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PUERTO RICO AT A GLANCE

INTRODUCTION TO PUERTO RICO





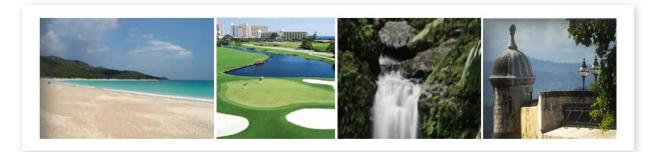
STRATEGIC LOCATION

- Serves as a gateway to the continental United States and Latin America
- Largest and busiest airport in the Caribbean
- Direct flights to many major cities, such as New York (3.5 hours), Miami (2.5 hours), Madrid, and London

INTRODUCTION TO PUERTO RICO

BUSINESS AND LIVING



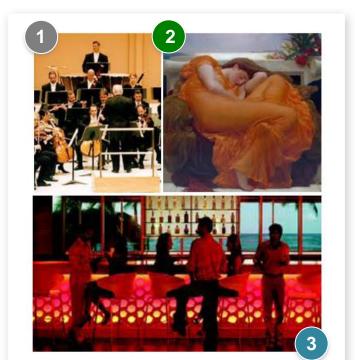


- <u>Ideal climate</u>: Average temperature of 83° F in winter and 85° F in summer
- <u>Variety of terrain</u>: Coast, plains and mountains, including the only tropical rain forest in the U.S. National Forest System, El Yunque
- Great diversity of natural resources: Ranked among the top jurisdictions with the best beaches in the world

A Cultural and Entertainment POWERHOUSE

Puerto Rico is world-renowned for its music, art, nightlife and cuisine

- Casals Festival
 - Puerto Rico Symphony Orchestra
 - Puerto Rico JazzFest
- Major Concerts (Rolling Stones, Ricky Martin, Paul McCartney, Madonna, etc.)
- Rum Capital of the World
 Best food, drink and restaurants by Travel & Leisure 2011
 - More than 20 casinos



- Over 40 Museums
- Museum of Art of Puerto Rico
- · Ponce Art Museum
- Museum of Contemporary Art

- Restaurants recognized by Condé Nast, New York Times, Gourmet Magazine
- Local restaurants by international restaurateurs (Jean Georges, Alain Ducasse)
- Local Iron Chef -Robert Treviño



BENEFITS AND PROTECTIONS FOR INVESTMENT

SELF-GOVERNING COMMONWEALTH IN ASSOCIATION WITH THE U.S.



- No U.S. passport required for U.S. citizens
- Applicability of the <u>U.S. federal laws</u> and presence of U.S. federal courts
- U.S. currency, and banking regulated under the U.S. system (FDIC)
- FINRA and SEC regulated financial service providers
- Intellectual property protection under U.S. law
- Participation in the trade agreements of the U.S.
- Access to federal funds for infrastructure, social programs, education and research, among others

FAVORABLE TAX AND COST STRUCTURE



Foreign tax structure

- There is no income tax at the federal level to residents of Puerto Rico
- Tax treatment for Controlled Foreign Corporation (CFC), where federal income taxes for U.S. based multinational corporations are deferred until profits are repatriated to the U.S.
- Favorable tax rates and incentives

Competitive costs compared to the U.S.

- The average cost of doing business in Puerto Rico is 10%
 lower than the U.S. average
- San Juan offers the lowest costs of doing business of any major U.S. city



FIRST RATE EDUCATION AND HEALTH CARE

DUCATION

Primary and Secondary Schools:

Puerto Rico has over 1,300 public schools and over 500 private schools

- <u>English and Bilingual Schools</u> Most schools are bilingual and some are fully in English (e.g., St. John's, Robinson, TASIS Dorado)
- <u>U.S. College Bound</u> Many Puerto Rican high school students pursue college degrees in the United States, including at some of the most elite universities
- **Higher Education:** Puerto Rico also has over 50 post-secondary institutions
 - University of Puerto Rico Río Piedras is world-renowned in a number of fields and the University of Puerto Rico Mayagüez is listed among the top engineering schools in the United States
 - · Most local universities are accredited by the Middle States Association

