

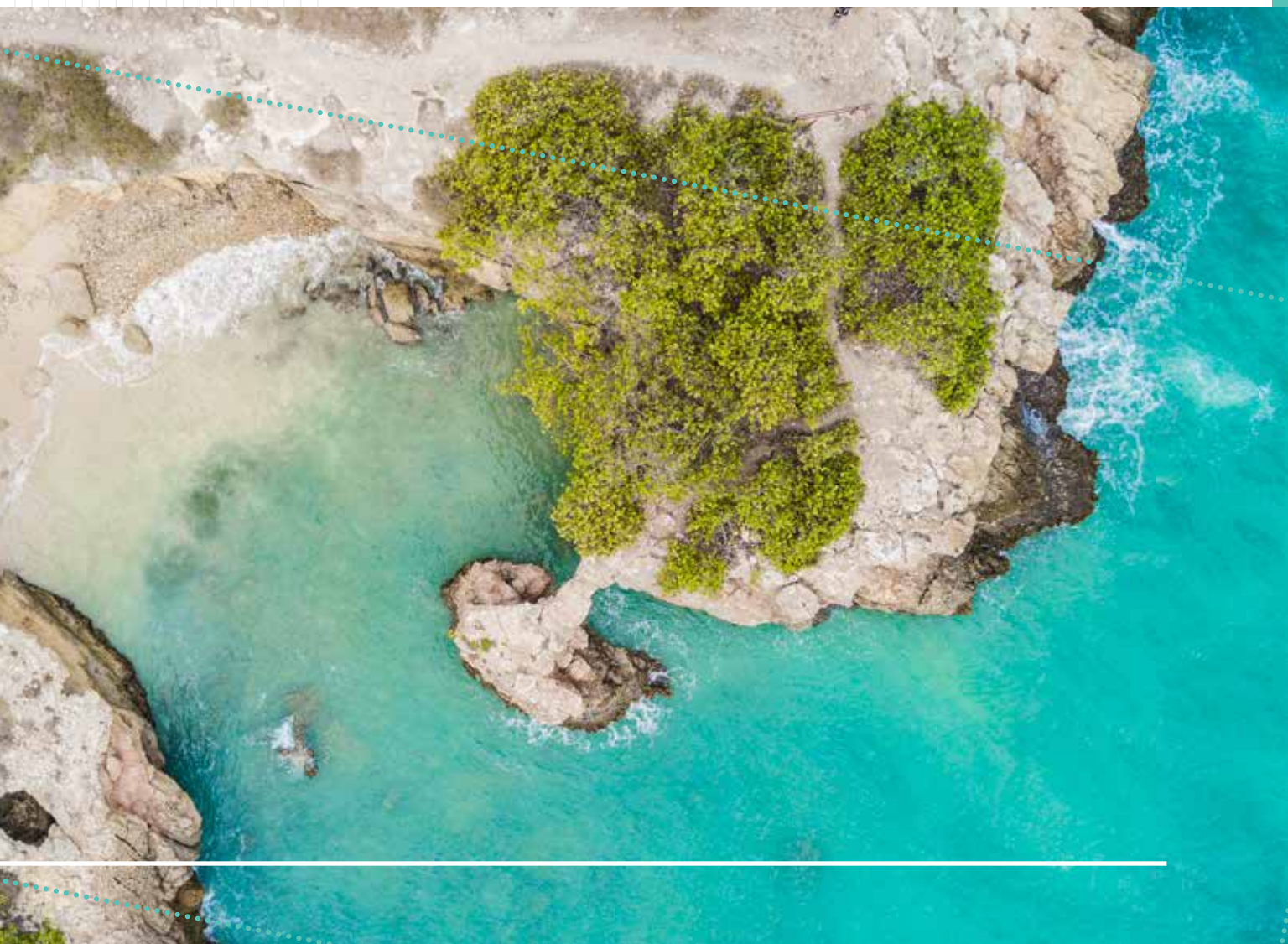
# *Strategic Programs, Human Capital, and Investments*



This chapter enumerates the powers of the Department of Economic Development and Commerce (DDEC, by its Spanish acronym) to foment, supervise, and grant tax incentives to corporations and individuals who will develop the island's economy.<sup>1</sup> It discusses the general rules for all decrees under the Act 6o Incentives Code. It also delineates special programs and provisions for businesses situated in specific geographic regions of the island, that are early leaders in nascent industries, or directly contribute to strategic infrastructure and conservation projects.

