

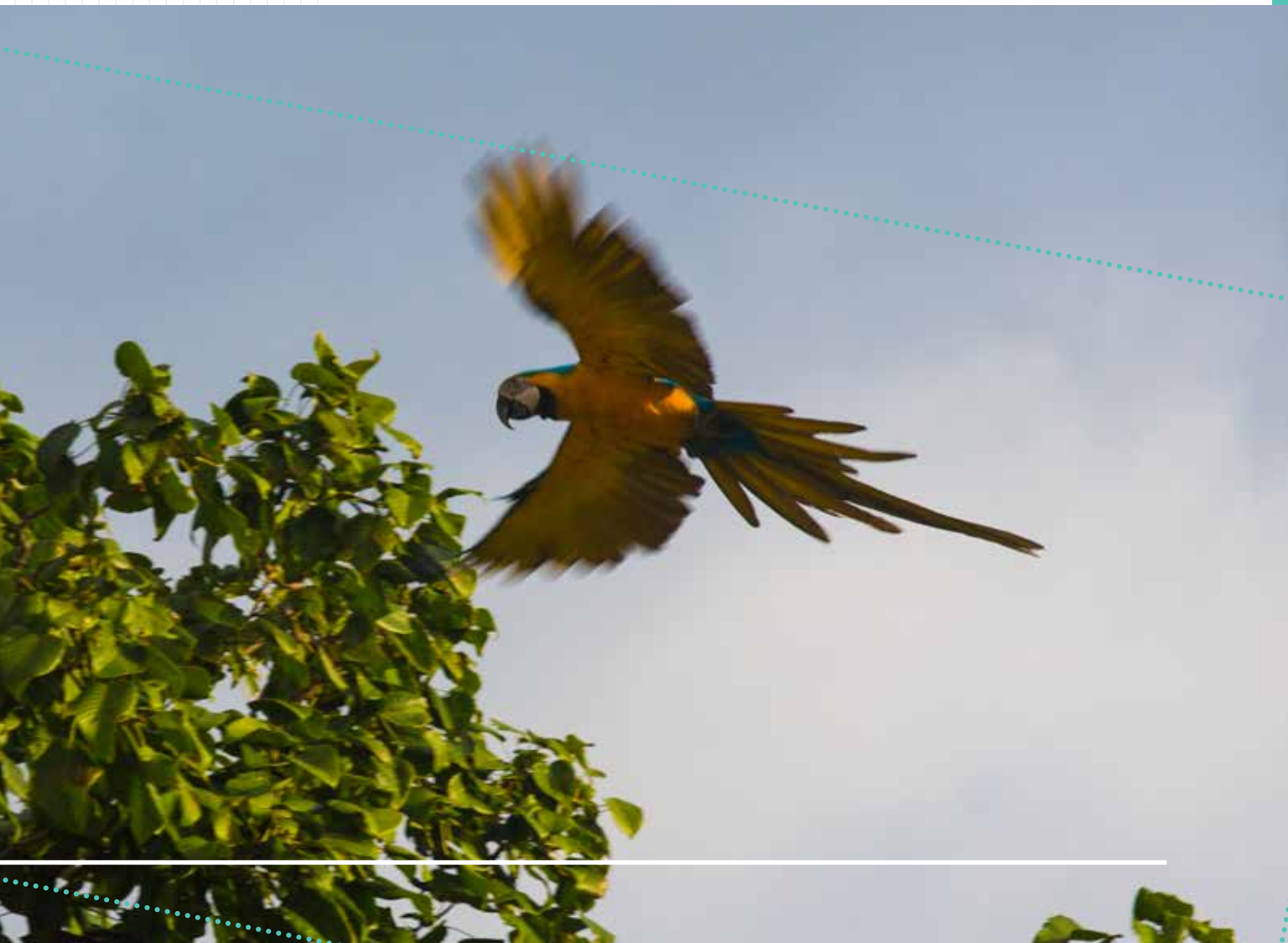
Individuals



While the previous chapter focused on business incentives, Act 60 also provides incentives developed for specific individuals. These programs look to attract in-demand professionals and retain their valuable skills in the Puerto Rican economy. Additionally, there are programs for young people, student internships, older adults, and special funding accounts for public school students between the ages of 13 and 29 years.