HEALTH CARE

- **Hospitals:** Puerto Rico has a total of 66 hospitals managed by private and public sectors with a total of 11,887 authorized beds, all of which are required to meet U.S. standards of excellence
- Medical and Research Centers: With a rich history in the pharmaceutical industry, Puerto Rico is home to a number of respected medical and research centers. The Medical Center of the University of Puerto Rico provides comprehensive quality health care, research programs and public education. The Cardiovascular Center is the top heart hospital in the Caribbean.
- Physicians: Puerto Rico has a vast number of primary care and specialist doctors, all of which are Board Certified
- Affordable: Health care costs in Puerto Rico are approximately 40% less than in the U.S.

"Puerto Rico's infrastructure is among the best in Latin America & the Caribbean..."

- Financial Times





Extensive highway system, over 4,629 miles



PR's air access is by far the best in the Caribbean

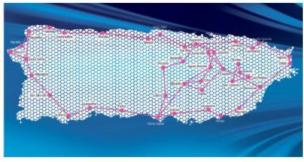


Port of San Juan is the 8th busiest port in the U.S.



SJU is the busiest airport in the Caribbean

STATE OF THE ART BUILDINGS, TRANSPORTATION AND TECHNOLOGY NETWORKS



Outstanding infrastructure for



Over 2 million visitors in just 7 years



Urban Train - Over 40,000 daily passengers



Over 4 million visitors in just 8 years



FAVORABLE BUSINESS ENVIRONMENT

Business Friendly Environment

 Puerto Rico has a strong, yet flexible legal and regulatory framework, with all corporate law and regulations published in English

English Language

 Spanish & English are the official languages of Puerto Rico, and English is widely spoken throughout the island

Highly Qualified Professionals

 Puerto Rico boasts high standards of education, and has highly qualified labor force in all fields, including law, finance, engineering, and health care



A NEW FRAMEWORK FOR THE ECONOMIC DEVELOPMENT OF PUERTO RICO

TAX INCENTIVES FOR EXPORT SERVICES

OF PUERTO RICO (ACT 20)

Building

A Leading **Export Services** Hub

A NEW FRAMEWORK FOR THE ECONOMIC DEVELOPMENT OF PUERTO RICO



Act No. 20 of 2012 ····· to Promote the Exportation of Services

OBJECTIVE:

To provide the appropriate environment and opportunities to make Puerto Rico a center of international services, focusing on:

- encouraging local service providers to expand their business by offering their services to clients who are located outside of Puerto Rico, and
- convincing foreign service providers to move their businesses to Puerto Rico.



TAX INCENTIVES FOR EXPORT SERVICES ACT 20

- Puerto Rican businesses providing services for exportation will enjoy a 4% flat income tax rate on income related to such services
- This rate may be reduced to 3% when more than 90% of the eligible business's gross income is derived from export services and such services are considered "strategic services" as set forth under the Act

4% CORPORATE TAX RATE

• Distributions from earnings and profits derived from the export services income of eligible businesses are 100% tax exempt for Puerto Rico residents

100% TAX-EXEMPT DIVIDENDS

- Municipalities in Puerto Rico may levy a gross receipts tax of up to 0.5% (1.5% for financial services)
- Eligible businesses will enjoy a 60% exemption on such municipal taxes

60% EXEMPTION





ELIGIBLE SERVICES ACT 20



- Research and development
- Advertising and public relations
- Consulting
- Advise on matters relating to any trade or business
- Commercial arts and graphic services
- Production of construction drawings, architectural and engineering services and project management
- Professional services, such as legal, tax and accounting
- Centralized management services
- Centers for electronic data processing

- Development of computer programs
- Telecommunications voice and data between persons located outside of Puerto Rico
- Call centers
- Shared services centers
- Storage and distribution centers
- Educational and training services
- Hospitals and laboratories
- Investment banking and other financial services
- Any other service that is later decided to be treated as an eligible service because it is in the best interest of Puerto Rico



REQUIREMENTS FOR INCENTIVES ACT 20

Puerto Rican companies providing services abroad about non-Puerto Rican matters



The Act applies with respect to any entity with a bona fide office or establishment located in Puerto Rico that is or may be engaged in an eligible service.

