

## **ECONOMIC INCENTIVES FOR THE DEVELOPMENT OF PUERTO RICO**

**Act No. 73 of May 28, 2008**

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# New Incentives Act

- Historical Perspective
  - 60 years of industrial incentives program
  - Expiration of previous incentives laws
- Technical Committee / Steering Committee

*The EIA is the result of a participating process that was spearheaded by the private sector coalition*

# New Incentives Act

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- Objectives:
  - Maintain core industry and strengthen supply chain
  - Develop local industry
  - Address non-tax issues affecting competitiveness: energy
  - Promote economic development through innovation, R&D and investment in infrastructure



# Economic Incentives Act- Overview

- Who qualifies?
  - Manufacturing
  - Services
  - Other eligible businesses
- What are the benefits of being an eligible business?
  - Preferential income tax rates and partial exemptions from municipal taxes
  - Emphasis on tax credits
  - Uniform exemption period and additional rate reduction depending on location
- A grant of tax exemption (contract between the exempt business and the government of Puerto Rico) must be requested.



# Economic Incentives Act- Eligible Business



- Industrial unit whose objective is the production of a manufactured product at a commercial scale
  - Manufacturing
  - Sub-contracting
- Services
  - Designated services for non-Puerto Rico markets (Export services)
  - Clusters
  - Key supplier in the value chain

*The EIA expands the list of activities eligible for tax exemption particularly in the service industry*



# Economic Incentives Act- Eligible Business – Export Services



- Software Development (licensed, for general use or custom made)
- Educational and training services
- Medical and hospital services,
- Shared services centers
- Distribution
- Investment banking
- Regional corporate headquarters
- Engineering and architectural design
- Certain consulting services
- Strategic and organizational planning of processes, distribution, and logistics



# Economic Incentives Act-Eligible Business – Clusters

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- Sub-contracted services for an exempt manufacturing business
- High economic impact cluster
- Services must be “fundamental” for the production process



# Economic Incentives Act-Eligible Business – Key Supplier



- Services rendered in Puerto Rico that allow another exempt business (manufacturing) to concentrate its activities in areas of its core competency; must be a cost directly related to the manufacturing activity
- Services include:
  - Specialized storage
  - Inventory management, logistics and capacity management
  - Insertion and distribution of printed material
  - Project engineering
  - Quality control, process validations and equipment calibration
  - Digitalization of documents
  - Programming and data management
  - Development and reproduction of educational programs



# Economic Incentives Act- Other Eligible Businesses

- Operation of laboratories for scientific or industrial research and development related to:
  - New products or processes
  - Experimental uses
  - Clinical investigations
  - Mental health projects
  - Medical research
- Breeding of animals for experimental use and medical purposes
- Software development that can be licensed and reproduced at a commercial scale
- Research, development, manufacturing, and operation of satellites
- Licensing of intangible property developed or purchased by the exempted business



# Economic Incentives Act- Other Eligible Businesses

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- Production of energy, whether or not on a commercial scale, using renewable sources (use of natural gas and coal allowed during the first three years of effectiveness of the law)
- Equipment assembly for the production of energy using renewable sources
- Partial or total recycling activities
- Planting, agricultural biotechnology processes, and milk pasteurization



# Economic Incentives Act- Income Tax Rates

- General Scenario:
  - 4% income tax rate
  - 12% withholding tax on royalties
- Alternative scenario:
  - 8% income tax rate
  - 2% withholding tax on royalties
- Pioneer innovative activity
  - 1% income tax rate
  - Products developed in Puerto Rico – 0% income tax rate

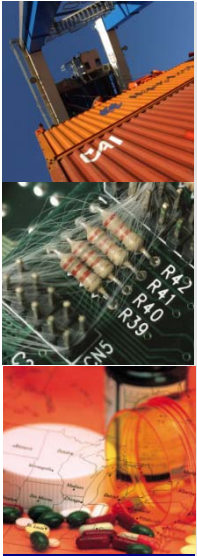
*The EIA generally provides a 4% flat income tax with a 12% withholding on royalties or the alternative of a higher 8% flat tax with a lower 2% withholding on royalties*



# Economic Incentives Act- Tax Credits

- Purchase of products manufactured in Puerto Rico
- Job creation
- Investment in Research and Development (R&D)
- Investment in businesses winding up
- Purchase of stock or interests in small or mid-size businesses
- Credit for technology transfer
- Credit for investment in strategic projects
- Credits related to energy
  - To reduce cost of energy
  - For investment in equipment for the production of energy

*The EIA provides various new tax credits that may be used to reduce certain operational costs. Some of these credits may be used by businesses exempt under previous tax incentives laws*



# Economic Incentives Act- Tax Credits



- Credit for 50% of investment in R&D in Puerto Rico
  - Transferable- proceeds from the sale of the credit could facilitate financing of R&D operation
  - May be used against electricity or water bills
  - Competes favorably with similar U.S. and Ireland tax credits



# Economic Incentives Act- Special Development Fund

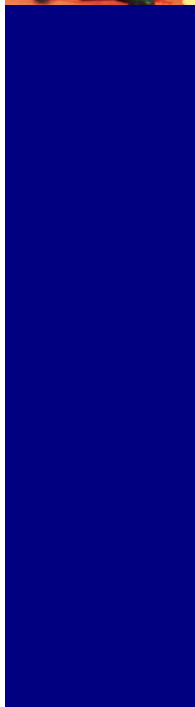
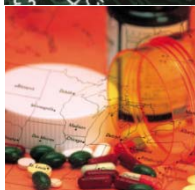
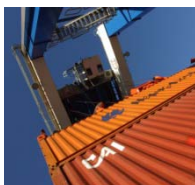


- A portion of taxes paid by the grantees is deposited in the Development Fund.
- The Development Fund is to be used to provide financial support to, among others.
- Research and development projects of scientific or technical nature, to be conducted by private entities and/or by government agencies or public/private universities.
- Research and development of bio-science, information technology and aeronautics.
- 20% of the Fund is allocated to the Science and Technology Trust Fund.



# Act 101 of June 27, 2009

- Provides full exemption from PR income taxes to the compensation received by an eligible scientist For investigation services rendered to the U.P.R. and other accredited superior education institutions.
- Exemption covers up to \$195,000 for year 2008, the maximum exempted amount will be equal to the maximum grants offered by the national Health Institute.
- To be eligible, the scientist must be a resident of PR hired by the university or superior education institution.
- The scientist must have applied for a NHI grant (or other government grant) so that the institution will receive a grant for a research project ROI or equivalents. The grant must cover all the institutions expenses, including the scientist's salary.



Thank You