For the purposes of this chapter, the incentives provided for individuals to be discussed include the following:

1. Resident Individual Investors
2. Hard-to-Recruit Professionals
3. Investigators and scientists
4. Qualified Physicians
5. Professionals eligible for student loan repayment program

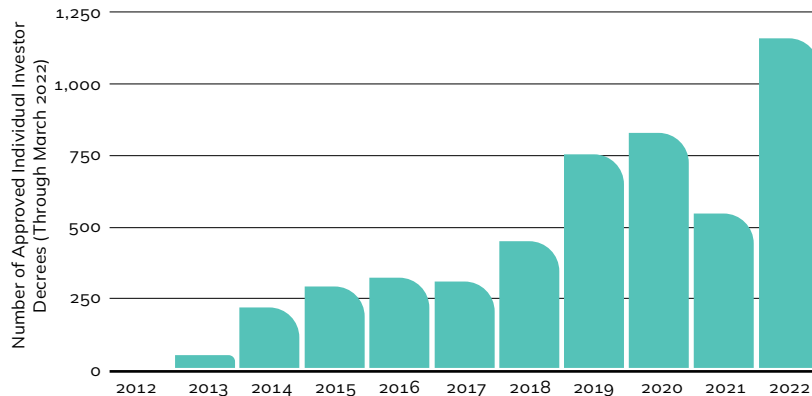


→ Resident Individual Investors¹

Since 2012, Individual Investors have received preferential tax treatments for relocating with their families and capital to Puerto Rico. Throughout the years, multiple amendments to the 2012 Individual Investors Act have been adopted to adjust and expand the policy attracting risk capital to the island. Reflecting recent developments, over one-fourth of all Individual Investor Decrees approved to date were issued in 2022 alone.²

Under this section of the Incentives Code, an average of 485 Individual Investor Decrees have been approved on an annual basis.³ Contrary to popular belief, not all applicants are billionaires. In fact, a recent study from Estudios Técnicos, Inc. found that 82% of decree holders have a net worth below \$10,000,000, 14% possess a net worth between \$10,000,001 - \$50,000,000 and only 4% have a net worth of over \$50,000,000.⁴

Number of Individual Investor Decrees Approved by Year



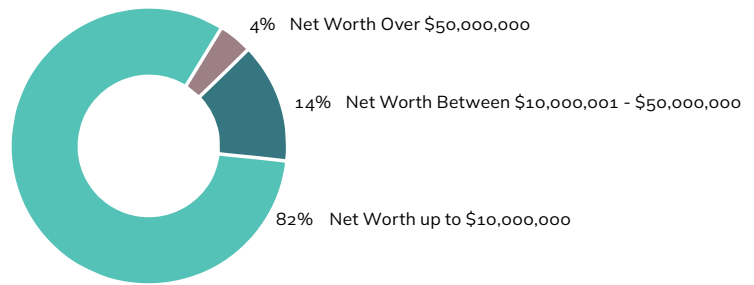
1 Puerto Rico Incentives Code, 13 L.P.R.A. § 45141 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

2 Department of Economic Development and Commerce, "Acceso a la información," n.d., <https://www.desarrollo.pr.gov/acceso-informacion>.

3 Department of Economic Development and Commerce, "Acceso a la información," <https://www.desarrollo.pr.gov/acceso-informacion>

4 Estudios Técnicos, Inc., *Performance of Incentives Programs*, n.d., www.estudiostecnicos.com/projects/act2022update2019/2019-Performance-of-Incentives-Programs.pdf.