PUERTO RICO BUSINESSES

Services must be performed for non-resident individuals and/or foreign entities that have no nexus with Puerto Rico.

SERVICES FOR EXPORTATION

The Eligible Service provided must not, and will not be, related to the conduct of a trade, business or other activity in Puerto Rico. NO NEXUS TO PUERTO RICO



RULES AND INCENTIVES FOR PROMOTERS AND EXISTING LOCAL BUSINESSES

ACT 20

Law provides special rules for promoters and for existing P.R. businesses

PROMOTER

- Special Incentive to Promoters: The Act provides for incentives to local service providers that are engaged in Promotional Services
- **Promotional Services** are eligible services rendered to non-Puerto Rico resident individuals and/or foreign entities related to the establishment of a New Business in Puerto Rico, as defined in the Act
- **Tax incentives**: Businesses engaged in qualifying promotional services will receive the same tax incentives under the Act, but only with respect to the net income derived within the 12-month period prior to the New Business taking any of the following actions:
 - Beginning construction of the facilities to be used in Puerto Rico;
 - · Commencing operations in Puerto Rico; or
 - · Executing a contract to acquire or lease facilities in Puerto Rico

EXISTING P.R BUSINESSES

- Existing Puerto Rico Businesses are encouraged to apply for the incentives under the Act if
 they engage or intend to engage in exporting any of the eligible services described or in
 Promotional Services.
- Base Period: For those existing Puerto Rico businesses, the tax incentives will only apply to that portion of net income derived from an eligible service that exceeds the average net income generated by such business during the three taxable years preceding the date a request for a Tax Exemption Decree is filed by such business ("Base Period").



TAX EXEMPTION DECREE ACT 20

Providing certainty for eligible businesses



Tax Exemption Decree:

To enjoy the benefits granted under the Export Services Act the services provider must 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.

20 Years:

Such decree will have a term of 20 years, renewable for 10 additional years, provided certain conditions are satisfied.

Certainty:

The Tax Exemption Decree will constitute a contract with the Puerto Rico Government not subject to subsequent legislative changes.



OBTAINING A TAX EXEMPTION DECREE ACT 20

A fast and predictable process

Application:

- Interested persons may obtain a Tax Incentive Application from the Office of Industrial Tax Exemption
- Applicants must ensure that their initial application is complete and correct in all respects in order to avoid delays in the review process and the granting of the Tax Exemption Decree

Interagency Review:

- The completed application will be reviewed by the relevant governmental departments and agencies
- They will ensure compliance with the applicable eligibility criteria, as set forth in the application and the Act

Signed Decrees:

- The Secretary of Economic Development and Commerce will sign the Tax Exemption Decree for approved applications.
- Applicants who submit a complete application should expect to have their Tax Exemption Decree in approximately 45 to 60 days.



A NEW FRAMEWORK
FOR THE ECONOMIC DEVELOPMENT
OF PUERTO RICO

TAX INCENTIVES FOR INTERNATIONAL FINANCIAL ENTITIES (ACT 273)

Expanding Our International Banking Platform to Export Financial Services to Foreign Markets

A NEW FRAMEWORK FOR THE ECONOMIC DEVELOPMENT OF PUERTO RICO



Act No. 273 of 2012 to promote the International Financial Entities ("IFEs")

Objective:

To make Puerto Rico an international banking and financial center by providing tax incentives for new banking and financial activity in Puerto Rico that is done for clients outside of Puerto Rico.