---

1 Statement of Motives, Puerto Rico Incentives Code, Act No. 6o of July 1, 2019, as amended.  
<https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/6o-2019.pdf>



## → The Benefits for All Act 60 companies:<sup>1</sup>

### 1. 15 to 30 years of preferential tax treatment for eligible businesses

Once their tax decree is approved, every Act 60 company will receive a preferential tax treatment of 15 years, with the opportunity to renegotiate an additional 15 years. Although the duration of the decree varies for projects such as film productions, affordable housing developments, and green energy projects, all Act 60 corporations may effectively receive preferential treatment for up to 30 years.

### 2. Corporate income tax (CIT)

As a general rule, any business that benefits from Act 60 receives a 4% corporate income tax rate on net business profit. To clarify: *the exemption applies to the entity*, not the wages of its owners or employees. Tax exemptions to the wages of its employees and owners may result when hiring hard-to-recruit scientists, researchers, or professionals (see Chapter 2) or when filing for a Young Entrepreneurs incentive (see Chapter 10).

### 3. A 100% exemption on distributions of the company's profits

The distributions of the company profits (called dividends) are tax exempt. Dividends are the distribution of business profits to investors and company owners. They are not to be confused with wages or salaries.

### 4. A 75% exemption on property taxes

Depending on the municipality of Puerto Rico in which an Act 60 company is established, the taxable rate for personal and real property varies. The tax rate for personal property is between 5.80% and 10.73%. The tax rate for real property is between 8.18% and 12.33%. This exemption cuts the tax rate by three-fourths. For real estate properties in ongoing construction, the Act 60 company receives a 100% tax exemption.

---

1 Puerto Rico Incentives Code, Sec. 2011.01, 13 L.P.R.A. § 45031 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

**5. A 50% exemption on municipal taxes**

Depending on the municipality of Puerto Rico in which an Act 60 company is established, the taxable rate on gross revenues varies between 0.2% and 1.5%. This exemption cuts the tax rate by half.

**6. A 75% exemption on construction costs**

Depending on the type of construction, the tax rate in Puerto Rico is between 1% and 6% of the total value of the development. This exemption reduces the tax rate by three-fourths.

**7. Up to 50% in research and development tax credits**

If an Act 60 company engages in eligible research and development activities as a manufacturing firm or as science and research organization, it may receive up to 50% of the eligible experimental and incidental costs back in tax credits. For more information on these types of credits, please read Chapters 6 and 7 as they will focus on an in-depth explanation of the manufacturing and green energy incentives available.

**8. Up to 30% in tax credits for local purchases**

An Act 60 company can claim a tax credit of up to 30% on purchases of products manufactured in Puerto Rico if they are used in eligible business activities. However, it is important to note that these credits have additional requirements and regulations and may not be traded as research and development, tourism (see Chapter 5), or film credits (see Chapter 9).

These are the baseline rules, benefits, and tax incentives for all Act 60 eligible businesses. Most of the chapters in the guidebook will include these exact general benefits and any additional applicable provisions. The percentages may vary depending on the incentive, tax credit granting activity, location, or economic impact. Additional benefits for capital gains (see Chapters 2, 4, and 10) and personal income tax exemptions (see Chapters 2 and 8) will also be reflected in each chapter of this publication.



## → Special Programs

There are additional special classifications that, upon filing, apply as an add-on to most Act 60 businesses. The add-on benefits vary by activity, time, and individual negotiations with the government. For endeavors that are not necessarily defined by any of the provisions of the Incentives Code, provisions for Strategic Projects and Novel Pioneering Activities are defined. These add-on benefits and provisions include the following:

1. **New small- and medium-sized enterprises (SME)**<sup>2</sup>
2. **Businesses established after 2020**<sup>3</sup>
  - a. A 2% income tax (instead of a 4% income tax) for the first 5 years
  - b. A 100% exemption on property taxes for the first 5 years
  - c. A 75% exemption on municipal taxes
  - d. A 30% tax credit (instead of a 25% tax credit) on purchases of products manufactured in Puerto Rico for the first 5 years
3. **Businesses established in the municipalities of Vieques and Culebra**<sup>4</sup>
  - a. A 2% income tax (instead of a 4% income tax) for the first 5 years
  - b. A 100% exemption on property taxes for the first 5 years
  - c. A 100% exemption on municipal taxes for the first 5 years
  - d. A 30% tax credit (instead of a 25% tax credit) on purchases of products manufactured in Puerto Rico for the first 5 years
4. **Strategic Projects**<sup>5</sup>
  - a. All benefits negotiated with DDEC and the Puerto Rico Department of Treasury (Hacienda)

---

2 13 L.P.R.A. § 45041 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

3 13 L.P.R.A. § 45041 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

4 13 L.P.R.A. § 45051 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

5 13 L.P.R.A. § 45061 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

## 5. Novel Pioneering Activities<sup>6</sup>

- a. All benefits negotiated with DDEC and Hacienda
- b. Can have a corporate income tax of at least 1% instead of 4%

1.2A

## → New Small- and Medium-Sized Enterprises (SMEs)<sup>7</sup>

The benefit for a new SME is a designation that can be added to most decrees. This designation lowers the taxes a business will have for the first 5 years and as it expands its capital intake.