Net Worth of Individual Investors



During the first eight years of the incentive, 35% of all Individual Investors started a business in Puerto Rico.⁵ That new economic activity represents 914 businesses and nearly 2% of all businesses in Puerto Rico's economy. Although Individual Investors are not required to generate jobs on the island, almost 30% of all businesses created applied for the export of goods and services incentive (see Chapter 3) and are required to employ and hire locally.

Eligibility Requirements

1. Applicant must be an individual citizen or trust.
2. Applicant must become and remain a Bona Fide Resident of Puerto Rico.
3. Applicant must not have lived on the island between 2006-2014.
4. Applicant must purchase a property within 2 years of receiving the decree.
5. Applicant must make an annual donation of at least \$10,000 to 2 qualified charities.
 - a. A minimum of \$5,000 must be donated to a nonprofit entity that eradicates child poverty and is on the government-approved list.
 - a. The remaining \$5,000 can be donated to any other 1101.01 registered Puerto Rican nonprofit entity.
6. Applicant must submit annual report, together with an additional \$5,000 payment.

⁵ Estudios Técnicos, Inc., *Performance of Incentives Programs*, n.d., www.estudiostecnicos.com/projects/act2022update2019/2019-Performance-of-Incentives-Programs.pdf.

General Benefits

1. There is a total exemption from taxes on capital gains and dividends for assets purchased after obtaining a decree from Puerto Rico sources.
2. Capital gains on assets owned before obtaining a decree but held for 10 years after receiving a decree are taxed at 5%.
3. It allows the ability to create trusts outside of Puerto Rico.

Bona Fide Resident

A Bona Fide Resident of Puerto Rico is an individual who lives on the island and meets certain additional conditions. To become a Bona Fide Resident, a person must satisfy the following requirements:

- A. Meet the presence test
- B. Only have a tax home⁶ in Puerto Rico
- C. Does not have a closer connection to the United States or to a foreign country than to Puerto Rico
- D. File Form 8898

Presence Test⁷

1. Resident must live on the island at least 183 days during a taxable year.
2. Resident must be present for at least 549 days over the 3 years of the taxable year and the 2 preceding taxable years, provided the individual was also present in Puerto Rico for at least 60 days during each taxable year.
3. Resident must be present in the 50 states or territories (other than Puerto Rico) of the United States for no more than 90 days during the taxable year.

⁶ A tax home is the general area where a person works or does business. For more information, see Hyperlink to <https://www.irs.gov/individuals/international-taxpayers/foreign-earned-income-exclusion-tax-home-in-foreign-country>

⁷ Department of the Treasury, Internal Revenue Service, *Publication 570 Tax Guide for Individuals with Income from U.S. Territories*, Feb. 8, 2023, <https://www.irs.gov/pub/irs-pdf/p570.pdf>.

4. Compensation for work or services done in the United States is generally considered income from U.S. Sources. However, if the total amount earned for those service is \$3,000 or less, it will not be counted as income from the U.S..
5. Resident has no significant connection to the 50 states or territories of the United States (other than Puerto Rico) during the taxable year.

Computing Presence⁸

- A. Any day physically present at any time in one of the 50 states will count as a day in the United States.
- B. Any day accompanying a spouse, parent, or child for qualifying medical treatment will not be counted as a day in the United States.
- C. Being unable to return to the territory during the 14 days after a significant disaster or period for mandatory evacuation order will not count as being in the United States.
- D. Any day in the United States for less than 24 hours when traveling between two places outside of the United States will not count as a day in the United States.
- E. Temporary presence in the United States as a professional athlete to compete in a charitable sports event will not count as a day in the United States.
- F. Temporary presence of a day in the United States as a student will not count as a day in the United States.
- G. Any day in the United States serving as an elected representative of Puerto Rico or doing full-time work as an elected or appointed official of the territorial government will not count as a day in the United States.
- H. Thirty days of presence in Puerto Rico, whether for business or personal travel, will be attributed to being in Puerto Rico, even when also traveling outside Puerto Rico and the United States.
 - a. This only applies if the number of days present in the territory exceeds the number in the United States.
 - b. This does not apply to calculating the minimum of 60 days of presence in the territory required for the 549-day presence test.