What is an IFE?

An IFE is a Puerto Rico entity engaged in traditional banking or financial services for non-Puerto Rican clients. IFEs are under the supervision of the Office of the Commissioner of Financial Institutions.



TAX INCENTIVES FOR IFEs ACT 273

Compelling value proposition for banking and financial service providers

• IFEs will enjoy a 4% flat income tax rate on their income

 Puerto Rico Shareholders: Distributions from earnings and profits derived from IFEs will be taxed at 6% for shareholders that are Puerto Rico residents

 Non-Puerto Rico Shareholders: Non-residents will enjoy 100% exemption from Puerto Rico taxes on such dividends

- Municipalities in Puerto Rico may levy a gross receipts tax of up to 1.5% for financial services
 - IFEs will enjoy a 100% exemption on such municipal taxes

IFEs will be 100% exempt from all property taxes

4% CORPORATE TAX RATE

0% - 6% DIVIDEND TAX RATE

100% EXEMPTION ON MUNICIPAL TAXES

100% EXEMPTION ON PROPERTY TAXES





REQUIREMENTS FOR INCENTIVES...... ACT 273

Simple and easy to meet



• OCIF will issue a license after reviewing application and performing due-diligence on the proposed IFE and its principals

LICENSE FROM REGULATOR

 IFEs must have at least \$5 million in capital, of which at least \$250,000 must be completely paid-in

 OCIF may lower the capital requirements to as low as \$500,000 for IFEs performing limited activities **CAPITALIZATION**

• IFEs must also maintain at least \$300,000 in assets that are free and clear from any liens, or it must provide a financial quaranty in the same amount

OCIF may lower such requirement for certain IFEs

FREE & CLEAR ASSETS

 IFEs must maintain at least 4 <u>full-time employees</u> working at their offices located in Puerto Rico **EMPLOYEES**





IFE TRANSACTIONS ACT 273

IFEs are authorized to do certain types of transactions

PERMITTED TRANSACTIONS:

IFEs are authorized to engage in traditional banking and financial transactions with clients outside of Puerto Rico, including transactions related to:



- Borrowing money
- Lending
- Letters of credit
- Refinancing
- Foreign currency exchange
- Underwriting

- Trade financing
- Trust services
- Securities brokerage
- Clearinghouse services
- Asset management
- Other financial services

LOCAL TRANSACTIONS:

IFEs are generally not permitted to do transactions with local Puerto Rico counterparties, except in certain cases such as these:

- Certain transactions involving the Government Development Bank and the Economic Development Bank of Puerto Rico
- Certain transactions and activities involving securities issued by the Government of Puerto Rico
- Participation in local loan syndications originated by a local bank
- Purchasing of substandard or non-performing loans from Puerto Rico entities





APPLICABILITY OF U.S. BANKING LAWS

... ACT 273

IFEs are exempt from certain U.S. banking laws, but not from others

EXEMPTI

US International Banking Act:

Puerto Rico is considered a foreign jurisdiction under the US International Banking Act of 1978 (IBA), therefore all IFEs in Puerto Rico are exempt from the IBA's requirements for domestic financial institutions.

U.S. Bank Holding Company Act:

Puerto Rico IFEs are also generally exempt from the U.S. Bank Holding Company Act (BHCA) and thus may be affiliated with commercial institutions. However, if the IFE accepts demand deposits and issues commercial loans, it will be considered a Bank under the BHCA.

APPLICABLI

All IFEs must ensure that they comply with any applicable U.S. federal laws and regulations, such as:

- Bank Secrecy Act
- US Patriot Act
- Office of Foreign Asset Control (OFAC) of the United States Department of the Treasury





PROCESS FOR SETTING UP AN IFE.....ACT 273

A predictable process and tax certainty for 45 years

Permit to Organize:

Any entity may apply for a permit with the Office of the Commissioner of Financial Institutions (OCIF) to organize an IFE. The application can be obtained from OCIF. OCIF will review the application to determine the suitability of the proposed IFE, focusing on the financial solvency, the credit and commercial banking experience and the integrity of the applicants and their directors and officers.