### Eligibility Requirements

1. The company's operations cannot have started before 2020.
2. The company cannot have a decree for Young Entrepreneurs or Incentives for Individuals.
3. The company cannot exceed an average gross revenue of \$3,000,000 per year for the past 3 years.

6 13 L.P.R.A. § 45062 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

7 13 L.P.R.A. § 45012 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



### General Benefits

1. Income taxes are reduced to 2% for the first 5 years.
2. There are complete tax exemptions on the property and municipal taxes for the first 5 years.
3. Businesses can obtain a tax credit of up to 30% for purchases of products manufactured in Puerto Rico while it conducts its operations in Vieques or Culebra. This credit applies for the first 5 years.

The new SME designation establishes a fixed 2% corporate income tax rate for the first 5 years. Additionally, it includes a 100% exemption from taxes on personal and real property and municipal taxes for the first 5 years. Afterward, the standard fixed rates of 4% tax on income, a 75% exemption on property taxes, and a 50% exemption on municipal taxes apply for the remainder of the decree's duration.

Another benefit for new SME businesses that work with physical products is a tax credit for purchases of products manufactured in Puerto Rico. This tax credit can reach up to 30% of purchases made exclusively by Puerto Rican companies in the first 5 years. This tax credit looks to promote products manufactured in Puerto Rico and usually receives a base benefit of only 25%. However, this credit is subject to the standard tax credit rules and will require the completion of an audit of the company finances every year it is requested (see Chapter 6).

#### 1.2B

## → Island Municipalities: Vieques and Culebra<sup>8</sup>

This add-on incentive requires enterprises to develop and improve the economy of the island municipalities of Vieques and Culebra through employment, capital investment, and business operations.

### Eligibility Requirements

1. Enterprise must conduct business operations in Vieques or Culebra.

---

8 13 L.P.R.A. § 45051 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

2. Enterprise must be registered to do business in Vieques or Culebra.
3. Enterprise must have an office or place of operations located in Vieques or Culebra.
4. Enterprise must apply for or have a tax decree in good standing.

#### General Benefits

The incentive is identical to the new SME benefit.

1. Income taxes are reduced to 2% for the first 5 years.
2. There are complete tax exemptions on the property and municipal taxes for the first 5 years.
3. Businesses can obtain a tax credit of up to 30% for purchases of products manufactured in Puerto Rico while it operates in Vieques or Culebra. This credit applies for the first 5 years.

1.2C

## → Strategic Projects<sup>9</sup>

The Strategic Project designation has some flexibility as to what can qualify for this incentive. The established designation seeks to improve the economic and social welfare of Puerto Rico by focusing on preserving natural assets, establishing mass renewable energy projects, and fostering the creation and improvement of accessible transportation. While some examples are specifically named in the Incentives Code, the law also provides that a Strategic Project will be approved or declined at the discretion of the Secretary of the DDEC and Hacienda.

#### Eligible Businesses

Businesses that will be considered Strategic Projects are those that have an impact on the Caribbean region. An example of this type of impact would be a new headquarters for a multinational-scale company. The same would also apply to a local company that markets new products; establishes a campus; invests in vast swaths of land, buildings, and machinery; and creates thousands of jobs. Additionally, some of the examples provided by the Incentives Code include:

<sup>9</sup> 13 L.P.R.A. § 45061 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