⁸ Department of the Treasury, Internal Revenue Service, Publication 570 Tax Guide for Individuals with Income from U.S. Territories, Feb. 8, 2023, <https://www.irs.gov/pub/irs-pdf/p570.pdf>.

- I. If present in the United States and Puerto Rico on the same day, then they are considered present in Puerto Rico.
- J. If present in two territories on the same day, the presence will apply to the tax home.

Significant Connection

The government will look at many factors when determining residency. Some of the elements to be considered are the following:

- A. If a person has a permanent home in the United States, generally meaning a permanent residence, dwelling, or domicile. This is the place where they live and go to sleep, but it does not mean they cannot own property in the United States.
- B. If a person has a rental property in the United States. This is not a permanent home unless it is used as a residence during the taxable year. It will be considered a permanent home if they use the property for 14 days or more than 10% of the days the property it is rented to others (whichever is higher).
- C. If a person is currently registered to vote in any political subdivision of the United States that is not Puerto Rico.
- D. If a person has a spouse or child under 18 years of age whose principal place of abode is in the United States, other than a child living with a custodial parent under a custodial agreement or multiple support agreement. A child who is studying in the United States does not count.

Closer Connection Test

The closer connection test is an overall analysis of the circumstances that show a person has stronger bonds to Puerto Rico than anywhere else in the United States. This test will consider the following aspects:

- 1. The location of a permanent home
- 2. The location of the family
- 3. The location of personal belongings, automobiles, furniture, clothing, jewelry, and objects owned by the family, etc.
- 4. The location of social, political, cultural, professional, or religious organizations
- 5. The location of routine banking activities

6. The physical location where business activities take place
7. The jurisdiction where they hold a driver's license
8. The jurisdiction where they are registered to vote
9. The location of charities to which they contribute
10. The country of residence that they fill out in forms
11. The W-9, W-38BEN, and other official forms

Year of a Move Rules

It is possible to still comply with the closer connection test in the year of a move to Puerto Rico. To qualify under the year of a move rules, there are several requirements that must be met:

1. Resident must not have been a Bona Fide Resident for the past 3 tax years.
2. Resident must not have a tax home outside of the territory, or a closer connection to the United States, during any of the last 183 days of the tax year.
3. Resident must be a Bona Fide Resident for each of the 3 tax years immediately following the tax year of the move.

Trusts

In addition to the above benefits, the law enables a Resident Individual Investor to bring trusts from other jurisdictions to Puerto Rico. This allows beneficiaries of the decree to choose the best type of trust to suit their needs. Some of the most common trusts are family trusts, special needs trusts, credit trusts, life insurance trusts, and Medicaid trusts. There are also asset protection trusts, which were created to protect a person's assets from lawsuits.

Puerto Rico-Sourced Income

Income must be attributable to Puerto Rico sources. Regular income, such as a salary, only qualifies under the income rules of the incentives, irrespective of where it is sourced.

The income sources that may qualify are:⁹

- » Capital gains derived from the sale of personal property, as well as dividends and interest attributable to the seller's tax home in Puerto Rico
- » Real estate, if the property is located in Puerto Rico
- » Dividends from an entity organized in Puerto Rico
- » Gains from the stock accrued after the individual has relocated to Puerto Rico

2.2

→ **Hard-to-Recruit Professionals**¹⁰

This incentive is designed to aid corporations to retain local talent and hire additional professionals. The benefits are only available to corporations who currently possess a tax incentive or are filing for a tax incentive. A Hard-to-Recruit Professional must engage in activities that fall under the following industries: goods and service exports, finance, insurance, private equity, tourism, manufacturing, research and development, agriculture, film production (creative industries), companies led by young professionals, and maritime or air transportation corporations.