Organization:

Applicants with a permit to organize an IFE must file such permit, along with the organizational documents, with the Department of State to register and officially organize the IFE.

License to Operate:

OCIF will issue a license to operate to the newly organized IFEs that meet the requirements under the Act, including the minimum capital requirements.

Decrees:

To enjoy the tax benefits under the Act, IFEs must request and obtain a tax exemption decree by submitting a copy of its IFE license to the Secretary of the Department of Economic Development and Commerce of Puerto Rico. Within 15 days, the Secretary will sign the decree.

- <u>45 Years</u>: Such decree will have term of 15 years, renewable for two additional 15 year periods, subject to certain conditions
- <u>Certainty</u>: The Tax Exemption Decree will constitute a contract with the Puerto Rico Government not subject to subsequent legislative changes



A NEW FRAMEWORK
FOR THE ECONOMIC DEVELOPMENT
OF PUERTO RICO

TAX INCENTIVES FOR INTERNATIONAL INSURERS [ACT 400]

Building a
Globally
Recognized
International
Insurance Center



INTERNATIONAL INSURANCE LEGISLATION

Laws to promote the International Insurance Center ("IIC")

LAWS

- Law 399: known as the <u>International Insurers and Reinsurers Act of Puerto Rico</u> establishes the legal basis for the International Insurance Center of Puerto Rico, through which insurers and reinsurers, or business entities organized as such, can export and import insurance and services related to the insurance industry
- <u>Law 400</u>: sets forth tax treatment and regulations for International Insurers authorized through the International Insurance Center of Puerto Rico
- <u>Law 98</u>: Secure Long term tax status with decree system. Improve tax treatment to Non Residents beneficiaries of L & H Products

APPLICABLE REGULATION

- Rule 80: Sets forth the rules governing the establishment, authorization, operation, and supervision of International Insurers
- Rule 81: Sets forth the rules governing the authorization, operation, and supervision of Protected Cell companies
- Rule 82: Sets forth the rules governing the creation, authorization, operation, and supervision of International Insurers Holding Companies





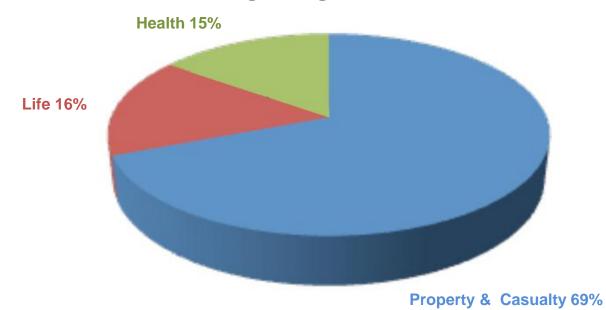
FAVORABLE REGULATORY ENVIRONMENT

- 1. Puerto Rico is considered a US jurisdiction for insurance related matters where local regulator assumes primary jurisdiction, with exceptions according to Federal legislation applicable to all the states.
- 2. Office of the Commissioner of Insurance (OCI)-Local Regulator
 - Accredited Member of the National Association of Insurance Commissioners (NAIC)
 - Member of Association of Latin America Insurance Supervisors (ASSAL)
- 3. Legislation applicable to domestic market based on NAIC model Laws and Rules.
- 4. Modern international insurance legislation available, applicable to offshore platforms such as Captives, Special Purpose Vehicles and Specialty Insurers/Reinsurers.