1. **Aircraft Repair and Maintenance** — The establishment of an industry for the maintenance, repair, and general conditioning of aircraft in Puerto Rico. These include but are not limited to passenger aircraft, cargo, and vehicles for aerial transportation.
2. **Vessel Repair and Maintenance** — Repair and general conditioning of maritime vessels, as well as their parts and components. Some of these vessels include those for passenger transport, cargo, tourism purposes, and watercraft intended for maritime transportation.
3. **Landfills and Aquifers** — The cleanup, recovery, conversion, and restoration of landfills that have been closed in Puerto Rico, including methane recovery activities and the cleanup of aquifers.
4. **Water, Power, and Infrastructure** — The construction of reservoirs and dams, including all necessary infrastructure for their operation, to increase storage and reserves as well as safeguard the value of water production of the Puerto Rico Aqueduct and Sewer Authority; hydroelectric power production; and the construction of wastewater treatment plants.
5. **Renewable Energy** — The construction of plants to produce energy that use renewable sources and alternative fuels to oil. This designation may overlap with some in Chapter 7 of this guidebook.
6. **Mass Transportation Systems** — Construction of mass transportation systems that include, but are not limited to, rail systems, buses, and other activities or facilities that may be of practical benefit to Puerto Rico's commuters.
7. **Affordable Rental Housing** — The construction of affordable rental housing components, related services, or infrastructure in areas adjacent to mass transportation systems or the Old San Juan Port, upon recommendation of the Puerto Rico Department of Housing and in accordance with a development plan for the area adopted by the Puerto Rico Planning Board.
8. **Other Economic Activities** — Economic activities, regardless of the economic sector to which they belong, that have the purpose of advancing public policy regarding the development of markets, products, processes, services, and any other activity whose promotion seems appropriate to the Secretary of the DDEC and is in accordance with the best interests of Puerto Rico.



### Eligibility Requirements

1. The project creates numerous jobs and significant capital investments.
2. The project has a measurable impact on the local economy.
3. The project sets a precedent for future, bold investments.
4. The project has the designation of the Secretary of the DDEC and the endorsement of the Secretary of Hacienda.

### General Benefits

1. Income taxes are 1% to 4%.
2. DDEC and Hacienda have broad discretionary powers around additional tax incentives. This means that, on top of the preferential corporate income tax, the designation allows direct negotiations with the DDEC and Hacienda concerning the total incentives and terms.

1.2D

## → Novel Pioneering Activities<sup>10</sup>

The final designation of this chapter looks to aid an individual or a company engaged in novel activities. Often, many new technologies do not fit neatly into the molds of prior business practices. Though the Incentives Code is expansive and covers many fields, there are businesses that could still be highly innovative and not fit within any of the established parameters. This is where the Novel Pioneering Activity designation comes in.

### Eligibility Requirements

1. The activities have never been created or developed in Puerto Rico.
2. They integrate research and development activities.
3. They increase Puerto Rico's competitiveness in global markets.
4. They attract specialized and hard-to-recruit professionals.
5. They have an impact on the island's tax base, detailed in the projection of product sales or income from the provision of services. There is special emphasis on the tax withheld for royalty payments to non-residents of Puerto Rico.
6. They bring about substantial capital investments in plants, machinery, and equipment.
7. They have an impact on the international market as well as the factors that define and establish its value in said market.
8. They incorporate technological improvements as part of business operations, with a particular interest in the implementation of emerging technologies.
9. They have a socioeconomic impact on the island.
10. Any other factor that warrants the recognition of the activity as a Novel Pioneering Activity, if the activity shall serve the best economic and social interests of Puerto Rico as determined by DDEC.

### General Benefits

1. They are negotiated with DDEC and Hacienda.  
Corporate income tax is at least 1% instead of 4%.

---

<sup>10</sup> 13 L.P.R.A. § 45062 (2023).

### Illustrative Example

In 2023, the government issued a request for proposals (RFP) that designates a portion of the Jose Aponte de la Torre airport in Ceiba as an area to perform space and biosciences activities. More specifically, these activities entail the following:<sup>11</sup>

1. Spaceport operators
2. Developers and construction professionals
3. Bioscience and biomanufacturing entrepreneurs
4. Vertical space shuttle sea-barge operators

The RFP is an example of the government looking for a novel pioneering activity. While capital-intensive projects for research and development are often funded by the federal government of the United States,<sup>12</sup> this incentive encourages private sector participation with a 1-4% corporate income tax rate. Additional tax credits may be negotiated with the DDEC and Hacienda for entrepreneurs engaged in research and development activities of space material and other organic or inorganic matter.

Act 60 is broad and touches nearly every industry. When looking for the right decree, start with the industry that best describes the activity to be performed. For novel industries that may not be exactly described in other services, look under Pioneering Activities and Strategic Projects in this chapter; these offer greater potential benefits if an activity qualifies under these discretionary classes.

### Cost to File

Filing	Transaction Fee	Service Fee
Strategic Project	\$5	\$1,000
Novel Pioneering Activities	\$5	\$1,000
Economic Incentive Fund	\$5	\$100
Incentive for the Development of the Film Industry of Puerto Rico	\$5	\$500
Incentives for the Creative Industries	\$5	\$500

<sup>11</sup> "Puerto Rico Ports Authority issues RFP for a spaceport in Ceiba." News Is My Business, February 24, 2023, <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

<sup>12</sup> "About America's Seed Fund powered by NSF." National Science Foundation, n.d., <https://seedfund.nsf.gov/our-program/>.