Eligibility Requirements

To hire a person as a Hard-to-Recruit Professional¹¹, an applicant must show that:

1. They will be under full-time employment in a corporation that possesses a tax incentive (see Chapters 1, 3, 4, 5, 6, 7, 8, 9, 10, and 11).

⁹ Department of the Treasury, Internal Revenue Service, *Publication 570 Tax Guide for Individuals with Income from U.S. Territories*, Chapter 2, Feb. 8, 2023, <https://www.irs.gov/pub/irs-pdf/p570.pdf>.

¹⁰ Puerto Rico Incentives Code, 13 L.P.R.A. § 45143 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

¹¹ 13 L.P.R.A. § 45013 (a)(13) (2024). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>



2. They are difficult to hire. This can be demonstrated through any of the following:
 - a. Showing that the person they want to bring to the island under the incentive has expert knowledge that no local programs can provide
 - b. Stating the number of local professionals available in the area of expertise or subject matter
 - c. Providing a comparison of the level of sophistication, specialization, or knowledge of the profession or skill versus what other occupations require
 - d. Mentioning the size of the industry or the quantity of the businesses in Puerto Rico related to the sector in which the person is specialized
 - e. Demonstrating the complexity or difficulty in contracting
 - f. Demonstrating any other factor that is considered relevant towards establishing that the person is indispensable to the business's operations

Additionally, the applicant must state:

1. The functions of the person
2. The reasons for hiring and the needs that are only met with the person
3. The efforts made during the hiring process for the position that said person may fill
4. The difficulty of replacing the person, their experience level, specialized talent, and importance for the business

As for necessary documents, the applicant must submit all of the following:¹²

1. A detailed description of the person's studies and academic background
2. The person's work experience
3. Letters of recommendation

If the person was not employed in the private sector before, the DDEC Secretary will consider various factors, including:¹³

1. The college or university where they studied
2. Their academic records
3. Their scientific publications or theses
4. Their internships
5. Any other relevant factor(s)

If the Hard-to-Recruit Professional can bring investment to Puerto Rico due to their experience, networks, or fame, then they will qualify if they were any of the following:

1. President or board director of a Fortune 500 company

¹² Reglamento de Incentivos MO-DEC-012, Art. 2021.02-1. <https://www.colegiocpa.com/wp-content/uploads/2020/09/Reglamento-del-C%C3%B2digo-de-incentivos-FINAL-MGH.pdf>

¹³ Reglamento de Incentivos MO-DEC-012. <https://www.colegiocpa.com/wp-content/uploads/2020/09/Reglamento-del-C%C3%B2digo-de-incentivos-FINAL-MGH.pdf>

2. President of a top-ranked college or university, or president of a college or university with more than 50,000 students
3. Nobel Prize winner
4. Oscar, Emmy, Grammy, or Tony award winner
5. Similarly accomplished in any other categories that could bring investment to Puerto Rico, at the discretion of the DDEC Secretary

Exceptions

Generally, these decrees are not available to island natives unless they lived off the island from 2006 – 2014. However, if Puerto Rico is at risk of losing a Hard-to-Recruit Professional, who is also a resident of Puerto Rico, due to competing offers in other jurisdictions, the government will consider an exemption if the applicant can meet the following requirements:¹⁴

1. The applicant has been working for at least a year in export of services.
2. The applicant works at an exempt business, but the services that the company renders can be services that differ from the employee's employment experience.

In these cases, the applicant will not be required to comply with provisions for the purpose of complexity of recruitment, since the intention is to retain the Hard-to-Recruit Professional on the island rather than to attract a new professional.

General Benefits

1. There is a total exemption from taxes on capital gains and dividends for assets purchased after obtaining a decree from Puerto Rico sources.
2. Capital gains on assets owned before obtaining a decree but held for 10 years after receiving a decree are taxed at 5%.
3. They are exempt from the requirement to pay the \$10,000 donation to nonprofit entities found in the Resident Individual Investor Incentive.
4. Income above \$100,000 is generally exempt from all income taxes.