INSURANCE MARKET SNAPSHOT

Established and growing economic sector



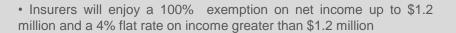




- 52 domestic insurers
- 333 international insurers
- \$11 billion in premiums written in 2011



TAX INCENTIVES FOR INTERNATIONAL INSURERS



0% - 4% Corporate tax rate



• Dividends and capital gains distributed by an International Insurer or a holding company are 100% exempt from income taxes

100% EXEMPTION ON DIVIDENDS PAID AND DISTRIBUTION

• Full exemption on real and personal property taxes as well as taxes on municipal patents

EXEMPTION ON PROPERTY TAXES



REQUIREMENTS

Capital requirements by insurer type



CLASS 1-PURE CAPTIVE

(Life & Health / Property & Casualty)

CLASS 2-ASSOCIATE CAPTIVE

(Life & Health / Property & Casualty)

CLASS 3

Property & Casualty

> \$500,000

> \$750,000

≥ \$1,50,000

Must maintain a minimum capital of \$500,000 after authorization

CLASS 4-UNRESTRICTED

Property & Casualty

≥ \$100,000,000

\$2,0000,000 minimum capital after authorization

CLASS 5-UNRESTRICTED

Life & Health

≥ \$750,000

\$750,000 minimum capital after authorization



AUTHORIZED TRANSACTIONS FOR INTERNATIONAL INSURERS

- Alternative risk management strategies through the organization of captive or associate captive entities
- Insurance and reinsurance vehicles to tap the Latin
 American or U.S. Market
- Special purpose vehicles
- IIP platforms
- Corporate restructuring under a holding company
- Protected Cells





PROCESS FOR SETTING UP INTERNATIONAL INSURER

A predictable process and tax certainty for 45 years



Permit to Organize:																					
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Any entity may apply for a permit with the Office of the Commissioner of Insurance (OCI) to establish an International Insurer (II). The application can be obtained from OCI. OCI will review the application to determine the suitability of the proposed II, focusing on the financial solvency and the integrity of the applicants and their directors and officers.

Organization:

Applicants with a permit to organize an II must file such permit, along with the organizational documents, with the Department of State to register and officially organize the II.

License to Operate:

OCI will issue a license to operate to the newly organized IIs that meet the requirements under the Act, including the minimum capital requirements.

Decrees:

To enjoy the tax benefits under the Act, the II must request and obtain a tax exemption decree by submitting a copy of its II license to the Secretary of the Department of Economic Development and Commerce of Puerto Rico. Within [15] days, the Secretary will sign the decree.

- <u>45 Years</u>: Such decree will have term of 15 years, renewable for two additional 15 year periods, subject to certain conditions
- <u>Certainty</u>: The Tax Exemption Decree will constitute a contract with the Puerto Rico Government not subject to subsequent legislative changes

A NEW FRAMEWORK
FOR THE ECONOMIC DEVELOPMENT
OF PUERTO RICO

TAX INCENTIVES FOR INDIVIDUALS RELOCATING TO PUERTO RICO (ACT 22)

Offering Attractive
Tax Incentives for
Individuals
Relocating to Puerto
Rico

A NEW FRAMEWORK FOR THE ECONOMIC DEVELOPMENT OF PUERTO RICO



Act No. 22 of 2012 to promote the Relocation of Individual Investors

Objective:

To attract <u>new residents</u> to Puerto Rico by providing a total exemption from Puerto Rico income taxes on all passive income realized or accrued after such individuals become <u>bona fide</u> residents of Puerto Rico.

Goal

New local <u>investments</u> in real estate, services and other consumption products, and <u>capital injections</u> to the Puerto Rico banking sector, all of which will accelerate the economy of Puerto Rico.

