit of up to 25% of the investment in the project.
- The total or partial deferral of the payment of income tax on capital gains.
- Cash incentives.
- An expedited process for permits, among other benefits.

Should you or your company be interested in learning about the benefits of the Incentives Code and how they may be of application to you, please contact the attorneys at Vidal, Nieves & Bauzá, LLC. a is a corporate law firm with a special emphasis in energy and environmental matters, corporate, tax, transactional, real estate and insurance practices.

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