¹⁴ Reglamento de Incentivos MO-DEC-012 (c)(3).

→ Qualified Physicians¹⁵ (Pending)¹⁶

The Qualified Physician incentive sought to retain specialist physicians who recently graduated on the island. This incentive included provisions to reduce the student loan debt held by each physician as well as provided similar benefits to Individual Investors.

Eligible Practices

1. General Medicine
2. Specialized Medicine
3. Podiatry
4. Audiology
5. Chiropractic
6. Optometry
7. Dental Surgery
8. Dentistry Specialty
9. Physicians completing an accredited residency program and are approved by the Secretary

Eligibility Requirements

1. Physician practices and lives in Puerto Rico.
2. Physician is a resident of Puerto Rico.
3. Physician maintains their status as a Qualified Physician.
4. Physician works full-time in general medicine or in any of the listed specialties, which include podiatry, audiology, chiropractic, optometry, dental surgery, or any dental specialty.
5. Physician is up-to-date and complies with tax obligations.

¹⁵ Puerto Rico Incentives Code, 13 L.P.R.A. § 45144 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

¹⁶ On December 23, 2020, the U.S. court for the District of Puerto Rico, issued an Order and Opinion, ordering the immediate cessation of the implementation of Act 47, affecting the extension of the term to file under Act 106. This determination paralyzed more than 2,000 applications for decrees filed.

6. Physician provides 180 hours of community service each year.
7. When:
 - a. The physician is a medical resident: After completing their specialty residency, they will have 120 days to establish their medical practice.
 - b. The physician completed their residency: They will have 120 days after obtaining their license to establish their medical practice in Puerto Rico (doctors relocating to Puerto Rico).