Duration

The incentives will expire on <u>December 31, 2035</u>



TAX INCENTIVES FOR INDIVIDUALS ACT 22

New Residents that had not lived in Puerto Rico for the last 15 years

- New Residents will enjoy a 100% tax exemption from Puerto Rico income taxes on all dividend and interest income.
- Interest and dividends that qualify as Puerto Rico source income will not be subject to federal income taxation under Section 933 of the IRS Tax Code. New Resident investors may be able to reduce the tax rate applied on interest and dividend income coming from sources outside of Puerto Rico (including the source country taxation) to 0% or 10%, respectively, by investing through certain Puerto Rico investment vehicles.

100% TAX EXEMPTION ON DIVIDENDS AND INTEREST

- New Capital Gains: All capital gains accrued after becoming a New Resident will be 100% exempt from Puerto Rico taxes.
 These gains will not be subject to federal taxes.
- Prior Unrealized Capital Gains: All capital gains accrued and unrealized prior to becoming a New Resident will be subject to a tax of (i) 10%, if such gain is recognized within 10 years of new residence in P.R., and (ii) 5%, if such gain is recognized after said 10-year period. Such taxes paid may be used as a credit in another jurisdiction that taxes such gains. The U.S. will not tax any prior unrealized gains if recognized after 10 years of residence in Puerto Rico.
- To qualify for the Act 22 incentives, all gains must be recognized prior to January 1, 2036.

100% TAX EXEMPTION ON LONG-TERM CAPITAL GAINS





REQUIREMENTS FOR THE INCENTIVES ACT 22

New Residents that had not lived in Puerto Rico for the last 15 years

New Bona Fide Resident

- 1. A Puerto Rico resident is an individual who is domiciled in Puerto Rico. Physical presence in Puerto Rico for a period of <u>183 days</u> during the taxable year will create a presumption of residence in Puerto Rico for tax purposes.
- 1. Section 937 of the U.S. Internal Revenue Service Code provides additional guidance as to what is generally considered a bona fide resident: (a) <u>no tax home outside Puerto Rico</u> during the tax year, and (b) <u>no closer connection</u> to the U.S. or a foreign country.
 - The information contained in this section should not be construed as legal/tax advice. Questions regarding the residency matters discussed in this section should be addressed with your legal or tax counsel

Non-Resident for Last 15 Years

The New Resident must not have been a resident of Puerto Rico at any time during the <u>15-year period</u> preceding the effective date of Act 22, which period would be from January 16, 1997 through January 16, 2012.





TAX EXEMPTION DECREE ACT 22

Providing certainty for our new residents.

Tax Exemption Decree:

To enjoy the benefits granted under the Individual Investors 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.

Certainty until 2036:

The Tax Exemption Decree will constitute a <u>contract</u> with the Puerto Rico Government not subject to subsequent legislative changes. It <u>guarantees</u> the incentives until 2036.

Application:

Interested persons may obtain a Tax Incentive Application from the Office of Industrial Tax Exemption, which is available on their website http://www.ddec.pr.gov. Applicants who submit a complete application should expect to have their Decree in approximately 5 business days.





LOWER TAX RATES THAN IN THE U.S. ACT 22

Compare tax rates for dividends and interest



Average U.S. Resident

Average State Dividend Tax Rate: 6% Federal Qualified Dividend Tax Rate: 15%

Average State Interest Tax Rate: 7%
Federal Interest Tax Rate: 35%

Potential Increase in Rates with the Upcoming Expiration of Bush Tax Cuts

New P.R. Resident

Puerto Rico Dividend Tax Rate: 0% Federal Dividend Tax Rate: 0%²

Puerto Rico Interest Tax Rate: 0% Federal Interest Tax Rate: 0%²

Zero Taxes in Puerto Rico until 2036

¹ This preferential rate is set to increase to 39.6% after December 31, 2012 with the expiration of the Bush Tax Cuts.

² Puerto Rico residents do not pay federal taxes on Puerto Rico source income. With respect to dividend and interest income from sources outside Puerto Rico, new Puerto Rico residents may reduce the federal tax rate applicable to 0% and 10%, respectively, when investing through certain Puerto Rico investment vehicles.



