

May 30, 2018

Tax Update

Puerto Rico Incentives Code

The Government of Puerto Rico has filed the much-anticipated bill to create the Puerto Rico Incentives Code, which will consolidate dozens of laws that in some way or another create exemptions or subsidies for various “incentivized” activities or under incentive programs.

The Incentives Code will affect laws related to: Air Transportation, Historic Zones, the Milk Industry, the Insurance Industry, Maritime Transportation, Farm Workers, Housing, Bona fide Farmers, Elderly Housing, Conservation Easements, Assisted Living, Renewable Energy, Manufacturing, Export Services, Tourism Industry, Municipal Economic and Tourism Development, Solid Waste, Green Energy, Individual Investors, the International Financing Center, Business Incubators, Private Equity Funds, Room Tax, etc.

The effort was intended as a holistic view of all incentives to achieve consistency, structure and relevance to provisions that, in some cases, are incompatible or inconsistent with each other. The stated goals of the effort are: to promote activities that contribute to the growth of the economy in Puerto Rico through investment, export and job creation; accelerate the process of application and approval of incentives; and to establish uniform processes of regulation, measurement and evaluation following the granting of incentives to ensure compliance, transparency and fiscal objectives of development. As part of that effort, the Office of Industrial Tax Exemption will become part of the Department of Economic Development and Commerce (“DDEC”) as the Office of Incentives and will assume additional responsibilities.

The bill emphasizes that the companies that are operating in accordance with the terms of grants already in effect will not be affected and introduces the concept of a Grantee Bill of Rights. It does, however, state that the Incentives Code will prospectively eliminate the use of tax credits in favor of cash grants to be distributed by the Secretary of the DDEC under parameters established by regulation.

The Incentives Code will be arranged by sectors, as follows:

1. Individuals
2. Export (goods and services)
3. Financial services and insurance
4. Visitors economy
5. Manufacturing
6. Infrastructure
7. Agriculture
8. Creative industries
9. Entrepreneurship



For more information on this Legal Update, please contact:

Carlos E. Serrano

cserrano@reichardescalera.com
787.777.8815

Alba I. Joubert Pereira

ajoubert@reichardescalera.com
787.777.8825

Bibiana A. Cruz

bcruz@reichardescalera.com
787.777.8813

10. Other

Also, a new exemption for investment funds to be established in the federally designated Opportunity Zones will be created.

Lastly, upon effectiveness of the law, no new applications pursuant to the provisions of the laws affected by this bill will be approved under the terms of such legislation. Generally, the bill permits applications for incentives under previous legislation until July 1, 2018.

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