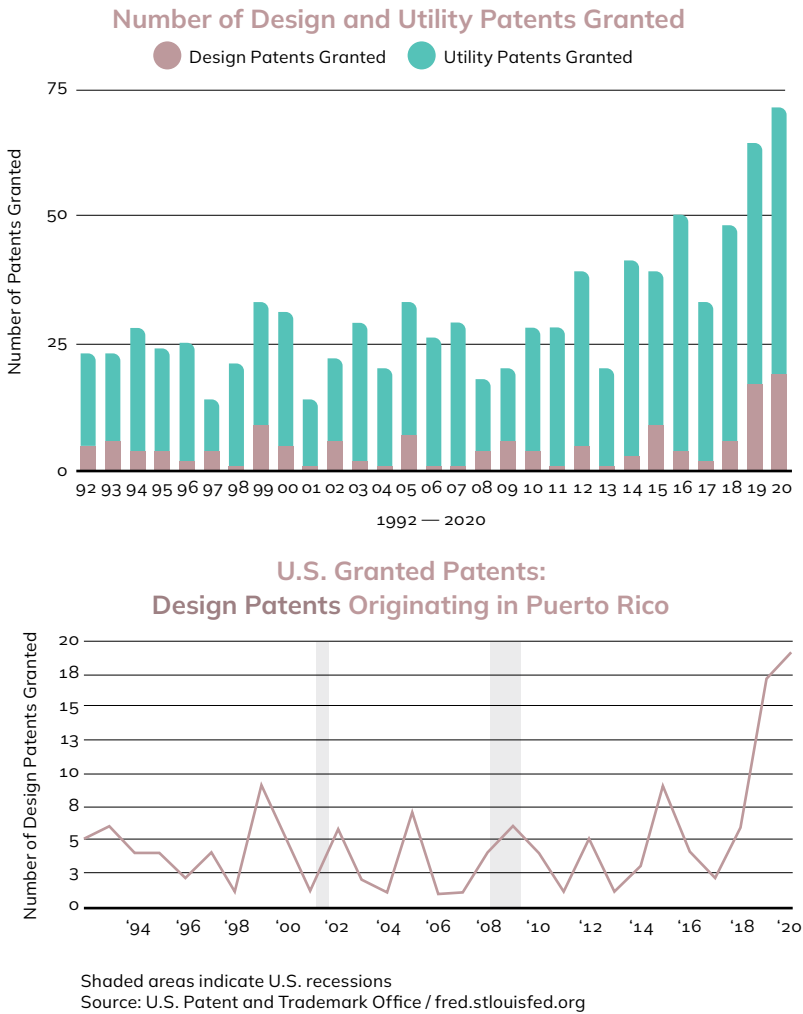
General Benefits

1. Income tax is 4%.
2. Dividends of up to \$250,000, per tax year are tax exempt.
3. There are total exemptions from taxes on capital gains and dividends for assets purchased after obtaining a decree.
4. Capital gains on assets owned before obtaining a decree but held for 10 years after receiving a decree are taxed at 5%.
5. Benefits are effective January 1st of the year the decree is filed.



→ Investigators and Scientists¹⁷

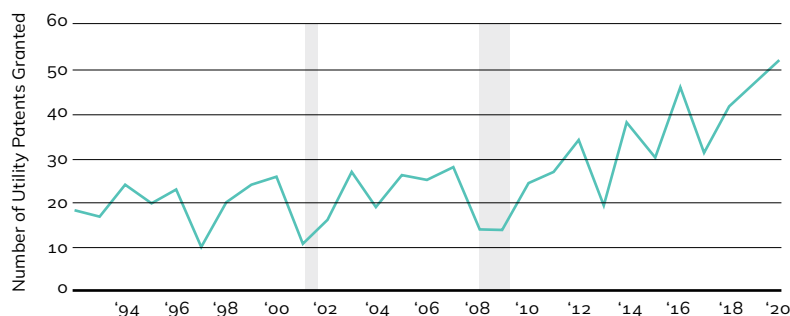
In 2004, the government of Puerto Rico introduced a series of tax incentives that empowered universities and academic institutions with tools to increase scientific research activities and outputs. Since its inception, two additional amendments to the law were introduced in 2008 and 2019. As a result, for the past 20 years, the total number of scientific papers, publications, and patents has steadily increased.¹⁸



¹⁷ Puerto Rico Incentives Code, 13 L.P.R.A. § 45145 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

¹⁸ Mariela Torres-Cintrón et al. "Scientometric analysis of the Puerto Rico Clinical and Translational Research Consortium (PRCTRC) research publications, 2010–2018," *Journal of Clinical and Translational Science*, Volume 5, Issue 1, 2021, e4, <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC8057457/>.

U.S. Granted Patents: Utility Patents Originating in Puerto Rico



Shaded areas indicate U.S. recessions

Source: U.S. Patent and Trademark Office / fred.stlouisfed.org

Eligibility Requirements

1. Investigator/Scientist must be a resident who is hired by a higher education institution (e.g. the University of Puerto Rico) to participate in Eligible Scientific Research based on a grant provided by a qualifying agency or institution.
 - a. Eligible Scientific Research refers to scientific research that is supported by grants from federal agencies.
2. Investigator/Scientist must be the lead scientist and grantee, unless there are multiple principal investigators (MPIs). Except in the case of MPIs, only the lead scientist will receive the grant.¹⁹
3. Investigator/Scientist provides 60 hours of community service each year.
4. Services must be provided in accordance with the areas and through the tasks designated by the Secretary of the DDEC.

General Benefits

1. There is up to 100% tax exemption on personal income tax:
 - a. If contracted by the University of Puerto Rico, the maximum amount to be exempt is \$195,000.
 - b. If contracted by the Puerto Rico Science, Technology and Research Trust, the maximum amount to be exempt is \$250,000.