LOWER TAX RATES THAN IN THE U.S. ACT 22

Compare tax rates for capital gains



Average U.S. Resident

Avg. State Short-Term Cap Gains Tax Rate: 7% Federal Short-Term Cap Gains Tax Rate: 35%

Avg. State Long-Term Cap Gains Tax Rate: 5% Federal Long-Term Cap Gains Tax Rate: 15%1

Potential Increase in Rates with the Upcoming Expiration of Bush Tax Cuts

New P.R. Resident

Puerto Rico Short-Term Cap Gains Tax Rate: 0% Federal Short-Term Cap Gains Tax Rate: 0%

Puerto Rico Long-Term Cap Gains Tax Rate: 0% Federal Long-Term Cap Gains Tax Rate: 0%

Zero Taxes in Puerto Rico until 2036

¹ This preferential rate is set to increase to 20% after December 31, 2012 with the expiration of the Bush Tax Cuts.

A NEW FRAMEWORK
FOR THE ECONOMIC DEVELOPMENT
OF PUERTO RICO

OTHER INCENTIVES



ECONOMIC INCENTIVES ACT FOR THE DEVELOPMENT OF PUERTO RICO

1. This law provides the proper business environment to continue developing our local industry:

- a. Corporations established for manufacture products on a commercial scale
- b. Corporations established to participate in a wide variety of economic activities, such as:
 - Scientific research and development
 - Partial or total recycling
 - Hydroculture and/or Aquaponics
 - Added value activities related to operations in certain port zones
 - Software development

1. The following benefits will be in effect for 15 years:

- 4% fixed income tax rate
- 12% applicable rate on the withholding of the origin of royalty payments
- 100% exemption on dividends if they are residents of Puerto Rico
- 90% exemption from real and personal property taxes
- 60% exemption on municipal taxes
- Tax credit on purchases of products manufactured locally (25% of the cost)
- Tax credit for job creation (up to \$5,000)
- Up to 50% credit of qualified R&D expenses (up to 50% of the investment)



TOURISM AND HOSPITALITY DEVELOPMENT ACT

- 1. Facilitates the establishment of tourism related projects on the island. These include:
 - Hotels, condohotels, timeshare/vacation clubs, Puerto Rican inns, guest houses, excludes casino operations
 - Theme parks, golf courses operated by, or associated with, hotels that are exempt businesses, marinas with tourism purposes, dock or port facilities that promote tourism
 - Businesses that use natural resources as a source of entertainment
 - Other facilities that serve as active, passive or recreational sources of entertainment, and promote internal and/or external tourism
- 2. Benefits will be in effect for 10 years from the opening day of the eligible tourism project and have the right to an additional 10-year extension:
 - Tax credit of 10% of the total project cost or 50% of the cash put in by investors, whichever is less
 - 100% exemption on municipal construction excise tax, taxes on imported goods and sales tax
 - 100% exemption on municipal licenses
 - 90% exemption on income tax and property tax

FILM INDUSTRY ECONOMIC INCENTIVES ACT



1. This law promotes the development of film projects in Puerto Rico:

Eligible projects include: (1) films and short films

 (2)documentaries (3) television programs (4) series in episodes and mini-series (5) music videos (6) national and international commercials (7) video games (8) recorded live performances and (8) original sound track recordings and dubbing

2. Production Incentives

- 40% production tax credit on all payments to Puerto Rico resident companies and individuals
- 20% production tax credit on all payments to nonresident "Above-the-Line", including producers, directors, writers and talent

1. Incentives for Infrastructure Investment

- 25% infrastructure tax credit on development or expansion costs of studios, laboratories, post-production, animation and special effects facilities, transmission facilities and related infrastructure
- Minimum direct costs of \$5MM (know as hard costs)



www.ddec.pr.gov



CONTACT : Lic. Juan Carlos Suárez. T: 787.765.2900 Ext. 2040 • Email : juan.suarez@ddec.pr.gov