¹⁹ 13 L.P.R.A. § 45013 (8) (2024). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

Qualifying Government Grants

The law names several agencies offering grants that would qualify as Eligible Scientific Research:

1. National Institutes of Health
2. National Science Foundation
3. Department of Energy
4. Department of Defense
5. National Aeronautics and Space Administration
6. National Oceanic and Atmospheric Administration
7. Environmental Protection Agency

The law states that the list of qualifying agencies may be updated. Please refer to [grants.gov](https://www.grants.gov) for more information on research grants from different agencies.



→ Professionals Eligible for Student Loan Repayment Program²⁰

This incentive was established to aid some Qualified Physicians and researchers pay back their student loans. Although the total amount is yet to be determined, the program aims to reduce the total loans carried by professionals that are critical to Puerto Rico's public health infrastructure and scientific health research capacity.

Eligible Applicants

1. Physicians
2. Dentists
3. Veterinarians
4. Scientific investigators

Eligibility Requirements

1. Professional commits to establishing a practice in Puerto Rico for 7 consecutive years.
2. Professionals who completed studies on the island will be prioritized.

General Benefits

1. The government will subsidize up to \$65,000 of student loan debt to those professionals with health specialties.

²⁰ Puerto Rico Incentives Code, 13 L.P.R.A. § 45146 (2023). <https://bvirtualogp.pr.gov/ogp/Bvirtual/leyesreferencia/PDF/2-ingles/60-2019.pdf>

Noncompliance Penalties

Student Loan Repayment Program Noncompliance Penalties by Year of Failure to Comply

Year	Penalty
1	100%
2	100%
3	70%
4	66.5%
5	63.175%
6	60.016%
7	57.0152%

If the person complies with the full term, they will not need to repay any amount.

Illustrative Examples

Bona Fide Resident

Paul, a corporate attorney originally from Boston, built his career at a well-established law firm in Massachusetts. In 2019, during a sabbatical, Paul visited Puerto Rico and fell in love with the island’s culture and lifestyle. After returning to Boston, he realized he wanted a change and decided to move permanently to Puerto Rico for a slower-paced life and new opportunities. Paul passed the Puerto Rico bar exam, purchased a home in Dorado, and opened his own practice focusing on business law. Over time, Paul fully integrated into his new community: he got a Puerto Rico driver’s license, started voting locally, and began paying local taxes. With no remaining connections to Boston and living full-time on the island, Paul is now considered a Bona Fide Resident of Puerto Rico.²¹

Individual Investor

Kathleen, raised in Puerto Rico, moved to California to get her bachelor’s degree in finance and master’s degree in business. Upon completing her studies, Kathleen did not return to Puerto Rico but became a resident of California. After working for a

²¹ In some cases, individuals still conserve some connections in their prior place of residence, such as a club membership or some belongings. In these cases, inasmuch as there are more connections to Puerto Rico and other tests are met, the person may still be deemed a Bona Fide Resident of Puerto Rico.

decade as an analyst, she moved back to Puerto Rico in 2020 to take care of her aging parents. She buys a house down the street from where they live and applies for an Individual Investor Decree because she was off the island from 2006-2014. Kathleen trades stocks in the morning when the markets open, and her resulting capital gains are taxed at 0%.

To maintain her eligibility for the tax benefits, Kathleen donates \$10,000 annually to Puerto Rican charities, files a \$5,000 report with the government, and ensures she meets the Bona Fide Resident requirement. Kathleen resides in Puerto Rico for at least 183 days each year and maintains her closer connections requirements because her main source of income is her trading activity (sourced to Puerto Rico in her permanent home, she also meets the tax home test).

Cost to File

The Resident Individual Investor application is among the most expensive to file. Although the Qualified Physicians exemption was legislated, it has not been approved by the Fiscal Control Board and is therefore currently inaccessible.

Cost to File		
Filing	Transaction Fee	Service Fee
Resident Individual Investors	\$5	\$5,000
Hard-to-Recruit Professionals	\$5	\$5,000
Investigators and Scientists	\$5	\$100
(Pending) Qualified Physicians	\$5	\$3,000
Student Loan Repayment Program	\$5	\$100